BROADLEY ACCOUNTING | 2024 | V1

Becoming Self-Employed

Broadley Accounting

About our guide

Embarking on the journey of self-employment is more than just a career choice; it's a commitment to your passion, freedom, and self-determination.

Becoming your own boss allows you to shape your professional path, pursue your dreams on your terms, and cultivate a business that aligns with your values. While the road may come with its challenges, the rewards of autonomy, creativity, and growth are limitless.

This brochure is designed to guide and inspire you as you take this empowering step towards building a successful and fulfilling self-employed life.

Being Self-Employed

Being self-employed means, you work for yourself, as a business owner or freelancer and not for an employer.

HMRC believe you are self- employed if you:

- **Run your business for yourself and take responsibility for its success or failure**
- **Have several customers at the same time**
- **Can decide how, where and when you do your work**
- **Can hire other people at your own expense to help you or to do the work for you**
- **Provide the main items of equipment to do your work**
- **Are responsible for finishing any unsatisfactory work in your own time**
- **Charge an agreed fixed price for your work**
- **Sell goods or services to make a profit**

You can be self-employed and employed at the same time, for example if you work for your employer during the day and run your own business in the evenings.

HMRC class you as self-employed as soon as you start to provide services or sell goods yourself – even if you have not yet told them.

Trading as a Sole Trader

As a self-employed individual you are known as a sole trader. As the individual who owns the business you are entitled to all profits from the business after tax has been paid, and you are liable for all losses.

The key characteristics of a sole trader are:

- **Full control** - you have sole ownership and full control over your business and you don't have to consult with any directors or shareholders before making a decision
- **Not a separate legal entity** - you and your business are considered one and the same
- **Unlimited liability** - sole traders assume full legal responsibility for all business debts. Your personal assets can be seized to pay for losses incurred by the business
- **Continuity** - the business is wholly dependent on the owner and will cease to exist depending on personal circumstances such as retirement, bankruptcy, and death

Advantages and Disadvantages of Being a Sole Trader

Advantages	Disadvantages
• Full control and greater flexibility • Ease of setting up • Low set up costs • Greater privacy • Ownership of profit • Fewer Statutory Requirements	• Unlimited liability • Tax planning implications when going "Ltd" • Lack of business continuity • Limited access to external finance

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How to Become Self-Employed

You need to set up as a sole trader if any of the following apply:

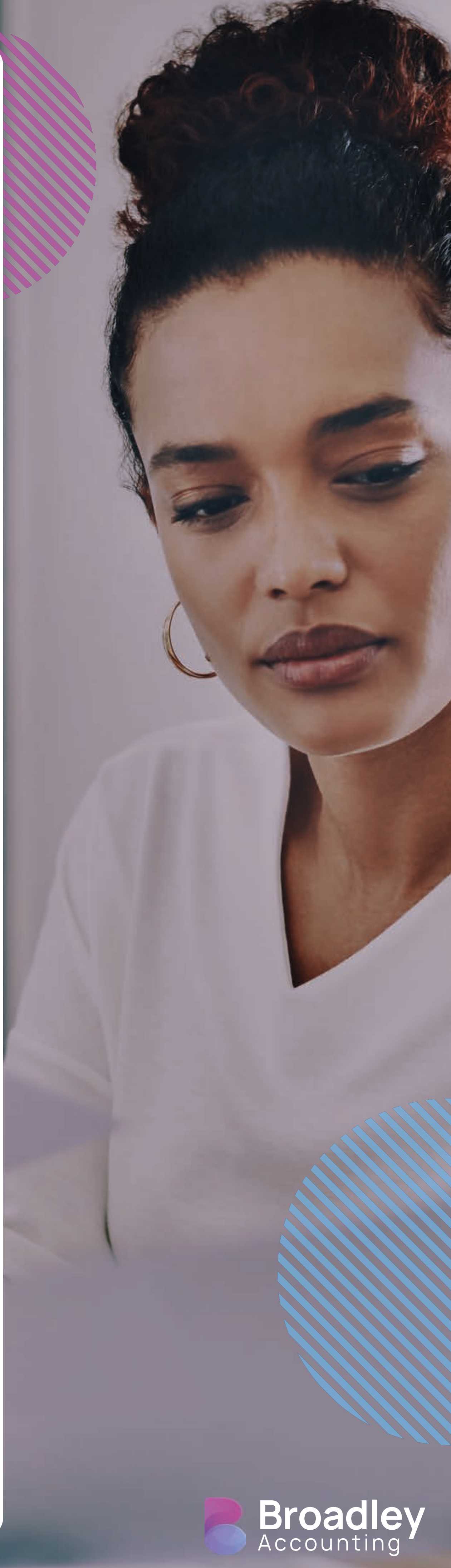
- **Your gross income from self- employment was £1,000 or more** between 6 April (or your start date) and 5 April of the following year
- This is known as the 'trading allowance' you need to prove your self- employed, for example to claim Tax-Free Childcare you want to make voluntary Class 2 National Insurance payments to help you qualify for benefits

To set up as a sole trader, you need to tell HMRC that you pay tax through Self-Assessment. You'll need to file a tax return every year.

