

A photograph of two women sitting at a desk in an office setting. The woman on the left, with blonde hair, is smiling and looking towards the camera. The woman on the right, with dark curly hair, is looking down at a laptop. There are two laptops on the desk, some papers, and a pair of glasses. The background is blurred, showing an office environment.

Be your own boss

The definitive guide
to freelancing

2021 / 2022

ipse The Association of
Independent Professionals
and the Self-Employed

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Have you joined the revolution?

Hello and welcome to the IPSE guide to being your own boss. If you're thinking of striking out on your own, or have already done so, then you're in great company. The way we work has gone through a major revolution. You no longer have to belong to a big firm to be taken seriously, or to be thought of as having a "proper job".

There are currently around 4.4 million solo self-employed people working in the UK. Did you know that they contribute an estimated £316 billion to the economy?

That's 20 times more than the British automotive industry!

Research findings by Professor Andrew Burke, one of the world's leading experts on entrepreneurship and innovation, concluded that, "independent professionals are vital for the performance of the modern British economy, helping it to be more flexible, agile, entrepreneurial and innovative." So much so, that they are being heralded as Britain's secret weapon.

About this guide

This guide is aimed at independent professionals such as freelancers, contractors and consultants who sell services to companies. If you're just starting out it will show you what to do, all the way from launch to running a successful business a few years down the line.

And if you're already established, it's a great way to check that you're on top of the latest rules, regulations and ideas for improvement. Whatever your profession, whether you're a creative, developer, business consultant or expert in a very specific niche, this guide will help you make a living from your knowledge.

Please bear in mind that this is aimed at UK based freelancers, so any tax issues and other legalities mentioned here are governed by British rules. All content within this guide is correct at time of print and relates to figures for the financial year 2021/2022.

The guide has been produced by IPSE, the UK Association of Independent Professionals and the Self-Employed. IPSE is a not-for-profit organisation dedicated to improving the landscape for Britain's 4.4 million solo self-employed, through an active and influential voice in government and industry.

We also provide a wide range of services to help our members succeed in business, including tax and legal helplines, IR35 support, and compensation for illness/injury.

We're here to support your professional journey every step of the way. You'll find a wealth of advice on www.ipse.co.uk.

“independent professionals are vital for the performance of the modern British economy, helping it to be more flexible, agile, entrepreneurial and innovative.”

Professor Andrew Burke

A woman with curly blonde hair is sitting and looking down at a laptop. She is wearing a yellow, textured knit sweater and blue jeans. A white mug with a black star pattern is visible on the right. The background is a solid teal color.

1. Get Real

What's it like to work for yourself?

Sonia was in high spirits. It was a beautiful summer and she had finally packed in her job to branch out on her own. Sick of being told what to do, she was sure she could fare better as an independent consultant. After all, she had seen the whopping fees being charged by the freelancers she encountered at work and wanted a slice of the action. But by Christmas, the realities of working for herself had really started to sink in.

"It's no bed of roses," she admits. "I used to think that freelancers got paid a fortune compared to what I was earning as a salaried employee, but I now realise I was comparing apples and pears. The rate that a freelancer charges has to absorb a whole range of costs that you completely underestimate – all those little things like paying for your own phone, laptop, printer, accountant, email hosting, website, insurance, book-keeping system, you name it – they really add up! My house is getting more wear and tear, because I spend so much more time in it. And working every day from the sofa was giving me a bad back, so I've had to splash out on a proper desk and an expensive ergonomic chair."

There were other challenges as well. Sonia had an excellent network from her previous job, and this had helped her gain a foothold. But not everyone was that helpful. Some of the people who Sonia counted as allies were acting slightly frosty towards her now that she was freelance – they seemed to view her as a potential competitor.

Despite all this, Sonia doesn't regret the decision and loves the fact that she's in control of her own life.

She's not alone.

An in-depth study by IPSE examined the rise of Europe's independent professionals. The study showed that independent professionals "find this way of working fulfilling. Many choosing to work in this way have rejected standard employment, which they feel requires conformity and represses creativity."

(You can see all of IPSE's research at www.ipse.co.uk/member-benefits/resources.html).

That said, working for yourself is only fulfilling if you go into it with the right mind-set, are prepared for the realities, and have enough of a financial buffer set aside to weather the inevitable pattern of feast and famine.

Sonia explains: “Not long after going it alone I joined IPSE, the Association of Independent Professionals and the Self-Employed. One of the most important things IPSE taught me from the outset was that I was now running a business.

This took a bit of getting used to and in the beginning I still had a bit of an employee mind-set. As I gradually developed a more business-like mentality I became a lot more proactive, which made me better at winning work and delivering projects.”

(Sonia is not her real name by the way – she’s a bit shy and asked us to keep her identity under wraps!)



What's an independent professional?

There are many different ways of working independently. Independent workers use different terms to describe what they are, e.g. freelancer, contractor, consultant, independent professional, interim, portfolio worker, self-employed, business owner.

Some people work on long term contracts, doing a full week at the client's office for several months until the contract is finished or renewed. Others work with several clients at a time or on a series of fast turnaround projects.

Independent professionals can run their businesses by being self-employed, which means they set up as a sole trader or partner in a partnership. Alternatively they choose to incorporate their business and operate as a director of their own company.

Others prefer to work through an umbrella company, which is a service designed to take the admin burden away from running your own company. You become an employee of the umbrella, and the umbrella service provider sorts out your invoicing and paperwork. You then focus on finding contracts.

Independent professionals might brand themselves using their own name, or else create a completely separate business brand and logo, presenting themselves as a small business rather than an individual. Some work through agencies, others directly with their clients. Some charge by the hour, some by day or week, and others give a fixed project fee.

The unifying factor is that they are their own bosses and have commercial, business-to-business relationships with their clients. So the key thing to remember is that, once you work for yourself, you're running a business. This is true even if it's just you in the business.

It's also true if the business goes by your own name – think of any fashion designer for example. There is a difference between Tommy Hilfiger, the person, and Tommy Hilfiger, the business.

Building your own career ladder

Not everyone is cut out to work for themselves. There are risks. It's not an easy option.

In fact, a survey conducted by IPSE showed that the general population was more satisfied than the freelance population when it came to working hours, time for themselves and time with family.

However, with risk comes reward. In the same survey, freelancers were shown to be happier overall than the general population. IPSE's annual membership surveys consistently show that most people go into it because they want to, not because they are forced into it through redundancy.

Only 3% plan to use it as a stopgap while they find a permanent position. Two thirds of freelancers continue to work as freelancers because of the autonomy it gives them. To make a success of it you will need to build your own career ladder and work out how to structure your business in a way that frees up your full potential.

To work as an independent, you don't necessarily have to be in the traditional areas associated with freelancing such as media or IT. More and more people are finding creative ways to exploit their skills in all sorts of areas such as business development, environmental consulting or even offering training in niche areas, for example selling to government departments.

The business will also need to be supported by some kind of promotional activity to ensure a sustainable level of work. And when it comes to deciding which marketing technique works best, there is no magic wand. There are almost as many views on effective marketing as there are freelancers.

As with so many things, you have to take what works for you, adapting the techniques that best fit your style and industry. It's a good idea to revisit your goals and long term plans regularly, benchmarking your journey and adjusting course if necessary.

There is nothing wrong with switching business models or re-inventing yourself completely at different points in your career. For example, someone starting out as a programmer can later morph into a project manager and eventually into a management consultant charging a premium fee.

Starting out on your own can seem overwhelming at times. It's tempting to think that you have to have everything in place before you venture out into the market, including a perfectly polished website and an award-winning logo. But in fact you don't need all that much to start earning money as an independent professional – just sort out the basics and then you can add and refine as you develop your business.

“Just as travel broadens the mind, a freelancer will have a broader and more colourful experiential mind-set than executives or owner/managers”

Tony Lahert
CEO, Step Solutions,
Argos Direct



2. Get Going

To get going, the basic steps are:

1. Understand 'employment status'
2. Decide which legal structure you want to use to run your business
3. Source an accountant
4. Decide whether to register for VAT
5. Set up a record keeping system
6. Get a business bank account
7. Get connected
8. Create a professional workspace
9. Plan



2.1 Understand employment status

The reason why you need to understand this is that it could influence your decisions about how you set up the business. Your 'employment status' determines whether you should be treated as employed or self-employed for tax purposes.

So in theory, that should be an easy one – you work for yourself, therefore you're self-employed, right?

Well, unfortunately it's not that simple. Being self-employed or employed is not a matter of choice, but is determined by the facts of each engagement you undertake.

It's a rather nebulous aspect of UK tax legislation that IPSE is working hard to convince the government to simplify and clarify.

So let's start by looking at what it means to be 'self-employed'

Definition of 'self-employed'

Confusingly, this term has two meanings – the one used in casual conversation and the official term used by the tax authorities.

In lay-speak, 'self-employed' usually refers to people who work for themselves. In casual conversation people don't generally

get down to the specifics of being a sole trader, in partnership or working via a limited company.

But in official-speak, 'self-employed' does have a more specific meaning. As far as Her Majesty's Revenue & Customs (HMRC) is concerned, 'self-employed' means that you are not employed by a company. So therefore you're self-employed if you operate as a **sole trader** or in **partnership** (more on that in the next chapter). You are not self-employed if you pay yourself via your own limited company, even though you are still your own boss. That's because in that situation, you are employed by your company.

It's possible to be both employed and self-employed at the same time, for example if you have a part-time job and do some freelancing on the side.

To summarise:

- You're self-employed if you're a sole trader or in a partnership
- You're employed if you're paid via your own limited company's payroll (or anyone else's payroll for that matter).

Are you really your own boss?

Where it gets even more complex is that the tax authorities have a nasty habit of challenging freelancers who they believe may be behaving as if they were employees of their client.

If you think and act as if your client was your boss, then the taxman will say that you are not a real business, and instead claim that you are 'deemed employed' by your client. And if you are employed by your own limited company, they have the power to tax you as if you were an employee of your end-client.

For this not to happen, you must truly be your own boss. This means you call the shots in terms of how you run your business.

Implications for sole traders (self-employed)

If you're a sole trader and HMRC challenges the status of your engagement with your end-client, they will enquire into your client's affairs, not yours. HMRC will want to understand why your end client has deemed the relationship between their business and yours as one of self-employment and not one of employment.

If HMRC's challenge is successful, they will argue that you should have been taken on as an employee for tax purposes, and that your client has failed to operate Pay As You Earn (PAYE) on the amounts paid to you. They will seek to recover the lost Employer's National Insurance Contributions (NICs) from the end-client. They will also charge interest and penalties to the end-client – particularly if HMRC can argue that the end-client knowingly treated you as self-employed when the facts pointed in a different direction.

On the face of it, this isn't your issue, but, of course, it will have ramifications. The end client may feel that the additional 13.8% NIC cost makes it uneconomic for them to continue the engagement and so you lose the business. Alternatively, the engagement may continue, but on the basis of employment, which might not suit your circumstances.

Implications for limited companies

If you are supplying services via your own limited company, you could be affected by the IR35 legislation.

If the relationship between you and the client looks more like an employer-to-employee relationship than a business-to-business relationship, then the IR35 rule will apply.

If IR35 applies, then HMRC requires the payment to your company to be treated entirely as PAYE and taxed at source. In other words, you are paid and taxed just like an employee (except that you don't get any employment rights).

So who decides if IR35 applies?

Since April 6th 2021 in the private sector, if your company is providing its services to an end-client which is a medium or large sized entity, the end-client is responsible for determining your employment status (in the public sector this has been the case since April 2017 and the size of the public sector body is irrelevant). This takes the decision completely out of your hands.

The only two exceptions to this rule are if you are working with:

- a wholly overseas entity with no UK presence; or
- a private sector end-client that qualifies as a small company

To qualify as a small company it needs to meet at least two of the following criteria:

- No more than 50 employees
- No more than £10.2m turnover
- No more than £5.1m on the balance sheet

If your end-client qualifies, then it is your responsibility to assess your employment status, rather than your client's responsibility under the original IR35 rules.

