



# The i4 Contractor Guide: Navigating Your Contractor Journey



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# Introduction

**Across the UK job market, contractors play a pivotal role across various industries, offering their expertise under specific terms to meet the demands of diverse projects and initiatives.**

As the landscape of work continues to evolve, more professionals are exploring the benefits of contracting, looking for greater flexibility, autonomy, and work-life balance.

Our experts have created this comprehensive guide to support you, whether you're just getting started on your contractor journey, or need to refresh your knowledge on things to consider when you're taking on an assignment.





# 1 - Getting Started

## 1 - Leaving Your Current Job:

Transitioning from permanent employment to contracting requires careful planning. Most contractors secure contracts relatively quickly due to their specialised skills and the transient nature of available roles. Begin actively searching for contracts no more than four weeks before you're available to start. This ensures you're ready to seize opportunities as they arise.

## 2 - Securing a Contract:

Contracts are typically secured either by directly approaching clients or through recruitment agencies. While some contractors secure contracts directly, the majority use recruitment agencies, particularly if they lack an extensive industry network. Online job boards, specialist sector-focused sites, and social media platforms are valuable resources for identifying contract opportunities.

## 3 - Understanding your Employment Status:

Understanding your employment status in the UK is crucial, as it determines your rights, benefits, and tax obligations. Employment status is not always straightforward and can be influenced by various factors. In the UK, there are two main categories of employment status: employed and self-employed.

	Self-Employed	Employed
<b>Definition</b>	Self-employed individuals work for themselves and are their own bosses. They are responsible for managing their business, setting their working hours, and providing their tools and equipment.	An employee has a contract of employment, which can be written, verbal, or implied. This contract typically outlines the terms and conditions of employment, including working hours, duties, and benefits.
<b>Rights + benefits</b>	Self-employed individuals have fewer employment rights compared to employees and workers. They are not entitled to statutory sick pay, paid holidays, or other employee benefits.	Employees enjoy a comprehensive set of employment rights, including minimum wage, sick pay, maternity/paternity leave, and protection against unfair dismissal. They are entitled to paid holidays and are often enrolled in workplace pension schemes.
<b>Taxation</b>	Self-employed individuals are responsible for managing their own taxes and National Insurance contributions. They usually submit self-assessment tax returns to declare their income and calculate the tax owed.	Income tax and National Insurance contributions are usually deducted at source by the employer.

It's important to note that determining employment status can be complex and depends on the specific details of the working arrangement. Factors such as control, mutuality of obligation, and the right to provide a substitute can all influence the classification. If in doubt, seeking legal advice or using official government tools like the Checking Employment Status for Tax (CEST) can help clarify your employment status.

Additionally, keeping written records of your working arrangement, contracts, and communication can be useful in case of any disputes or uncertainties.



## 4 — Deciding on Payment Structure:

Once you have determined your employment status, you must decide on a payment structure.

### Employed

Agency PAYE or Umbrella - for simplicity and a reduced administrative burden, many people opt to work through an umbrella company - that's where i4 comes in!

### Self-employed

Setting up a one-person limited company (PSC) or registering as self-employed (sole trader).

## 5 — Setting Up Administrative Processes

Once you've chosen your payment structure, it's essential to establish the necessary administrative processes. Umbrella company contractors need to provide necessary personal and payment details to the umbrella company and familiarise themselves with the payroll process.

Once you have secured your contract, and if you opt to work through an umbrella company, the registration process will begin. With umbrella companies like i4, the process is simple and quick.

Firstly, you'll need to supply a series of personal details, including your name, address, date of birth, contact details, national insurance number, bank account details and assignment information.

Once you have completed the initial registration process, your umbrella company will request the following, as this is a legal requirement:

- **Proof of your right to work in the UK - such as a copy of a valid passport or BRP Card**
- **P45 – if you don't have one, you'll be required to complete the Starter Checklist for PAYE – an online government form. The purpose of this is to ensure you are placed on the correct tax code, and aren't emergency taxed.**
- **Signed Contract of Employment**

Then you'll be officially registered and ready to start work! Now, we'll explore what you need to consider when selecting an umbrella company, and how they will support you further on your contractor journey.





# 2 - Engaging with an Umbrella Company: Your First Steps



When you decide to work with an umbrella company, your journey begins with understanding the terms of engagement and ensuring compliance with relevant regulations.

Here's what you need to know about the initial steps of engaging with an umbrella company:

## Understand the Role of an Umbrella Company:

Umbrella companies, like i4, serve as essential intermediaries between contractors and end clients, facilitating seamless payroll processes, ensuring compliance with tax regulations, and providing vital support services.

