

Setting up a business as a contractor

Main topics

- What is a contractor?
- Different types of contractors and contracts
- Before you start, plan your business future
- What are a contractor's likely responsibilities?
- How to prepare a quote
- Sample quotation form
- Websites, information sheets, booklets, mentors and a call centre to help you
- Contacts for useful information and support

Tip

New starters, get help from:

- the Business Victoria Line
- Business Victoria website
- Victorian Business Centres (contact details on last page)

Further action

Step-By-Step: Starting a Business or Setting Up a Business from Home are online, interactive guides on the Business Victoria website.

Go to business.vic.gov.au/stepbystep



The basics:

- contractors (also known as independent contractors) are businesses and should be managed as such
- a contracting business can be established using one of several business structures
- contractors have more legal and financial responsibilities than employees

What is a contractor?

In summary, a contractor is a business because you:

- sell your time, expertise and equipment as a service
- control how you do the job, when and where you work
- can often employ others to work for you — without asking anyone else
- can work on more than one contract at a time
- pay for the lost time and materials if you make a mistake or produce poor-quality work. If an injury results from something you produce or repair, you or your insurance will have to cover it
- pay your own accident, sickness and other insurances, superannuation etc. Different government organisations have different definitions of who is a contractor, check with WorkSafe or the Australian Tax Office if you're unsure
- work under a contract, supply your own tools, workspace etc, submit invoices, and are paid only after the work is completed

Different types of contractors and contracts

The Australian labour market has about two million contractors working under various arrangements. This information sheet does not discuss contractors employed under workplace agreements, such as a collective agreements.

The main types of contractors are:

- those who **quote** for a single task or project, for example, a plumber who quotes to install your hot water service (refer to the section on how to prepare quotes on page 3)
- employed under a **common law contract** for short or long term assignments, using either an employer's or your own contract, with mutually agreed and legally binding terms, that may extend after the contract ends
- **employed by an agency** as a contractor, often using the agency's pro-forma contract. The agency signs a separate contract with the employer

Common law contracts normally include terms to cover what services you'll supply, when and how you will be paid, when the contract ends, if you as the contractor can sub-contract, and more. The terms also cover items especially important to the business, such as confidential business information.

The **taxation implications** of contracting can be complex, so it's worth checking the Australian Taxation Office (ATO) website (ato.gov.au), and with your accountant or tax agent.

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Did you know:

What if your employer asks you to set yourself up as a contractor?

An employer may ask you to set yourself up as a contractor, either as a sole trader with an ABN or as a registered company with you as the sole director.

Before you set yourself up, make sure you'll actually work as a contractor. A contractor generally has more control over how they work, for example, what tools to use — just as a tradesperson working at your home does.

If the employer plans to control your work as before, it's possible you're still an employee, but paying the extra expenses of a contractor, such as your own superannuation.

If you need help to check if you are a deemed employee or a real contractor, contact the ATO or WorkSafe. Their contact details are on the last page.

Before you start, plan your business future

■ **Write a business and marketing plan** Work out how you will advertise your services, what to charge, and which part of the market to target.

■ **Plan your finances** Make sure you and your business can survive on the money you have in the bank or from a bank loan and the money you can make. Plan your cash flow.

■ **Choose a business structure** Do you want to trade under your own name, be a sole trader with a registered business name, a partnership, or a registered company? Make sure you have a properly set up business, and are covered if anything goes wrong (refer to the information sheet *Choosing the best business structure for your business*).

■ **Decide where and how you want to work** Do you want to be mobile, work from a business premises or workshop? Or, if your local council allows it, is working from home an option? (refer to the information sheet *Setting up a home-based business* or the interactive Step-By-Step guide *Setting up a business from home*, both available at business.vic.gov.au).

■ **Find out if your business will need licences or permits** The Business Licence Information Service (BLIS) at business.vic.gov.au/blis or Business Victoria on 13 22 15, can help you identify which state, federal or local government licences you will need.

■ **Decide if you want to employ staff** Employ staff if you need to, and get skills, training or industry certification. The business.vic.gov.au website has a wide range of information on employing and keeping staff.