Note that the exemption applies strictly to the end-client, rather than to any intermediaries, such as an agency.

IR35 is a complex and evolving scenario and it's vital keep on top of the changes.

Stay in the loop with IPSE's IR35 hub:
www.ipse.co.uk/ir35-hub-ipse

How employment status is assessed

HMRC provides an online tool, called CEST, which stands for 'Check Employment Status for Tax', to help clients determine the IR35 status of an engagement.

However, it has been heavily criticised by experts, and only gives an answer in 85% of cases.

IPSE believes the CEST tool is flawed and should not be used.

Beyond that, there are three main factors that are considered in the assessment:

FACTOR 1: Personal service

Employees are obliged to do the work themselves whereas an external supplier providing a service isn't. HMRC will check whether you genuinely have the right to appoint a substitute to deliver work for clients. What really matters is whether you have the right – even if you never send a substitute.

FACTOR 2: Mutuality of obligation

Employees are obliged to turn up for work and there is an obligation to pay them, even if the work is not up to scratch, or if the work dries up. If this is your situation, you could be deemed employed. If, on the other hand, you can turn down work or can decide whether you turn up on a particular day; or either you or the client can terminate the engagement relatively easily, this means that you aren't.

Take this example from a particular court case: when a company's systems went down the employees were told to "look busy". The freelance contractors were sent home without pay. As a result the court found that there was no mutuality of obligation regarding the contractors.

Genuine independent professionals are in business on their own account and bear the responsibility for the success or failure of their business. They are not 'disguised employees'.

FACTOR 3: Control

Employees can be directed in how to carry out their work whereas suppliers exercise their professional judgment in **how** to carry out their work. Does your client tell you what to do? Do they prioritise your work? Your client is not your boss, and if either of you think otherwise, that's not good for passing this test.

You should be the one proposing solutions based on your expertise.

If all three of these tests point to employment, then your engagement would be inside IR35. Ideally, you would hope to demonstrate that your personal service is not required; you aren't being controlled in the manner of how you perform the services; and there is no mutuality of obligation.

Technically, it should be enough that one of these three factors can be denied, but in reality, relying on mutuality alone is unlikely to be enough and you would want to be able to deny either personal service or control – preferably both.

Where these status indicators are inconclusive, they will also consider factors which show that you are taking the kind of financial risk that would not be required of an employee, but is associated with running your own business. The more factors in your favour, the better.

The key is to think and act like a business

It's a principle that actually starts in your mind. You are you, and the service you offer is your business.

Genuine independent professionals are in business on their own account and bear the responsibility for the success or failure of their business. They are not 'disguised employees'.

If the taxman should challenge your employment status, and you are an IPSE member, be sure to let us know. All IPSE members receive free legal representation for tax investigations and IPSE Plus members are supported during the entire process of a tax enquiry, right from the very first letter. This gives you the best chance of a successful outcome. As an IPSE Plus member you also get up to £500 per day compensation for any days spent away from your business to meet with tax compliance officers or to attend a court hearing, provided this is required by the Market Tax consultant representing you in your enquiry.

For a more detailed look at IR35, see www.ipse.co.uk/ir35-hub-ipse/guide-ir35-from-ipse.html

2.2 Decide which legal structure you want to use to run your business

To set up your business you need to establish a trading structure and let the tax authorities know what you're up to. These are the main trading structures that could be relevant to you:

- **Sole trader** (you are self-employed)
- **Limited company** (you are employed by your own company)
- **Partnership** (you are self-employed, but there are others in the business as well)
- **Limited Liability Partnership** (you are self-employed along with others but with limited liabilities)
- **Umbrella company** (you are employed by another company to save you the hassle of setting up your own)

Each has its own tax and legal implications. Some people choose the sole trader route because it's fairly easy to set up, although there are good reasons to explore the other options, particularly the limited company route.

Case study: Experiencing a tax investigation

Robert is a freelance project manager and infrastructure consultant. Out of the blue, he was contacted by HMRC who wanted to review the PAYE records of the limited company he runs to check he was paying proper tax and NICs. As an IPSE member, he knew straight away what they were really interested in – checking his contracts to see if they could deem him to be 'IR35 caught'. HMRC suggested he call them, but instead he called the IPSE helpline for advice on what to do next. The tax inspector asked to see his books and records for the last six years and spent two hours going through them. He wanted a complete breakdown of expenses and asked Robert to highlight any mobile phone calls that were personal. Robert duly went through them and found £4 of personal phone calls out of receipts totalling hundreds of pounds. Assuming the inspector would dismiss this as an

insignificant amount, Robert was surprised to hear him say “I’ll have to think what to do about that”. Then the request came to view his client contracts for the previous five years. As expected, the inspector announced that they were being passed to the IR35 compliance department. IPSE provided Robert with an expert adviser, Jacqui Mann from Abbey Tax Protection. As a former tax inspector, Jacqui advised Robert and his accountant throughout the IR35 investigation process and dealt with the authorities on Robert’s behalf. The cost of this representation was covered thanks to his IPSE membership. In the end the case was closed without Robert being liable for additional tax or penalties.

“I felt very panicky at the beginning, but being an IPSE member definitely helped the situation”, says Robert. “Having Jacqui to represent me was very reassuring, and on top of that I was able to discuss it on the IPSE forums with others who have been through the same experience.”

The tax authorities may perform various forms of investigation into both the tax affairs of companies and individuals. These include PAYE and VAT reviews and requests for information, such as the 'Check of Employer Records' letter, which is the precursor to an IR35 investigation. It's really important to keep paper records and an audit trail of every single transaction, such as purchasing equipment or declaring dividends.

Make sure you have good professional representation in dealings with the authorities.

Operating as a sole trader is more straightforward than a limited company because there's less paperwork.

The limited company

A common reason why independent professionals set up a limited company is that some clients are wary of working with sole traders because it puts them at risk if the tax authorities challenge the employment status.

However, it's not the only reason. Having a limited company lends a certain credibility. It's a separate legal entity, which helps to create a division between the person and the business.

You can think of it as being like a separate person – it can own things, and have bank accounts in its own name. It also protects any personal assets – if the company goes bust or gets sued, creditors can't take your possessions (as long as you haven't acted fraudulently or negligently). There are more rules and regulations to running a limited company. However, with the help of a good accountant, this isn't unduly onerous. It will cost you a bit more to run, but on the other hand a company gives you a certain amount of control over when and how you pay tax which can result in legitimate savings.

The sole trader

A sole-tradership is a business owned and controlled by one person who takes all the decisions, responsibility and profits.

Sole traders are technically known as self-employed.

Operating as a sole trader is more straightforward than a limited company because there's less paperwork.

You pay tax and National Insurance Contributions (NICs) on the business profit, regardless of how much you draw, so the accounting side of your business is very straightforward.

As a sole trader you are protected from the risk of IR35 because, if HMRC decides that you are 'deemed employed', they will hit your client with the tax bill, not you. However, for precisely that reason, clients might refuse to engage you, so you could be limiting your market.

In some industry sectors this is more of an issue than others – it's a good idea to compare notes with other independent professionals in your field. Finally, be aware that personal assets, including your home, are potentially at risk because you are personally liable for any business debts, including lawsuits. It therefore makes sense to protect yourself against this by taking out insurance, such as Professional Indemnity, in case someone decides to sue you.

Sole traders pay tax twice a year under the self-assessment system known as 'payment on account'.

Setting up as a sole trader

If you do decide that this is the way to go then you need to register as self-employed. This can be done online at the government website:

www.gov.uk/set-up-sole-trader/register

You have to register within three months of the start of business or you'll be fined!

Rules for running a limited company:

- The company must have at least one director and a registered office, and must have “Limited” or “Ltd” after its name.
- Private limited companies are not obliged to appoint a company secretary unless the company’s articles contain a reference to the company having a secretary.
- Ownership in terms of the split of shares in the company is up to you but many freelancers split the shares with their spouses.
- The registered office is the company’s legal address and it can be your accountant’s office, your own office premises or your home office. In the case of a home office, it is important to check the terms of any lease or mortgage agreement to make sure there are no restrictions regarding commercial operations.
- The registered office must be within the jurisdiction in which the company was incorporated. So a company formed in Scotland must have a registered office in Scotland and a company formed in England or Wales must have its registered office in England or Wales. Legally, a plaque or sign must be displayed outside the building to show that this is the company registered office, although IPSE does not know of any freelancers who have been prosecuted or investigated for failing to comply.
- A limited company must file annual accounts with Companies House, and also submit a corporation tax return accompanied with the accounts to HMRC. The limited company must also complete an annual return to Companies House. This document confirms details of the shareholders and directors of the company.

The partnership

A partnership is a simple way for two or more people to work together. There are two types of partnership that you can set up:

- Ordinary partnership
- Limited liability partnership

Ordinary partnerships

Like a sole trader, an ordinary partnership is an unincorporated business. This means that the business is not a separate legal entity and the partners are personally liable for the business debts.

Partners are jointly and severally liable so, if you're in business with someone with no personal assets then you could also find yourself liable for their share of any business debts.

A partnership can continue even if one partner resigns or dies, as long as there are at least two other existing partners left. If there is only one partner left, the partnership must be dissolved. However, the remaining partner can continue on the trade as a sole trader.

If one partner takes on a debt, all the partners are jointly liable for repayment of the debt. If one of the partners resigns, dies or goes bankrupt, the remaining partners will still be personally liable for any outstanding debts.

However, for tax purposes each partner is taxed on their own share of the profits and therefore, each partner is personally responsible for ensuring they pay the correct amount of tax on time through their own tax returns.

Limited liability partnership

A Limited liability partnership (LLP) is different from a traditional partnership in that it is a legal person separate from its members. It has 'members' rather than partners and must be formally incorporated to exist. Like a limited company, an LLP has to submit accounts and an annual return to Companies House each year. This requirement is more demanding than for normal partnerships and specific accounting rules may lead to different profits from those of a normal partnership.

However, unlike a limited company there are no requirements for board meetings or decision making by formal resolution, nor does an LLP have a memorandum or articles of association. Partners and members of an LLP can join and leave at any time without the partnership being dissolved.

How partners are paid and taxed

For tax purposes an LLP is treated exactly the same as an ordinary partnership despite having limited liability. Each partner is taxed personally on their share of profits through their own self-assessment tax returns which will be subject to income tax and class 4 NICs. Whether you are a partner in an ordinary partnership or a member of a limited liability partnership, you are classed as self-employed and taxed on your share of any profit made by the business*. Your drawings from the business are not subject to PAYE and do not need to be processed through a payroll system.

**For this to apply to LLPs, the business must carry out a trade or profession rather than being simply an investment vehicle.*

Setting up a partnership

Although it's not a legal obligation, it's a good idea for partnerships to have a member agreement in place and take legal or professional advice about the issues covered in the agreement.

As a member of a partnership you need to register as self-employed, which can be done online at: www.gov.uk/set-up-business-partnership/register-partnership-with-hmrc.

To set up an LLP you also need to incorporate the partnership at: www.gov.uk/set-up-and-run-limited-liability-partnership.

Otherwise you can appoint an accountant as your agent – they can advise you on the implications.

The umbrella company

An umbrella company is a service for people who don't want to run their own limited company. By joining an umbrella service you're handing over the responsibilities and admin to a service provider. You become an employee of the umbrella company – the umbrella then bills your client through its own limited company structure and pays you a salary, with PAYE tax deducted at source, based on the work you do for your clients.

You still have to land your own work, but they do the rest, such as payroll, debt collection and paperwork. It's very easy, saves time, and removes the need to be aware of the legal requirements and risks involved with running a limited company.

The downside is that it's not your own company and, therefore, it's harder to build your own brand. It's also less tax efficient because all the money is paid as employment income.