Contractors benefit from the flexibility and convenience offered by umbrella companies, allowing them to focus on their work without the administrative burdens of traditional employment.

## Why Use an Umbrella Company?

Contractors opt for umbrella companies for various reasons, primarily to streamline administrative tasks and simplify their financial affairs.

The advantages include avoiding the complexities of running a limited company and eliminating the need for VAT returns, payroll management, and taxation responsibilities. Additionally, for short-term contractors, the convenience of bypassing the formation and dissolution process of a company is a significant benefit.

## Understanding How Umbrella Companies Work:

Umbrella companies act as employers for contractors, handling payroll matters and ensuring compliance

with tax regulations. They typically withhold a portion of the contractor's earnings to cover expenses such as holiday pay, ensuring financial obligations are met. However, it's crucial to clarify payment schedules and any retained funds with the umbrella company in advance to avoid misunderstandings.

## Selecting the Right Umbrella Company:

Choosing the right umbrella company is essential for a smooth and compliant contracting experience. Most agencies recommend umbrella companies based on the quality of service they offer to both contractors and agencies. When assessing potential umbrella companies, consider factors such as tax compliance, payment processing speed, fee structures, and overall experience in the industry. Avoid schemes that prioritise tax avoidance and prioritise providers with a track record of compliance and professionalism.

## Genuine Employment Status:

Compliant umbrella companies provide contractors with an overarching contract of employment, entitling them to benefits such as sick pay, holiday pay, and maternity/paternity pay. It's essential to ensure that the umbrella company is a genuine employer and will provide you with the entitlements you deserve.

## Take-Home Pay:

Be wary of umbrella companies promising unrealistically high take-home pay rates, typically upward of 80%, remember no employer can guarantee a net pay percentage. If an employer does this could indicate non-compliance with tax regulations. Ensure the company operates lawfully to avoid potential tax liabilities in the future.

## Payment and Expenses Policy:

Research the umbrella company's payment processing system and expenses policy. Look for providers that process payments promptly and accept only legitimate expense claims, as submitting invalid claims could lead to issues with HMRC.

## Margin Structure:

Umbrella companies retain a margin for their services, which should be clearly displayed on your pay statement. Familiarise yourself with the margin structure of the company you choose to ensure transparency in financial transactions.

## Compliance:

Choose a fully compliant umbrella company to handle tax deductions and ensure adherence to tax regulations. Beware of non-compliant tax avoidance schemes masquerading as umbrella companies, and opt for trusted providers with a proven track record of compliance.



### Reputation:

Consider the reputation of the umbrella company by researching customer reviews and feedback from other contractors. Trusted reviews on platforms like TrustPilot or Google provide insights into the quality of service and reliability of the company, and accreditations such as FCSA are positive signs that an umbrella company is operating compliantly.

### Setup and Service:

Evaluate the setup process and service levels offered by the umbrella company. Fast onboarding and regular payment schedules are essential for contractors, while access to dedicated account managers and efficient issue resolution enhances the overall experience.

To support our service to contractors, i4 has the i4 App, which is a dedicated portal where contractors can manage assignments, pay, holiday pay and more. Value-added services like an app make your contracting journey simpler, and quicker and can be a real bonus throughout your career.

### Preferred Supplier List (PSL):

Check if your recruitment agency operates a preferred supplier list (PSL) and if any umbrella companies are listed. Choosing a provider from the PSL ensures that the agency trusts the company to meet the needs of its contractors, offering peace of mind and reliability. By considering these factors and conducting thorough research, contractors can confidently select the right umbrella company to support their contracting journey.

### Signing the Standard Contract:

Once you have chosen an umbrella company, you'll be required to sign their standard contract. This contract outlines the terms and conditions of the umbrella company's service, establishing the framework under which you agree to work and be paid. It's essential to carefully review and understand this contract to ensure clarity on payment terms, deductions, and your rights as an employee.

### Stay Away From Tax Avoidance Schemes!

Disguised remuneration schemes, often associated with the loan charge, have become prevalent forms of tax avoidance in recent years. These schemes involve individuals receiving payment through loans or similar non-taxable methods, ultimately aiming to circumvent tax obligations. However, engaging in such schemes can lead to severe financial repercussions, including substantial tax bills and penalties.

Here are some key indicators to help identify and avoid disguised remuneration schemes:

#### High Take-Home Pay Rates:

Be cautious of companies advertising unrealistically high take-home pay rates, as this is often a sign of a tax avoidance scheme. Promoters of such schemes may use complex payment processes, including loan schemes or credit schemes, to reduce tax obligations. These practices are typically challenged by HMRC, leading to potential tax liabilities for participants.