You must tell HMRC by 5 October in the year, after the end of the tax year in which you start to trade, if you need to complete a Self-Assessment Tax Return. HMRC can issue penalties if you miss the deadline for registering as Self Employed.

1. **Create a Government Gateway account**
2. **Choose the Self-Assessment option for the question 'what type of tax do you want to add? You want to add as an organisation**
3. **Indicate the date you started trading on**
4. **Provide details such as your National Insurance**
5. **Obtain your Unique Tax Reference Number (UTR) and activation code by post**
6. **Activate your account**

While you're not required to register your business name as a sole trader, your name and business name (if you have one) must be included on official paperwork. Ensure that you've abided by these rules when you select a business name.



Your Responsibilities as a Sole Trader

You'll need to:

- Keep business records and records of expenses
- Send a Self Assessment tax return every year
- Pay Income Tax on your profits and Class 4 National Insurance (unless employed elsewhere and paying Class 1 NIC)

You must register for VAT if your turnover is over £85,000. You can register voluntarily if it suits your business, for example if you sell to other VAT-registered businesses and want to reclaim the VAT.

Working in construction industry

Register with HMRC for the Construction Industry Scheme (CIS) if you're working in the construction industry as a subcontractor or contractor.

Fulfilling Your Responsibilities as a Sole Trader

You must keep records of your business income and expenses for your tax return if you're self- employed.

Accounting methods

You'll need to choose an accounting method.

Traditional accounting – you record income and expenses by the date you invoiced or were billed.

Example - you invoiced a customer on 28 March 2023. You record that invoice for the 2022 to 2023 tax year - even if you did not receive the money until the next tax year.

Cash basis accounting - most small businesses with an income of £150,000 or less can use cash basis reporting. With this method, you only record income or expenses when you receive money or pay a bill. This means you will not need to pay Income Tax on money you have not yet received in your accounting period.

Example - you invoiced someone on 15 March 2023 but did not receive the money until 30 April 2023. Record this income for the 2023 to 2024 tax year.

What Records to Keep
You'll need to keep records of:

- All sales and income
- All business expenses
- Business bank statements – you should always open a separate business bank account
- VAT records if you're registered for VAT
- PAYE records if you employ people
- Records about your personal income

You should keep proof of all transactions, including:

- All receipts for goods and stock
- Bank statements, chequebook stubs
- Sales invoices, till rolls and bank slips

If you're using the traditional accounting method

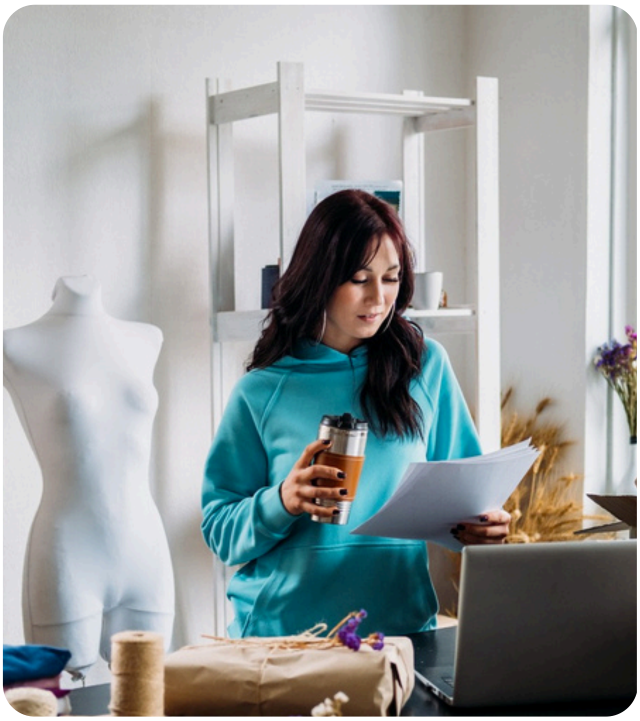
As well as the standard records, you'll also need to keep further records so that your tax return includes:

- What you're owed but have not received yet
- What you've committed to spend but have not paid out yet, for example you've received an invoice but have not paid it yet
- The value of stock and work in progress at the end of your accounting period
- Your year-end bank balances
- How much you've invested in the business in the year
- How much money you've taken out for your own use.

How Long to Keep Records For?

You'll need to keep your records for up to five years after the relevant tax return submission deadline. This means that your records for your 2022/23 tax return must be kept until 31 January 2028.

