
A GUIDE TO
YOUR WORKING
OPTIONS

BROOKSON
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MAKING THE RIGHT CHOICE

If you are considering changing the way you work, there are some key choices you need to make. Once you understand more about the option you have, how they affect you financially and the levels of responsibility attached to each, it will be much easier to ensure the decisions you make are the right ones for you.

Key factors in deciding what's right for you as a contractor, freelancer or self-employed professional are:

- How long you plan to work for yourself
- How much time you have to spend on administration
- How much turnover and profit you expect
- Impact of legislation as result of your working practices and if your client operates in the public sector
- What your clients' expectations are

Some of your decisions will be easier to make than others, but the better the information, the better the choice. That is what this guide is for. It looks at the various ways in which you can work; running a limited company, operating as a Sole Trader becoming an employee of an umbrella company or working through a recruitment agencies' payroll, so that you can make an informed decision as to which option is the most suited to your individual circumstances.

This guide outlines some of the benefits and processes involved with each option available to you, with a view to helping you understand each option.

If you wish to explore further it highlights where to find more detailed information and who to contact.

GET IN TOUCH

**SPEAK TO A MEMBER OF THE
TEAM ON 0800 230 0213**

AN INTRODUCTION TO WORKING FOR YOURSELF

From making a positive career change to putting redundancy pay to good use, there are a range of reasons for choosing to work for yourself. In fact, it's an increasingly popular career option with around 1 in 7 workers in the UK currently working for themselves, that's over 1.9 million contractors, freelancers and self-employed professionals in the UK.

FREEDOM AND FLEXIBILITY

Major attractions of working for yourself are freedom and flexibility. You decide when and where you work, where you go and who you work with. Everything about your working life is down to you, so you have considerable control.

Inevitably more freedom and potential reward comes with more responsibility. As well as actually doing your day-to-day work you need to manage your finances, make sure you comply with relevant legislation and keep on top of your tax liabilities. These are essential and may be a little daunting at first but with good planning and management it doesn't have to be too time-consuming or stressful.

GREATER REWARDS

When working for yourself, you are the one that benefits when things go well, whether that's professional recognition or financial gain. There are also some great tax advantages to be achieved too through more efficient ways of managing your tax affairs in line with HMRC regulations.

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PREPARING TO WORK FOR YOURSELF

To give yourself the best chance of success be realistic, think creatively and consider your options carefully before setting out. Good planning and management from the outset will ensure you are adequately prepared before you start out. When considering working for yourself there are some key elements to address to be sure the decisions you make are the right ones for you.

You need to be in a suitable position to make it work. On a personal level you should:

- Have the self-discipline to actually focus on your everyday work. Looking ahead and managing your time effectively is an important skill when working for yourself. You need to be committed and motivated to work every day, but also to make sure you take time off too!
- Be organised. When you work for yourself you have several roles to fulfil over and above actually doing the work that earns your income including being responsible for all the back-office administration. This is where Brookson's all-inclusive services can benefit you, by providing all the help and support you'll need to take away all the hassle and administration, allowing you to focus on your work.
- Have sufficient financial security to see you through the peaks and troughs in your cash flow. This will depend on your personal circumstances of course, but we all have a certain level of commitment to support.

As part of Brookson's all-inclusive services, you'll have access to work finding support through an extensive list of recruitment agencies we know and trust, so you can find the right recruiter to put you in touch with the perfect assignment.

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CHOOSING THE BEST WORKING OPTION FOR YOU

When working for yourself, there are two routes to consider, each have differing degrees of complexity and responsibility.

- Setting up your own business by running a limited company.
- Becoming an employee of an umbrella company or working through agency payroll.

SETTING UP YOUR OWN BUSINESS

Running a limited company is perhaps the most complex option with the greatest degree of responsibility, but it is the most tax efficient way of working and comes with the greatest rewards.

Setting up a limited company might be the right option for you if you:

- Are committed to working for yourself long-term.
- Are comfortable with the extra responsibility.
- Want to optimise your earnings.

Operating as a Sole Traders often a simpler way to do business. There is less administration involved with low set up costs. It's a riskier option as you are personally responsible for any financial commitments. It's not as tax efficient either and most recruitment agencies will not allow it.

