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‹ New to self-employment

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How to switch to self-employed contracting

If you dream of more freedom, flexibility and potential earnings, find out how to switch to self-employed contracting and take more control over your work.

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If you dream of more freedom, flexibility and potential earnings, find out how to switch to self-employed contracting and take more control over your work. Whether it's a part-time, temporary or full-time move, becoming your own boss can be a great experience, with long-term career benefits.

Becoming an independent contractor does involve some preparation if you want to be successful from the start and get the most from the experience. But it can also be hugely rewarding, whether you want more variety in the projects you take on, a higher income, or a better balance with your home life. Plus, many of the challenges can be tackled more easily with the services available to **IPSE members**.

- **Why become a self-employed contractor**
- **The difference between contractors and freelancers**

Why become a self-employed contractor?

Many people choose to become independent contractors after developing their skills and experience in permanent roles. Everyone has different circumstances and personal reasons for becoming self-employed, but common benefits include potentially higher pay, the chance to work with a wider variety of clients, a more flexible schedule, or swapping office politics and commuting for greater control over how you perform your job.

Working on a contract basis means you'll generally be hired for a set period of time, or to work on a specific project. After which you're free to move onto your next client, allowing you to build your professional network, gain new skills, and avoid getting stuck in the same routine for years.

Building your reputation and business could evolve into taking on staff to work for you, or being able to take on fewer contracts for higher rates each year, allowing more time off between client engagements.

The differences between contractors and freelancers

Independent contractors and freelancers both provide specialist work to companies on a self-employed basis, and there's no clear definition between the two terms. In general, a contractor will usually work for one client at a time, often on a full-time basis at the client's location. Whereas a freelancer will tend to manage several clients at once, on an hourly or daily schedule from their own office or home.

The benefit for contractors is that whether you're taking on one or more clients, the projects will tend to have longer agreed timescales, giving you a better idea of where you'll be working in six or 12 months.

Contractors tend to be employed in areas including IT, clinical and scientific roles, healthcare, banking and finance.

Both can operate as sole traders or limited companies. But contractors are more likely to be required to set up a limited company to work via recruitment agencies, and also have the option of operating as the employee of an umbrella company.

Preparing to make the switch to self-employed contracting

While your actual work tasks may still be familiar, becoming self-employed is a new, and sometimes challenging, experience. Whether you choose to work through a recruitment agency or umbrella company, you'll be responsible for your business and career.

Some of the areas we've covered in our dedicated guide on **how to prepare for self-employment** include useful questions to consider before making the jump from a permanent role, along with building up some savings to cover initial quiet periods and expenses when you're starting up, and understanding your tax liabilities.

One useful way to discover whether independent contracting matches your expectation is to take on **small projects around your current job**. This will let you experience the reality of working for yourself without the risk of missing mortgage and rent payments if it doesn't pay off immediately. And it helps you to identify your strengths and weaknesses. Just make sure you declare any additional income as part of your **Self Assessment Tax Return**.

You should also try and speak to existing self-employed contractors about their experiences and the challenges they faced. There's a wealth of relevant knowledge within the **IPSE Community**, including on the IPSE forums, for example. In addition to getting advice from experienced contractors who may be currently working in the same industry sectors, it's possible you might be able to find one or two people who are willing to mentor you on a more regular basis.

It's also a good time to review your skills and CV, and to research contracting in the niche that you plan to target for projects. For example, within the IT field you might specialise in network administrations, systems management, or cybersecurity, to name just a few of the options. Tailor your CV to highlight relevant experience and qualifications, and check whether you need to take or renew certifications, such as the Certified Information Security Manager (CISM) or Cisco Certified Network Professional (CCNP) programmes which might be required by clients before you're considered for projects.

Along with checking contract job listings to see what potential clients require for applications, you can also check the experience of existing contractors to see which certifications they recommend for improving your chances of securing work, or providing the best practical training.

Legal steps to take before contracting

Whether you're starting with some part-time contracting around your job or making a permanent switch to self-employment, there are practical and legal requirements to cover before you can start working.

The first is to decide how you'll structure your business and find work. While you might register with HMRC as a sole trader to do some part-time projects for friends, most contractors will have to operate via a limited company. This can give you more credibility with some clients, greater access to financing and options to reduce your tax overheads, and is sometimes required if you're sourcing work through a recruitment agency.