#### Promotion of Tax Relief on Expenses:

Legitimate umbrella companies no longer allow tax relief on expenses for contractors deemed to be working under Supervision, Direction, or Control (SDC). Therefore, companies actively promoting tax relief on expenses may not be operating compliantly and should be avoided. Scheme Reference Number (SRN): If a company has been issued with a Scheme Reference Number (SRN) by HMRC, it indicates that HMRC is investigating it as a potential tax avoidance scheme. Engaging with a company with an SRN poses significant risks, including potential underpaid tax liabilities.

#### Offshore Operations:

Companies based offshore, especially in known tax havens, may be involved in tax avoidance schemes. Verify the company's registered address and operations to ensure compliance with tax laws.

### Misleading Phrases like "HMRC Approved":

Phrases suggesting HMRC approval are often used to deceive individuals into believing that a scheme is compliant. However, HMRC does not endorse or approve schemes, and reliance on such claims can lead to legal and financial consequences.

### Lack of Company Information:

Tax avoidance schemes may lack essential company information, such as registered address, company number, or registered name, to evade detection by HMRC. Verify the legitimacy of a company by ensuring adequate information is available online.

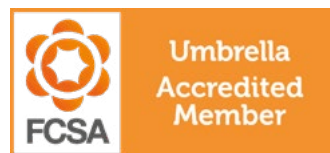
### Difficulty in Contacting:

Difficulty in reaching the company, especially if support is only offered via email, may indicate illegitimate operations. Legitimate companies should provide reliable contact information, including a telephone number, for inquiries and support.

### Targeting Lower Earners:

Beware of schemes that target lower earners with promises of retaining more earnings, as these often prey on vulnerable individuals. Always exercise caution and conduct thorough research before engaging with any financial arrangement.

To ensure compliance and avoid potential legal and financial liabilities, it is advisable to use reputable and accredited providers. Look for accreditation from organisations like the FCSA (Freelancer & Contractor Services Association) to ensure ethical and lawful operations. By being vigilant and informed, contractors can protect themselves from falling victim to disguised remuneration schemes and associated risks.



*Pictured: An example of an FCSA accreditation badge, often present on the branding of approved members*



# 3 - Understand Your Rights

**Once you have chosen an umbrella company and decided on your route to your first, or next, assignment, you should always be sure that you understand your employee rights:**

As an employee of an umbrella company, you're entitled to certain employment rights, including a written employment contract, payment of at least the National Minimum Wage or National Living Wage, and auto-enrolment in a workplace pension scheme if eligible. It's essential to understand your rights and obligations under the employment contract provided by the umbrella company and seek clarification on any issues or concerns.

# 4 - Look Into Laws That May Affect You

**Contractors operating in the UK are subject to various laws and regulations that impact their business operations and financial arrangements. Understanding these laws is crucial for contractors to ensure compliance and mitigate potential risks. Here are nine key laws and sets of rules affecting contractors:**

## 1 — IR35 (Intermediaries Legislation)

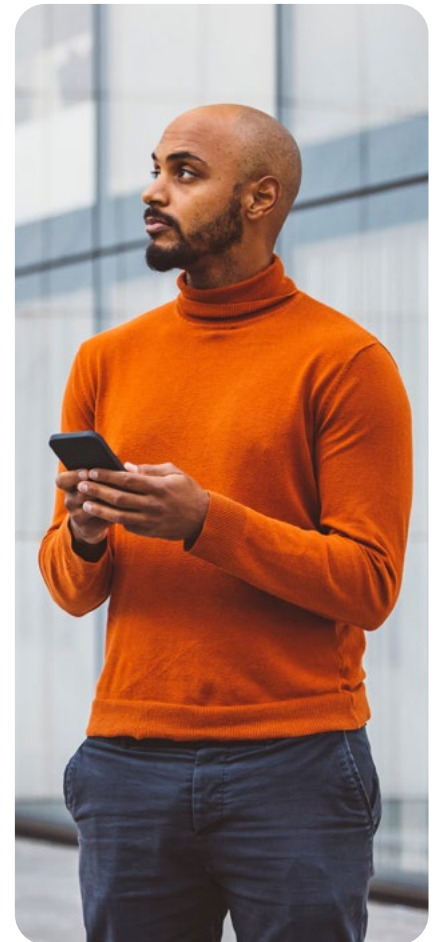
IR35, also known as the Intermediaries Legislation, is a tax law introduced in 1999 to address the issue of 'disguised employment' and tax avoidance by contractors operating through intermediaries such as limited companies or partnerships. It aims to ensure that individuals who work like employees but operate through intermediaries pay income tax and National Insurance Contributions (NICs) similar to employees.

