



# **Contracting—Benefits and Risks**

## What is a Professional Contractor?

### What You'll Learn in this Chapter

- differences between employees and contractors
- benefits and risks of contracting
- traits of a successful contractor

Professional contractors are professionals with substantial freedom and control over how their career develops. They determine where they work, for whom they work, and the projects on which they work. But contracting is not for everyone.

With freedom comes significant responsibility and some loss of financial security and social continuity. For example, while you might make more money per hour, you may not work continuously throughout the year. For some people this is a benefit because it enables them to fulfill personal projects; for others, the thought of being without work for several months is frightening.

Contracting enables you to divorce yourself from the politics of an organization—you're onsite for a limited time and only to complete a specific task. On the flip side, it is difficult to develop long-term friendships with your co-workers when you are only there for a six month contract. As well, short-term contracts make it difficult to fully understand the company's culture.

The rest of this chapter explores what distinguishes a contractor from an employee and lists both the benefits and risks of a career in contracting.

*At its core, contracting is about big bucks and big fun!*

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## Distinctions Between Employees and Contractors

The criteria that distinguish employees from contractors can be confusing. There are many rules that govern both relationships and each relationship between client and contractor is unique, so much so, that tax agencies often review each case individually.

Tax laws governing the distinctions between employees and contractors change from time to time and are regionally determined. *It is your responsibility to verify with your legal and accounting advisors the relevant rules in the city and country where you want to work.*

The following information defines the distinction between someone working for a company as an employee or as a contractor and reveals some of the benefits and risks of working through an agency or not.

	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Finding work	You approach employers and the employers select who will provide the ongoing services. Generally, this happens without the services of an agency.	You are selected by the agency and recommended to work for the agency's client. The agency becomes the contractor to the client. <b>Benefit:</b> The agency markets your skills while you are working on a contract.	You approach clients for work directly. <b>Risk:</b> If you work for a client for longer than one year, you may be deemed an employee of the client which may cause tax problems later.

	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Getting paid	You are paid a fixed hourly or monthly salary directly by your employer. You provide services on an ongoing basis.	You receive a lump sum or hourly payment from the agency. You submit an invoice to the agency for completed work; the agency pays you within a defined period of time. <b>Benefit:</b> In many cases, the agency pays you on a regular basis, whether the client has paid or not.	You submit an invoice to your client and the invoice is paid within a defined period of time. <b>Risk:</b> You rely on the client to pay you.

	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Managing the work	Your employer directs your work, controlling how, when, and where you perform the work.	The agency coordinates only the relationship between you and the client; you are responsible for determining the best manner for executing the work to produce the final deliverable. The client can set your work terms, but they will arrange this through your agency. <b>Benefit:</b> Using the agency as a mediator, you and the client can structure the work parameters to suit you both.	You are entirely responsible for managing and executing your own work within your client's requirements. <b>Risk:</b> You and the client may have different ideas about when and how the work should be carried out and have difficulty resolving these differences.

	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Ensuring quality of work	Your employer gives you feedback and deals with work quality issues directly.	The client may contact your agency if they have concerns about your work or behaviour. Your agency will mediate issues between you and the client. <b>Benefit:</b> Your agency keeps in contact with the client throughout your contract to monitor how the work is progressing. You are alerted to any concerns and have the opportunity to make the necessary changes.	The client gives you feedback directly and you must work out a plan for improvement to complete the work and maintain the relationship. <b>Risk:</b> Your client may have difficulty criticizing your work and will simply make an excuse to cancel the contract. Without appropriately timed feedback, you may have no opportunity to prove yourself.
Paying for benefits	You pay a portion of the premium and are covered under your employer's benefits plan.	You are responsible for obtaining your own benefits and health insurance. <b>Benefit:</b> Your agency can give you information about insurance and benefits packages you can apply for. You can choose the package that suits your needs.	You are responsible for obtaining your own benefits and health insurance. <b>Risk:</b> You may have difficulty finding the best benefits package.

