

# What is PCG?



PCG is an independent, not for profit,  
association

**Mission:** To represent, promote and support  
the freelance community

# The Complete Art of Running a Freelance Business; Reduced

- 6.30 Introduction – Iain McIlwee, PCG
- 6.35 Running a freelance business  
Colin Butcher, Xdelta
- 6.45 Guide to setting up a Freelancing business  
Nigel Simmons, Acconomy
- 7.00 Financial Planning around your business**
- 7.15 Using and buying technology , Colin Butcher
- 7.25 Taxation for the freelancer, Nigel Simmons
- 7.40 Developing your business, Colin Butcher
- 7.50 Q&A Discussion

# Running a freelance business

Colin Butcher

Who are you and what do you do ?

What motivates you to start your own business ?

- Why would anyone hire you to help them ?
- How do people know that you exist ?
- How will you survive for 18 months with no work ?

- Don't expect to be in paid work all the time.
- Be well prepared - use slack time to work hard on stuff that you don't like doing.
- Recognise that pre-sales activity is essential - and don't expect it all to pay off.
- Realise what's happening to you mentally - you will experience highs and lows, often in the same call!



- You are what your customers think you are, not what you might think you are.
- Become more aware of “soft” skills in order to “fit in” (clothes, language, behaviour, car etc.).
- Treat clients as friends and colleagues - keep in touch, even if there’s no immediate work.

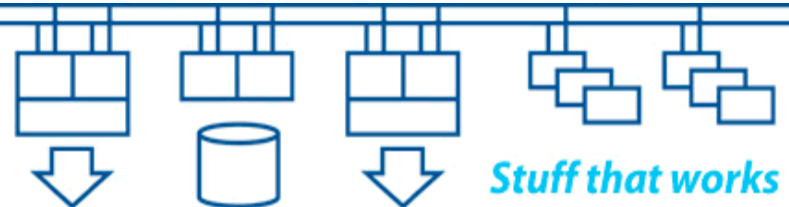
- You are a commercial business - so behave like one (collaborate, establish a diverse customer base, contribute to many different professional communities, etc.).
- Understand the psychological contract and reflect it in the statement of work.
- You can always say “No”.

## Who's helping you ?



The voice of freelancing

Copyright © Colin Butcher, XDelta Limited, April 2010



- What regulations do you have to comply with ?
- How do you find time for everything ?
- Where can you go for help ?

- Understand the field you work in and what's expected of you by your customers.
- Have a great support network.
- Keep learning, evolving and adapting.
- Strive for excellence and be the “trusted advisor”.

- There is a lot of administration, eg: expenses, invoicing, VAT, PAYE, contracts, insurances, annual returns, ‘maintenance of equipment’, etc. etc.
- There are also legal and regulatory responsibilities which are all yours to meet – many of which have fixed timescales and penalties.
- Offload what you can’t do or don’t want to do.

- Have people you know and trust acting for you:
  - Legal advisor (contracts, disputes, payment etc.)
  - Accountant (agent dealing with HMRC for PAYE, VAT, personal tax, corporation tax, etc.)
  - Insurance broker (PI cover, general business cover, employers liability, public liability, travel insurance etc.)
  - Financial advisor (pension, critical illness, income protection, investments, etc.)
  - Technology advisor (IT support, telephony, web site, etc.)
  - Trade associations and professional bodies (PCG etc.)

Thank you for your participation.

Colin Butcher



# Quick Guide to Freelancing & Contracting

# Starting and running a freelancer business

The entrepreneur builds an enterprise; the technician builds a job.  
- *Michael Gerber, 'The E-Myth'*

# Starting and running a freelancer business

- Technician

Selling time & expertise

No intrinsic value

No pension!

OR,

- Entrepreneur

Selling solutions

Business has a value (goodwill/knowhow)

Possible pension!

# Starting and running a freelancer business

## Trading formats - pros & cons

Business Format	Advantages	Disadvantages
Sole trader	<ul style="list-style-type: none"><li>• Easy to set up</li><li>• Easy to stop</li><li>• No employment status issues</li></ul>	<ul style="list-style-type: none"><li>• May not be possible (Agency/client may insist on Ltd Co)</li><li>• Higher tax than Ltd Co if outside IR35</li></ul>
Limited Company	<ul style="list-style-type: none"><li>• Most tax efficient solution</li><li>• Deals with multiple engagements</li><li>• Can be used to 'manage' personal income</li><li>• Limited liability</li></ul>	<ul style="list-style-type: none"><li>• Less tax efficient if caught by IR35</li><li>• More bureaucratic &amp; costly to run</li></ul>
Umbrella Company	<ul style="list-style-type: none"><li>• Best for short term interim work</li></ul>	<ul style="list-style-type: none"><li>• Taxed as an employee</li></ul>
Partnership	<ul style="list-style-type: none"><li>• Flexible</li></ul>	<ul style="list-style-type: none"><li>• Joint &amp; several liability</li><li>• Could be caught by IR35</li><li>• Taxed as a sole trader</li></ul>
Limited Liability Partnership	<ul style="list-style-type: none"><li>• More flexible than limited company</li><li>Limited liability</li></ul>	<ul style="list-style-type: none"><li>• Taxed as a sole trader</li></ul>