The downside is that as a company director, you'll be responsible for all of the legal and financial obligations for your business, including paying corporation tax, managing salaries and dividends, and submitting annual accounts and statements to Companies House. The additional complexity often means outsourcing payroll and returns to an accountant, with the cost that entails. But it does mean you're in complete control of every aspect of your business.

Umbrella companies are the main alternative for contractors, particularly since the off-payroll working rules - also known as IR35 - have applied to the private sector. We have **dedicated guides to IR35**, and how it impacts both clients and contractors. In basic terms, the legislation is intended to stop "disguised employment" where businesses might avoid paying Employers National Insurance Contributions, Sick Pay and Holiday Pay by hiring people through limited companies, which also potentially reduces the tax payable by the self-employed individual.

The responsibility for deciding IR35 status has to be determined by the client since April 2021, rather than the contractor. There's an exemption if the end-client has less than 50 employees, no more than £10.2 million turnover and has less than £5.1 million on the balance sheet, but for other businesses, if you're deemed to be 'inside IR35', all income will be taxed as coming from employment.

Due to the added complexity, the use of umbrella companies have grown substantially, with **our research** showing the 69% of those currently employed by one is due to the insistence of clients. An umbrella company effectively operates as an intermediary, hiring you as their employee even though you're a contractor. This means you'll be taxed as an employee, but may not receive the same benefits, such as paid holiday (typically 12.07% is taken from your day rate to fund your annual leave).

IPSE members can access tax and legal helplines, along with **discounted contract reviews**, to minimise the risk of issues due to IR35. IPSE is also the leading organisation **representing the self-employed on IR35**.

If you're becoming an independent contractor, you'll also need to set up business banking (separating personal and work accounts is a good idea anyway), register for VAT if applicable or desirable, and set up accounting software compliant with the **requirements for Making Tax Digital**.

Other considerations include **insurance**, and ensuring **your contract or Statement of Work** includes everything you might require if any disputes arise with clients.

Finding work as a self-employed contractor

The two ways to find work as a self-employed contractor will be either working directly with clients, or being sourced via a recruitment agency.

If you have already established a network of contacts through previous employment, then it's important to let them know you're becoming self-employed and will be actively looking for work. This might be most effective in-person or via a catch up phone call, but it's also useful to update your profile on any social media and career websites, such as **LinkedIn**. Just be prepared for an influx of messages from recruitment agencies.

You may also get valuable leads from attending networking events, speaking to other self-employed professionals in related fields, and using a business website and social media to promote your services. You can find more tips and help in our article explaining **how to find freelance clients**.

Contract work is often available through both general **online job boards and listings**, and specialist industry services, such as **CW Jobs** or **IT Job Board** for IT roles or **Just Engineers** for all kinds of engineering projects.

With a potentially high level of competition for long-term contract work, it's important to spend time tailoring and tweaking your CV and application for individual roles. And to prepare for an interview phase before you're likely to be selected.

It's also worth signing up with recruitment agencies who specialise in your industry and have a good reputation. Companies often use a preferred supplier to hire for roles, so they may have access to contract work which isn't advertised elsewhere. And in the UK, employers are responsible for all recruiting fees, so while there may be a cost of additional services, job sourcing should be completely free, although you may find you're recommended to work for a lower day rate to allow the agency to make a margin on their work without pricing you out of contention.

More help and support for self-employed contractors

The **IPSE advice section** is packed with articles covering every topic and challenge you may face when becoming self-employed. And by **becoming a member**, you can access tax and legal helplines, contract failure cover, and money saving offers from partners which can offset the cost of signing up.

There are also a range of trade associations and representative bodies for contractors across a wide variety of industries, with examples including the **Civil Engineering Contractors Association** and **Electrical Contractor's Association** to the **Chartered Institute for IT**.

As a self-employed contractor trying to keep up with the changes in your industry, and the latest rules and regulations regarding **IR35**, **Managed Service Company legislation**, and more, it can become isolating and overwhelming, which is where the **IPSE community** and other groups can be massively valuable. Knowing that other people have tackled the same challenges, or are working through similar problems can be hugely reassuring. And can even lead to collective action, such as supporting IPSE in our campaigns to tackle the damage caused by IR35.

Become a member

Starting a business?

You have the ideas, passion, and courage to take the first steps into self-employment. We have all the guidance and support you need to forge your own path. Let's build your future together.

Learn more

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