

# ACCOUNTANCY TALK NOTES

## BECOMING SELF EMPLOYED:

There are several different ways of becoming self-employed, the most common are:

- **Sole Trader**
- **Partnership**
- **Limited Company**

### Sole Trader

You have sole responsibility for the business, its profits and its debts. You can employ staff to work with you, but the business remains yours, the business profits are yours and you pay tax on them after deducting personal allowances. You must register with HM Revenue & Customs (HMRC) for Self-Assessment by the 5th October following the tax year end (5th April) that you have to file a Tax Return for. You must also register for self-employed National Insurance contributions.

### Partnership

You and at least one other person run a business together, shared responsibility for both profits and debts. One partner has to be the "nominated partner", who is responsible for keeping the business records and completing and signing the partnership tax return on behalf of all the other partners. The nominated partner is responsible for registering the partnership with HMRC and sending in the partnership Tax Return every year. You are still responsible for registering yourself for self-assessment and NI and paying your personal tax on the business profits. **Please make sure you get a Partnership Agreement drawn up by a solicitor.**

### Limited Company

This is a completely different legal entity to the above with much stricter statutory requirements and tighter controls on the Company's finances, which should be kept separate from your own personal finances. You can set up a Limited Company through the Companies House website for £15, this is known as "incorporation". Limited Companies have/are owned by shareholders (also known as members), whose responsibilities to the Company are limited to the value of shares that they own. E.g. If you have 50 shares of £1 each in the company and the company goes bust with large debts, you are not liable for

these debts (as you would be as a Sole Trader or Partnership), but only for the £50 - the value of your shares. The shareholders of the company appoint/employ Directors to run the business for them. Limited Companies **must** produce statutory accounts, file an Annual Return and submit a Corporation Tax (company tax) Return every year. As a director of a Limited Company this is your **legal responsibility**. Limited companies must also set up a PAYE/NI scheme (please see notes on Employing Staff below) as directors are classed as employees, you will also need Employers Liability insurance.

- **Statutory Accounts** - Company accounts which have to meet UK Financial Reporting Standards and include particular wording .
- **Annual Return** - This must be completed and submitted to Companies House within 28 days of the anniversary of the date of incorporation. This must include details of the Company's registered office address, type of business, details of company directors and shareholders and where the register of members is kept. The online filing cost is £13.
- **Corporation Tax Return** - You must submit a Corporation (Company) Tax Return to HMRC within 9 months of your company's year end together with statutory accounts and corporation tax computations (calculations). Corporation tax is payable at 20% for small profits up to £300,000.

## **TAX**

### **Personal Allowance and Tax Rates**

This is the amount you can earn free of tax each tax year. This year 2015-16 the personal allowance is £10,600. The next £31,785 of profits are taxed at 20% - allowing you to earn £42,385 before you start paying the next higher rate of tax. Profits between £42,865 and £150,000 are charged at 40% and anything over £150,000 at 45%.

### **Paying Tax**

Under Self-Assessment you pay your tax twice a year on 31st January and 31st July.

Your self-assessment tax return must be submitted on-line by the **31st January following the 5th April tax year you are filing for**. E.g. tax year end 5th April 2015 must be submitted by 31st January 2016.

For example: if you have completed your tax return to 5th April 2015 and submit it after 31st July, you will already have made a 1st payment on account on 31st January 2015 (estimated based on the previous years profits), and a second payment on account on 31st July 2015 (again estimated on last years figures), the balancing payment based on the actual figures in the tax return is payable by 31st January 2016. The 31st January 2016 will also see your 1st payment on account of tax due for the tax year ended 5th April 2016.

## **NATIONAL INSURANCE CONTRIBUTIONS**

### **Class 1**

This is the national insurance which is deducted from your wages by an employer. This is 12% of any weekly earnings above £155.00.

### **Class 2**

Class 2 national insurance is the Self-Employed contribution of £2.80 per week. This counts towards benefits i.e. State Pension, Maternity Allowance and Bereavement Benefit. If you have low earnings (less than £5,965 per year), you can apply for a Certificate of Small Earnings Exception, and do not need to pay Class 2 NIC.

### **Class 3**

Voluntary contributions - currently £14.10 per week.