■ **Find out what tax, insurance and super** payments you need to make and how to keep business records. Work out how you will handle GST. Will you collect it? Contact the ATO for more details. Consider hiring a bookkeeper when you get too busy.

What are a contractor's likely responsibilities?

Once you're a contractor, you'll be responsible (in many cases by law) for some of the items listed in Table 1. It's not a complete list, so you'll need to do your own research. For example, to find out more about GST, contact the Australian Tax Office (ATO) or get a professional tax advisor's advice.

Table 1: This list indicates possible responsibilities for contractors. Check with the government agency or a professional before acting on any information here.

Depending on your circumstances, you'll need to...	and if you employ staff you may have to add these	check the details with...
process GST, lodge BAS statements	PAYG tax (Pay As You Go) tax withholdings for the ATO	Australian Taxation Office
keep financial and other records and lodge a tax return to the ATO	keep accurate staff records	Australian Taxation Office

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Depending on your circumstances, you'll need to...	and if you employ staff you may have to add these	check the details with...
comply with OHS and WorkSafe requirements, buy and maintain safety gear	ensure staff have the correct training and any required certification	WorkSafe
have a safe workplace, take out WorkSafe injury insurance if you are employed by your own company	have a safe workplace, WorkSafe injury insurance for staff	WorkSafe
pay insurance, including public liability, professional indemnity, product insurance and others	insurance in case your staff make mistakes, are negligent or fraudulent	insurance broker
pay for your own income protection if you get sick or are incapacitated, set aside money for training or holidays	possible sick leave, holiday pay, maternity leave, family leave	insurance broker accountant
set aside money for your own superannuation	pay superannuation for your staff	Australian Taxation Office, an accountant or other qualified financial planner
understand employee conditions and pay for any employees	any overtime and shift penalties, redundancy payments, awards and workplace agreements	Fair Work Australia
check which licences and permits you need	check if staff need certification or licences, e.g. gasfitter licence	Business Licence Information Service
organise your own equipment, transport and premises to work from	equipment, transport and premises to work from	—
understand fair trading practices		Australian Competition and Consumer Commission Consumer Affairs Victoria

Page 7 lists the contact details for the organisations in Table 1 above.

Tip

Ways to make estimating easier

Estimating software is available to make the job of estimating complex jobs easier. Contact your industry association for a recommendation or do a search on the web. Industry magazines regularly review software.

Do a course: the TAFE sector offers some courses to help you get the skills for estimating the more complex jobs, such as those found in the building industry. Visit the Short Courses website at shortcourses.vic.gov.au and the TAFE course directory at education.vic.gov.au/tafecourses

How to prepare a quote

Many contractors use one simple contract called the **quotation** or **quote**. This is a legal agreement between you and a customer to supply a service or goods (or both) at a set price. Preparing a quotation is a frequent task for many contractors.

If you work in a competitive industry with tight margins, you'll be under pressure to supply the lowest quote to win the job, so accurate quoting will be your protection against accepting jobs on which you might make a loss. On the other hand, not all customers choose the cheapest quote: some may choose a higher quote if they think the extra cost means better quality work, or that you'll be easier to work with than someone else.

Easily confused with the quote is the **estimate**, an approximate or preliminary calculation for work to be done. It is not legally binding. Far more complicated is the **tender** document used to estimate costs and bid against others for work to be done, such as supplying a cleaning service to a city building or constructing a water tower. Tendering is not detailed here.

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Tip

In some cases you will need to rely on loans or savings for more than a year until the business turns over enough work to be profitable.

Avoid any potential discouragement by careful planning and cash-flow forecasting when you start out.

Consider using a small business mentor along the way or another professional: they can offer much-needed objectivity and advice when your business prospects appear less than bright.

Contact details for the Small Business Mentoring Service are on the last page.

Factors to consider when preparing a quote

For a new starter preparing a quote is hard because you have to be competitive, cover your costs, and make a profit. One way to start is to look at how others prepare quotes for similar jobs. Some common considerations are listed below.