	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Paying taxes	You pay taxes as arranged through your employer; usually tax deductions are made on every pay cheque.	You are responsible for arranging to pay your taxes. You can set up payment plans to alleviate paying one large sum all at once. <b>Benefit:</b> As a contractor you can claim business expenses. Check with an accountant to learn about expenses you can claim. Your agency can likely recommend an accountant accustomed to dealing with contractor's taxes.	You are responsible for arranging to pay your taxes. You can set up payment plans to alleviate paying one large sum all at once. <b>Risk:</b> If you work for a client for longer than one year and are not incorporated you may be deemed an employee and have difficulty claiming some expenses.

	<b>As an employee...</b>	<b>As an independent contractor through an agency...</b>	<b>As an independent contractor...</b>
Tools and Equipment	Your employer provides the necessary tools or equipment to execute work.	You must have your own tools and equipment as not all clients require you to work on site. In some cases, the project work may require you to purchase additional tools and equipment. You should maintain a business office, even if it is just a separate space in your home. This space, and all equipment and tools should be dedicated to only business.	The same information applies as for an independent contractor working through an agency.



	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Terminating the relationship	<p>You or your employer can terminate the relationship. If your employer terminates the relationship, they must be able to support the reasons for termination with documentation.</p>	<p>When the project is over, the contract is over. If the client has another distinct project they must arrange with your agency to create a new contract for the new work. You or the client can terminate the contract at any time without cause. Remember that if you terminate the contract, you risk tarnishing your professional image. <b>Benefit:</b> Your agency may be able to mediate and resolve underlying motives when the client wants to terminate your contract.</p>	<p>When the project is over, the contract is over. If the client has another distinct project they must arrange with you to create a new contract for the new work. You or the client can terminate the contract at any time without cause. Remember that if you terminate the contract, you risk tarnishing your professional image. <b>Risk:</b> If the client wants to terminate your contract, there may be no chance to negotiate.</p>

	As an employee...	As an independent contractor through an agency...	As an independent contractor...
Committing to work	You work full-time for the employer and not for anyone else.	You work for a number of different clients, or at the very least, must be able to prove that you could have worked for a number of different clients. File and maintain requests you receive to work on projects, even if you don't accept the work—these requests are proof of work opportunities. <b>Benefit:</b> Neither your agency, nor your clients can restrict you from working for others, but your agency can help you to find work.	The same information applies as for an independent contractor working through an agency, with the following associated risk. <b>Risk:</b> You alone are responsible for finding all potential clients and work opportunities.

	<b>As an employee...</b>	<b>As an independent contractor through an agency...</b>	<b>As an independent contractor...</b>
Working with the client	<p>There is an on-going relationship between you and your employer with no definite end-date. You are employed as part of the business and your work is an integral part of the business.</p> <p>You must attend company employee meetings and assimilate the company culture.</p>	<p>Your relationship with a client is temporary and related to your work on a contract. Your services are hired for a specific project, a specific time frame, or are peripheral to the client’s core operations.</p> <p>You are not treated like the company’s employees and do not attend the company’s employee meetings. You do attend project meetings as requested.</p>	<p>The same information applies as for an independent contractor working through an agency.</p>
Signing contracts	<p>All legal documentation suggests an employment relationship.</p>	<p>There is a contract between the client and the agency and a contract between your company and the agency. In all instances it is a contract between one business and another; that is why many agencies prefer contractors who are incorporated.</p>	<p>There is a contract between your business and your client.</p>

## Benefits of Contracting

Now that you understand the differences between working as an employee or as an independent contractor, it's easy to see the appeal of contracting, particularly of contracting through an agency. For someone who is self-reliant, wants to work outside of company politics and limitations, and likes new and exciting challenges, a contracting career may be just the thing.

Do the following options appeal to you?

- choosing projects freely based on career goals, geographic location, or personal and social preferences
- working for numerous clients or industries without incurring the stigma attached to employees who change jobs frequently
- deciding when to work and when to take time off
- giving yourself a raise as your skills improve, based on what the market will support
- gaining new experiences and knowledge with each new contract
- controlling the development of your skillset and the direction of your career
- making strong connections in various industries
- developing powerful soft skills you'll use in other aspects of your life such as self-marketing, diplomacy, stress management, personal prioritizing, and time management
- divorcing yourself from corporate politics
- earning income directly proportional to your contribution
- developing your entrepreneurial skills
- deducting business expenses that can include your equipment, training, and part of your mortgage and utilities if you keep a home office and if you are incorporated

*Seek opportunity, not security. A boat in a harbour is safe, but in time its bottom will rot out.*

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## Risks of Contracting

Of course, with the increased freedom of contracting there are risks, most of which revolve around less social and financial security than you would otherwise have as an employee. Another obvious risk element of contracting is the increased responsibility of managing your own career direction and your own clients.