## 2 — Managed Services Company (MSC) Legislation

The MSC legislation, implemented in 2007, targets the tax advantages associated with using managed service companies. It requires individuals deemed to be using an MSC to pay income tax and NICs as if they were employees, regardless of their formal employment status.

## 3 — Agency Workers Regulations (AWR)

The AWR, introduced in 2011, aims to ensure that agency workers receive equal treatment and pay compared to permanent employees after a qualifying period. While limited company contractors are generally not covered by AWR, umbrella company contractors may be subject to its provisions.





#### 4 — Conduct Regulations

The Conduct Regulations, established in 2003, set minimum standards for employment agencies and businesses engaging with contractors. Although contractors may opt out of certain provisions, the regulations are designed to protect contractors' rights and ensure fair treatment.

#### 5 — Onshore Employment Intermediaries: False Self-Employment Legislation

Legislation targeting false self-employment aims to prevent tax avoidance by individuals misclassifying themselves as self-employed. This legislation requires intermediaries such as agencies to report detailed personal and pay information to HMRC.

#### 6 — Settlements Legislation (Section 660/Section 624)

Also known as the 'family business tax,' settlements legislation prevents income splitting between high-earning contractors and lower-earning family members. Contractors must be cautious when sharing income or company shares with family members to avoid falling afoul of these rules.

#### 7 — Off-Payroll Rules

Although not formal legislation, Off-Payroll Rules apply to contractors working via their limited company (PSC). Contractors must demonstrate their status as genuine contractors to avoid being deemed 'disguised employees' and placed on the client's payroll or subject to IR35.

#### 8 — General Anti-Abuse Rule (GAAR)

The GAAR, introduced in 2013, targets abusive tax avoidance schemes. Contractors must ensure that any tax planning strategies have a genuine commercial purpose to avoid being subject to GAAR penalties.

#### 9 — Construction Industry Scheme (CIS)

The CIS, implemented in 2004, aims to combat false self-employment in the construction industry by requiring hirers/clients to deduct income tax directly from workers' earnings. While primarily targeting self-employed individuals, CIS may also affect legitimate contractors operating in the construction sector.



Understanding and complying with these key laws and regulations is essential for contractors to operate legally and protect their interests in the ever-evolving landscape of contracting in the UK. Failure to adhere to these laws can result in financial penalties, legal liabilities, and reputational damage. Therefore, contractors should seek professional advice and stay informed about updates and changes to relevant legislation.



# 5 - Understand Payment and Deductions

When working through an umbrella company, it's crucial to understand how you get paid and ensure that your pay is correct. Here's what you need to know:

## How You Get Paid

You submit your timesheet to the recruitment agency, which charges the client for your work.

The agency then pays the umbrella company the agreed rate based on the hours you've worked.

The umbrella company, acting as your employer, is responsible for paying you.

## Understanding Gross Pay

Your gross pay is calculated based on the assignment rate paid by the agency to the umbrella company.

The umbrella company makes deductions from the assignment rate to determine your gross pay. These deductions typically include operating costs (margin), employer National Insurance contributions, employer workplace pension contributions, holiday pay, and the Apprenticeship Levy (if applicable).

## Checking Your Payslip

Your umbrella company deducts Income Tax, employee National Insurance contributions, employee workplace pension contributions, student loan repayments (if applicable), and any other agreed-upon or legally required deductions from your gross pay.

Your pay after these deductions is your take-home pay (net pay).

## What to Do If Your Pay Is Not What You Expected

Speak to your umbrella company first to address any issues with your pay. If you suspect that deductions for Income Tax and National Insurance are incorrect, you can estimate your Income Tax for the current year.

Check your payslips for signs of tax avoidance schemes, such as separate payments, discrepancies between deposited amounts and payslip amounts, or requests to sign additional agreements.



## Protecting Yourself

- Keep copies of your payslips and review them regularly.
- Watch for signs of fraudulent activity, such as frequent changes to your umbrella company's name or PAYE reference number.
- Ensure that your umbrella company is correctly paying your taxes, National Insurance contributions, pension contributions, and student loan repayments.

If in doubt, seek advice from Acas, Citizens Advice, your trade union representative, or other relevant organisations.

By understanding how pay works when working through an umbrella company and staying vigilant for signs of fraudulent activity, you can protect your rights and ensure that you are fairly compensated for your work.