Financial factors

- Before you set your rates, check if there is a standard market rate for your labour for someone with your level of expertise and the service you offer.
- Does your industry or its association have pro-forma documents you can use? For example, builders use a standard domestic building contract which helps set some guidelines for you when quoting.
- Will you charge for the quote, and if the customer goes ahead with the purchase, will you deduct the price of the quote from the final price?
- Calculate how much you need to make to break-even, and to make a profit, taking into consideration what the market will stand and all the factors in running the business. (Refer to the information sheet *Business essentials: cash flow forecast and break-even point*.)
- Is there an extra cost of transporting materials, and will you add a mark-up on these? Each industry varies.
- Is it likely you'll have to revisit a task after the job is done: some jobs are difficult to get right the first time. For example, a quote for a writing or design project should include how many hours for final edits or changes the original price includes. Some industries charge for extra meetings with a customer, while others may not. It's better to be clear with the customer at the start.
- For difficult-to-quote-for jobs, for example repair work where the cause of a problem is hard to identify, a 'time and materials' quote (i.e. the time and materials it takes to finish the job) might be better than a fixed price.
- If a material you normally use is out of supply, will you be forced to buy something else at a higher price to get the job done? Some customers might be happy to wait for the cheaper material to be available again.
- Does the industry you work in have a high percentage of bad debts? You may be able to take out trade credit insurance for this (refer to the information sheet *Insurance for small business*.)

Special equipment and managing your time

- Will you need special tools or is the job more complex than normal?
- Will your standard call-out charge cover the distance to travel? Some jobs are simply too far away to be worth the bother. What's your limit?
- If weather often delays your work, you may need to factor this into your rate.
- Just as important is your ability to schedule your work in with your other jobs. In some cases you may have to wait for others working on the same project or site to finish, so factor this in if it's going to be more than a minor annoyance. Liaise with the site or project manager where possible.

What will your terms and conditions be?

- How will you guarantee your work, for how long and exactly what is guaranteed? Labour costs only? Materials?
- What will be your payment terms? For example, will you offer a better price for faster payment, for cash or for a bulk purchase? Do you need some money upfront to make sure your cash-flow stays healthy if you need to buy expensive materials to start a job? Will you accept cheques, credit or cash?
- Will customers expect a reduction or penalty if the work is not done on time?
- If the customer asks for changes to the original, how will this be charged (often called 'variations'). Some industries, such as graphic design expect lots of changes before the customer is happy.

Tip

When you get a verbal request for a quote, ask 'is there anything else we can help you with?', or 'could we put you on our mailing list?'

