

## **STARTING YOUR OWN BUSINESS? 10 tips for keeping the Taxman happy.**

An article by Emma MacKinnon

### **1) How to operate your business**

There are 3 main ways of operating your own business:

- as a Sole Trader,
- through a Limited Company or
- as a Partnership.

Think very carefully before choosing the Limited Company route - if you do choose a Limited Company you are probably going to need an accountant as the regulatory obligations are much more onerous.

There are some tax advantages to trading through a Ltd. Co. but usually only if you plan to generate income above about £42k and even for incomes up to £60k the extra administrative costs of running a Company may wipe out any tax saving.

For most businesses planning to generate income below that figure it is simplest to be a Sole Trader, at least initially, and the rest of these tips are for those in business on that basis.

### **2) Registering with HMRC**

The first step as a Sole Trader is to register as Self-Employed with HMRC.

The law says that this must be done within 6 months of the end of the tax year in which the income starts - so as the tax year ends 5<sup>th</sup> April that means notifying HMRC by 5 October.

However, best advice is to register straightaway once you start to trade. The easiest way to register is to do it on-line on the HMRC website

<http://www.hmrc.gov.uk/selfemployed/register-selfemp.htm>

but it can also be done by phoning the Newly Self Employed Helpline on 0300 200 3504

or completing this form:

<http://search2.hmrc.gov.uk/kb5/hmrc/forms/view.page?record=ytV91aFVn3U&formId=490>.

### **3) Record keeping**

Keep good records: you are required by law to keep business records - that means details of income, and receipts for expenditure - for at least 6 years.

You don't send receipts in with your tax returns, but you may be asked by HMRC to produce them in the event of an enquiry into your tax returns. You may also need to keep a record of business mileage.

It is recommended that you open a bank account for your business and keep receipts and payments separate from your other accounts.

### **4) Putting together a summary of your income and expenses**

At the end of the tax year (5<sup>th</sup> April) you need to be able to pull together from your records a summary of the income - fees and sales, and also a summary of the business expenditure you have incurred during the year.

The expenditure should usually be analysed into different types, e.g. materials, vehicle costs, telephone & internet, capital equipment, stationery etc.: there are specific areas for these on the tax return form.

HMRC has now introduced an option for small businesses (income up to £77k) to prepare these figures on a cash basis, and if you are receiving Universal Credit you can still use the cash basis up to income of £154k.

The main difference with the cash basis is that you just have to look at cash in and out during the tax year, and can ignore transactions that relate to that year but have not yet been paid or received.

There are also fixed rate allowances for using your vehicle and working from home.

### **5) Save for your tax bill**

See the HMRC ready-reckoner on this link

<http://www.hmrc.gov.uk/tools/sa-ready-reckoner/index.htm>.

In your first year of Self-Employment the tax on your profits is payable on 31<sup>st</sup> January following the end of the tax year.

However, on that date you may also have to make a payment on account for the following tax year – so the tax bill can come as a nasty shock as it is effectively up to 1.5 year's tax in one hit.....

After that you will make payments on account on 31<sup>st</sup> January and 31<sup>st</sup> July every year, with the balance of tax due payable on the following 31<sup>st</sup> January.

## **6) Remember payments on account**

If the second year of your business is substantially worse than the first then you can contact HMRC and ask them to reduce the payment on account on the basis that it is too high.

This can be done by telephone or by submitting a form from the HMRC website

[http://search2.hmrc.gov.uk/kb5/hmrc/forms/view.page?record=HtoHIJE\\_f8M&formId=880](http://search2.hmrc.gov.uk/kb5/hmrc/forms/view.page?record=HtoHIJE_f8M&formId=880).

## **7) Don't forget National Insurance.**

When you register as Self-Employed you will also be registered to pay Class 2 NI which is currently £2.70 per week, and usually paid by monthly direct debit.

Phone the National Insurance Helpline for the Self Employed 0300 200 3505 with any queries. If your earnings are less than £5,725 you can apply for exemption from this, but take care if you do so, as it can affect your NI contributions record and future benefit entitlements.

Self-Employed individuals also pay Class 4 NI, but this is paid alongside income tax following the filing of the tax return.

## **8) Submitting your tax return**

Submit the Return: HMRC will send you a one page "Notice to File a Tax Return" at the end of the tax year.

The deadlines are 31<sup>st</sup> January following the end of the tax year for online returns, but 31<sup>st</sup> October for a paper return. It is wise not to wait until the last day to submit, get it in early!

To file on paper you can ask HMRC on 0300 200 3310 to send you paper forms or print them from the HMRC website

<http://search2.hmrc.gov.uk/kb5/hmrc/forms/selfassessmentforms.page#h2030>

To file online you need to be registered for online filing on HMRC's website.

Unless you registered as Self Employed online, this is a 2 stage process. You create an account by following this link: <https://online.hmrc.gov.uk/registration>.

You are then sent an Activation Code to your address which you have to use within 28 days of receiving.

You will be asked a series of questions to identify which sections of the return you need to complete (all taxable income sources need to be reported, not just Self-Employment income).

In the Self-Employment section you will enter in the boxes provided the summary income and expenditure figures you have calculated.

The online return produces a calculation of taxable income: very broadly speaking this should be your Income less your Expenditure, less your Personal Allowance (£9440 in 2013/2014), and then shows the tax due at 20% plus Class 4 NI at 9% for Self Employment income above £7,755.

Higher rates kick in for taxable income above about £32k.

If you are not sure about filing the returns you always have the option of seeking professional advice or you can make a free appointment at your local HMRC Enquiry Centre - find out where it is and what the opening hours are by checking on the HMRC website:

<http://www.hmrc.gov.uk/enq/>

You will usually have to phone HMRC on 0300 200 3310 to make an appointment, but the staff there will show you how to enter the figures on your return.

If it is a paper return it can be submitted to HMRC there and then; some Enquiry Centres have publicly accessible computers and can assist with online filing. As always, keep a copy of anything you send HMRC.

If you are late there are now a series of accumulating penalties which are payable regardless of whether you owe any tax, and can mount up to £1,300 if you file more than 6 months late or £1,600 if you are twelve months late!

### **9) Pay the tax!**

If you think you won't be able to pay all in one go by the due date, contact HMRC's Business Payment Support Service on 0300 200 3835, before the due date.

The sooner you speak to them the better, don't wait until they chase you as you will then start incurring interest and late payments penalties on top.

You will not necessarily receive a payment reminder before the due date, especially if you do not file well in advance of the payment date.

### **10) If your plans change**

If your plans change and you cease trading it is very important to let HMRC know or you will remain in the Self Assessment system and continue to be issued with tax returns and associated penalties if these are not filed.

A common problem is failing to file the tax return for the final year of trading. Notify HMRC that you have ceased trading by completing this form:

<http://www.hmrc.gov.uk/dealingwith/changes/close-sell-business.htm#1>