# 6 - Establishing a Strong Foundation



Once you are ready to start work, your umbrella company can help you with a range of queries you may have, such as setting up a strong profile or presence in your market, understanding the parameters of your employment or assignment, and help point you in the right direction for proper financial planning and budgeting.

## 1 – Setting Up Your Contractor Profile

A professional contractor profile is essential for success when you are contracting. i4 offers valuable tips and guidance for creating a standout profile, emphasising the importance of accuracy and completeness. Contractors can showcase their skills, experience, and qualifications effectively, enhancing their prospects in the competitive market.

## 2 – Understanding Your Contract and Terms

Contracts form the cornerstone of the contractor-client relationship, outlining rights, responsibilities, and expectations for both parties. i4 provides comprehensive support to contractors, ensuring they understand the terms of their contracts and navigate potential challenges with confidence.

## 3 – Financial Planning and Budgeting

Financial planning is a critical aspect of contracting, ensuring contractors manage their earnings wisely and prepare for future expenses. i4 offers valuable support and guidance in financial planning and budgeting, equipping contractors with the tools, contacts and knowledge needed to achieve their financial goals. From setting aside funds for taxes to creating a sustainable budget, i4 supports contractors to make informed decisions about their finances.



# 7 - Maximising Your Contracting Experience

## Leveraging Tools and Resources

Building a successful contracting career requires strategic planning, perseverance, and support from trusted partners like i4. Some umbrella companies, like i4, provide contractors with access to a comprehensive suite of tools and resources designed to streamline their contracting experience.

For example, with our dedicated mobile app, contractors can manage their contracts, track payments, and access essential documents with ease, meaning contractors stay organised and informed throughout their contracting journey.

## Contractor Support Services

In addition to cutting-edge technology, i4 offers unparalleled support services to contractors, ensuring they receive assistance whenever needed. From responsive customer support to personalised guidance on complex issues, your umbrella company should prioritise contractor satisfaction and peace of mind.

For this reason, contractors rely on i4 to address their concerns promptly and effectively, allowing them to focus on their work without distractions.



# 8 - Planning for Long-Term Success

## Building a Successful Contracting Career

Building a successful contracting career requires strategic planning, perseverance, and support from trusted partners like i4. We offer contractors invaluable insights and strategies for achieving long-term success in the contracting world. Whether navigating industry trends or exploring new opportunities, contractors rely on i4 to provide guidance and support every step of the way.

## Contractor Community and Networking

Networking plays a crucial role in the contracting world, providing contractors with valuable connections and opportunities for collaboration. To ensure the longevity of your contracting career, you should explore networking opportunities across the UK's vibrant contractor community, which allow contractors to connect with peers, share insights, and expand their professional networks.

## Retirement and Beyond

Planning for the future is essential for contractors looking to achieve financial security and stability in the long term. You should consider looking into valuable resources and guidance for retirement planning which help contractors build a robust financial foundation for the future. For our contractors, i4 provides expert advice and support every step of the way, whether they are exploring pension options or investing for retirement.



# i4: The Trusted Solution for Contractors

As an FCSA-accredited provider, i4 adheres to the highest standards of compliance and ethical conduct, offering contractors peace of mind in their financial arrangements.

Here are some key features and benefits you can expect when you engage with i4:

## FCSA Accreditation:

i4 is accredited by the FCSA, the UK's leading independent auditor for payroll companies, signifying our commitment to operating ethically, transparently, and in compliance with industry regulations.

## Expert Support:

i4 provides expert support to contractors, offering guidance and assistance with any queries or concerns they may have, complete with the i4 App that houses all of your important documents on pay, holidays and more, to make your journey as simple as possible. Contractors can rely on our knowledgeable team to navigate complex issues and ensure compliance with the appropriate regulations.

## Peace of Mind:

By choosing i4, contractors can enjoy peace of mind knowing that their financial affairs are in safe hands. With our commitment to compliance and professionalism, contractors can focus on their work with confidence.

**If you're considering contracting, or are searching for a new umbrella partner to work with, we can help.**

Call our team for more information, at **0203 603 1290**, email us at **hello@i4services.uk** or fill in the **contact form**.

## Compliance and Legality:

Contractors using i4 can be confident in the legality and compliance of their financial arrangements. We ensure adherence to all relevant tax laws and regulations, minimising the risk of tax liabilities and penalties.

## Transparent Operations:

Transparency throughout our operations is key to our team. Contractors have access to clear and comprehensive information about their financial arrangements, including detailed breakdowns of payments and tax obligations.