*Increased control = increased responsibility*

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If you are confident in your abilities you can minimize the risks of contracting and focus on enhancing your career jobs. Review the following features of working as an employee and compare them to the risks of working as a contractor. Then decide for yourself if you're comfortable with the option of contracting.

<b>This feature of an employee...</b>	<b>Compared to the same feature as a contractor...</b>
Security and predictability of a long-term job.	A string of projects that you must compete for each time.
A fixed, predictable income.	A string of projects that are all paid at different rates under different terms.
Working with friends and co-workers on a long-term basis.	Joining different project teams at different client sites.
Perks including sick leave, vacation pay, profit sharing, pension plans, medical, ocular, and dental benefits.	Insurance and coverage that you obtain through a third party.
Ongoing training.	Training that you arrange and take on your own time and at your own expense.

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Remember that what is perceived by some as a risk, is perceived by others as an opportunity. Many of the risks associated with working as a contractor are abated if you have what it takes to be a successful contractor.

## What Do I Need to be a Contractor?

If none of the perceived drawbacks of being a contractor deter you, there are some general traits that you may already have (or are able to acquire and nurture) to facilitate your success in the contracting world. None of these suggestions are imperative to your success but they will generally help.

### Personality

People who thrive as contractors typically are:

- deadline focused
- sensitive to the nuances of corporate culture yet able to remain disengaged from corporate politics
- diligent about time management practices
- aware of their own strengths and weaknesses
- able to learn quickly with minimal guidance
- excellent communicators; they have adept listening skills, and are confident in expressing their ideas
- able to work in both structured and unstructured environments
- able to market themselves
- proactive problem solvers

*A lot of successful people are risk-takers. Unless you're willing to do that, to have a go, to fail miserably, and have another go, success won't happen.*  
—Philip Adam

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## Lifestyle

Flexible personal commitments coupled with a willingness to do overtime may help you meet your deadlines and accommodate unexpected project scope changes. If you're interested in travel, contracting can enable you to travel locally, nationally, or even internationally—and get paid for it!

Be brutally honest about whether your lifestyle can support the flexibility required for contracting. If you have a young family, or are in a position where you cannot commit to overtime, contracting may not be the right career path. It's important to have balance in your life, but it's also important to make choices that are right for your personal work habits and that allow you to meet your personal commitments.

Financially, you must have a healthy savings account that will allow you to weather dry spells of up to two months. The IT market is volatile and contracting does not always provide a predictable, steady income so you'll need to be ready for the ups and downs.

## Skills

As a contractor, you must keep your skills up-to-date to stay in demand. You can do some research to see which skills are in demand in the open market—the chapter *Getting Started* on page 33 explains this in detail. Once you have the core skills, you must keep them current and invest in learning about new technologies in your field.

See this web site for information about online learning

[www.elementk.com](http://www.elementk.com)

As a contractor you cover the cost of your own training. The upside is that you control what kind of training you get and when you get it. Also, if you're incorporated, these expenses may be deductible if they are required for your professional development. As always, check with your legal or accounting professional to find out the incorporation laws in your region.

You will also need to develop soft skills, which change less frequently and help you in all aspects of your life, such as effective communication, personal management, self-marketing, and negotiation.

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Now that you know the benefits and risks of IT contracting, proceed to *Getting Started* on page 33 to learn about searching for contract jobs.



## Things to Remember

- Employees may have more security, but contractors have more control over their careers.
- Contracting through an agency typically means that you get paid on a regular basis without waiting for the client to pay. This will vary between agencies.
- As a contractor you can work for a variety of clients and increase your opportunity to learn new technologies and industries.
- To be a successful contractor you have to develop the soft skills that will help you win contracts.
- Make sure that your lifestyle can support the ups and downs of contract work.

**Notes**