Working as a Sole Trader might be the right option for you if you:

- Wish to minimise your administrative burden.
- Want to set up easily, with minimal cost.
- Are unsure about committing to setting up a Limited Company.
- Are able to secure your own assignments on an on-going basis.

EMPLOYMENT STATUS

It's worth mentioning here that with both of the above options you must consider your employment status. To gain the benefits of self-employment, whichever way you operate, you must satisfy HMRC that you are genuinely self-employed. As a basic guide, if you are working from your own premises, using your own equipment and have several clients you probably fit the criteria. The issue is a little less clear if you are contracted by clients to work on their premises. In both case you will need to ensure you comply with IR35 legislation and are not what HMRC view as a 'disguised employee'. IR35 legislation is intended to prevent individuals from avoiding tax by 'disguised employment' - working as self-employed contractors through their own limited company even though they do the same job as an employee.

If HMRC decides that your contract and working practices puts you within IR35, you'll have to pay tax and National Insurance like an employee, rather than taking your director's fee and dividends. So it's important to make sure you're paying the right amount of tax from the very start of each assignment. This is still your responsibility to manage until the legislation change takes effect.

If you would like to explore this in more detail we have also produced a Guide to IR35 that looks specifically at IR35 and its Implications.

AGENCY PAYROLL AND EMPLOYMENT OPTIONS

If you feel that running a limited company is not the right options for you at this time, the alternatives are joining an umbrella company or working through agency payroll. Both options are similar in that you are not responsible for running a business or the administration that comes with this. In addition, tax issues relating to your employment status do not apply because you are an employee and taxed as such. When joining an umbrella, you will become an employee of the umbrella company and work through them to deliver services to the end client. When working on multiple assignments through your umbrella company, you may be able to benefit from tax relief on certain work related expenses.

Joining an umbrella company might be the right option for you if you:

- Are unsure whether going self-employed is right at this time.
- Want a simple, efficient and reliable way of getting paid without any administrative burden.

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Working through an agency payroll is similar to working as an employee of an umbrella company as there is no administration to deal with, but you are unable to claim tax relief on expenses incurred.

Working through an agency payroll might be right for you if you:

- Are unsure whether going self employed is right at this time
- Want a simple efficient and reliable way of getting paid without any administrative burden .
- There is no right or wrong answer when deciding which working option is the most suitable for your particular set of circumstances. Each of the four ways of working have their own benefits and possible drawbacks

With this in mind you need to consider:

- The norms of the industry you will be working in
- The level of administrative support you will have
- Your expected take home pay
- Your growth plans
- The level of risk you are comfortable with
- The importance of customer perception
- Future plans such as pension and retirement

WORKING IN THE PUBLIC SECTOR

As a result of the legislative changes introduced by HMRC from 1st April 2017, if you work wholly within the Public Sector then your client or agency will determine your IR35 status. This essentially means that the decision is taken out of your hands. In these circumstances, joining an Umbrella company becomes more tax efficient than running your own company. If you have a mix of Public and Private Sector clients, then running your own Limited Company is still a viable option.

Take time to think carefully about these issues and understand your reaction to them. Our aim in this guide is not to push you in a particular direction or advise you on a specific course of action, but to give you the information you need to help you make an informed choice.

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APPRECIATING THE FINANCIAL BENEFITS

The financial implications of the different operating models may be one of the most important influences in making your decision. The following breakdown illustrates in real terms the impact the alternative ways of working have on take-home pay across a range of incomes.

ANNUAL TAKE HOME PAY CALCULATIONS:

HOURLY RATE	UMBRELLA (SDC FAIL)	LIMITED	AGENCY PAYE
£15.00	£420	£515	£389
£17.50	£479	£592	£444
£20.00	£539	£668	£498
£22.50	£599	£745	£553
£25.00	£658	£821	£607
£30.00	£759	£972	£706
£35.00	£861	£1083	£799
£40.00	£963	£1195	£892
£45.00	£1065	£1307	£985
£50.00	£1167	£1418	£1078
£60.00	£1335	£1642	£1263

Assumptions: Calculations are based on 40 hours per week, claiming 200 miles per week and £50 in other expenses. HMRC Flat Rate VAT Scheme at 13.5%. Figures include Brookson fee or retained margin. The Agency PAYE hourly rate has been decreased by 20% to factor in the employers national insurance and holiday pay paid by agency.