However, if you're intending to contract for a short period, say a few months, this could prove to be the best option. If you are unavoidably 'IR35 caught' it may also be a good choice – IR35 becomes irrelevant because the fees you earn from the client have the full PAYE tax deducted at source when they are paid to you as salary.

If you decide to go the umbrella company route, do your research, seek peer

recommendations and consider carrying out credit checks. Make sure that the umbrella company you choose is a PAYE Umbrella.

Any providers that claim to be able to pay you gross, without deducting tax at source, are likely to get you into hot water with the tax authorities.

Be careful with offshore umbrella schemes

Some freelancers have been told that they can use an offshore company to avoid IR35. It doesn't matter where your company is incorporated as this does not affect how HMRC determines IR35 status. You should be very wary of any offshore solutions – IPSE has a policy of advising against aggressive tax avoidance schemes. There are freelancers working in the UK with companies incorporated in countries such as Ireland, the Netherlands and so on. There are reciprocal legal and tax agreements between the UK and these countries. However, some agents and clients are nervous about dealing with foreign companies. Certain offshore schemes have used an umbrella structure and divert bonuses or other income into loans or employee benefit trusts.

IPSE can't comment on specific cases, but HMRC takes a very close look at this kind of thing. Tread carefully before entering into one of these schemes as they are not covered under IPSE's tax investigations insurance policy.



HM REVENUE & CUSTOM

2.3 Source an accountant

Legally there's nothing stopping you from doing your own accounts, but a good accountant can save you a lot of time and hassle and advise you on how to create legal tax savings, so it's usually well worth the cost.

Using a qualified professional also helps show the tax authorities that you're taking extra steps to comply with the rules.

For complex issues, it's often worth getting a second opinion as well – IPSE members can contact the tax and legal helplines with any queries.

How to source a good accountant

A good place to start is the IPSE Marketplace, here: www.ipse.co.uk/member-benefits/ipse-marketplace/professional-services.html

You can also ask for recommendations from other freelancers via the IPSE Community here: <https://www.ipse.co.uk/community.html>.



To make sure they give you a good service, check for the following:

- Do they understand freelancing and all the rules that apply to independent professionals, such as IR35?
- Do they come well-recommended?
- Will you have a central point of contact to manage your account or will you be bounced from person to person?
- Do they belong to one of the Chartered Institutes? This will give you more protection against malpractice.
- Are they cost effective? Expect to pay between £60 and £120 plus VAT per month to draw up the end of year accounts and tax returns for a limited company. VAT returns are sometimes included in this fee as well. If you operate as a sole trader or partnership, your accountancy needs may be simpler and you could therefore be charged less.
- Do they offer additional services, such as bookkeeping, including recording and processing of receipts and expenses and invoicing?



2.4 Decide whether to register for VAT

You don't have to register for VAT until your billings (also known as turnover) hit the VAT threshold amount. For the tax year 2021/2022 this amount is £85,000, although the figure can change from one year to the next. Keep track of the latest VAT threshold at **www.gov.uk/vat-registration-thresholds**. If your billings are less than this, you can still register voluntarily.

There might be good reasons to do it – see the VAT section in the chapter 'Get ahead' to decide whether it's worthwhile at this stage. If you do decide to register for VAT, make sure you follow the "Making Tax Digital" rules, which you can read about here: **www.gov.uk/government/publications/making-tax-digital/overview-of-making-tax-digital**.

2.5 Set up a record keeping system

You're legally obliged to keep your business records, which basically includes any paperwork associated with running your business.

If HMRC were to inspect your records, they might ask to see any of the following:

- A list of all sales or fee income and other business receipts as they come in, plus supporting records, such as invoices, bank statements, and paying-in slips to show where the income came from and from HMRC's perspective just as important, how it was subsequently taken out of the business and paid to the business owners
- A list of all purchases and other expenses as they arise, with supporting receipts or invoices (unless the amounts are very small)
- All purchases and sales of assets used in your business

- All amounts taken out of the business bank account, or in cash, for your own or your family's personal use
- Business diaries, mileage logs, minutes of board meetings, i.e. supporting records as well as the primary accounting records
- All amounts paid into the business from personal funds, for example, the proceeds of a life assurance policy.

You may not always get evidence such as a receipt for small cash expenses, but if this happens, make a brief note of the amount you spent, when you spent it and what it was for.

The record must be made contemporaneously, in other words near the time of the event rather than retrospectively. Most records need to be kept for 7 years, although certain types such as title deeds have to be kept for 12 years.

Therefore it makes sense to get a proper system rather than relying on an old shoe box to store all your receipts. There are plenty of innovative, time-saving solutions which allow you to archive everything permanently so you can easily access them at any point in the future. You don't have to keep hard copies of the records if you don't want to accumulate a warehouse full of physical receipts.

HMRC says the following about scanning or storing records electronically:

“There are no rules on how you must keep records. You can keep them on paper, digitally or as part of a software program (like book-keeping software).

HMRC can charge you a penalty if your records are not accurate, complete and readable...”

Ask your accountant if they provide a solution or whether they can recommend one.

Creating invoices via your bookkeeping system

Many electronic bookkeeping systems include an invoicing function that lets you customise a template, generate invoice numbers, issue invoices and track payments.

Make sure your invoices have the following elements:

1. A clear header saying ‘invoice’.
2. A unique identification number – if your business is VAT registered, this needs to be a sequential number, in other words, part of a series, so that the next invoice follows on from the last. (Check the section on VAT in the ‘Get ahead’ chapter to see when you should register for VAT)
3. The name that you regularly use for the business. If it's a limited company you also need to include the full name of the company as it appears in the certificate of incorporation (you can put the main brand name at the top and the officially registered name as small print in the footer). Limited companies can, if they want to, include the names of the company directors on their invoices, as long as all the directors' names are included.

4. Your business address. This must be an address where any legal documents can be delivered to you. If your business is a limited company and the business address is different to the registered address, then the registered address should also be included in the small print.
5. Your company registration number if your business is a limited company.
6. Your VAT registration number if your business is VAT registered.
7. The company name and address of the customer you are invoicing.
8. The date that the invoice is being issued (the tax date).
9. A clear description of what goods and/or services were delivered.
10. The date the goods or services were provided (supply date).
11. A column showing the number of units of the goods or services supplied (for example 3 hours), a column showing the price/rate per unit and a column showing the total for each item without VAT.

If your business is VAT registered, then add three more columns: the percentage of VAT that applies to each item, the total amount of VAT payable per item and then the total amount of each item including VAT. At the bottom show a grand total of all items without VAT, the total amount of VAT owed and finally, a grand total of everything including VAT.

Note: If you work via an agency, they might ask you to sign a “self-billing” agreement. This just means that they will prepare a combined invoice and payment confirmation for you, based on your timesheet. This saves you the bother of having to bill them.



2.6 Get a business bank account

It's very important to keep your business and personal affairs separate. Mixing the two is a really bad idea as it can lead to confusion and complications with tax.

To help you keep them separate, set up a dedicated business bank account.

If you have a limited company, remember that it's a separate legal entity (almost like another 'person'), which means the company needs an account in its own name.

The money in that account belongs to the company, not to you. It doesn't belong to you until it's formally paid to your personal account by the company, as either a salary or dividend payment (see the 'Get ahead' section for advice on how to do this – pg 79).

If you're a sole trader, your business is not a separate legal entity in the same way that a limited company is. However, it still makes sense to keep your personal affairs separate from those of the business. Having a separate business bank account will help you do that.

Some people prefer to have personal and business accounts in separate banks so that the bank can't use knowledge about your business to make decisions regarding your personal finances. However, others prefer to develop a relationship with a particular bank. This can also make it easier to transfer money between personal and business accounts.



You don't need to choose a bank with a local branch. A bank that offers internet banking can also be very convenient – check whether you can download statements in a .csv or Excel format – that could speed up your bookkeeping as you won't have to enter transactions manually.

Many freelancers choose to run two accounts – a business current account for everyday transactions and a business deposit account to set aside money for tax and VAT. Look for accounts that offer free banking and a good rate of interest on cash savings – you may be keeping thousands of pounds of tax money in there.

Rates vary but should be within a couple of percentage points of the current Bank

of England rate. There are specialist small business accounts and high-rate business savings accounts available over the internet and from non-high street banks. You could also check out the innovative 'challenger' banks such as **tide.co**, **aldermore.co.uk**, **revolut.com** and **atombank.co.uk**.

For a comparison of interest rates and terms offered by different banks try: **www.moneysavingexpert.com/banking/compare-best-bank-accounts**.

If you're an IPSE member it's also worth asking for recommendations via the IPSE community, here: **www.ipse.co.uk/community.html** – You'll find many independent professionals who are happy to share their experiences with you.

2.7 Get connected

You may already have a phone and email for personal use, but it's better to set up separate services for your business.

Not only does this give a more professional image, but in many cases you should be able to claim it against tax – for example if your mobile is billed to your limited company you can claim the whole amount.

You can check the rules as to what is and isn't allowable in the section on expenses in the 'Get ahead' chapter.

It's important that clients feel confident they can get hold of you. Agencies in particular are very keen to have a reliable mobile number where they can reach you.

Setting up email

If you're setting up your email using Outlook or a similar programme, it will probably ask you if you wanted to use POP3 or IMAP.

If you're wondering what the difference is – IMAP is the option that allows you to keep everything in the cloud. Select this option to have a mirror image of your email available online, automatically synchronising with all your devices.

Just be sure to keep an eye on the storage space provided by the company that hosts your email as you will stop receiving emails if the storage runs out. However, these days

it's usually pretty cost-effective to contract unlimited storage.

Using cloud technology effectively allows you to access everything simultaneously on all your devices – computer, phone, tablet, or even from someone else's computer if you're caught on the hop.

The app ecosystem

Now that virtual working has become the norm, which apps do you work with?

What are you mainly using for messaging, video/audio calls and sending images or documents?

Bear in mind that different clients are likely to have their own preferences, so it's worth familiarising yourself with a range of tools so you can get up to speed quickly whenever you join a new project team.

Here are some of the most commonly used tools for collaborating between internal and external teams:

WhatsApp

If you thought this was just for social use, think again. The world's most popular messaging app has also become a key communication tool for businesses. You can use it for messaging, file sharing, video/audio calls, and small scale group calls. Work directly from your phone, or sync it with your computer via WhatsApp Web.

Google Meet

A very simple and secure way to run individual and group video calls. It generates a unique link for each call which you send to the person or people you want to speak to. Conveniently, it syncs with Google Calendar, so you can plan your video calls ahead of time. It has its own mobile app, but also works directly on a web browser without having to install anything.

Zoom

One of the most popular video conferencing solutions for companies and government bodies around the world, it allows you to record meetings very easily. It does require an install if you use it from a web browser, so make sure you set it up and test it before an important meeting.

Teams

With messaging, video conferencing and file sharing all packed conveniently into one workspace, Teams is another popular choice for businesses. Produced by Microsoft, it has now replaced Skype for Business, which has been phased out.

Slack

Designed as an all-in-one productivity tool, some companies are even using it as a replacement for email. If you're not already using it, you're very likely to encounter clients who'll ask you to work with it to keep in sync with other members of the project team



“Google Drive allows me to back-up files and share documents as required. With Google Keep, I take notes on the go, upload voice and video memos, produce checklists and assign colour codes to different types of information. Google Mail provides me with email, which I can check on any of my devices. If my computer breaks down, or I lose my phones, all my emails are still available online. I can also share calendars, which is great for team working. To link these all together I use Google Workspace, for which I pay a monthly subscription fee. This lets me send emails using my own company domain name, which I think is more professional than using the @gmail.com extension. However, if you don’t need this, you can still use all of Google’s cloud services for free just by creating a Google account.”

Frederique David

Freelance Writer and Tech Adviser

2.8 Create a professional workspace

Unless you work full-time from your client's premises (which many contractors do), you'll need somewhere to base yourself.

Working from home

Yes you could work from your kitchen table, but you need to consider the practicalities. If you have a family, how will that affect them if there is no division between work and living areas? Even if you live on your own, how will you switch off at the end of the day if you eat, sleep and work in the same place?

