



whitepaper

# ways to engage your contractors

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what's the best way to engage your contractors? Do you offer a choice of multiple engagement and payment solutions? or is there only one option dictated by your supplier that perhaps is not the best solution for you or your contractors?

are your contractor's given choice or options on how they can be engaged or are they pushed down an engagement model may not be the best option for them or you?

Not providing options may deter them from taking the contract or extending the contracts if required.

does anyone talk to the contractor about their engagement options to give them what is known as "best advice" so that they can make an informed decision and understand the different impacts on their net pay?

have you had unnecessary questions and queries from contractors where they are confused over their rate of pay because under certain engagement models employment costs are deducted from the limited company rate quoted to them?

Understandably contractors are sensitive about their pay. If they feel they are being underpaid because they didn't understand the potential deductions this can have a negative knock-on effect on their productivity and atmosphere within the team. It also reflects badly on your brand, hinders the recruitment of new talent and could impact your contractor churn ratios. More queries more admin more work and more cost for you to bear.

so, what are the potential solutions?

In this article we look at the main engagement options for contractors and the resulting benefits for you and the contractors. Clearly most of these would be provided by a supplier or suppliers.





This then brings a whole host of other questions about compliance over suppliers which is the subject of other articles we have written although we very briefly touch on it at the end of this article.

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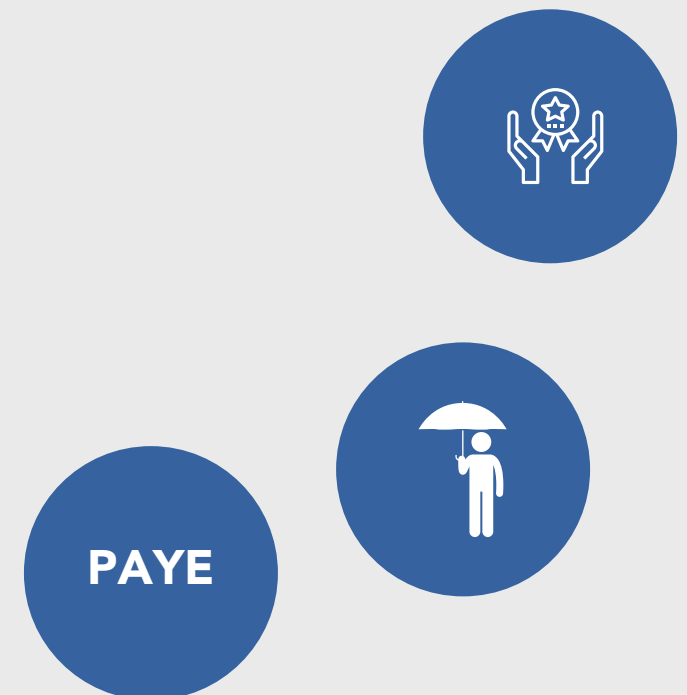
Often referred to as professional employment or PEO this is where the contractor is quoted a fixed rate of pay and any PAYE benefits. All employment costs such as holiday pay, employers' national insurance, apprenticeship levy and employer pension contributions are invoiced to you separately.

One of the benefits of this approach is that it is really easy for the contractor to understand their rates of pay and their payslips, significantly reducing payment queries. The contractor should also be able to pay money into their chosen pension provider and have flexibility over their contributions.

#### umbrella employment

A limited company rate is offered to the contractor. This rate includes all employer costs which need to be deducted to arrive at the contractor's gross pay. As a result of this it often creates confusion to the contractor unless it is adequately explained upfront. The contractor may think that they are on a higher rate of pay than they really are and may therefore be disappointed when they receive their payslip.

As with the PAYE option the contractor should be able to make pension contributions into their chosen pension provider but the advantage over PAYE is that the contractors benefit from both employee and employer national insurance savings if the schemes are set up on a salary sacrifice basis.





#### fee Payer - inside IR35

IR35 in its simplest form tries to ensure that the hirer differentiates correctly between contractors deemed to be self-employed and contractors who are not self-employed and therefore must have appropriate PAYE deductions made from their pay. Please note we have other articles written on IR35 and Off Payroll Working legislation and how you can minimise your risk.

In our experience there is a healthy minority of contractors that are caught by IR35 who would still like to retain their limited company, often referred to as a personal service company, and be paid into that company. These payments need to be **made** after deducting appropriate PAYE tax to eliminate risk with HMRC.

#### fee Payer - outside IR35

Under this scenario a contractor who is outside IR35 can be paid their gross earnings into their limited company. Very simple but the risk is that HMRC challenge the employment status of the contractor and although the fee payer should take this risk you can ultimately be responsible and accountable to HMRC.

#### statement of works

Under a statement of works contract contractors can be paid gross into their limited company. Statement of work contracts are associated with outside IR35 status assessments, and they therefore carry the same risks as those noted above.

Some companies think that merely having a statement of works contract means that the contractor's status is outside IR35. This is incorrect and would easily be challenged by HMRC.





about **giant** precision

As a group, **giant** have been supporting companies of all sizes with the compliant management of their contingent workers for 30 years.

We invest heavily in our proprietary software which includes everything from applicant tracking, vendor management and onboarding to timesheet management, invoicing, international payroll & payments.

We are proud to offer a number of solutions to get contractors paid on time, every time, including CIS, PEO, IR35 fee-payer and of course our award winning **giant** umbrella.