### **Class 4**

This is based on self-employed profits that you make in a year and is paid in addition to Class 2 NIC above. Class 4 NIC is paid at the rate of 9% on profits over £8,060 and up to £42,385, and at the rate of 2% on profits over £42,385. This does not count towards any benefit entitlements. You don't have to pay Class 4 NIC if you are under 16, over state pension age or not resident in the UK for tax purposes.

## **TWO OR MORE SELF-EMPLOYMENTS**

Each self-employment must be recorded on a separate sheet on your tax return. You declare how many self-employed businesses you have at the start of each tax return.

If you have one business which makes a profit and your second business makes a loss you need to make sure that you tick the correct boxes so that the losses can be offset against your profits and you do not end up paying full Tax and NIC on the profitable business. This can be done as follows:

As you are filling in your tax return, in the self-employed section for the loss-making business only - where the question is asked "is your annual turnover more than £81,000?" select "no" from the drop-down box - this opens up a selection of tick boxes - tick the box I wish to make an adjustment to my profits chargeable to Class 4 NIC - continue filling in your return as normal, when you come to the box loss from this tax year set-off against other income for 2014-15 enter the loss that your business has incurred. This should come off the total profits for tax and NIC calculations.



## **Record Keeping**

There are many different ways to keep your records - as **long as it works for you there is no right or wrong way**. It all depends on what your business needs, some businesses use a book and write things in as they go, others use spreadsheets and some use dedicated accounting/book-keeping software. If you use an accountant, obviously the less work they have to do the cheaper your bill will be.

You must keep a record of all income and outgoings for your business, and how you arrived at those figures for your Tax Return. These must be kept for 7 years should HMRC request to go back and look.

## **EMPLOYING PEOPLE**

As soon as you become a Limited Company, you become an employer - your Directors are classed as employees, and you will need to register with HMRC. If you are a sole trader and take on an employee you will still need to register as an employer. This is easily done online through the HMRC website. There is no need to buy expensive payroll software as HMRC offers a free downloadable package called **Basic PAYE Tools**. This caters for businesses with up to 9 employees, so perfect for the smaller employer. All you need to do is enter your employer details, the employees details & the package will calculate the PAYE and NIC payable, it will also submit this information to HMRC under the RTI (Real Time Information) scheme. This package will also run your payroll year end functions and print out employees P60's.

## **SMP (Statutory Maternity Pay)**

If you are employed as above, your employer will pay your SMP and reclaim it back from HMRC alongside a 3% Small Employers NIC Compensation. If you are self-employed and up to date with your class 2 NIC you can claim Maternity Allowance from the Government, details can be found on the website [www.gov.uk](http://www.gov.uk).

## **SSP (Statutory Sick Pay)**

If you are employed you will be paid SSP from your employer. The first 3 days of any sickness period are classed as "waiting" days are no SSP is payable for these. SSP begins on your 4th day of absence from work. If you are self-employed and unable to claim SSP, you may be eligible for ESA (Employment Support Allowance) unfortunately I don't know much about this, but your local Jobcentre Plus should have details.

## **VAT REGISTRATION**

You need to register for VAT if your business turnover exceeds £82,000 in **any twelve-month period**, this is not the same as your accounting year. If for example your turnover is £80,000 at the end of your accounts year, say 31st March, you do not need to register for VAT, however if your turnover for the 12 months ended 30th April is £82,000 you need to register for VAT. VAT returns are prepared quarterly and you have 1 month and 7 days after your period end to submit your VAT return and pay over any VAT due, e.g. return period is 1st May 2015 to 31st July 2015 you have until 7th September 2015 to electronically file your return and pay the VAT.

VAT flat rate schemes usually apply to the retail industry and are based on the proportion of goods purchased at the VAT rates, which is then applied to sales in the same ratio. These schemes are quite complicated and I would advise speaking first to HMRC and then an accountant before going down this route.

## **Useful links**

Government website - [www.gov.uk](http://www.gov.uk)

Covers employment, self-employment, benefits, all the Government departments under one site, including HMRC.

Companies House - [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk)

Please feel free to contact me if you have any specific questions not covered above, or maybe I could help you look into something further, my details are:

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Thank you

*Leigh-Ann*