

## **Engaging contractors**

### **Engaging Independent Contractors operating as Sole Traders with an ABN**

A Contractor is a person who has established themselves as a sole trader to provide services and who is engaged to work based on the skills, knowledge and experience they offer.

If you engage someone as a Contractor you would generally nominate the results that are expected via a Contract for Service and allow the Contractor to apply their skill and knowledge to achieving these ends.

A contractor is essentially a self-employed person selling personal services. They determine the price/rates for the supply of their service and carry any relevant legal and compliance responsibilities (such as tax, accident & loss of income insurance, insurance, superannuation etc.) Given the responsibilities of a contractor it is not unreasonable to expect a higher hourly charge rate as compared to an hourly rate that would be paid directly to an employee.

A sole trader who is carrying on an enterprise in Australia can apply for an ABN using an ATO form (NAT 2938) or registering online at [www.ato.gov.au](http://www.ato.gov.au) for their business and use this number for all their business dealings.

The income of the business is treated as the person's individual income and they are solely responsible for any tax payable by the business. This means that, after deducting allowable expenses, such as mobile phone usage, special clothing, vehicle expenses, they include all their business income with any other income and report it on their individual tax return. A sole trader is only required to be registered for GST if their GST turnover is \$75,000 or more.

A sole trader is required to provide a [tax invoice](#). If the worker does not provide an ABN or [Statement by a Supplier Form](#), the payer is obliged to withhold tax (46.5%) unless the amount is under \$75.00. For more information refer to [reference guide](#).

An employer reserves the right to dismiss an employee at any time (subject to unfair dismissal laws), whereas a Contractor is contracted to complete a set task. The principal (the person engaging the contractor) may only determine the contract without penalty where the person has not fulfilled the conditions of the contract. The contract will usually contain terms dealing with defaults made by either party.



The guide [Establishing as a Contractor](#) is designed to provide information to individuals who would like to know more about what is involved in becoming an Independent Contractor.