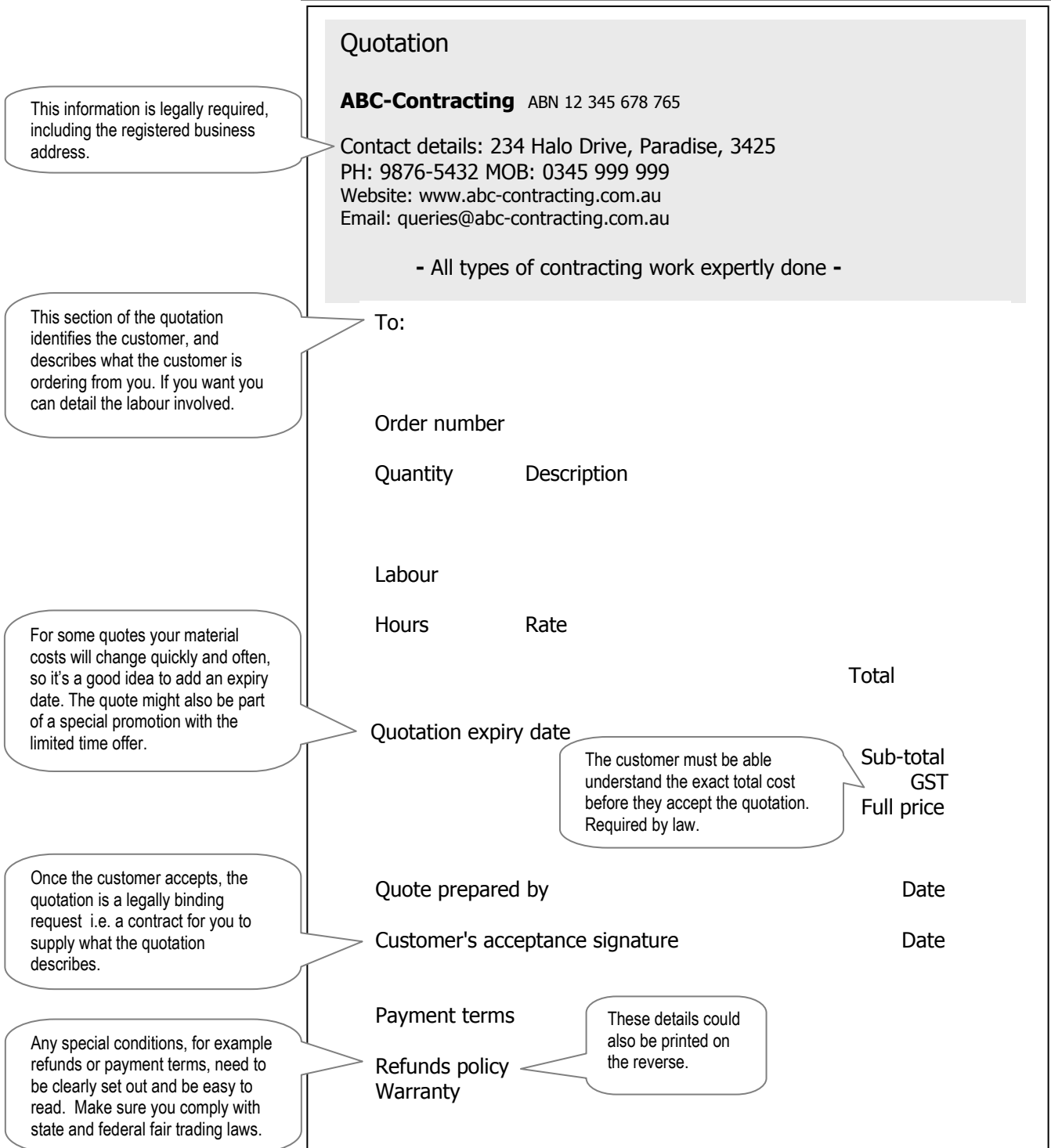
Use the addresses you collect as part of a communication strategy, for example, a regular newsletter or mail-out.

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Sample quotation form

The simplest quote must have some basic details. You can buy a pro-forma quotation booklet from a stationer, although you might want to have your own version printed with your name and other details at the local printer. Some of the details are legal requirements. If you're not sure what these are, check with Tax Office or the Australian Competition and Consumer Commission (ACCC).

Diagram 1: Sample of a basic quotation form



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Websites, information sheets, booklets, mentors and a call centre to help you

The next pages list some of the sources of information you can use to start your research. Often the best place to start is the organisation's website, and then make a list of questions and contact them directly. If you're having trouble getting started, call Business Victoria on 13 22 15.

■ **Our website can guide you** Apart from a wealth of information for small business, the Business Victoria website (business.vic.gov.au) has interactive online Step-by-Step guides written for small business. They cover all aspects of starting a business. While you complete a guide, you can build your own personal checklist with useful contacts, websites, documents and information sheets. Topics include the basics of employing staff, starting a home-based business or building a business website. A list of topics is at business.vic.gov.au/stepbystep

■ **Industry associations** Your industry group might be able to help you on the path to contracting. Use the Contact Search on the Business Victoria website to find your industry contacts.

■ **Information sheets** Our other information sheets cover a range of topics from choosing the best business structure, choosing insurance, building or improving a business website, to setting up a home-based business.

■ **Check for licences and permits** Use the Business Licence Information Service (BLIS) at business.vic.gov.au/blis or contact Business Victoria on 13 22 15 for details.

