

Contracting In Ireland

By Mark Burke

Introduction

Most IT Professionals consider becoming a contractor at some point in their careers. The reasons for this are many, but the primary reason I would say is the money. Not only do contractors get more money than their permanent counterparts, but for the most part they have better control over their finances, in terms of what they expense and what they take as their core salary. Contracting sounds like a very attractive option to most IT professionals, but a lot of people give up on this option because of concerns about security and the amount of work involved in setting up as a contractor. In this article I compare both the permanent role and the contracting role and try to present the contractor role as an attractive option.

What does it mean to be a Permanent Employee?

To compare a permanent role with a contracting role, the first thing that needs to be considered is what it means to be a permanent employee. All permanent employees are paid a salary, plus most have some additional benefits, the most important of which are mentioned below:

- Paid Holidays
- Pension
- Health Insurance (VHI/BUPA)
- Permanent Health Insurance (Income Protection)
- Bonuses

Of course these benefits have a monetary value which can in one sense be equated to a higher gross salary, however these benefits are not solely reserved for permanent roles. Contractors can avail of the same services, but these services must be setup by the Contractor themselves and obviously paid for from the contractor's income.

Permanent employees have job security in that the position is permanent and not a fixed period contract. If a permanent employee is made redundant, then the company normally pays some redundancy to the employee often amounting to 4-5 weeks pay for each year of service.

These are the 2 main benefits of being a permanent employee. Now let's consider how an individual can set themselves up as a contractor and still avail of these benefits.

Setting up as a Contractor

Contractors invoice for their services, so the first thing a contractor needs to be able to do is invoice legally. There are two options for a contractor. They can either set themselves up as a *Sole Trader* or set themselves up as a *Limited Company*. The key difference between a Sole Trader and a Limited Company is that Limited Companies are registered with the Companies Registration Office (CRO) and have limited liability, whereas Sole Traders are not registered with the CRO and do not have limited liability. For IT Contractors the limited liability aspect is not really an issue, because contractors normally do not have creditors as such and cannot get themselves

into a position where they owe money to suppliers. The other key difference is that Limited Companies have more flexibility when it comes to what can be expensed.

The key features of a Sole Trader and a Limited Company are listed below

Sole Trader

- Simpler to setup & maintain
- Less tax efficient than a Limited Company
 - Less allowable expenses
- No submission to CRO
- Income - Expenses = Taxable Income
- Need a VAT number (normally the same as RSI number)
- Obligated to make the following returns:
 - 4 x P30 return (Quarterly)
 - 6 x VAT3 return (Bi-Monthly)
 - 1 x VAT RTD return (End Of Year)
 - Form 11Tax return (Yearly)

Limited Company

- A little more complex to setup & maintain
- More tax efficient
 - More allowable expenses
- Submission to the CRO once per year (B1)
- Need a Company Number and a VAT Number
- Obligated to make the following returns
 - 4 x P30 return (Quarterly)
 - 6 x VAT3 return (Bi-Monthly)
 - 1 x VAT RTD return (End Of Year)
 - Form 12 Tax return (Yearly)
 - CT1 (Corporation Tax) (Yearly)
 - Form B1 (CRO) (Yearly)

The Other Benefits of Permanent Employment

The benefits enjoyed by permanent employees can also be enjoyed by contractors. The key benefits as mentioned earlier can all be set up by a contractor and any good accountant can offer advice on setting these up.

Regarding redundancy, contractors do not have coverage for this however given the additional income that contractors have, it should be possible over time to earmark funds should the contractor be without work for an unexpected period of time.

Regarding holidays, if a Contractor is not working they are not get paid. In my experience Contractors do not take a lot of holidays per se, but rather take an extended period of time between contracts. Contractors are not confined by a fixed number of days per year, but can take as much time as they like assuming there are adequate funds available.

Accountant

I would say the most important aspect of setting up as a contractor is to get a good Accountant. A good accountant will setup the company for you (if you choose to take the limited company option), will request a VAT number on your behalf and most also offer help setting up a Pension and Permanent Health Insurance schemes. A good Accountant is an invaluable source of information and will prepare the books and any submission to the Companies Registrations Office.

Expenses

The expenses which contractors are allowed to expense depends entirely on the individual case, but most Accountants would agree that if the Contractor is set up as a Limited Company and assuming that the Registered Office represents one room in the contractor's home comprising "N" bedrooms then the following expenses would be valid:

- 1/Nth Mortgage/Rent as Office Rental (e.g. 1/3 of mortgage for a 3 bedroom home)
- 1/Nth Electricity
- 1/Nth Gas
- 1/Nth Home Insurance
- 1/Nth Phone
- 100% of Mobile Phone
- Motor Expenses (Mileage/Company Car)

Conclusion

Setting up as a Contractor has some obvious benefits. There are some hoops which need to be jumped through in order to set things up, but once they are set up they should be setup for good. Once the invoicing entity (i.e. the Company or Sole Trader) is setup, the rewards of contracting can be pretty good. The key thing is to get a good Accountant, someone you trust who can provide quality guidance along the way.

Hook Head recommends the services of CFO Services (www.cfoservices.ie) who are the team of Accountants behind the Virtual Accountant (www.hookhead.com/VirtualAccountant.jsp) the online Accounting Service provided by Hook Head Software specifically designed for IT Contractors.

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