

# Permanent and Contractor Worker Differences



Having worked for 30 years as a permanent employee at several companies and an equal number of years as a contractor at even more companies, I am well qualified to compare the two ways of working.

The recruitment of workers, whether permanent or contract, is very similar these days, with extensive background checks conducted on potential new hires. These background checks typically include references from employers over the past three or five years, proof of academic qualifications, home address information, nationality, and a current DBS certificate (and sometimes evidence of SC/DV clearance, or willingness to undertake this clearance). Contract workers also need to provide their company's details or umbrella company information, plus proof of having Professional Indemnity and other insurances in some circumstances. For contractors with limited companies, evidence that the contract worker is a director and has authority over the company is also required. Contractors who work through an umbrella company lose a large percentage of their income through taxation, umbrella fees and no allowance for expenses.

When it comes to benefits while working, employees usually get the following:

- A salary based on their level of seniority and performance
- Annual increases in salary and annual bonuses
- Car or car allowance and petrol allowance, depending on seniority (or help in the purchase of annual train passes)

- Special company pension arrangements
- Healthcare and gym benefits
- Training (both in-house and externally)
- A holiday allowance of three/four weeks that can increase with length of service
- Full pay whilst on sick leave
- Other perks depending on the product/service that the company provides (such as discounts at leading supermarket and departmental stores, discounted mobile phones for personal use, Easter eggs, Christmas gifts, presents and attendance at company events with meals provided)

Contractors, on the other hand, are paid based on an hourly or daily basis, typically more than a permanent employee is paid for the same work, with the possible exception of contractors working through an umbrella company. However, contractors receive none of the benefits listed above. They must provide their own pension and healthcare arrangements and are not paid when on holiday, sick, or taking days off for other reasons. Based on 220 working days a year, a comparison between a permanent worker and a contract worker shows that their earnings can be similar if the costs of healthcare, pension arrangements, and other expenses that the contractor must pay are included. Of course, the contractor must also allow for weeks of no work, as it is challenging to start a new contract with a new company just after leaving the previous one.

Generally, contractors must wear lanyards that distinguish them from employees, which are either bright in colour or have the word *Contractor* written on them. Besides this, in many companies, there can be other differences that make contractors feel like they are second-class workers, such as:

- Permanent employees are required to work 35 or 37.5 hours a week, whereas contractors often must work 40 hours a week
- Permanent employees can work at home and have flexibility in which office to work from, whereas contractors often have restrictions and have to work at a particular office location
- Contractors are not allowed to use the staff car park
- Easter eggs and Christmas chocolates distributed is for permanent employees only
- On-site medical centres are for permanent employees only
- Company update meetings are for permanent employees only
- Contractors are expected to “hit the ground running” on the day they start work, whereas company employees can undertake a whole raft of training courses
- Irrespective of the role being undertaken, contractors cannot sign company documents or authorise payments or timesheets of subordinate workers
- Contractors are often engaged for a role on an unbalanced zero-day or one week’s notice period; whereas if the contractor wishes to leave before the expiry of the contract, one month’s notice is required

One area where the contractor benefits is in not having to go through the company's appraisal/performance review schemes (although contractors can be dismissed/given notice if their work is unsatisfactory).

In addition, limited company contractors must have a company bank account and engage an accountant to produce company accounts, pay slips, and other statutory documents.

When it comes to income tax and National Insurance, permanent workers are taxed on their salary and any taxable benefits. In contrast, limited company contractors not only pay tax on their salary, but their limited company also pays tax on the profits from running the business.

Although it may sound like a hard life as a contractor, it still appeals to many people because of the flexibility it offers, allowing them to work as much or as little as they prefer, depending on their financial situation.