RUNNING A LIMITED COMPANY

Running a limited company is increasingly popular for many self-employed professionals. This is the more complex and costly option, compared to joining an Umbrella Company, but it is also the most tax efficient way of working.

Setting up a limited company involves incorporating your company by registering it at Companies House, setting up a business bank account, arranging insurance cover and becoming a director of your company.

PROS

- **Higher take-home pay**
A limited company is the most tax efficient way of running your own business, enabling you to take home more pay than PAYE, or umbrella or Sole Trader working options.
- **Lower personal risk**
Because of its structure and separation between you and the limited company you are protected (provided you meet your statutory responsibilities as a director) from the threat of personal financial losses if things go wrong.
- **Tax planning**
Various tax planning opportunities exist that can be tailored to you where applicable, delivering significant tax savings.
- **Credibility**
Some clients view a limited company in a more positive light. Larger companies sometimes even refuse to transact with anything other than a limited company
- **Ownership and succession**
As (usually) the sole shareholder in your company, you own the business. It is far easier to transfer ownership, or part ownership, of a limited company than it is with a less formal business structure.

CONS

- **Administration**
There are greater statutory obligations, such as admission of Annual Accounts and Corporation Tax Returns.
- **Costs**
Because of the range of statutory obligations there are usually higher accountancy costs and financial penalties if things go wrong.
- **Directorship**
Directors of limited companies hold obligations and duties under the Companies Act 2006.

At the end of each financial year your limited company must prepare full annual accounts and submit them to Companies House, file a Company Tax Return with HM Revenue & Customs (HMRC) and pay any Corporation Tax due. The annual return must also be sent to Companies House each year and, depending on your turnover or voluntary registration, you may also have to file VAT returns.

As a director it is your responsibility to manage the company in accordance with its Articles of Association and ensure accounts are completed and maintained to the required standards. You also need to submit a Self-Assessment Tax Return, declaring your personal income, to HMRC at the end of each accounting year.

Business insurance is not a legal requirement unless you employ people. There are insurances that are highly recommended though, such as public liability, professional indemnity and income protection. If you source assignments through a recruitment agency, some may stipulate mandatory requirements for insurance.

Working with an accounting partner you can trust, like Brookson, can help to minimise your administrative workload. All VAT, tax and year-end returns are completed for you as a Brookson limited company customer.

ADVANTAGES OF OUR LIMITED COMPANY SERVICE

Unlike some other providers who may charge additional fees for certain services, Brookson provide everything you need for one monthly fee, with no hidden costs.

- Expert advice from a dedicated support team, 6 days a week
- No set up costs, exit fees or tie-in period
- All VAT, tax and year-end returns are completed for you
- Operate compliantly with unlimited IR35 reviews
- Fast and seamless set up within 24 hours
- Secure online portal accessible anywhere via computer, mobile or tablet
- Know your tax position and how much you can withdraw, with daily updates
- Legal helpline, with access to free preliminary legal support

BROOKSON'S FLEX SOLUTION

With the IR35 changes coming into the private sector, you may need to switch between a Limited Company and Umbrella Solution depending on your contract.

This is where Brookson can help. Brookson's Flex solution allows contractors to switch easily between Limited and Umbrella working as and when needed.

If you think this could benefit you, get in touch to find out more about **Flex – our IR35 solution for contractors**.

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OPERATING AS A SOLE TRADER

Setting up as a Sole Trader is generally a straightforward way to start up in business as there is a minimal administration compared to a Limited Company and few, if any, set up costs. All you have to do is register as self-employed with HMRC within 3 months of commencing trading and file a self-assessment tax return each year. Setting up a Limited Company may ultimately prove more tax efficient, but operating as a Sole Trader is much simpler, requires less administration and is cheaper to run.

