**ACCOUNTANCY NOTES - GENERAL**

**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 must 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 must meet UK Financial Reporting Standards and include particular wording.
* **Confirmation Statement -** 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. From 1st June 2016, you must also declare to Companies House those People with Significant Control (PSC's) within your business.
* **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 19% 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 2017-18 the personal allowance is £11,500. The next £33,500 of profits are taxed at 20% - allowing you to earn £45,000 before you start paying the next higher rate of tax. Profits between £45,000 and £150,000 are charged at 40% and anything over £150,000 at 45%. Your personal allowance reduces by£1 for every £2 that your adjusted net income is over £100,000.

**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 2017 must be submitted by 31st January 2018.

For example: if you have completed your tax return to 5th April 2017 and submit it after 31st July, you will already have made a 1st payment on account on 31st January 2017 (estimated based on the previous year’s profits), and a second payment on account on 31st July 2017 (again estimated on last years’ figures), the balancing payment based on the actual figures in the tax return is payable by 31st January 2018. 31st January 2018 will also see your 1st payment on account of tax due for the tax year ended 5th April 2018.

**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 £6,025 per year), you can apply for a Certificate of Small Earnings Exception, and do not need to pay Class 2 NIC. This is now collected with your Self-Assessment payments in January.

**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 £8,164 and up to £45,000, and at the rate of 2% on profits over £45,000. 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 £83,000?"* 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 2017-18* enter the loss that your business has incurred. This should come off the total profits for tax and NIC calculations.

**BUSINESS EXPENSES**

Business expenses are valid costs that you have to pay out in order to run your business. They are grouped into 2 categories - overheads and capital.

**Overheads -** these are the general day-to-day running costs and include printing postage and stationery, telephone and internet, motor expenses, business insurances, staff costs, professional subscriptions, work clothing, items purchased for re-sale or as part of a manufacturing process, advertising including website & web-hosting, office cleaning, refreshments/canteen/tea/coffee, legal fees, professional & consultancy fees, accountancy & book-keeping fees. If you use your personal car for business you can either put all motor expenses through and disallow a proportion (say 2/7ths) for personal use or claim business mileage (see below). Use of your home as an office can be calculated two different ways, again please see below. These items come off your turnover and reduce your profit.

**Capital -** these are usuallylarge/high cost items that would have a second-hand value should you decide to sell them, such as - cars, office furniture, computer equipment, any machinery or equipment you need to carry out your business. These items are "capitalised" and go onto your Balance Sheet, and do not affect your profit.

**Business Mileage**

Cars & vans 45p per mile for the 1st 10,000 business miles

25p per mile for any mile over 10,000

HMRC like proper business mileage records to be kept if you intend to use this method. I write business trips into my diary then transfer onto a spreadsheet which automatically calculates the amount due back to me at the end of the year. You cannot claim mileage AND petrol/vehicle repairs, it is either mileage or motor expenses.

**Use of Home as an Office**

You can claim business use of your home one of 2 ways. If you have a dedicated room for your office, you can divide the square footage of your house by the square footage of your office then multiply your utility bills etc by this percentage. The second less complicated method can be used provided you work for a minimum of 25 hours per month at home:

**Hours of Business Use per month 2017-18 monthly rate**

25 to 50 hours £10 per month

51 to 100 hours £18 per month

101 + hours £26 per month

**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.

**VAT REGISTRATION**

You need to register for VAT if your business turnover exceeds £85,000 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 £85,000 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 2017 to 31st July 2017 you have until 7th September 2017 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.

**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 employee’s 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.

**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) your local Jobcentre Plus will have details.

**Auto Enrolment**

All employers with at least one member of staff paid via a PAYE scheme must provide a workplace pension for eligible staff by 2018, enrol these eligible staff and make contributions to the scheme. This is called automatic enrolment. The Pensions Regulator is contacting employers by letter to inform them of the date from which they must offer a workplace pension, this is called your "Staging Date".

Before your Staging Date you will need to:

* Tell the Pensions Regulator who to contact in respect of your workplace pension.
* Choose a pension scheme, the Pensions Regulator website has a list of pension schemes for you to consider.
* Work out which staff members must be automatically enrolled into the pension scheme on the staging date.
* Write to inform each member of staff individually to tell them how auto enrolment applies to them.
* Declare via the Pensions Regulator website that you have met your legal duties by completing the on-line declaration of compliance.

Employees who automatically qualify for a workplace pension are:

* Aged between 22 and State Pension age.
* Earn at least £10,000 per year.
* Work in the UK

The employer must pay at least 1% of the employees "qualifying earnings" into the workplace pension. This could rise to 3% in 2019. Staff have the right to opt out of the pension scheme by writing to the employer including a list of statutory "statements" which must be included in the opt out letter and signed by the employee.

**Useful links**

**Government website - www.gov.uk**

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

**Companies House - www.companieshouse.gov.uk**

For private Limited companies, LLP's, CIC's and private Ltd companies limited by guarantee.

**The Pensions Regulator - www.thepensionsregulator.gov.uk**

For all workplace pensions help, guidance and forms

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:

e-mail: info@numbercrunchingltd.co.uk

phone: 01462 734 666

Thank you

Leigh-Ann