Making the Leap: Permanent to Contracting

Whether it’s the desire for more independence or increased earning potential, there’s no doubt that becoming a contractor has its benefits. However, for those who are considering making the transition from permanent to contract work, becoming your own boss can be a daunting prospect. Read our guide to find out how you can successfully make the leap and begin your contracting career.

Updated on 29th June 2020
The number of contractors in the UK has been rising steadily in recent years, with research showing that the self-employed, including contractors, now contribute around £275 billion to the UK economy. With growing skills shortages stunting growth in sectors like IT and finance, and with major doubts surrounding the resilience of the UK economy since Brexit and the Covid-19 pandemic, companies are now looking towards a more flexible workforce to plug gaps and lead recovery.

This growing demand for contracting positions is beginning to turn heads, with an increasing number of professionals now looking to contract work as a more rewarding alternative to permanent employment. Whether it’s the financial benefits or the increased flexibility and independence, switching codes and becoming a contractor has obvious benefits. However, leaving the comfort and security of a permanent job may seem daunting and many aspiring contractors worry about the complexities and risks which come with being your own boss.

So if you’re thinking about taking the plunge and becoming a contractor, remember that the decision should not be made in haste. Read our guide to find out what you need to consider before leaving behind your permanent job.

“Of the work delivered by consultants in the UK, almost one-fifth, valued at around £2 billion, is currently attributable to independent consultants.”– Global Research
Are you Ready to Start a Contracting Career?

Leaving the comfort and security of a permanent job to become a contractor is a big step which requires careful thought and planning to ensure the transition is smooth. However, there are a lot of myths and misconceptions which surround the practicalities of contract work, often dissuading permanent employees from joining potentially lucrative contract markets. From concerns around experience and qualifications to the perils of obtaining the right insurance, many are put off by barriers which are less complicated than you might think and can easily be mitigated. Here are a few of the most common:

<table>
<thead>
<tr>
<th>Myth</th>
<th>Actuality</th>
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<tr>
<td>Setting up a company means being responsible for endless paperwork</td>
<td>Working for an umbrella company or enlisting an accountant will allow you to alleviate the stress of tax and day to day admin and will free you up to focus on what you do best.</td>
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<tr>
<td>Contract work is devoid of perks and benefits</td>
<td>Contracting doesn’t necessarily mean you “lose” all benefits, you are now the employer and can purchase the benefits that suit your lifestyle. If you’re worried about sick leave, it’s useful to remember that health insurance will protect you from long periods off work.</td>
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<tr>
<td>I’m too young and inexperienced</td>
<td>Timing your move into contracting is essential. If your skills meet a curve in demand, then you won’t have to worry about your levels of experience.</td>
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<td>I won’t always find contract work</td>
<td>When working through a limited company, the risk of dry spells can be diminished by implementing careful tax planning buffers. These include claiming tax relief on expenses, alleviating NI costs and understanding what dividends you can take.</td>
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<tr>
<td>Contracting work is too risky</td>
<td>Although you’ll always be liable for errors in your work, you can manage risk by ensuring you are covered by the right insurance. Professional indemnity insurance and public liability insurance are most likely to help mitigate risk.</td>
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Assessing your Skills

Before you make any big decisions about leaving your permanent job, it’s important to understand your key strengths and marketable skills first. You will need to have complete confidence in your chosen specialism, so thinking objectively about what you have to offer and ensuring your skills are finely tuned is crucial. Doing this will obviously require a lot of market research to determine which skills are in demand as some clients will need highly skilled niche contractors whilst others might only require someone with less experience to cover an interim role or assist with temporary project work.

Registering with a recruitment agency will give you access to contracts as many organisations engage an agency to outsource their selection process. Recruitment agencies act as the quality control that organisations need, while providing contractors with a source of continuous work. This can take a lot of the stress and uncertainty out of the equation for you.

As a prospective contractor, you should be committed to your personal development and always be looking to upskill and gain relevant qualifications. Keeping abreast of the latest software, tools and developments in your industry is key, but there are also soft skills courses you can consider that will improve your chances of standing out from the crowd. Whatever additional courses you decide to do, ensure you invest wisely and enrol only on courses that complement your current skill set and add depth to your CV.