# Starting and running a freelancer business

Allowable expenses and other considerations:

- VAT Flat Rate Scheme (FRS)
- Eg Computer consultancy 13%
  
- Sales £100,000
  - Under FRS VAT  $£117,500 * 13\% = £15,275$
  - If VATable expenses of £3,000 then VAT would have been £16,975 – ‘Profit’ on FRS = £1,700

Expenses:-

- Beware the two year rule!
- Home Office & limited company issues

# Starting and running a freelancer business

## Case study based on

	Limited Company (Outside IR35)	Sole trader	Limited Company (Inside IR35)	Umbrella Company
Gross annual income after expenses	£97,240	£97,240	£97,240	£97,240
Take home pay	£71,134	£62,199	£60,344	£59,062
Take home pay as % of gross pay	73.2%	64.0%	62.1%	60.7%
Additional income required to cover additional tax cost		£14,880	£17,983	£20,120
Notes	Based on Acconomy fees	Based on Acconomy fees	Based on Acconomy fees	Admin fees based on market average

**FLYING SOLO**

**PACK YOUR PARACHUTE  
PROPERLY**

**YOU ARE THREE TIMES MORE LIKELY TO BE  
UNABLE TO WORK FOR 6 MONTHS OR MORE  
DUE TO SICKNESS OR AN ACCIDENT THAN TO DIE**

**PROTECT YOUR EARNING POWER**

**PROTECT INCOME PERSONALLY  
TO KEEP BENEFITS TAX FREE**

**COVER BASED ON YOUR SPECIFIC OCCUPATION**

**DO NOT LET YOUR COMPANY  
PAY FOR INCOME PROTECTION**

**WITH SPECIALIST INDEPENDENT ADVICE  
YOU CAN PROTECT DIVIDENDS TO YOU  
AND A SPOUSE**

# PACK THE FAMILY'S PARACHUTES

- PRIVATE MEDICAL INSURANCE
- CRITICAL ILLNESS AND DISABILITY COVER
- KEEP THE SUPPORT TEAM IN THE AIR
- HAVE A BACK UP PLAN FOR DOMESTIC SUPPORT DURING ILLNESS

# TAKE ADVICE ON WHAT YOUR COMPANY MIGHT BE ABLE TO PAY FOR

BENEFITS IN KIND COULD REDUCE THE TAX BILL  
e.g. only 66% of medical insurance premiums  
paid by your company are subject to tax

SOME BENEFITS ARE ALLOWABLE AS OF RIGHT  
SUCH AS PENSION FUND CONTRIBUTIONS

**YOUR COMPANY HAS THE SAME STRUCTURE  
AND ABILITY TO PROVIDE AS A  
BLUE-CHIP COMPANY**

**DO NOT RUN A 'CHIP ON THE SHOULDER'  
COMPANY**

**BE BOLD BUT TAKE ADVICE FIRST**

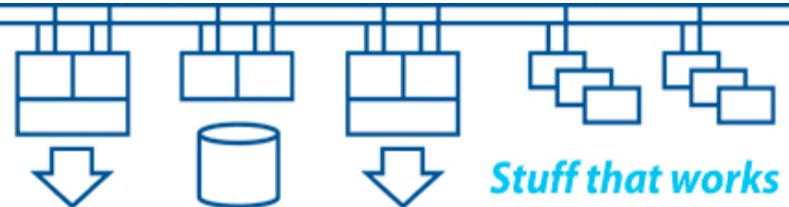
# Using and buying technology for your business

Colin Butcher

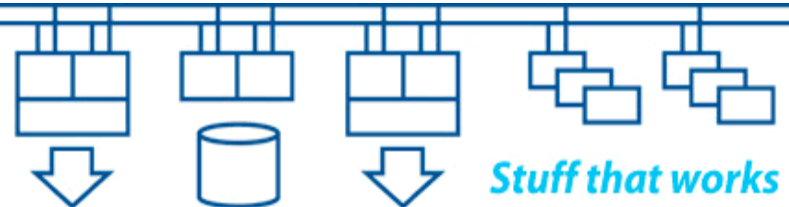


The voice of freelancing

Copyright © Colin Butcher, XDelta Limited, April 2010



If it doesn't make your life easier, don't do it!