As long as you address these issues, there can be many advantages to working from home. You save on the commute, it can keep costs lower, you avoid all the typical office interruptions ('chat gaps') and it can give you more flexibility to juggle all the different aspects of living and working.

Here are some tips for effective home working:

- Treat your working time as seriously as if you were working at an office
- Create hard boundaries between work time and home time
- Make sure those you share your home with see it that way too

- Aim for a definable, permanent workspace
- The right furniture and equipment are essential investments – get a good chair, especially if you work long hours at a computer
- Installing a separate telephone line lets you make a clear distinction between your work and home life – when you finish working, let business calls go to voicemail
- Get specific insurance cover for your business equipment
- Make time to socialise, network and meet new people, particularly if you live alone
- If you are freelancing, arrange the occasional meeting with those you work with – personal contact is so much more memorable than email or phone conversations
- Timetable breaks – include sessions away from work to eat, exercise and socialise

Some people create a separation between work and the family by converting their shed into an office or building one in the garden. It's also possible to buy purpose built garden pods, for example **pod-space.co.uk** or **officepod.co.uk**.

Alternatives to the home office

Some people find that working from home can be too isolating, or causes too much conflict with their home life, so they prefer to rent commercial office space that is completely removed from the household and 100% dedicated to work.

This can be anything from a hot-desk or shared space to fully serviced offices. As it's your business you can choose the location to suit your needs – you may be able to find a professional and affordable space within walking distance from your home.

One solution that has become very popular is the concept of the workhub or co-working space, popping up all over the UK and Europe. These are flexible, affordable shared workspaces that encourage collaboration and networking. It's this collaboration that differentiates co-working spaces from hot-desking options.

Many of them have a very creative vibe and edgy design, giving them a buzz that sets them apart from the usual stayed prefab office space.




Working at the client's site

Your client might want you to work at their premises and use their equipment. Sometimes this is unavoidable. However, bear in mind that having your own office and equipment helps to show the tax authorities that you're genuinely in business and not a 'disguised employee'

Think about it carefully and discuss it with your client. Are there valid reasons why you need to be there every day?

For example, do you need to plug into specialist equipment housed at the client site, that you couldn't supply yourself? Do you need daily face-to-face contact with the project team, or would it work better to have periodic project update meetings?

If there aren't compelling reasons, you may be better off using your own base to work from.



"I was attracted to co-working, and the short commute gets me into the work mindset. Even though I've only been here a few weeks I've noticed a significant increase in my productivity. I read a study that showed that mixing in diverse social groups produces more innovative thinking and I feel that's an important aspect of co-working. On a more practical level, the email group has proved helpful – people will chip in with advice. I'm also starting a personal branding exercise, so those different perspectives will be helpful."

James Holloway
Lighting Consultant





2.9 Plan

Creating a simple business plan really focuses the mind. It forces you to think about where you want to get to and helps you craft a compelling pitch that will get clients excited about working with you.

No need to make this process too laborious - things will inevitably change as you respond to the realities of the market. As Mike Tyson, the legendary boxer, used to say, "Everyone has a plan until they get hit."

You'll therefore need to strike a balance between maintaining a clear direction while still remaining flexible enough to seize opportunities that present themselves. Here's a simple structure to help you get some thoughts down on paper:

Vision

Why are you doing this? What impact do you want to have? This isn't about money – it's about your ultimate legacy.

For example, take Elon Musk, the founder of Tesla electric cars and SpaceX, the rocket company that's disrupting the space industry.

His ultimate vision isn't to make electric cars or rockets – it's to save mankind by making it possible to colonise Mars.

A pretty lofty vision and, some would say, completely mad.

Yet this is the thing that gets him out of bed in the morning and spurs him on to build several multi-billion dollar companies in the process.

This goes to show that it really doesn't matter how realistic the vision is. Unlike goals (which we'll get on to) the vision doesn't need to be achievable. But it's really valuable to have one because this is what gets you through those tough times that you will inevitably face when you're working for yourself.

When you know why you're doing it, you'll have the motivation to weather the storm. Try to capture your vision as a pithy single sentence.

The Alzheimer's Association has a neat one: "Our vision is a world without Alzheimer's disease". *Bold and simple.*

Stick it on your wall and you'll be surprised how powerful this can be. It encourages you to live by it, which makes it more likely to come true.



Mission

The mission is a bit more practical, focusing on the here and now, rather than the desired outcome in the future. It's about what you do, who you do it for and how you do it. This can be a short paragraph.

For example, the Alzheimer's Association's mission builds on their vision statement by adding more detail: "To eliminate Alzheimer's disease through the advancement of research; to provide and enhance care and support for all affected; and to reduce the risk of dementia through the promotion of brain health."



Goals

Unlike the vision, your goals should be achievable.

SMART goals are: Specific, Measurable, Attainable, Realistic and Targeted. You can set goals each year or each quarter, based around things like the number of clients you want to have, the type of clients, revenue, profit and so forth.

So don't just say, "I want to make more money this year." Instead, make it a SMART goal by saying "I want to earn 100K this year by doubling my day-rate and landing two 3-month contracts at the new rate."

Oh, and if you're thinking that doubling your day-rate falls short of the 'R' in SMART, then you might be right, but you won't know for sure until you try it.

To judge what is realistic, it's better to have hard evidence, rather than just guessing.

One of your goals could be to test the new rate by pitching it to 20 people. If you get 20 rejections, then maybe there are grounds to reconsider the rate. One or two rejections wouldn't be enough to constitute hard evidence – there may still be people out there willing to pay the higher rate, just that you haven't found them yet.

Another thing to consider when setting goals is how your goals will affect the other people who depend on your business, such as family. Are your business goals compatible with their personal goals and aspirations?

Pitch

Your mission statement should give you most of the content you need to write a compelling externally facing pitch that you can drop into conversations with potential clients. A pitch is a short statement that conveys your value proposition. Americans call it the 'elevator pitch' because it should be concise enough so that you can say it to someone you meet in a lift.


This is what your pitch might look like:

"I'm a [insert broad descriptor, e.g. 'structural engineering consultant']. I work with [insert the type of client you work with, or want to work with, e.g. 'FTSE100 engineering firms'] to [insert how you solve the client's problem, e.g. to 'build suspension bridges in politically unstable areas']"

Notice the last line "in politically unstable areas"?

This is an example of someone who has found a niche within a niche, creating a unique differentiator. There may be lots of people who can build suspension bridges, but how many can do it in a warzone?

It really helps your pitch to stand out if you can create a very defined specialist solution. Trying to be all things to all people makes for a very weak pitch.



Clearly some specialisms have more natural drama attached to them than others. But that doesn't mean that a potentially dry topic can't sound exciting. The key is to identify a problem that is causing a particular group of people a lot of pain. As long as you know how to take away their pain, it will sound extremely exciting to them! And what's more, your awareness of the amount of pain you're relieving will help you inject passion into the pitch.

A useful tool to help you craft the pitch is the Value Proposition Canvas, which you can download at:

www.strategyzer.com/canvas/value-proposition-canvas

Other areas you may want to think about

- What kind of person is likely to be your best client? What is their job title and what kind of company do they work for?
- What are the trends in the industry where your client works? Is it a volatile market? Is the industry growing, or is it starting to decline?
- What is your pricing model? Will you charge an hourly/daily/weekly rate, a project fee, or some other revenue generating system such as a membership subscription?
- Who are your main competitors and/or collaborators? What are they doing?
- What are your strengths, weaknesses, opportunities and threats?

3. Get Work



So that's the basics taken care of.

Now you need to earn some money.

To land your first gig, one very effective route is word-of-mouth. Tell everyone what you're up to. Literally, everyone you know. You'd be surprised how far it can get you.

As one freelancer pointed out: "I casually mentioned what I was doing to my mum and couldn't believe it when she introduced me to someone who later became an important client."

To fuel this effect, try to describe what you do in simple terms that anyone can understand, even a child. That isn't always easy, particularly if what you do is quite complex, but if you crafted an elevator pitch as described in the previous chapter, that's a good place to start.

The trick is to practice it on as many people as possible until you're able to hone a fluid and natural sounding description. If the person you're speaking to shows interest, you can then follow up with the more technical stuff.

Don't fall into the trap of spending ages producing fancy sales materials if this delays you from getting out there and talking to people. You don't even need a website to kick it all off, or at least not initially. A good CV or LinkedIn profile can do the job just as well.

On the subject of LinkedIn, you could also ask any past colleagues, employers or clients to write you a short recommendation – people are usually happy to do so. It reminds them why they enjoyed working with you and could trigger a request for your services.

When talking to potential clients...

Bear in mind clients aren't actually interested in your amazingness – what they're interested in is how you can solve their problem.

The world is full of service providers talking about how wonderful they are. You have the opportunity to differentiate yourself by focusing on the client's needs instead.



“Invest your time and resources in finding out everything humanly possible about the challenges that prospective clients face and the context in which they operate. The better you understand your client’s world, and the less everyone else in your market understands it, the more of a valued authority you will be.”

John Niland

Coach at Success 121 and Co-Founder of the European Forum for Independent Professionals



Using agencies

If you find that your personal network isn't getting you anywhere, you might want to try a recruitment agency specialising in freelancers or contractors, as they are well-placed to know where the opportunities are.

In fact, some large companies will only deal with freelancers via an agency. Although agencies keep a chunk of the overall fee, they can be a source of steady income – working regularly on a slightly lower rate is ultimately more profitable than long spells without a project.

Agencies can be a good way to build momentum initially, until you have enough success stories under your belt to go out there and prospect for clients on your own.

How agencies operate

Depending on the recruitment agency, the relationship can work as follows:

1. The agency pays you and charges the client your fees plus commission.

If you trade through a limited company, and you are not caught by the IR35 rule, then the recruitment agency can pay you gross, without deducting tax and NICs, which gives you more control over your tax situation. Remember that the end-client has to decide whether IR35 applies and therefore whether you can be paid gross (unless the end-client is a small company).

2. You invoice the client directly and the agent charges the client a separate commission for finding you.

Often, the invoice amount is based on timesheets which are signed off by the client. There are also a growing number of online portals that operate an agency style model – some even charge a fixed fee to act as the matchmaker.

Your engagement on a project will usually involve an upper-level and a lower-level contract. The upper-level contract is the contract between the agency and the client and the lower-level contract is the agency's contract with you. You will never see the upper contract, but you can check the lower contract between the agency and your company to ensure that it contains proper business terms and conditions, and doesn't contain clauses that restrict your ability to work for clients or place personal liability on you or your family. A 'bad' contract will look more like a contract of employment than a business contract.



How to choose good recruitment agencies

Some agencies have gained a poor reputation among freelancers, but equally there are many good ones that can prove valuable for finding work.

When dealing with an agent, remember that fundamentally they are salespeople.

They want to sell you a contract and to sell you to the client. This is how they get their commission.

They are businesses, first and foremost, in a competitive world.

It's worth registering

with several

agencies to increase your chances. Start by looking at agents offering a work opportunity you may be interested in. It's important to meet them face-to-face. A good agent should take time to get to know you and your skills so they can sell you effectively.

How to improve your chances of getting work through an agency

- Return calls quickly
- Provide a brief summary to explain why you are suited for a project (especially if it's a project that particularly interests you)
- Follow up on every single project for which you have been put forward (it shows that you care and is also a good reason to get in touch)
- Try to find out as much as you can about the project from the agent before you give permission to send your details to the client. Don't let agents put you forward for a role for which you aren't suitable – agents are required to ask your permission before submitting your details to a client.



Negotiating rates with the agency

The agent will usually be paid commission as a percentage of your hourly rate, anywhere from 5% to 25% (although it can be higher), depending on industry and sector.

Some clients have agreements with agencies to supply freelancers on a fixed level of commission. In this case, the agent's margin is usually non-negotiable, so if you want more money it will need to come from the client.

