

# Tax and Self ▶ Employment

# Set up as a sole trader

- If you're a sole trader, you run your own business as an individual and are self-employed.
- You can keep all your business's profits after you've paid tax on them. You are personally responsible for any losses your business makes. You must also follow certain rules on running and naming your business.

# How to register

- To set up as a sole trader, you need to register for self assessment and then file a tax return every year.
- In order to register you need to obtain a Government Gateway account. This is a security measure designed to ensure that only you can access your tax records.
- You will need an email address, National Insurance Number and Mobile Phone Number to create a Government Gateway. Your Gateway number will be emailed to you, and you will need to create a security password.
- You will be sent a self assessment unique taxpayer reference (UTR) by post

# Your responsibilities

You will need to:

- Keep accurate records of your business's income and expenses
- Submit a self assessment tax return every year
- Pay Income Tax and National insurance on your profits

# Business Records

You don't need to send your records in when you submit your tax return but you need to keep them so you can:

- Work out your profit or loss for your tax return
- Show them to HM Revenue and Customs (HMRC) if asked

Types of records include:

- All receipts for expenses
- Bank statements, cheque book stubs
- Sales invoices, till rolls and bank slips

# Business Profits

If you're self-employed, you will pay tax on your business profits. Your profit is calculated by deducting allowable business expenses from your turnover.

**Example** Your turnover is £40,000, and you claim £10,000 in allowable expenses. Your business profit is £30,000.

Allowable expenses do not include money taken from your business to pay for private purchases.

# Expenses

You can claim expenses that are incurred wholly and exclusively for your business.

Examples include:

- Stock that you sell on at a profit
- Travel
- Protective clothing
- Accountancy
- Stationery
- Premises costs
- Phone and internet
- Advertising

# Simplified Expenses

HMRC allow a simplified flat rate system for claiming some expenses.

- If you use a car or van in your business you can claim 45p for each business mile up to 10,000 miles, then 25p per mile for further miles
- If you use a motorcycle in your business you can claim 24p for each business mile
- If you work from home you can claim
  - £10 per month if you work 25-50 hours per month at home
  - £18 per month if you work 51 to 100 hours per month at home
  - £26 per month if you work more than 100 hours per month at home



# Deadlines

You must register for self assessment, submit your tax return and pay your Tax and National Insurance as follows

- Register for Self Assessment by 5 October following the tax year in which you started your business. So the current tax year started on 6 April 2022 and ends on 5 April 2023. If you start your business on or before 5 April 2023 you must register for self assessment by 5 October 2023
- Submit your self assessment tax return by 31 October following the tax year for paper returns and 31 January following the tax year for online returns
- Pay your Tax and National Insurance by 31 January following the tax year
- Make payments on account for the following tax year by 31 January in that year and by 31 July following the tax year

# Payment

For your first year your tax will be due on 31 January following the end of the tax year. So if you start your business on 1 September 2023, your first accounts should run to 5 April 2024. You need to submit your tax return showing your profit and pay your tax by 31 January 2025.

If your tax liability for the year exceeds £1,000, you will also be required to pay some money for the next year's tax bill. You will be charged half of your 2023/24 tax and class 4 national insurance liability as a payment on account for 2024/25 and this will also be paid by 31 January 2025. You will pay another half as a second payment on account by 31 July 2025.

This may seem harsh, but don't forget you will have been earning money throughout 2024/25 so paying tax on 31 January 2025 and 31 July 2025 is reasonable and brings money into the Exchequer regularly.

When you submit your 2024/25 tax return, by 31 January 2026, your tax will be calculated and compared with the two payments on account you have already made. You will either get a refund or be required to pay the balance – this is due on 31 January 2026.

You will also be required to make payments on account for the following year in the same way.

# Payment Example

Your tax and class 4 national insurance for the 2023/2024 tax year is £3,000.

This is payable by 31 January 2025.

You must also make payments on account of your tax liability for 2024/25 as follows

- £1,500 (half of your 2023/24 tax and class 4 national insurance bill) by 31 January 2025

And

- £1,500 by 31 July 2025

If your tax bill for 2024/25 tax year is more than £3,000 (the total of your 2 payments on account), you will need to make a balancing payment by 31 January 2026, along with the first payment on account for 2025/26

# Rates

The standard personal allowance is £12,570, which is the amount of income you do not have to pay tax on. This figure is reduced if your total income is over £100,000

You pay tax at 20% on taxable income between £12,571 and £50,270

You pay tax at 40% on income between £50,271 and £150,000

You pay tax at 45% on income over £150,000

Class 2 National insurance is payable at £3.15 per week if your profits exceed £11,908

Class 4 National Insurance is payable at 9.73% of profits between £11,909 and £50,270. Profits over £50,270 are charged at 2.73%

# Construction Industry

If you work in the construction industry, a contractor will deduct 20% tax from payments due to you. They should provide you with certificates showing your gross income, tax deducted and net income.

You must keep these certificates because you need to enter the amount of tax deducted on your tax return. This tax is deducted from your liability.

This will usually mean you receive a tax refund at the end of the year. Refunds are paid directly into your bank account, usually within 10 days of submitting your return.

**Any Questions?**