

## **Becoming Self Employed**

Becoming self employed is a very important step and quite apart from setting up and running your own business and making sure you have enough for yourself and your family to live on, there are also a number of obligations you have to remember in relation to the Inland Revenue, Customs & Excise and National Insurance. Below are some of the key points:-

### **Accounts**

In order that the Inland Revenue can check that you are paying the correct taxation as a self-employed individual, you are required to prepare an annual set of accounts. You are allowed to select a year end that suits yourself, however I recommend 5 April as the date to which you draw up your annual accounts. The figures from your account will go on to your Self Assessment Taxation Return and will be used to determine your taxation and part of your national insurance liability.

### **Taxation**

You pay tax at 0%, 20%, 40%, and 45% on the profits from your business the amount you pay will depend on the level of your profits and the level of your other income. Your tax is paid twice a year on 31 January and on 31 July. Because of the way the taxation system works your tax may be collected considerably in arrears consequently it is important to save up for your tax liabilities and have your accounts prepared early so that your liabilities can be accurately determined. If your tax is paid late your liability could be subject to interest charges and penalty charges.

### **National Insurance**

As a self employed individual you pay two types of national insurance these are:-

#### **Class 2 Contributions**

These are at a rate of £2.85 per week and 2017/18 contributions are due on 31st January 2019 at the same time as your tax.

#### **Class 4 Contributions**

The class 4 contributions are collected at the same time as your tax and are based on 9% of your profits from £8,164 to £45,000 and 2% of your profits in excess of that amount.

### **Registering as Self Employed**

It is fairly straightforward to register as self employed and at the same time the Revenue will be notified to charge you national insurance contribution at the appropriate rate for a self employed individual. You have to complete a Form CWF1 once the Revenue are aware that you are self employed they will give you a unique tax reference (UTR).

You should register as self-employed within 3 months of commencing self employment to minimise the risk of a £100 penalty.

## **Self Assessment Taxation Return**

You will be required to include the relevant details of your self employment together with any further taxable income or allowable claims you can make in any one tax year on your Self Assessment Tax Return. We will complete this on your behalf as part of our normal service of preparing accounts for self employed individuals.

## **Books and Records**

You will be required to keep books and records to support the figures in your accounts these records should be maintained for a minimum of six years. The information that you would be required to keep are bank statements, paying in books, cheque book stubs, invoices you issue, invoices you receive, any other vouchers that you receive for expenditure.

In addition if you use your car partly for business and partly for private purposes you will need to keep a full record of all business journeys made, the nature of the journey, the destination and the origin of the journey and the total mileage. In addition you will be required to keep a record of your total car mileage during the period of your annual accounts.

## **Further Points to Consider in relation to Self Employment**

### **Registering for VAT**

You can register for VAT voluntarily and you are required to register for VAT if you have standard rated supplies they exceed the registration limit (which is currently £85,000).

### **Employees**

If you engage employees you are required to register a PAYE scheme and deduct the appropriate amount of tax and national insurance from those employees. Contrary to popular belief there is no such term as a casual employee. If you engage employees you are required to comply with a raft of employee legislation covering points such as minimum pay, holiday pay and working practices.

### **Insurance**

Please review your household and other insurance to make sure your cars and other assets are properly covered in addition you may be required to obtain public liability, employer liability, and/or professional indemnity insurance.

### **Pension**

You should review your current pension situation to ensure you are paying the appropriate amount and type of pension for your new status.

### **Family Credit**

If you are in receipt of family credit you should advise the agency of your current position and your current anticipated income this may have an impact on the amount of family credit your family receives.

### **Health and Safety Legislation**

You are always required to comply with health and safety legislation this is particularly important if you engage employees

### **Construction Industry Scheme**

If you work within the construction industry you may wish to join the construction industry scheme to avoid having excess rates of tax deducted from you income at source.