You therefore need to push home your competitive advantage during the initial discussion with the client. If the client really wants to hire you, this puts you in a stronger position to negotiate a larger share of the money being paid to the agent.

Like all sales meetings, it helps if you have researched the potential client – it will impress if you clearly understand their business and market. Also make sure you ask all necessary questions to understand the task you are looking to undertake and clarify the nature of the relationship between the client, the agency and you, for example, with whom you should be discussing contractual issues versus project issues.

Contract negotiation isn't just about getting more money. You may want to secure an IR35 friendly contract, which can reduce your tax and NI liability. You could also consider negotiating the right to work from home, more project control and so on.

A rate will often be slightly higher if you accept payment terms of 30 days rather than seven.


If you're nervous about going for lots of interviews or negotiating, remember it's just a normal part of freelancing and gets easier with practice.

Don't take it personally – you're no longer an employee, so this is a straightforward business-to-business negotiation.

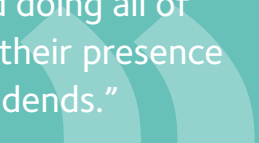
Other ways to win work

After you have tapped your immediate network you can start to consider more formal marketing techniques, including:

- Email campaigns
- Thought leadership: public speaking, blogging, writing
- Leveraging social media and building an online presence
- SEO
- Cold calling
- Highly targeted networking



“I use the phone a lot to build and maintain relationships with agents. I also use the online portal Jobserve. I think it’s important to be very clear about how you will market yourself. When I started out I had a long list of things that I could do but was in danger of being seen as a jack of all trades and expert in none. My ‘silver bullet’ was to market myself as a project manager. Clients understand what this means. Once you are in the organisation you can turn your hand to lots of other things – once they get to know and trust you. You have to establish yourself first with a new client to gain trust through what you can do and bring to the party. I treat my business as a business and run it as such. It sounds trite, but how many of us take time out for training to keep our skills up to date, or regard time spent at networking or other events as valuable marketing expenditure to expand our contacts and grow our opportunities for renewals? Thinking of yourself as “Jo Smith Ltd” and doing all of the things that companies do to increase their presence in the marketplace does, literally, pay dividends.”



Chris Bell,
Freelance Project Manager

Approaching clients directly

You might find you prefer to work directly with the client, without a recruitment agency in between, as you then don't have to give away a percentage of your income.

Your direct client might not necessarily be the end-client. A lot of freelance work is available via intermediaries that aren't recruitment agencies, such as advertising/digital agencies or consultancies who will hire you to work on projects for their clients.

Sometimes these chains of intermediaries can get quite long, especially if the end-client is a big brand. In any case, the fewer the number of intermediaries between you and the end-client, the higher up the food chain you are, and therefore the better your rate and the simpler the lines of communication. However, getting higher up that food chain is hard work.

Here are a few approaches you could try:

Tapping your personal network

This can be one of the most effective ways of finding new business. After all, people buy from people, so face-to-face contact is likely to work much better than cold calling, advertising or other forms of promotion.

A recommendation by someone who knows you can be extremely influential indeed. One way to do this is to set up a three-tier contact system. A Customer Relationship Management (CRM) tool can help, for example [zoho.com](https://www.zoho.com) or [superoffice.co.uk](https://www.superoffice.co.uk).







Tier one: Hottest prospects

Your first tier of contacts should include every person and organisation you know who is personally capable of offering work. Include everyone you have ever worked for in the past.

This list represents your hottest prospects. Contact them directly. Tell them you're now working for yourself and a bit about what you're doing. If you haven't already got a recommendation or testimonial from them, ask them to send you one as it will remind them why they liked working with you, and you can use it to market yourself to other clients. This first tier has the greatest

potential to get you going quickly, and to keep you profitable for many years.

Tier two: People who could refer you to someone else

Your second tier should include everybody you know who might know someone else who could offer you work. Dismiss no one – include people you haven't spoken to in months or even years. Drop these people an email with a brief update about what you're doing and ask them if they know anyone who might benefit from your service. If you use LinkedIn, you could also connect with them on that – this helps you stay in touch.



Tier three: Wish list of clients you would like to work with

Your third tier should include the people or organisations that you do not know personally but want to work with – this may include the leading companies in your industry, or competitors of companies you no longer work with. This is your wish-list of possible clients.

Use directories, libraries, guides or whatever resources are available. You can then plan a targeted mailing or phone campaign. For networking events near you, check: **www.ipse.co.uk/events**

In terms of networking, one of the things I've actually done is to create groups where like-minded individuals come together. We meet up on a monthly basis and we actively discuss what's going on, "OK what are you doing? Can I actually up-sell something with my skills? What am I doing? Do I actually need some Java skills or some Six Sigma skills?"

Manav Mehan
Change Management
Specialist

Hitting the phones

Cold calling can be very effective as long as it's extremely targeted – you don't want to be calling a huge number of completely random companies.

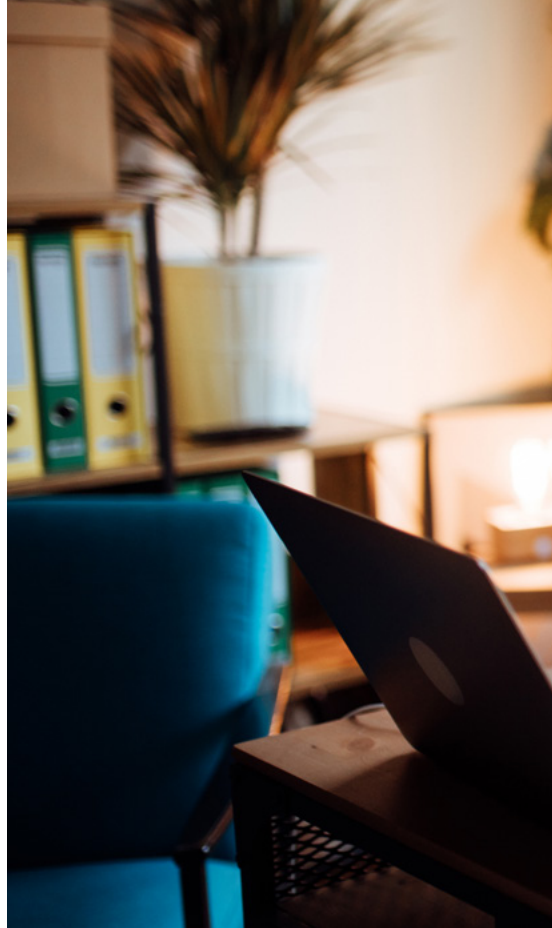
Research specific organisations and departments that you think could benefit from your skills. The better you know their industry and challenges, the less 'cold' the call will be.

Phone the reception desk first to identify the best contact and subtly find out the best time to reach them. Do some desk research into that person and their work. Know what you are selling and how that could be useful to the person you want to speak to. Then call them.

Building rapport is **ESSENTIAL**. If you know they are just back from holiday, ask how it was. If you've been there too, share an anecdote.

Find out what makes them tick and you can almost guarantee that they will get back to you. Make it light-hearted but don't ramble. Introduce yourself and explain in a nutshell what you can offer (pitch it professionally but in a relaxed way so it doesn't come across as too formal).

If you have worked with a similar organisation, tell them what you did for that company.



Also, focus on their possible pain or pressure points which should come from your research or your conversation with the receptionist (e.g. they are always in meetings, travel a lot, are a team member down, about to launch a big product).

It can help to say, "you may not have a need at the moment, however if it's OK, I would like to send you my CV/LinkedIn page and perhaps you could forward it to anyone you think might be interested."

There is a certain art to cold calling and not everyone is comfortable doing it. If you are, then you have a fantastic asset! If not, don't worry, email can be very effective as well.



Email campaigns

Targeted marketing via email can also be effective, and cost very little.

According to the anti-spam rules it is ok to send unsolicited emails to business owners and company employees without their prior consent, as long as:

- You don't conceal your identity
- You provide a valid address for opt-out requests
- You provide an easy (free of charge) way for the person to opt-out of receiving further communications from you

The rules for emailing private, non-business individuals are different – you can't email them without their prior consent.

However this shouldn't affect you if you are using the email campaign to win B2B clients in a traditional freelance capacity. When crafting your email, spend some time working on a good headline for the subject box. It's no good saying something like 'CV attached' because at the end of the day, why should they care? If you have researched their 'pain' you should be able to come up with something very specific that addresses their problem and hints at a solution.

For example, let's say you're a French speaking PR specialist in the UK. Do you know any UK companies selling to France? Have they got PR covered, or could they use your help?

If your research indicates that they lack the know-how, your subject box could say something like: 'How to earn press attention in France'.

If you think they have the expertise in-house, but are stretched for time and could use some help, it could be: 'Need help writing French press releases?'

The trick is also to keep it short enough so the subject doesn't disappear off the edge of the person's screen (bear in mind they might be reading it on their mobile).

Individual targeted emails are likely to have a higher response rate, but if you want to do wider blanket mailings, services such as **www.mailchimp.com** can be used to set up and track the campaign.

Promotional material to support your marketing drive

Not everyone is comfortable with the idea of 'marketing', but the most successful independent professionals are the ones who are able to build a strong brand around the thing that they do. Proactive marketing is the key to not only getting more work, but better rates and more interesting projects. The stronger your brand, the more likely you are to land the juiciest gigs around.

Here are a few things to consider having in your arsenal:

A 'portfolio' CV

A CV can be a powerful marketing asset, but the traditional CV format is better suited to people chasing salaried jobs.

As an independent professional it's better to take a 'portfolio' approach. So, instead of presenting your career in reverse chronological order with half a dozen bullet points underneath each job; write each major project you have done as an evidence-based case study and create a section titled 'Portfolio'.

This is the most effective framework for professional contractors to write their CV – it breaks your career down into individual pieces of work.

You may identify 30 pieces of work and decide that 15 of them are up-to-date and relevant.

Once you have identified the key pieces of work, write them as short case studies (no more than 6 lines long), ideally using the STAR methodology (Situation, Task, Actions, Result).

The CV then becomes a portfolio of case studies and you are able to change the order around depending on what roles you are applying for. Of course, recruiters will still want to see your dates of employment or contract engagement, so put a career chronology section after the case studies with the date, company name and your job title.

This framework will provide you with much more flexibility and allow you to tailor the CV to the roles you are applying for in a much more effective way. If you want professional help putting your CV together, try: **www.cvandinterviewadvisors.co.uk**

Website

When starting out, don't spend too much time and money on your website.

It can be tempting to get completely absorbed with creating an amazing site, but make sure you don't stop doing the things that actually land paying clients, like getting out there and talking to people.

However, a good website can be an effective complement to your overall marketing approach. Sitting down to plan your website forces you to really think about how you communicate your offering.

You can start off with a simple one using platforms like **wix.com** or **wordpress.com** to create your website for free.

There's also **www.about.me** – a neat way to create a single webpage to link to any of your other online resources, such as pieces of work you've created. As with any face-to-face interaction, don't make it all about you.

Remember the golden rule – clients don't care about your amazingness. They care about how you can solve their problem. Do include your accolades and achievements, but do it in such a way that it reassures clients that you can deliver what you say you can.

Also, be sure to include a clear 'call to action' – a reason and a means to get in touch with you.

Once you start to gain momentum you can create a more sophisticated website, perhaps adding a regular blog, or a repository for articles, case studies or videos to showcase your expertise.

Social Media

Some freelancers use their LinkedIn page instead of a website – it's a free, quick and easy way to create an online profile that is always up-to-date.

You can also set up a custom URL on LinkedIn so you can publish a personalised link to your profile.

LinkedIn is a good way to stay connected to past clients and build your network. Asking for recommendations from past colleagues or clients is a good reason to get in touch and keeps you on their radar.

You can also create a 'company page' on either LinkedIn or Facebook.


Twitter is another alternative – excellent for assessing the market, gathering information, developing your reputation and building relationships.

IPSE often runs seminars on using social media effectively – keep an eye on the events calendar at ipse.co.uk.