This is important as HMRC can ask to see the records and you can be fined for failing to keep proper records.



If your records are lost, stolen, or destroyed

If you cannot replace your records, you must do your best to provide figures. Tell HMRC when you file your tax return if you're using:

- **Estimated figures** - your best guess when you cannot provide the actual figures
- **Provisional figures** - your temporary estimated figures while you wait for actual figures (you'll also need to submit actual figures when available)

How to Maintain Your Records

Traditionally accounting records were kept in manual ledgers, this has progressed to spreadsheet- based records and now a multitude of cloud-based record keeping software' are proving increasingly popular.

	Advantages	Disadvantages
Spreadsheets	• Easily accessible • Free to use • Can analyse and manage large volumes of data • Can be formulated to avoid the need for repetitive calculations	• Have to be regularly updated & interrogated to provide useable information • Version control can be an issue • Lack of automation • Lack of simultaneous visibility for both business & accountant • Lack of audit trail - change management
Cloud Based Bookkeeping Software	• Automation • Out of the box reports • Reduced of keystrokes & data entry • Simultaneous visibility for business & accountant • 24/7 online access • Audit trails	• Ongoing cost of software Initial learning

We can talk you through your options. We recommend FreeAgent for start-up self employed businesses and can provide access and training as required.

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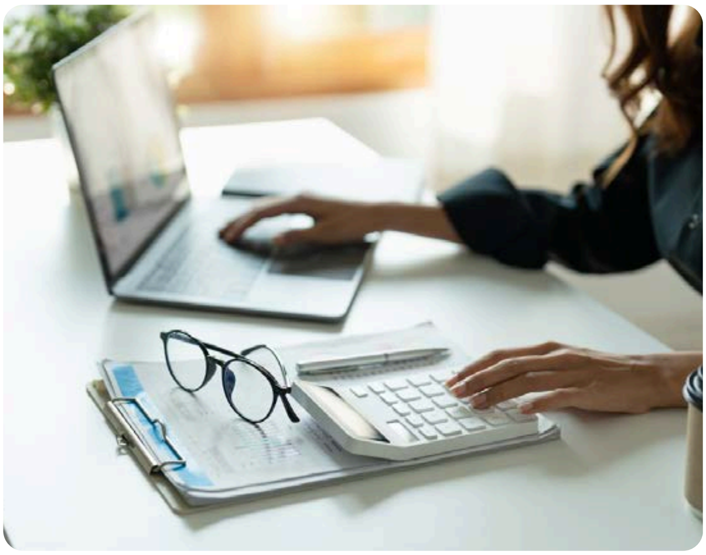

Submitting Your Self-Assessment

As a sole trader, you're required to complete a Self- Assessment tax return each year.

Your Self-Assessment Return is due for filing by 31 January, following the end of the tax year to which it relates, assuming you are filing online. Paper returns must be submitted by 31 October.

You will need to complete the main return, the Self- Employed Supplementary page, and any other relevant pages, according to your circumstances.

You will pay a late filing penalty of £100 if your Self- Assessment is up to 3 months late, irrespective of whether you owed tax or not. If tax was also payable, interest will be charged on unpaid tax.

The following page lists all of the potential fines and penalties for late filing.

Late Filing	Late Payment	Penalty
Miss filing deadline		**£100**
	30 days late	**5% of tax due**
3 months late		Daily penalty of £10 per day for up to 90 days (max £900)
6 months late		5% of tax due or £300, if greater
	6 months late	**5% of tax outstanding at that date**
12 months late		5% or £300 if greater, unless the taxpayer is held to be deliberately withholding information that would enable HMRC to assess the tax due
	12 months late	**5% of tax outstanding at that date**
12 months & taxpayer deliberately withholds information		Based on behaviour: deliberate and concealed withholding 100% of tax due, or £300 if greater deliberate but not concealed 70% of tax due, or £300 if greater Reductions apply for prompted and unprompted disclosures and telling, giving and helping.

We can talk you through your options. We recommend FreeAgent for start-up self employed businesses and can provide access and training as required.

Paying Tax & NI When Self-Employed

As a sole trader you will pay income tax on all your business profits after allowable business expenses and personal allowances have been accounted for. You pay this tax via your Self-Assessment and tax payments are due by 31 January, following the end of the relevant tax year.

Payments on Account

Payments on account' are advance payments towards your tax bill (including Class 4 National Insurance) if you're self-employed.

You must make 2 payments on account every year unless:

- Your last Self-Assessment tax bill was less than £1,000.
- You paid more than 80% of the previous year's tax you owed, for example through your tax code or because your bank had already deducted interest on your savings

Each payment is half your previous year's tax bill. Payments are due on 31 January and 31 July.

If you still have tax to pay after you've made your payments on account, you must make a 'balancing payment' on 31 January next year.