Never Underestimate the Importance of Soft Skills

**Problem Solving**

As a contractor, problems should be seen as opportunities as clients will always look to you to resolve and overcome them. Your approach to problem solving is therefore key as you should be able to analyse and think laterally about the situation whilst remaining calm and level headed.

**Networking**

Making networking a regular activity is a must for any serious contractor. Whether you utilise the power of LinkedIn, attend industry events or simply reach out to old colleagues and friends, the ability to build and maintain professional relationships can be a valuable source of new work.
Selling yourself and your skills directly to prospective clients is an essential skill for contractors. You need to be able to differentiate yourself from the competition, show that you understand the client’s business and clearly explain how you can offer unique and efficient solutions to their problems.

Organisation Skills
From filing tax returns to managing expenses and invoices, many aspiring contractors underestimate the scale of paperwork needed to maintain a successful contracting career. Having strong organisational skills is therefore essential for keeping every aspect of your contracting business in check.

Negotiating
Whether you’re finding new work or trying to renew a contract, having a refined negotiation strategy is essential. A thorough understanding of the rates in your market will help you prepare but finding the right tone and being able to communicate clearly and persuasively is also important.

Observation Skills
Contracts will always contain complex jargon and sometimes seemingly minor details can come back to haunt you after you accept the work. Contractors therefore need to have a keen attention to detail so that they can foresee potential problems and manage risk effectively.

Resilience
Contractors need to be thick-skinned and should be able to deal with rejection or negative feedback. No matter how disappointing setbacks may be, a successful contractor will understand how to persevere and learn from mistakes and missed opportunities.
Exploring a Contracting Career in your Industry

Prospective contractors that are interested in leaving their current positions behind, should not jump to rash decisions but carefully assess the existing demand for their skills in the market. Timing your move is therefore essential as you may want to reconsider leaving your existing job if your skills and specialisms are no longer in demand.

Assessing any major developments in your industry and the current economic climate is important here, as employers will tend to look for independent contractors in order to save money on staffing costs and plug pressing skills gaps. So, if a major piece of government legislation has started to change the standards of work in your industry, or you notice slow economic recovery is forcing employers to look for professionals in your field, check the job boards, or enlist the help of a recruiter, to see if your skills are in demand and assess whether the time is right to make the switch.

You might also want to consider annual cycles in your industry as the financial year and certain holiday seasons usually bring in periods of high demand for contractors. For example, January and February tends to yield opportunities for some contractors as new budgets are usually approved and companies begin their search for new hires. However, in the summer months, where holidays disrupt hiring rhythms, savvy contractors might choose to wait until September to begin making their moves.

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Contracting in the Construction Sector

The construction market in the UK is showing ongoing signs of strength, with recruiters reporting rising salaries, improved packages and promotions facilitated by growing order books. Although demand varies according to region, the UK construction industry is suffering from a skills deficit. The highest levels of skills shortages are present in Central London and in the South East of England. Huge infrastructure projects such as Thames Tideway, Crossrail and HS2 are just a few projects engaging contractors throughout various phases.

Quantity Surveyors, Project Managers, Engineers, Planners, Health and Safety and Estimators are all needed across the UK
Contracting in the Finance Sector

Financial services are already the largest service line for independent consultants – as they are for the consulting industry in general. In part this is due to the sector's close ties to the rapidly changing world of regulation. However, independents could be set to further capitalise on the market, as the financial services sector is also set to be most impacted by Brexit. Financial organisations will be tasked with balancing the demands of further regulatory changes with a need to digitise operations and focus on the customer, as well as finding new ways of sourcing talent amid what could be tightened immigration rules.

Job adverts for senior finance contractors in London have risen by 23% quarter on quarter

Contracting in the IT Sector

The Covid pandemic has fast-tracked existing digital transformations in companies. Technologies such as artificial intelligence, big data, the Internet of Things, augmented reality, and robotics will be important in make businesses more resilient to future disruptions. Almost a third of hiring organisations expect to increase their use of independent contractors in data analytics and digital technology in the next three years. With half of the new growth in the global consulting market coming from digital transformation, this is also an area where organisations rate the quality of independent contractors' work more highly than that of traditional consulting firms.