PR

You don't have to be a big company to use PR. Here are some of the things you might consider doing:

- Public speaking
- Make yourself available for interviews by positioning yourself as an expert in your field
- Look for press opportunities in relevant trade journals
- Write white papers and technical articles
- Consider writing a blog and contributing to other popular professional blogs
- Write case studies about recent projects
- Issue short press releases on recent successes.




“Public speaking is a useful way of building a reputation provided that you help others by giving useful information, not by directly selling services. Within most communities knowledge sharing is a valued way to behave, while overt marketing is poorly received. Other ways to share knowledge and information include publishing articles, contributing to podcasts, running webinars and video.”

“In 2009 I invested in the professional production of a video case study about a large project. This was used as part of the entry for an international design award, which ended up taking me to San Francisco for the Awards event with help from UK Trade & Industry. That video keynote, which has been used at international industry events that I could not attend in person, has been instrumental in securing extra business and has resulted in more invitations to speak at international events.”

Colin Butcher

www.xdelta.co.uk

Consulting Engineer specialising
in mission critical systems



CASE STUDY: HOW TO THRIVE IN A COMPETITIVE MARKET





Emmeline Pidgen is a freelance illustrator and winner of an IPSE Freelancer Award, presented to the most inspiring independent professional of the year. Her blog at emmelineillustration.com has also won an award for Best Arts and Culture Blog, and she was a finalist in the Unique Blogger of the Year Awards.

Emmeline works from her studio in North West England, producing illustrations for a range of high profile publications, including the front cover of the latest edition of *Peter Pan*.

We asked her how she succeeds, doing the work she loves...

What does success mean to you?

It's not healthy to focus on success too much, because you can never be as successful as you can imagine. When I started out I couldn't imagine where I am now, for example.

Success is a constantly moving goal post. You're always going to want more!

Therefore I think it's better to focus on work that makes you happy. Rather than focusing on success, I try to find projects I really enjoy.

It is hard though, because the natural tendency is always going to be to want to grow.

So how do you manage to do work you enjoy when there is so much competition?

The visual arts have always been a saturated market and that's not going to change anytime soon.

Sometimes it can feel daunting, because there is such a sea of creative people and it can feel really hard to stand out.

But, competition is not a bad thing! It pushes me to make my work better, to make it uniquely 'me'.

A lot of artists feel they need to follow trends to succeed – to conform to a particular style. I prefer to focus on what I can give as a whole package. I just concentrate on my own work and don't give in to the temptation of looking at what other people are doing and thinking, "Oh I should be doing that to be more successful." Instead I work on developing my own visual voice, so whatever medium I'm using you can tell it's my work.

That is what makes me feel confident that I'm going to keep getting commissions, because people will come to me not just because of what it looks like, but because of every bit of me that goes into the project: the interpretation of the brief, the problem-solving, and the visual result.

How do you find and win commissions?

I spend about 40% of my working week on promotion!

I'm always on the lookout for new leads and opportunities, and that has kept me in a constant stream of commissions for six years.

The main way I do it is by spending time on blogging, promotion on social media, and getting involved in networking or collaborative events.

On my blog and social media channels I post a lot about projects I'm working on. Illustration lends itself incredibly well to social media; it's the kind of thing people share. I also write about issues that crop up in the creative industries, such as late payment, which gives me authority in my field.

I use social media more often than the blog. For example on Instagram I post quick visual snapshots, and then use the blog for more detailed behind-the-scenes posts.

I always ask the client if it's ok to document and publish the work. They usually say yes because it's good for them as well, particularly if I tie it into the launch promotion. For example, when I was working on the cover of Peter Pan I would take screen shots of each stage of the illustration. Once the book was launched

I published them along with a detailed 'process post'.

Not only is it good publicity, it's also a great learning tool for me as I'm able to track and review my progress over time. So I get two benefits in one!

The other thing I do is go to networking events and meetups with other illustrators and creatives. Obviously there is going to be competition between designers, but I like to be part of a community of people who understand what I'm going through, and we often refer each other for commissions.

What results do you get?

Some of my biggest commissions have come from Twitter. One of the picture books I illustrated came from the author seeing my work on there. I replied to one of his tweets and he noted me down and contacted me two weeks later!

I also followed one of my favourite Japanese musicians, and after listening to his album I tweeted him to say I really enjoyed his music. He then contacted me to do his album cover. The key is just to talk to people, make friends and not hard sell. I'm not intimidated by companies – it's just nice to speak to people as people!

Blogging and social media is essential to my work. I get so many leads from it.

For example, for the last two years I've done a one-month blog campaign called

'What Emmeline Wore' in which I illustrated my outfit every day for that month. I worked with brands like Laura Ashley, Fat Face and Oasis to collaborate with me on it.

It was very hard work to produce an illustration a day, particularly as I was still working on other commissions! So I wouldn't be able to sustain it all year round, but that one month got me over 100,000 views on my blog, which is amazing for my profile.

Any room for improvement?

It's all a learning process!

After the blog campaign I got a lot of extra followers on social media. Next time, I'll focus on channelling the traffic to build my email list. It's hard to find time for everything!

I also get a lot of emails from art students who read my blog and want some advice or a case study. I don't like to ignore people. I love talking to them, but it's got to the stage where it's become quite time consuming as I get at least one very long list of questions every two weeks! I don't want to just redirect them to an FAQ, so I'm looking into other options such as live Q&A sessions on Patreon, a platform where people pay anywhere from a dollar a month to support their favourite artist.

Talking of time, how do you fit everything in?

Lots of late nights! Actually, I try to stick to 9–5 but in reality it's more like 8:30 to 5:30.

Projects with a tight deadline will definitely have me working weekends and evenings. I try to keep things balanced, so if I have a heavy week I'll give myself a day off the following week.

I would say my work-week averages out at around 45 hours, which includes the blogging, social media and so forth.

I try to keep my blogging schedule fairly organic. If you're too regimented, forcing yourself to post all the time, people can see through it. But if I haven't posted in a while, I'll do one!

I tend to promote myself simultaneously while working on commissions. I always love drawing, and it hardly takes any time to take a photo and post it on Instagram, but it gives a lot back!

I manage my schedule without getting too deeply into one project. That gives me variety. Sometimes I'll work on a project in the morning and then do promotion in the afternoon. I also use days where I'm waiting for client feedback to do some promotion.

Sometimes I get too much work, but I've now reached the stage where I'm comfortable turning projects down. I've become quite choosy and have mastered the art of writing emails saying "sorry, I can't do it right now, but maybe we can work together in the future." I often find they come back!



Do you set yourself goals?

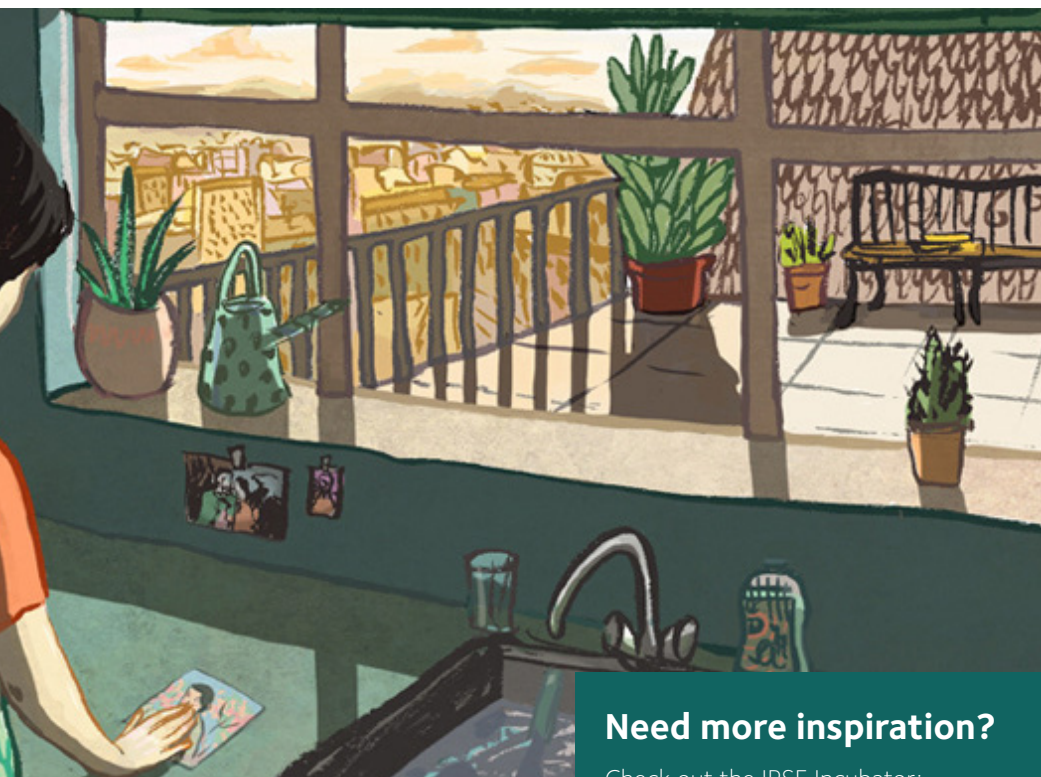
I make a vague plan of where I'd like to get to and then figure out how to get there.

I don't set myself really hard goals.

I do have a business plan, but don't restrain myself with it. I give myself the luxury of being a bit flexible, making time to work on

self-set projects. For example I'm currently working on a comic and writing my own picture book! Those are investments I'm making in developing my career .

The main thing is to have determination and to give myself space to say, "I'm doing it because I love it."



Need more inspiration?

Check out the IPSE Incubator:
www.ipse.co.uk/member-benefits/ipse-incubator.html

4. Get Paid



Once you have found some clients or agencies willing to engage your services, you need to manage the relationship smoothly so that you deliver excellent value and the client is happy to pay you for it. Ideally they will be so happy that they award you another contract/project, or recommend you to a colleague.

Here are some steps to take from starting to finishing the project and getting paid for the value you provide.

Seal the deal with a contract

Before you start work on a project make sure you seal the deal in writing.

For short one-off projects you could ask the client to send you a purchase order, but for any substantial piece of work you should use a contract for services.

This is important.

A contract helps you keep track of the initial agreement as the project evolves and provides a legal framework in case anything goes wrong. It also defines your employment status, in other words that you are your own boss and not an employee. For this to be valid, make sure the way you carry out the project is consistent with what it says in the contract.

IPSE members can access contract templates on the below link:

www.ipse.co.uk/member-benefits/member-templates-and-guides.html

Define clear project goals

Now you're ready to deliver the project. It's a good idea to start with a written brief to define what it is you're delivering. It is likely that your contract already defines this to a certain degree, but if there are any points that haven't been covered, now is the time to flesh out the details. The client might not have all the answers, but if you start by writing down what is known, then at least you know where the gaps are. The rest can be added later as you learn more about the project.

Ultimately you want to build a collaborative working relationship based on mutual respect.

Establish regular review points

As an independent professional you need to earn the client's trust.

Ultimately you want to build a collaborative working relationship based on mutual respect. This requires good communication. You may or may not be based on-site, but either way you should agree some project milestones and regular review points to discuss progress.

Regular communication allows for more flexible handling of projects in which you can make any necessary adjustments to the original plan. It helps you tackle unforeseen obstacles and also to introduce innovations that may come to light along the way.

Some people like to use the 'Agile' project management technique, in which team members come together in regular 'scrums', where they look at what has been done and re-agree what should be done next.

How you do it, whether face to face or via phone or video call, is down to personal preference and what works best for all

parties. When communicating with your client, remember you don't have to agree with everything they say.

Yes, you should focus on their issues – after all you're there to solve their problems, not yours. However, don't be afraid to challenge something (in a constructive way) if you feel strongly about it – clients will often respect you more for it.

