

OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)



This guide answers all your questions in relation to contracting in Ireland and overseas.

Imelda Prendergast, Partner, OSK Contracting  
T: 01 439 4206. E: prendergasti@osk.ie

## **Contents**

1. Advantages & Disadvantages
2. Setting up as a Contractor
3. Operating through a limited company
4. Coming to work in Ireland from overseas
5. Contracting Overseas

### **1. Advantages and Disadvantages**

#### **Advantages of Contracting**

##### **More money**

Due to the short-term nature of the work, most employers are prepared to pay higher rates to contractors than to employees. The employer benefits through savings in holiday pay, sick pay, redundancy etc.

##### **Variety**

The freedom to change jobs on a regular basis without the formality of notice and without associated blemishes in career history.

##### **Independence**

The satisfaction and independence of being self-employed.

##### **Holidays**

Not being fixed to set annual holidays. Having freedom to take extended holidays between contracts.

##### **Multi-Skilling**

Working in different software environments adds to your skills, thus making you more marketable.

##### **Travel**

Experienced contractors are marketable in many locations, both at home and overseas, which may give you the opportunity to travel.

##### **Tax Savings**

Possibility of organised tax planning through running your own business. Also, with tax not being deducted at source from your income, you can earn extra interest income.

OSK is authorised by Chartered Accountants Ireland to carry on Investment business.  
This fact sheet provides a general guide only and specific advice should be sought before any action is taken.

OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)

### **Disadvantages of Contracting**

#### **Administration**

Additional paperwork and day-to-day attention to your affairs is required as you are running your own business.

#### **Self-Control**

Ensuring you have enough money to pay the tax when it falls due.

#### **Holiday Pay**

You receive no remuneration for holiday periods - although your contract rate is increased to reflect this.

#### **Sick Pay**

You receive no remuneration when absent from work through illness, although this can normally be offset by a good Permanent Health Insurance policy (the premiums paid will be tax deductible).

#### **Security**

You are not protected by current legislation offering certain rights to employees.

#### **Training**

You basically work continuously on the set of skills you had when you started the contact with little opportunity for career development or C.V. enhancement.

However OSK can help you to overcome many of these drawbacks:

- We are happy to deal with all your bookkeeping and revenue returns.
- We will advise you on tax deductible expenses to minimise your tax liability.
- Because we deal with contractors across many industries we know the issues that arise and are always available to advise.

OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)

## 2. Setting Up As a Contractor

There are four main routes which an individual may follow when he or she has decided to enter a contract:

### Agency Employee

The individual becomes an employee of the agency who then places him or her on a contract at the premises of a third party. Generally very few of the advantages or disadvantages mentioned earlier apply to agency employees and this guide does not attempt to outline procedures to be adopted by agency employees. Briefly the following points are relevant to agency employees:

Earnings will be higher than those of direct employees, but will generally be approximately 12% lower than those contracting on a self-employed basis or through a limited company. This is because the agency will have to pay employers' Pay Related Social Insurance (PRSI) and this will generally be deducted from the earnings of the contractor.

Full tax and PRSI will be deducted from earnings at source.

None of the possible tax advantages of running one's own business will accrue to an agency employee.

### Self-employed

The individual registers his own business with the Revenue Commissioners, either as a sole proprietor or in partnership with another individual (spouse, other contractor etc.).

Generally, all the points outlined throughout this guide are applicable to a contractor who decides to take the route of self-employment. In addition it can generally be stated that self-employment offers various advantages over the other three routes e.g. tax is not paid under the PAYE system, less administration and paperwork and cheaper accountancy fees.

However, it must be emphasised that self-employed contractors do not generally conform with the Revenue Commissioners' definition of a self-employed person. Nor will you find that many agencies are willing to offer you a contract on a self-employed basis. The criteria is simple - are you "self-employed"? Normally any individual who spends his time during standard office hours, five days per week, at the premises of one third party, using that person's equipment, facilities and utilities and performing services on behalf and under the control of only that third party, would not be deemed to be self-employed, but would in fact be deemed to be an employee of that third party.

Therefore, although during your contracting career you will meet "self-employed" contractors, you must seriously ask yourself if you conform with the Revenue Commissioners' criteria. The only way you could possibly convince the authorities of self-employed status would be by having a number of "clients", and working on several projects at the same time.

OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)

### **Umbrella Company**

The concept of the Umbrella Company has become popular recently.

An Umbrella Company is a halfway point between the agency employee and Limited Company routes. The Umbrella Company is set up and run by a third party (often a firm of Accountants). The contractor becomes an employee of the Umbrella Company and all invoicing, VAT returns, tax, administration, bookkeeping etc. are handled outside the control of the contractor. The contractor is paid a salary related to his earnings.

The concept is directed primarily at contractors on foreign assignment and some contractors use it as a first step towards having their own company. Individuals who are on quite a low contracting rate and/or those who are going to contract for a short period of time, may find it cost effective to use an umbrella company.

### **Limited Company**

Most contractors follow the route of forming a Limited Company on commencement of their career as a contractor. The advantages and disadvantages of this route are as set out in the previous section of this guide.

The contractor forms, or buys, a limited company. The limited company enters into a contract with the agency to provide specific services to a third party, and then the limited company employs the contractor to perform these services in fulfillment of its contract. The contractor generally will become a director and major shareholder of the company.

This guide is specifically directed towards the contractor who has opted to follow the Limited Company route.

## **3. Operating through a Limited Company**

### **How do I form the Company?**

There are several ways in which a company can be formed. The most common routes are through a company registration agent or through an accountant or lawyer. You choose your own business name and specify the objects of the company. The company will then be created to your own requirements within about five to seven working days. The charge for our company start-up service includes all advice given as to the appointment of company officers and shareholders and completion of the initial registration form for VAT, PAYE/PRSI and Corporation Tax purposes.