PROS

- **Low administration**
Minimal statutory obligations mean less paperwork.
- **Simple accounting**
Although you must maintain detailed records of invoices, expenses and accounts and file an annual tax return, the actual accounting process is much simpler for a Sole Trader than for a Limited Company.
- **Privacy**
Unlike a Limited Company where all information concerning the business, including directors' details and annual accounts, is made public, information about Sole Traders is kept totally private.
- **Capital allowances and other expenses**
If you need to purchase equipment for your business, for example vehicles, tools, IT equipment or business furniture, you may be able to claim tax relief on these purchases in the form of capital allowances. You can also claim tax relief on expenses incurred in the daily running of your business.
- **Profit retention**
As a Sole Trader you retain all the profits of the business.
- **Control**
You are your business and are in full control, responsible for all decisions without having to consult other directors or shareholders
- **No set up costs**
There is no need to register your business at Companies House so the paperwork is very simple. You only need to inform HMRC within 3 months of commencing trading and register for self-assessment.

CONS

- **Less take-home pay**
Compared to a Limited Company you will take home less net pay from an equivalent turnover. You are personally liable to pay tax on all income earned.
- **Liability**
As you are personally liable your own finances and possessions may be at risk if things go wrong.
- **Raising investment**
It can be more difficult to raise funding as Sole Traders can appear less established and able to repay.
- **Status**
Some clients look more favourably at limited companies and recruiters typically will not engage with Sole Traders

Working as a Sole Trader is still a major commitment. The ultimate responsibility still sits with you to manage your business efficiently. Once you register as a Sole Trader it is up to you to manage all aspects of your business, from paying your tax through to meeting health and safety regulations.

If your turnover exceeds the VAT threshold you will also need to register for VAT and file VAT returns. Keeping accurate business records is vital for completing your tax return or answering any questions HMRC might have. Basic records you must keep include a record of all your sales and income (invoices and bank statements), plus a record of all your purchases and expenses (receipts and bank statements).

Although insurance is not a requirement, it is highly recommended that you consider such cover as public liability and professional indemnity as you are personally liable if anything goes wrong.

MAKING TAX DIGITAL

From 1st April 2018, if you are vat registered and your turnover is above the VAT threshold, then you are obliged to keep digital records and submit your VAT return information to HMRC digitally through MTD functional compatible software.

Working with an accounting partner you can trust, like Brookson, can help to minimise your administrative workload with our complete year-end accountancy service.

ADVANTAGES OF BROOKSON 'S SOLE TRADER SERVICE

Unlike some other providers who may charge additional fees for certain services, Brookson provide everything you need at year-end for one set fee, with no hidden costs.

- Complete year-end accountancy service
- Full set of year-end accounts
- Preparation of the self-assessment tax return
- Submission to HMRC

If you think operating as a limited company is the right solution for you give us a call on:

0800 230 0213 or email: newbusinessadvisors@brookson.co.uk

JOINING AN UMBRELLA COMPANY

By joining an umbrella company you become an employee of that company, which then contracts out your services to the either an end client or employment agency. You remain an employee of the umbrella company regardless of whether you move to a new assignment or start a project with a new client or agency. You submit your time-sheets and the umbrella company then pays you having made the necessary deductions for tax and NICs on a Pay As You Earn (PAYE) basis. The umbrella company will, however, retain a margin from the revenue it receives for providing your services.

The HMRC has recently announced changes to the way Umbrella Employees claim expenses. If you are subject to the supervision, direction or control of the agency or end client as to the manner in which you are required to perform your services then you will no longer be able to claim expenses.

PROS

- **Ease of set up and use**
Quick and easy to set up, running in minutes. Simply submit your time-sheets and expenses. Insurance is provided by the umbrella company.
- **Low risk**
All tax and NI is paid by the umbrella company so no need to worry about tax returns or budgeting for unforeseen tax bills.
- **Flexibility**
As an employee of an umbrella company you can choose the assignments you want to work on, whilst maintaining continuous employment with your umbrella company.
- **Expense Claims**
You have the ability to claim certain expenses* such as mileage and parking.

CONS

- **Lower earning potential**
You may be able to claim tax relief on certain expenses but it is not as tax efficient as a limited company.
- **Control**
You have no control over processing so there can be delays in payment as it has to go through a third party before they get to you if your umbrella provider does not provide CHAPS payments.
- **Identity**
You are unable to create a brand identity to build your reputation in the marketplace.