If the client or agency hasn't already sent you a brief, you could take the initiative by sending them a list of questions, such as:

- What do they ultimately want to achieve?
- What is the problem they need solving?
- Why is this important?
- What does success look like for them?
- Who will be your main contact/s?
- When and how can you contact them?
- Are there any other people whose views need to be taken into account?
- What are the key parameters such as timescales and budget?

Keep an eye on ‘scope-creep’

‘Scope-creep’ is when the original scope of the project starts to drift and the client starts asking for things that weren’t in the original brief.

It’s normal for people to change their minds about what they want in light of evolving circumstances, particularly during longer and more complex projects.

That’s ok, as long as everyone understands the impact in terms of time, money and quality.

Make sure you’re aware of any substantial changes to the brief you originally agreed to. Raise it early on and offer the client a series of choices. For example, you could say: “To deliver this change we can either add another month to the schedule or else increase the budget by £2000, which would allow me to hire an assistant and deliver it within the original timeframe. Which do you prefer?”

Don’t back the client into a corner – the key to providing a good service is to design a win-win situation, where you help the client solve his/her problem without destroying your own livelihood. Remember to record the new project agreement in writing and update your contract or purchase order where necessary.

Boost productivity by eliminating clutter

Michelle LaBrosse also recommends five principles to get projects completed on time. Adopted from the Japanese quality movement, it involves:

- 1. Sorting** the items you use every day so you can access them quickly – file away anything else you don’t need right now (but file it where you can find it in future!)
- 2. Straightening** out the workflow between project team members by designating places for shared and movable items, for example by setting up a shared Dropbox or Google Drive
- 3. Shining** up your equipment, software and work areas so that everything is in like-new condition and working perfectly, e.g.: empty your recycle bins regularly (both virtual and real) and make sure you don’t have an ancient laptop that is painfully slow
- 4. Standardising** your processes and sticking to regular ways of doing things, for example having one calendar synced to all your devices, rather than lots of different methods of recording appointments
- 5. Sustaining** your productivity by establishing daily and weekly habits to create improvements.

“Project changes often mean a relaunch. Spending a modest time relaunching the project on the basis of a new project agreement is better than creating a final deliverable that no one wants, or attempting to complete a project with inadequate resources and lack of support from the project sponsor.”

Michelle LaBrosse

One of the 25 most influential women in project management

Issue your invoice

Think about your invoicing schedule. Don't assume you have to invoice only at the end of the project. Some clients are happy to accept 50% up front and 50% on completion.

Otherwise, you might be able to negotiate a weekly or monthly billing schedule. If you work via an agency, many agencies will ask you to sign a “self-billing” agreement.

This means that they will prepare a combined invoice and payment confirmation for you, based on your timesheet. This saves you the bother of having to bill them.

Make sure you're aware of any substantial changes to the brief you originally agreed to.

What to put on the invoice

1. A clear header saying 'invoice'.
2. A unique identification number – if your business is VAT registered, this needs to be a sequential number, in other words, part of a series, so that the next invoice follows on from the last.
3. The name that you regularly use for the business. If it's a limited company you also need to include the full name of the company as it appears in the certificate of incorporation (you can put the main brand name at the top and the officially registered name as small print in the footer). Limited companies can, if they want to, include the names of the company directors on their invoices, as long as all the directors' names are included.
4. Your business address. This must be an address where any legal documents can be delivered to you. If your business is a limited company and the business address is different to the registered address, then the registered address should also be included in the small print.
5. Your company registration number if your business is a limited company.
6. Your VAT registration number if your business is VAT registered.
7. The company name and address of the customer you are invoicing.
8. The date that the invoice is being issued (the tax date).
9. A clear description of what goods and/or services were delivered.
10. The date the goods or services were provided (supply date).
11. A column showing the number of units of the goods or services supplied (for example 3 hours), a column showing the price/rate per unit and a column showing the total for each item without VAT.
12. If your business is VAT registered, then add three more columns: the percentage of VAT that applies to each item, the total amount of VAT payable per item and then the total amount of each item including VAT. At the bottom show a grand total of all items without VAT, the total amount of VAT owed and finally, a grand total of everything including VAT. To see the latest VAT rates go to: **www.gov.uk/vat-rates**.

Many electronic bookkeeping systems include an invoicing function that lets you customise a template, generate invoice numbers, issue invoices and track payments.

Invoicing clients outside the UK

Assuming your business is based in the UK, and your clients do not have a base in the UK, then generally speaking you DON'T charge UK VAT.

Here's what to do if you are invoicing a business outside the UK:

1. Don't include any UK VAT on the invoice, irrespective of the fact that you are VAT registered in the UK
2. Put the letters 'GB' in front of your VAT Registration Number
3. If the client is based in a country that has an equivalent of VAT and the client has a VAT number (such as an EU VAT number) then include that number on the invoice, as this helps to prove that they are a business customer. In this case ideally also make reference to the fact the customer may have to self-account for its country's VAT itself under a reverse charge or similar.

Bear in mind that there are special rules for certain types of services and customers which may mean you should charge UK VAT or may even have a VAT (or similar tax) obligation in another country. Common examples of these exceptions for business customers are land/property (incl. fixed oil rig) related services, admission to (physical) events and digital services where the customer belongs outside the UK, but uses and enjoys the digital services in the UK (or vice versa).

For sales to non-UK non-business customers the rules are more complex and varied and there is a much greater risk that you have an overseas VAT (or similar) obligation. Services of an intellectual nature (e.g. non-land/property related consultancy, design, marketing, legal, finance, accountancy, data analysis, intellectual property and remote training / education services) will not be subject to UK VAT, but might be subject to VAT or similar in the customer's country. For other types of services, VAT (or similar) is often due based on the country of performance of the service, or where the land/property the service relates to is based. If this is not the UK, it is possible you may have a VAT (or similar) obligation in that country instead.

Consult the government's guidelines on the UK VAT implications here:

www.gov.uk/guidance/vat-place-of-supply-of-services-notice-741a

There are also specific rules for selling digital services to non-business customers. You can read more about those here:

www.gov.uk/guidance/the-vat-rules-if-you-supply-digital-services-to-private-consumers

If any of these apply you should seek additional advice.

If you're an IPSE member the tax helpline is a good port of call.

A photograph of a man and a woman in professional attire laughing together. The man is on the left, seen in profile, wearing a dark suit and a light-colored shirt. The woman is on the right, wearing glasses and a dark top, laughing heartily. The background is bright and out of focus.

5. Get Ahead

After you have one or two projects under your belt you'll be getting the hang of how it all works. This is the time to take a step back to work out where you can tweak things to design a truly slick operation to help you get ahead in your independent career and enjoy the fruits of your labour.

Being tax efficient

Being tax efficient doesn't mean trying to find obscure loopholes to avoid paying tax. Quite the opposite – a key part of being tax efficient is paying the right amount of tax on time. That way you don't end up with expensive penalties and interest for late payment, or worse, prosecution for tax evasion.

That said, it's also important to stay on top of any legal tax breaks that you could be taking advantage of, so that you don't pay more tax than you need to. For example, did you know that making contributions to a pension scheme is one of the most tax efficient ways of extracting money from a limited company?

Also, be sure to deduct all the expenses that you are legally allowed to claim and work out the best way to pay yourself from the business. And finally, have a think about VAT, in case that provides you with any opportunities to save money.

Let's look at each of these areas:

Claiming expenses

Many of the expenses that you incur to run your business can be claimed against tax – as long as they meet the definition of an 'allowable expense'.

Tax is charged on your business profit, and your profit is calculated by subtracting allowable expenses from your turnover.

Your turnover is the sum total of the invoices your business has issued in the accounting year, excluding VAT. This means that the more allowable expenses you have, the lower your business profit, and therefore the less tax there is to pay.

So let's say that in one accounting year clients paid you £100,000 in fees and £20,000 in VAT, totalling £120,000. During that same year you incurred £10,000 in allowable expenses. You would then pay tax on £90,000, because you deduct the VAT and expenses from the total amount you received.

For expenses to be allowable, the basic rule is that they have to be incurred wholly and exclusively for business purposes. For example, you can't claim the cost of normal work clothes because the need to wear clothes would still exist if you didn't have the business (sorry, we are unable to confirm whether there is an exception for nudists!) Make sure that all claims are supported by receipts to justify that the cost was actually incurred.

Here's a list of items that you can claim. It's not an exhaustive list, so if in doubt, ask your accountant or tax adviser:

- Capital items: computers, cars, furniture, equipment, property
- Legal and professional fees
- Subscriptions to professional and trade associations on HMRC's approved list
- Trade magazine subscriptions or purchases
- Bad debts (as long as they've been individually identified, formally written-off and you're not waiting to be paid)
- Interest on debts incurred to finance the business (as long as it isn't used to pay the directors)
- Entertaining employees and/or directors of your own limited company (but not clients or anyone outside the company) up to £150 per person per year (unfortunately this isn't claimable by sole traders)
- Travel (but not to a client site where you have been for more than 24 months – and this ceases to be allowable from the moment that you know you will be there for more than 24 months, nor to your regular office/workplace if you have one, as that is seen as normal commuting, nor if you are 'deemed employed' under IR35)
- Mileage for your own car at 45p per mile for the first 10,000 miles and 25p per mile thereafter
(See gov.uk for the most up to date information: www.gov.uk/expenses-and-benefits-business-travel-mileage/rules-for-tax)
- Accommodation and subsistence
- Rental of office premises
- Use of home for work (HMRC automatically accepts £6 per week for employees, sole traders and partnerships, but if you have a limited company it becomes more complicated and you should discuss the best approach with your accountant)
- Salaries (for limited companies)
- Training (but only if used to update existing skills or in connection with new services you are genuinely seeking to launch)

- Mobile phone bill (as long as the contract is in your limited company's name – if it isn't, or if you're a sole trader, you can only claim for itemised calls made for business, not the whole bill)
- Phone and internet (put the contracts in your business name)
- Insurance (but only business ones such as Professional Indemnity, and not personal ones such as life insurance)
- Pension contributions paid by your limited company, up to £40,000 p.a.
- Bear in mind that if a limited company buys things for the private use of directors or employees, these are classed as 'benefits in kind', which are taxable. So if your limited company pays for a private holiday for you and your family, this should be treated as salary, incurring tax and National Insurance charges accordingly. Benefits in kind need to be declared annually on the P11D form.

When it comes to claiming expenses there can be a few grey areas, so if in doubt contact the IPSE tax helpline (see www.ipse.co.uk/member-benefits).

Oh and one more thing – instead of spending your valuable time manually inputting the figures from your receipts it's much better to automate the task. There are quite a few accounting packages, and even some banking apps, that enable you to do this. Just snap a photo of the receipt, and the app does the rest. HMRC says it's ok to have your receipts stored electronically as long as all the original information on the paper receipt is clearly readable.

How to pay yourself efficiently

If you're a sole trader or in a partnership you don't have the option to 'pay yourself' because any money you receive from your business activities is yours already.

As a sole trader, you're taxed on your profit, which is the difference between the amount you invoiced and the expenses you claimed. Partners are also similarly taxed on their share of the profit.

Limited company directors, on the other hand, have more options – and some are more tax efficient than others. Unlike with sole traders or partners, money received by your company isn't yours. It belongs to your company. To make it yours you can take money out of the business as salary, dividends or both.

Paying yourself dividends from your limited company

Dividends can be paid to the owners (shareholders) of a company from the retained (post-tax) profit, as long as the correct procedures are followed. This involves the Board of Directors having a meeting, formally voting the dividend and providing a written record of that decision.

By law you have to issue the dividend to the shareholder(s) using a proper dividend voucher (ask your accountant for one).

The advantage of paying yourself dividends is that neither employee nor employer NICs are payable. However, the total paid out in dividends cannot exceed the retained profits of the company. You also can't claim dividends against the company's corporation tax.

Dividends can be declared as often as you like, although if you are paying yourself regular dividends of the same amount (e.g. £1,000 once a month) there's a risk that the taxman could seek to reclassify the payments as salary, which would defeat the purpose of paying dividends because you would have to pay NICs.