- What you have and how adept you are at using it is part of your professional appearance.
- Your data and your systems are your responsibility. You have no-one else to blame.
- Your ability to function depends on your equipment being fully functional when you need it.

- Your ability to operate as if you're part of your client's organisation is essential.
- Data interchange and compatibility in whatever form the clients needs or provides is essential.
- Think about security and confidentiality. Never make assumptions - ask first.
- Encrypt and secure your data and e-mail appropriately.

- Things will fail. It will never be convenient. Be prepared. Murphy was an optimist!
- Minimalism is good. Be effective. Wield “Occam’s Razor” liberally!
- Know how to set your systems up. Know how to back them up and how to restore them.

Occam’s Razor: “Entia non sunt multiplicanda praeter necessitatem”

- Systems and equipment have a finite operational life. Plan accordingly.
- You generally get what you pay for. Budget accordingly.
- Invest wisely in your own technology infrastructure. Make the effort to understand it.
- Treat business money and personal money entirely differently.

- Even with a support contract – have enough alternatives to survive and be able to meet your client’s expectations.
- Stay current with hardware and software, even for ‘simple stuff’ such as cellphones.
- Hassle can damage an independent professional far more than it may hurt a bigger business. Plan ahead as best you can and minimise the risk.

Thank you for your participation.

Colin Butcher



## Taxation for the Freelancer

# Taxation for the Freelancer

## IR35 and Family Business Tax

### IR35 Summary

- Employment status
- Trading through an intermediary

### IR35 Tests

### IR35 Implications

- Business profits subject to National Insurance as if business owner is both Employer and Employee
- Adds 23.8% to the tax bill
- Trading as a sole trader may not be possible

# Taxation for the Freelancer

## IR35 and Family Business Tax

### Trading formats

Business Format	IR35 Considerations
Sole trader	No
Limited Company	Yes
Umbrella Company	No
Partnership	Yes
Limited Liability Partnership	Yes

# Taxation for the Freelancer

## IR35 and Family Business Tax

- Income shifting – What is it?
- Arctic Systems – summary points

# Developing your business

Colin Butcher

## Going beyond a one person consulting business

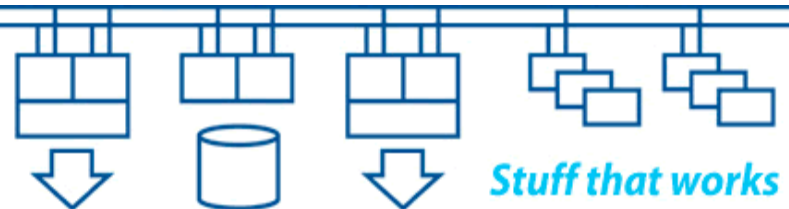


- Are you prepared to risk your personal reputation to help others find work ?
- How can you explain that to clients ?
- How can you find work for other people while you're also doing work yourself ?
- How can you fund that expansion ?
- Can you learn to become a leader ?

- By involving other people in your business, you're trusting them with your reputation – and vice versa.
- Having made the decision to involve others then you have to live with the consequences when they make decisions on your behalf.
- The ethics and values of the people you choose have to match your own, then you have a sound basis for trusting each other.

- Your colleagues will often have better ideas and insights than you will, so be prepared to let go.
- You will have to learn new skills, especially around making business decisions.
- There is no room for passengers – everyone has to be committed to the cause and actively contribute.
- When it goes wrong – it's still all yours. When it goes well, you have to share out the credit.

- You now have to be a lot more structured about planning ahead and finding good quality work.
- How will you fund the time and effort involved to identify potential customers, find opportunities, qualify them and bring some of those to fruition ?
- What kind of work is appropriate for the set of skills and people you have ?
- What kind of customers do you want ?



	In crisis	Aware of need	Planning ahead
What's involved? Value driven	Probably taken by surprise	Prepared to discuss approach	Understand value of early involvement
How much? Cost driven	Likely to be conflict	Less likely to understand issues	Probably "just looking"

- Clearly establish the contractual boundaries for the work you undertake – what's in scope and what's not in scope.
- Clearly identify the criteria for successful completion and milestones along the way.
- Cash flow is a lot more important with a bigger business.
- All you need is a small number of good customers.

- A bigger business will need to have all sorts of things in place, such as: policies on equality & diversity, environmental impact, health & safety, quality; insurances; project plans and management tools; etc. etc. etc.
- Don't underestimate the administrative workload of a bigger business.
- You'll need to be a lot more organised and structured to ensure nothing gets missed.

Thank you for your participation.

Colin Butcher