You can use one of the 12 Victorian Business Centres (VBCs) in Melbourne and regional Victoria (contact details are on the last page).

Some of the services the VBCs offer are:

- help with starting a business and networking opportunities
- licensing, registration information and support for business
- providing referrals to specialists
- workshops and seminars on business topics

■ Tip

Contractors need to think like business owners

You may experience the discomfort of leaving your old 'employee' comfort zone as you move into your new role of 'business owner'.

To get you there faster, try to see your actions and events as either good or bad for the business — rather than for you personally. The most successful contractors are often the most determined, the best organised, prepared to start small and start out with a well-researched and realistic plan.

■ **Small Business Mentoring Service** The SBMS is a not-for-profit organisation providing mentoring to medium, small and micro Victorian business operators. Highly experienced business people provide mentoring with skills and qualifications in a range of industries and disciplines. For a modest fee, Victorian small businesses can get the benefit of their wisdom and experience. Their contact details are on the last page.

■ **Frequently Asked Questions** For a comprehensive set of up-to-date FAQs use the Frequently Asked Questions tool on the Business Victoria website (business.vic.gov.au). If you can't find the answer you're looking for, you can submit your question online to a business support consultant.

■ **Accountants and solicitors** They can give you in-depth information and advice tailored to your business situation. Their expertise can guide you through the legal, financial and licensing issues. Get a free half-hour consultation with a professional adviser by using Business Victoria's Find an Adviser Service (business.vic.gov.au/findanadviser).

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Contacts for useful information and support

What they can help you with	Organisation	Web address
- All small business enquiries	Small Business Victoria Visit the Victorian Consumer & Business Centre Ground Floor, 113 Exhibition Street, Melbourne VIC 3000 Business Victoria 13 22 15 TTY (telephone typewriter) Service (03) 9651 7596	business.vic.gov.au
- Under new management workshops and seminars	For your nearest Victorian Business Centre call Business Victoria on 13 22 15	business.vic.gov.au/vbc
- Licences and permits required by business from state, federal and local governments	Business Licence Information Service (BLIS)	business.vic.gov.au/blis
- Online Step-By-Step Guides		business.vic.gov.au/stepbystep
Mentoring and business referrals	Small Business Mentoring Service (SBMS) Call Business Victoria 13 22 15	sbms.org.au
- Register a business name, limited or incorporated-limited partnership	Consumer Affairs Victoria Visit the Victorian Consumer & Business Centre Ground Floor, 113 Exhibition Street, Melbourne VIC 3000 (03) 9627 6200	consumer.vic.gov.au
- Check Victoria's fair trading laws		
- Check online if a business name is already registered in Victoria	Consumer Affairs: Business Licensing Authority	http://online.justice.vic.gov.au
Register a company	Australian Securities and Investments Commission 485 La Trobe Street, Melbourne VIC 3000 (03) 9280 3200	asic.gov.au
Check federal Trade Practices Act	Australian Competition and Consumer Commission	acc.gov.au
- WorkSafe Injury Insurance	WorkSafe Victoria	worksafe.vic.gov.au
- Check your work safety and OHS obligations	Ground Floor, 222 Exhibition Street, Melbourne VIC 3000 (03) 9641 1444 or 1800 136 089	
- Free safety consultation session		
- Goods and Services Tax (GST)	Australian Taxation Office (ATO)	ato.gov.au
- Pay As You Go withholding (PAYG)	Casselden Place, 2 Lonsdale Street, Melbourne VIC 3000	
- Superannuation (reporting)	For your nearest ATO office, check the ATO website	
- Online checklist for new business	Business tax enquiries 13 28 66	
- Tax rules for contractors		
- Information about pay and conditions for employees	Fair Work Australia Level 4, 11 Exhibition Street, Melbourne, 3000	fairwork.gov.au
- Information about federal laws affecting contractors	1300 799 675	

For more information:

- call Business Victoria on **13 22 15**
- visit the Business Victoria website at **business.vic.gov.au**
- visit a Victorian Business Centre (VBC). For a list of VBC locations, go to **business.vic.gov.au/vbc**

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