Also, make sure that the dividend payment is completely separate from other payments. If HMRC sees composite payments which are a mix of salary and dividend, they may try to argue that it is all salary.

Should I pay myself a salary or dividends from my limited company?

If you are a UK taxpayer, and your contracts are not caught by the IR35 rule, then generally speaking it's more tax efficient to pay yourself a mix of salary and dividends from your limited company.

A popular route is to pay no more than £12,570 in salary, and the rest in dividends. The reason for the £12,570 figure is that this is the tax free personal allowance for 2021–2022, so no income tax needs to be paid on it (assuming you have no other income from other sources). You'll need to pay some National Insurance on that level of salary, but it's a very small amount and will earn credits towards state benefits, such as the state pension.

However, different circumstances can alter the figures and relative benefits, so the best option is to ask your accountant to work out the most tax efficient route for you. For example, if your partner or spouse is also a shareholder, then you can take advice on ways of distributing the income between you – but make sure you fully understand the legal and legitimate ways of doing this.

If in doubt, phone the IPSE tax and legal helplines at www.ipse.co.uk (members only).

Being tax efficient by registering for VAT

You don't have to register for VAT until the total amount you invoice in any 12-month period exceeds £85,000.

However, you have the option to register before you reach this threshold, and if you spend a lot on goods or services that charge VAT on top, you may be better off doing so.

Being VAT registered allows you to claim back VAT on any goods or services you buy. It does also mean you have to charge VAT to your clients, but as long as they are VAT registered it won't make a difference to them because they can normally claim back the VAT you charge them.

Every quarter you'll need to file a VAT return. To fill out the return you need to know your total sales, costs and VAT amounts for the quarter. You then pay HMRC the difference between the amount of VAT your business charged and the amount it spent on VAT.

As long as your turnover is less than £1.35 million, you can join the Cash Accounting Scheme, which means you don't have to pay HMRC until you have actually received the money. If you're not on this scheme you have to pay HMRC based on the invoiced amounts rather than on money received.

It's important to bear in mind that being VAT registered does add extra admin, so be sure to look at your figures with your accountant to check that it's actually worth it. If your business hardly spends on anything containing VAT, then there's no point registering if you don't have to.

The Flat Rate Scheme: spending more than 2% of your turnover on goods?

There are various different VAT schemes. The simplest of these is the Flat Rate Scheme, which you can join if your business turnover is less than £150,000.

Up until April 2017 it was a particularly tax efficient scheme for independent professionals. Unfortunately the rules

changed and it probably only makes sense to join this scheme if your business spends more than 2% on goods (or £1000 per year if costs are more than 2%). Independent professionals tend to spend more on services than on goods, therefore many freelancers and contractors have found it no longer makes sense to stay in the scheme. Again, ask your accountant to assess this for you.

Finally, be aware that special rules apply if you sell e-books, PDFs or digital images to consumers in EU countries. By consumers they mean private individuals – the rules don't apply if you're selling to businesses.

Find out more at:

www.gov.uk/guidance/the-vat-rules-if-you-supply-digital-services-to-private-consumers

Making the cash flow

Bankers are very fond of the phrase “a pound today is worth more than a pound in the future” (because you could invest it or earn interest on it).

Since they know a thing or two about getting richer, it's worth taking a leaf out of their book. Once your cash has been earned you need to get it flowing into your bank account as soon as possible.

Here are some ways to achieve that:

- Don't take ages to invoice your client – they won't thank you for it. Invoice them promptly and get a proper system in place to track payments.
- Consider arranging 7 or 14 day payment terms with clients– there is no reason why it should have to be 30 days. Perhaps your client would also be willing to pay 50% up-front and 50% on completion. Be sure to make the agreed credit terms clear in the initial contract.
- If you are working with a new client with no visible track record, it's worth vetting them by asking for supplier references or doing a professional credit check.

- If the payment is overdue, a polite call to the accounts department is usually all it takes. Don't be shy about this – as long as you're friendly you will usually find people to be very helpful.
- If a client or agency does completely default on payment you're entitled to charge interest on the debt. If they go bankrupt or into administration, and you're an IPSE Plus member, you can claim up to £10,000 compensation.

You also want to avoid big gaps in your cashflow. Every year lots of businesses go bankrupt because they don't have cash at the right time, even though they have loads of work. Try to build a financial buffer to get you through any periods without income, and if you haven't already done so, join IPSE so you can claim compensation for business interruption through illness/injury or tax investigations.

Becoming more bankable

Once you have developed the skill of landing enough work to live off, the next challenge becomes how to grow the business.

Independent professionals who crack the first hurdle – how to get work – usually find they're able to bring in a relatively sustainable income year on year.

For example, a specialist IT contractor who lands a one-year contract at £500 per day could bill £120,000 that year, and then have a few months' gap before landing another similar contract.

Or another example – a graphic designer who has built up relationships with several clients and is able to sell 200 days a year at £300 per day could bill £60,000.

But once you reach a certain income level (which varies according to sector and specialism) at some point you usually hit a ceiling, where it becomes very difficult to invoice any more than that.

There are, after all, only so many hours in the day and only so much that clients are willing to pay.

Some freelancers have no desire to break through the ceiling and are happy to carry on at that level indefinitely.

Others, however, are keen to keep on growing the business in order to put away enough for retirement, to be able to retire early, or in case they couldn't work in the future.

But how do you do that, when there's a limit to the amount of hours you can work?

One answer is to build a team, by sub-contracting, or hiring employees. However, this usually means taking on the burden of management, and many people who strike out on their own do so because they want to get away from all of that.

It also means you have to ramp up the sales effort substantially before you actually see any benefit – having more people on board doesn't instantly translate into more money for you.

In fact, in the early days, until you gain momentum, you might see a drop in your income because you're using your margins to pay others.

The alternative is to stay independent. It is still possible to grow the business – it just means you have to increase the value of your time.

These are some of the ways to do that:

1. Keep increasing your daily or hourly rate
2. Charge a project fee instead of charging for your time (this can work well if you're able to speed up your work as you become more practiced – if you charge the same fee, but it takes you half the time to produce, you're effectively doubling your rate)
3. Negotiate a share in the success of the project, either through a percentage of profit or a performance bonus

Negotiating any kind of rate, fee or bonus becomes much easier if you're well-known in your industry. Daniel Priestley, author of the bestseller 'Key Person of Influence', says that the top 20% of people in any industry earn over 80% of the money.

These are the people who have invested time and effort in building their profile to become known as thought leaders in their field and can charge correspondingly high rates. To give you an idea of just how much, some of the world's top business school professors charge as much as £70,000 a day for consulting projects.

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Understanding the unique context of your prospective clients is what sets you apart from the average Joe who charges average rates. The narrower your particular niche, the easier it is to do that.

Thanks to the internet, anyone with the dedication and inclination to do so, can become a world authority on most subjects – if you're in any doubt of that, read the book *Makers* by Chris Anderson, which describes how a young Mexican with no qualifications taught himself so much about drones that he was hired to head up a successful technology start-up.

Gaining those crucial insights, and finding the people who derive value from it, is very hard work. It takes a lot of discipline, particularly when you're busy with client work.

6. Get Out



When an entrepreneur goes to a venture capitalist for funding, one of the key questions they get asked is ‘what is your exit strategy’.

Investors want to know the founders’ plans for selling or floating the business.

But as an independent professional it’s rare to end up with a business you can sell. That said, there may come a time where you want to get out and do something else, or simply retire.

If you are a sole trader, or partner, no problem, you just tell HMRC you’re no longer trading, pay your tax for the year, and you’re done.

But if you have a limited company, and you have accumulated some money in the business, you need to decide how to take it out.

Aside from the usual route of salary/dividends as described in the previous section on ‘how to pay yourself’, there are two other options:

1. Take it out as capital
2. Make a company pension contribution.

Option 1: Take all the money out of your limited company as capital

By taking the money out as a capital distribution, rather than salary or dividends, the money gets taxed as capital gains, rather than as income. This method is also known as 'Members' Voluntary Liquidation.' The advantage is that the first £12,300 of capital gains is tax exempt (and if your spouse or partner is also a shareholder then each of you can take out that amount without paying tax on it).

You can also claim 'Business Asset Disposal Relief'. You are eligible for this relief as long as:

1. The company stopped trading less than three years ago
2. You are an employee/director of the company.
3. You own a minimum of 5% of the company's voting shares, and have owned them for two years before you stopped trading
4. You don't start up doing the same or similar trade, in a company, in a partnership or as a sole trader, within a two-year period of time.

Business Asset Disposal Relief (previously known as Entrepreneurs Relief) means that anything over the tax exempt amount of £12,300 is only taxed at 10%. Without this relief you would end up paying 20% (from April 2016) if you are a higher rate taxpayer.

There is a lifetime limit of £1 million – meaning that you cannot claim more than this amount during your lifetime.

Bear in mind that you can claim Business Asset Disposal Relief as long as you're not intending to set up an identical, or very similar, company within the next two years. This is because HMRC recently introduced changes to the scheme in order to crack down on 'phoenixism', a tactic used by some people to limit their IR35 exposure by closing down their limited company every few years and then creating a new one straight away, doing the same thing.

But as long as you're following IPSE's best practice guidelines, and you're protected by your IPSE membership, you should have no need to resort to phoenix-like tactics!

Option 2: Make a company pension contribution

If you have a pension shortfall, you can make a lump sum contribution of up to £40,000 into a pension. This should reduce your corporation tax bill for your last year of trading, because you can claim it as an expense against tax.

If you still have money left over in the company then take the remainder out as described in Option 1 above – that will reduce your overall bill. Again, if your spouse or partner is a shareholder, each of you can take this pension amount.

However, bear in mind that the level of pension contribution has to meet HMRC's 'wholly and exclusively' test in order for there to be a Corporation Tax deduction for the pension contribution.

This test will be met if the overall remuneration package (salary + benefits + pension contribution) is a commercial rate for the work done for the company. So if your partner or spouse mainly does office or admin work then the size of the pension contribution will need to be in line with what is expected for that role, if you want to be able to claim it against tax.

Business Asset Disposal Relief means that anything over the tax exempt amount of £12,300 is only taxed at 10%.

And if you do happen to sell your business...

Whether you're a sole trader or limited company, if you do manage to sell the business, then you should also claim Business Asset Disposal Relief as described in Option 1 above, so you don't have to pay the higher rates of Capital Gains Tax.



Closing the company down

To close the company you will need to complete a “Striking Off Application (DS01)” form available on the Companies House website (www.companieshouse.gov.uk) – you need to have stopped trading at least three months before.

Important note: HMRC can enquire into a company tax return up to two years after the end of the accounting period. If you are an IPSE member and you have decided to stop freelancing, you are therefore advised to maintain your membership to cover the two year window in order to remain protected in case of a tax investigation.

You can choose from over 100 events and webinars, many of which are free, at ipse.co.uk/events.html.

Wishing you every success!



7. About IPSE





**IPSE is the UK's
only not-for-
profit association
dedicated to the
self-employed.
Our mission is to
empower, protect
and connect our
members.**

IPSE's templates and guides

Conquer your to-do list and keep on top of the essentials. From business operations to legal and commercial contracts, these practical documents will help you run, manage and protect your business seamlessly.

Find an up-to-date list of the latest downloads at:
www.ipse.co.uk/member-benefits/member-templates-and-guides.html



Empower

We empower our members with the right tools that help create a healthy and rewarding business now, and for the future. We help our members develop their careers through inspirational and practical content, and offer financial and wellbeing services for peace of mind.

Protect

We protect our members by campaigning and influencing government to create a fair business environment that encourages self-employment as a career choice. We help our members understand and manage their business risks, safe in the knowledge that we can provide tailored insurances and helplines that protect against the unforeseen.

Connect

We connect our members to a strong and supportive network of fellow IPSE members, staff and experts that can be relied upon to advise on their needs. We help our members source expert advice, engage with policymakers and collaborate together to access business opportunities.





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