*Where you can give evidence that you are not subject to the supervision, direction or control (SDC) of your client whilst on the assignment.

In terms of administration, there is none. As an employee it is all taken care of for you. There is the opportunity to claim tax relief on certain expenses incurred in doing your job, but the tax advantages are not as broad or varied as for limited companies. If you do not intend to work more than one assignment or, at any point during your assignment you expect to be working at the same end client site for more than 24 months, you can no longer claim tax relief on your travel and subsistence expenses. Insurance is provided by your umbrella company.

The choice of umbrella company employer is entirely up to you and you can build up a long-term relationship independent of the client or the agency you are working for.

ADVANTAGES OF BROOKSON'S UMBRELLA COMPANY SOLUTION

Brookson offers an umbrella company option. Unlike some other Umbrella Companies who may retain additional funds for accelerating your salary payments, Brookson provides everything you need for one fixed weekly margin.

- Same day payments with SMS notifications
- Fast and effective set up in minutes
- No set up fees or minimum tie-in period
- Manage your timesheets, payslips and expenses 24/7 via your online portal
- Friendly, expert employee relations team on hand 6 days a week
- £25m comprehensive insurance package
- Multiple payroll runs daily - so you get paid on time, every time
- Known for compliance - Brookson were founding members of the FCSA

BROOKSON'S FLEX SOLUTION

With the IR35 changes coming into the private sector, you may need to switch between a Limited Company and Umbrella Solution depending on your contract.

This is where Brookson can help. Brookson's Flex solution allows contractors to switch easily between Limited and Umbrella working as and when needed.

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WORKING THROUGH AGENCY PAYROLL

Working through an agency payroll is similar to working as an employee of an umbrella company. There is no administration to deal with and you will be paid after deduction of all relevant taxes. You are unlikely to be able to claim tax relief on expenses incurred while fulfilling your contract.

The payment process is similar to that offered by umbrella companies but there are differences. Many agencies don't offer a contract of employment, so you do not get any statutory rights. You may also have to change agencies for new assignments. They will however, retain a percentage of your fee to cover their costs.

PROS

- **Simple payroll**
There's no administration other than completing timesheets.
- **Ease**
All tax and NI is automatically deducted so no need to worry about tax returns or budgetary spend, although you may be required to submit a personal tax return. Last part removed.
- **Security**
With an agency you may be able to negotiate a payment schedule and not have any credit control or late payment issues. If you are opted into the agency regulations and an end client fails to pay, the agency still has to pay you for work done.

CONS

- **Higher Tax**
Tax relief on expenses can't be claimed.
- **Lower earning potential**
The hourly rate offered is often lower than you could achieve through other options.
- **Reputation**
You could be perceived as new to the marketplace having less experience than a limited company.
- **Identity**
You are unable to create a brand identity to build your reputation in the marketplace. Contracting through an agency could be a good option if you don't think you will be facing additional expenses in order to complete an assignment.

If you're convinced this is the best option for you, research agencies specific to the industry and sector that you work in to find an assignment.

ABOUT BROOKSON

When running your Limited Company we believe you should always know where you stand. Without the right, accurate and up to date information planning and managing business and finances is left to chance. We have a great team of people who work closely with you, every step of the way to help you work more efficiently and to make more of your earnings potential.

We have a great range of all-inclusive services too, supported by 20 years of skills and experience, so however you choose to work Brookson has a solution and price point to suit.

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Unlike some other providers who may charge additional fees for certain services, Brookson provide everything you need for one monthly fee, with no hidden costs.

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- No exit fees or tie-in period
- All VAT, tax and year-end returns completed for you
- Operate compliantly with unlimited IR35 reviews
- Fast and seamless set up within 24 hours
- Secure online portal, accessible anywhere via computer, mobile or tablet.
- Know your tax position and how much you can withdraw with daily updates
- Legal helpline, with access to free preliminary legal support

Our experience and commitment to delivering accurate, up to date accounts is demonstrated by Brookson Connect: technology utilised to provide all the information you need about your finances brought fully up-to-date, every 24 hours.



“Brookson is such a wonderful company. Straightforward, helpful, informative and always on hand.”

Nicola Hughes



INNOVATION
+ KNOWLEDGE
+ SUPPORT

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