The Pulse Accounting
Contractor Jargon-buster

Avoid confusion with the top ten contractor terms explained fuss free

Becoming a contractor for the first time can be a bit intimidating and there can be a lot of confusing new terms. To make life a bit easier, we've put together a glossary of the top ten terms you'll come across and what they mean.

1 **Sales invoice:** The bill you send to your client requesting payment for your work.

2 **Salary/payroll:** This is the amount you pay yourself under the PAYE scheme.

3 **Allowable expenses:** You can usually claim tax relief on any expenses which are necessary for you to carry out your job. These can include your travel, mileage and telephone expenses, for example. These must be backed up by a receipt so you can prove they're legitimate costs.

4 **Corporation tax:** This is the tax you pay on your company profits. For the 2015-16 tax year, corporation tax is 20% (this goes down to 19% from 2017 and 18% from 2020). So if the business makes £10,000 profit you'll need to pay £2,000 in corporation tax.

5 **Dividends:** These are distributable funds; in other words any money left in the company after you have paid your salary/expenses and put the money away for your taxes – what's left belongs to the shareholders (usually you).

6 **Retained profit/availability:** This is the profit that's kept in the company, rather than being paid out in the form of dividends to shareholders.

7 **Director:** A director is a person legally responsible for running the company and for making sure the company accounts and reports are done properly. They must keep company records and report changes to Companies House and HM Revenue and Customs (HMRC). They can hire people, such as an accountant, to manage some of these things for them but they are still legally responsible for the company. A company must have at least one director. There's no limit on the number of shareholders allowed.

8 **Self-assessment:** Every company director has to do a self-assessment tax return by the 31st of January each year. This is for you personally, not for your company. You will need to report all your income (whether taxed or not) including any taxable benefits - like private medical insurance or a company vehicle.

9 **Flat Rate Scheme:** Companies with a VAT turnover of less than £150,000 can join the Flat Rate Scheme. This means that instead of paying HMRC the VAT you've collected less the VAT you've paid on expenses, you still charge 20% but instead of offsetting your expenses VAT, you just pay over a flat percentage to HMRC based on your trade. This works well when you have very few expenses that include VAT, and you can still reclaim VAT on single purchases over £2,000.

10 **Higher rate tax:** This is charged on any income you have above the higher rate threshold, which in 2015-16 is £42,385. In 2015-16, the first £10,600 of your income is covered by the personal allowance. After that the tax kicks in: so from £10,601 to £42,385 you pay tax at 20% and income over £42,385 up to £150,000 is taxed at the higher rate of 40%. Income over £150,000 will attract the top rate of tax at 45%.

So there you have it, our top ten terms to get your head around if you're considering starting a limited company. There's a lot more jargon where that came from though. So, if you think that setting up as a limited company might be right for you, and want some advice, please get in touch with one of our friendly team via pulseaccounting.com or 0161 300 9675.

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