### **What Documents will I receive?**

**Certificate of Incorporation:** The birth certificate of the company setting out where and when it was incorporated, and its registered number.

**Memorandum and Articles of Association:** The constitution of the company setting out the objects for which the company is formed and any restrictions on the conduct of its day to day business.

OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)

### What forms do I need to complete?

- Form B10 - Appointment of Director and Secretary.
- Form B2 - Notification of Registered Office.
- Form A1 - Issue of Shares.
- Form TR2 - Application for registration for Corporation Tax, VAT and PAYE/PRSI
- Form 12A - Application for a certificate of tax-free allowances

### How do I open a bank account?

It is recommended that the contractor open two bank accounts in the name of the company:

- A current or cheque account for the day to day transactions of the company.
- A deposit or high interest account which will be used to save funds for payment of VAT and tax bills (effectively a tax reserve account).  
Generally speaking the best approach to opening a company bank account is to go along and see your own personal bank manager as he will be able to proceed quickly with the paperwork without the need to look for references, etc.
- Alternatively, if you are not on good terms with your own bank or have just arrived from overseas, OSK will be able to refer you to a "user friendly" bank manager who will be aware of the freelance contractor "one man" company.

### What Expenses can I claim?

As a freelance contractor your limited company is allowed to deduct from its income most expenses incurred in the conduct of its business or performance of its duties.

The question of what qualifies as a tax-deductible expense is generally straightforward. However there are some grey areas which often only become clearer when the Revenue Commissioners specifically decide that a particular expense is or is not a deductible expense.

Some categories of expense such as company cars or mobile phones are fully deductible but carry an associated benefit in kind tax charge on the contractor, while others such as accountant's fees can be deducted without question.

Often the particular circumstances of the contractor (e.g. residence, contract location, contract length, nature of work) can make it straightforward to determine how an individual will fare in his attempt to claim deductions.

### Allowable Expenses

- Stationery and postage;
- Wages and salaries;
- Advertising;
- Legal and professional fees;
- Subsistence costs;
- Subscriptions to trade associations should also normally qualify;

OSK is authorised by Chartered Accountants Ireland to carry on Investment business.  
This fact sheet provides a general guide only and specific advice should be sought before any action is taken.

OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)

- Business travel expenses
- Accountants fees;
- Subscriptions to trade-related journals and other sources of information;
- Telephone, light and heat
- We will advise on the expenses that may be claimed if you use your home for, business purposes and on whether or not you should purchase assets, (e.g. company cars) in the company's name.
- Professional books and journals - We will advise on the capital allowances that are available on the company's assets and advise you of any additional reliefs for which you may be eligible.
- Permanent health insurance;
- Pension contributions;
- Training costs;
- Computer related costs;
- Interest and bank charges
- Leasing costs (over the period of the lease);
- Repairs, renewals, etc.

#### **How is the Company money distributed?**

##### **By Remunerating Yourself**

The contractor should pay himself a regular salary at a rate normally agreed at our initial meeting. Any funds left in the company at the end of the financial year should be paid out by way of additional remuneration.

##### **By Paying Third Party Expenses**

Certain expenses can be met directly from the company's bank account (e.g. accountant's fees, pension contributions, training etc.).

##### **By Reimbursing Expenses to Yourself**

There will be a few expenses which, by necessity, must be paid directly by the contractor from his personal funds, but which relate to company expenditure. The contractor should regularly reimburse himself in respect of this expenditure (either monthly or quarterly) in the same manner in which he would claim expenses from an independent employer. An expenses reimbursement claim supported by receipts should be submitted to the company and a cheque written to the contractor for the total claim.

##### **By Paying Tax Liabilities**

The payroll taxes and VAT may both be paid to the Revenue by Direct Debit from the Company's bank account. At the start of the year we will work out the amounts that should be paid and we will fill in the direct debit forms on your behalf. Paying by direct debit means that the liabilities are always paid on-time and it reduces the paperwork as you only need to file one VAT and one PAYE return at the end of the year.



OSK,  
East Point Plaza,  
East Point,  
Dublin 3  
t: 01 4394200  
f: 01 4394299  
e: advice@osk.ie  
w: [www.osk.ie](http://www.osk.ie)

#### 4. Coming to Work in Ireland from Overseas

OSK have developed a tax efficient structure that will save you money!

There can be very attractive tax breaks for contractors coming to work in Ireland who are either:

- Not domiciled in Ireland or
- Irish citizens who are not ordinary resident in Ireland.

Basically, the remittance basis of assessment may apply to all income arising out of Ireland and the UK.

#### 5. Contracting Overseas

##### The Issues

More and more individuals are taking advantage of the number of contract opportunities available overseas. When undertaking an overseas contract a number of special issues have to be considered, and the questions of exactly where you are going, and for how long become critical. Local tax knowledge must be obtained and correct procedures must be followed if unnecessary penalties are to be avoided.

It is important to work out where you will be resident for tax and with careful planning significant tax benefits may be obtained.

##### The Service

OSK will advise you on the best structure to use for your overseas contract and on how to minimise your Irish tax liability. We will look in particular at the following areas:

- Whether or not you will remain in the Irish tax system and we will advise on the steps that need to be taken to become, and remain, non-resident in Ireland.
- If your contract is for a relatively short period of time we will advise on the reliefs and allowances that you may claim to reduce your Irish tax liability. We will outline the conditions that must be met to qualify for the Foreign Earnings Deduction and the allowances that may be claimed to cover the costs of travelling and subsistence.
- We will advise you on the timing of your departure and your return to Ireland as this can have a significant impact on your overall liability to tax.
- Through our international network we can refer you to our business partners abroad. (see OSK International)