The number of IT professionals will grow from 1.2m to 1.6m by 2024
How to Become a Contractor

Once you’ve made a decision to leave your permanent position and move into contracting, prospective contractors need to examine the necessary next steps to get their businesses up and running. In a complex tax and regulatory environment this alternative to permanent employment needs careful consideration and consultation to succeed. ContractingWISE can deliver all the information you need for all aspects of setting up your contracting career, so do not hesitate to get in touch if you need support. Otherwise, here are some of the most crucial aspects to consider.

When Should you Give Notice?

Generally speaking, contractors need to be available within a period of about four weeks, as clients need to fill roles quickly, so current full-time employees with longer notice periods need to plan their transition strategy carefully. Always remember to review your contract of employment, including the notice and termination clauses, before you make any impulsive decisions. Consider putting together a timetable for your resignation in order to ensure you allocate adequate time for a clean and professional departure.

Making the Right Choice: Limited or Umbrella Company?

**Limited Company**

Setting up and running a limited company is tax-efficient, and with a good accountant it is not too difficult. It comes with statutory and financial obligations, such as the submission of annual accounts to Companies House and meeting HMRC tax deadlines. However, it has a number of advantages, such as the possibility to claim a range of expenses and access the flat rate VAT scheme.

**Umbrella Company**

Prospective contractors who prefer not to get involved in paperwork beyond timesheets and CVs can consider using an umbrella services company. By entering into a contract with an umbrella company the contractor becomes a PAYE employee and the company takes care of processes such as invoicing, payments and tax and National Insurance deductions. Umbrella companies charge a fee for the use of their services.
Steps to Securing Contract Work

Securing contract work can be very different to finding full-time employment, so to make sure you win the jobs you are after you need to switch gear, become more pro-active and start to sell yourself a little differently.

1. Rethink Your CV

The important first step is to get your contractor CV ready. A winning CV is short and tailored to the roles you’re after and should include a profile, an outline of your unique skills, achievements and a concise career history. However, keep in mind that potential clients are looking to buy your skills and industry knowledge on a short-term basis, so always bring a big focus on how you have helped deliver results on project work and helped companies solve problems.

2. Market Yourself on all Channels

Most contract work is sourced via agencies, so get your CV onto their databases, apply for specific roles and talk to recruiters. Additionally, upload your details to contractor job boards and professional platforms like LinkedIn and start networking online and face-to-face. You’ll be surprised by how much of an impact networking will have on landing your first contract.

3. Always Follow up

There is a lot of competition for good contracts, so make sure you follow up your applications by calling your contacts in agencies or client organisations. Having a conversation can help you build a relationship, get you on top of the pile of applications and really get to know the ins and outs of the role.

4. Before the Interview

Keep initial conversations focused on securing interviews with clients, this is not the time to discuss rates or begin intense negotiations. Once the interview is secured, prepare thoroughly for the meeting, research the demands and motivations for the client and try and find out why they need you. You might also want to get a good understanding of the current market rate so you don’t under or over sell yourself.
5. Pitch Yourself

Securing work as a contractor requires you to be proactive, control the interview and sell yourself. The client most likely needs someone to start work quickly, so show that you understand the situation, have the skills to tackle all issues and bring results.

6. Ask for the Contract

As a contractor you don’t have time to waste and interviews can actually be very blunt processes. If you want the project, finish the conversation by asking directly for the work and try your best to close the deal. It’s a competitive market, which means you need to be confident and bold. Just remember not too be too forceful and always respect the employer’s decision.

Consider the IR35 Status of a Contract

IR35 was introduced in 2000 by the government to clamp down on ‘disguised employment’. If your contract work is subject to IR35 then the benefits of contracting via a limited company are reduced, your net income can be decreased by up to 25% and using an umbrella company may be the better option.

IR35 has become a highly complex area of employment and tax law, with recent and planned changes to the legislation radically affecting the contractor marketplace. Make sure you’re up to date with an overview of the latest changes and, if necessary, seek an expert’s opinion before you sign new contracts.

“HMRC approaches IR35 compliance in two ways – first by randomly selecting companies and second, by looking for red flags that raise suspicion.”

ContractingWISE has a range of options to help you keep your contracting career on track. If you’ve been affected by the Off-Payroll reforms, or if you’re unsure about your employment status, talk to a member of our team on: 0203 642 8679