Example: Your tax bill for your first period of trading 9 September 2023 to 5 April 2024 is £3,000. As this is your first year no payments on account have been made and the £3,000 us due by 31 January 2025.

As your tax liability is more than £1,000, HMRC will ask for a payment on account for the next tax year. They will assume you will make similar profits. This means the following is due:

31 January 2025

First Year's Tax - £3,000

Payment on Account - £1,500

31 July 2025

Payment on Account - £1,500

If your actual tax bill for the year ended 5 April 2025 was £4,000, you would have to pay a balancing payment on 31 January 2026 for that year of £1,000 (£4,000 - £3,000 paid on account).

There would also be a payment on account of £2,000 due based on the profits of £4,000 and a similar payment on account of £2,000 in July 2025.

You'll also need to pay Class 4 National Insurance contributions (NICs).

Calculating Your Tax & NI

The following rates apply (based on the 2023/24 tax year). From 2024/25 Class 2 NIC has been abolished and the rate of Class 4 reduces to 8%.

INCOME TAX	**0%** up to £12,570 (personal allowance)	**20%** £12,571 to £50,2570	**40%** £50,270 to £100,000	**60%** £100,000 to £125,139	**45%** over £125,140

CLASS 2 NI	**£0** on profits up to £6,725	**£3.45 per week** on profits over £6,725

CLASS 4 NI	**0%** on profits up to £12,570	**9%** on profits between £12,571 to £50,270	**2%** on profits over £50,270

Once your income exceeds £100,000 you lose your personal allowance at £1 for every £2 earned. You pay 40% tax plus repaying your personal allowance until it disappears at £125,140.

Example Income Tax

Based on a profit of £25,000.

- No tax is paid on £12,570
- Basic rate tax is paid on £25,000 - £12,570 = £12,430
- The tax rate is 20%, so the tax payable is £2,486

Based on profits of £75,000.

- No tax is paid on £12,570
- Basic rate tax is paid on £50,271 - £12,570 = £37,701
- The tax rate is 20%, so the tax payable is £7,540.20
- Higher rate tax is paid on £75,000 - £50,721 = £24,279
- The tax rate is 40%, so the tax payable is £9,711.60
- The total income tax is £7,540.20 + £9,711.60 = £17,251.80

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Calculating Class 2 and Class 4 NICs

Class 2 NICs are currently paid at a fixed weekly amount of £3.45 if your profits are above the lower profits limit (which is £12,570 in 2023/24).

If your profits are below the Small Profits Threshold (£6,725 in 2023/24), you can choose to pay voluntary Class 2 NIC.

If your profits from self- employment are between the Small Profits Threshold and the Lower Profits Limit, then there is no Class 2 NIC to pay – instead you will be treated as making Class 2 NIC. This will mean you will be able to access entitlement to contributory benefits in the same way as if you had paid Class 2 NIC.

From April 2024, Class 2 contributions are abolished with no effect on your access to the State Pension where profits are above £6,725. Voluntary contributions will remain available for those with profits under £6,725.

You pay Class 4 NIC on your taxable self- employed profits (on the same basis as for Class 2 NIC above).

Example: Based on a profit of £13,000 in 2023/24, Class 4 NIC liability is:

- **First £12,570 at 0%**
- **= £0 £13,000 - £12,570 = £430**
- **The rate is 9.73%, so for £430 a total of £38.70 is due**

Employed & Self-Employed

If you are running a business or freelancing on the side in addition to holding down a full-time job, then your tax and NI bills are calculated slightly differently.

Income tax is calculated on the total amount you earn, so you'll need to sum up your salary from your full-time role and profits you earn as a self-employed worker.

Here's an example for an individual earning a full-time salary of £30,000 and sole trader profits amounting to £15,000:

- Total income: £30,000 + £15,000 = £45,000
- No tax is paid on £12,570 (personal allowance)
- Total taxable income = £45,000 - £12,570 = £32,430
- Basic rate: £50,271 - £12,570 = £37,701
- As the individual's total taxable income (£32,430) falls under the basic rate income band, the total income tax paid will be: 20% x £32,430 = £6,486

You'll pay Class 1 NICs on the income you earn through your full-time job. If your sole trader profits are above the small profit's threshold and lower profits limit, you'll also have to pay Class 2 and Class 4 NICs, unless you pay the maximum amount of Class 1 NI on your employment income.

Secure your financial future

Broadley Accounting have supported many sole traders through their journey from start up to thriving business owners. Whenever you are unsure, need a little support or just a friendly ear we are here.

We can offer ad hoc advice, as and when you need it through “Ask the Accountant “calls or Strategic Meet ups, or we can offer ongoing support and advice at a fixed monthly fee. Get in touch today and book a call!

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This guide has been written to provide an overview of the common tax allowable expenses. The rules are complex and subject to change, so always make sure you check with us for the latest information and guidance.

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