

IT contracting is an attractive option for professionals with valuable skills in software and computing. Working on contract for an agreed period of time, usually on a single project, you'll be paid by the hour or upon project completion. As your own boss, you'll have the flexibility and freedom to arrange your work schedule around your life.

Paying tax in the right time and in the right manner is very much essential for IT contractors.

Requirements for contractors

As a contractor, the most tax efficient route is to establish a limited company. There are several tax requirements associated with this.

Corporation tax

Corporation tax is levied on profit—whatever's left after your expenses and salary are deducted from turnover. This includes any profits from investments and capital gains as well. IT contractors must submit returns to HMRC by their own unique deadline, which will differ from that of your company's tax return.

Tax on dividends

The benefit of running a limited company as an IT contractor is that you can pay yourself the bulk of your income in dividends, helping to lower your tax bill. But you're still required to detail these on your tax return.

Income tax and National Insurance Contributions (NIC)

Income tax and NIC are both payable on the salary you deduct from the turnover. As your company's director, you'll need to set up a PAYE system—even though you may only be paying yourself.

VAT

After a certain income threshold (e.g. £85,000 in the tax year beginning April 2017), you will be expected to register for VAT. This will be charged on your invoices and passed to HMRC in quarterly basis.

Specialist IT contractors accountants

As highly experienced chartered accountants, we offer a range of specialist accounting services for IT contractors. To save you time and money, not to mention a headache, we can:

- Register your limited company with Companies House and HMRC within the mandatory time frame
- Ensure your returns are submitted and taxes paid by the deadlines (which are not all the same)
- Help with tax planning
- Provide guidance on setting up PAYE
- Ensure dividend payouts comply with company law