



Setting-up and Registering as Self-employed

Setting up as a self-employed sole trader is the simplest and quickest way to start a one-person business. There isn't much paperwork to do, there are no registration fees to pay, and record keeping and accounting is reasonably straightforward.

Anyone can set up in business as a sole trader, although for certain types of work you may need a licence or permission from your local authority.

Working from home

If you run a business from home, you may have to pay business rates for the part of your home that you use for your business. This mainly depends on whether the business area of your home is also used for domestic purposes. If you simply work on a computer in a bedroom, for example, you will probably not have to pay business rates.

If your business could cause a nuisance to your neighbours, or if you intend to do any building work to adapt your property, you may need to get planning permission to set up a business at home. If in doubt, contact the planning department of your local authority.

You should be able to charge a proportion of the relevant home costs as an expense in your tax calculations.

A name for your business?

You can trade under your own name or use another business name. If you decide to use a business name, you must make sure that your business stationery displays your name as well as the trading name of the business.

Tax

As a sole trader you will have to pay income tax on any profits from your business. You must fill in a self-assessment tax return each year, detailing your income and expenses. You must register as self-employed with HM Revenue & Customs as soon as you start up in business on your own. If you fail to do this within the first three full months of becoming self-employed, you may have to pay a penalty of £100.

National Insurance

You'll have to make flat-rate Class 2 National Insurance contributions (NICs) throughout the year (£2.10 a week in 2005/06). This can be paid monthly by direct debit. If your annual profits are over a certain amount (£4,895 in 2005/06) you will have to pay Class 4 NICs. You pay these along with your income tax - the amount you have to pay is calculated from your self-assessment tax return.

VAT

If your business has (or you expect it to have) a turnover of more than £60,000 a year, you must charge your customers VAT and send it to HM Revenue & Customs. It may be to your advantage to register voluntarily even though your turnover is below the above threshold, if you can recover your VAT on expenses without it effectively being a cost to your customers.

Employees

Sole traders can take on employees just like any other business. If you do, you will need to collect income tax and NICs from them and pay these to HM Revenue & Customs. You will therefore need to operate a Pay As You Earn (PAYE) payroll.

Record keeping

You must keep all the financial records you will need to fill in your tax returns. Revenue and Customs provide a summary of the records they consider should be kept.



Self-employment status

If your work comes from more than one source it is possible to be employed in one or more jobs (with your employer deducting tax and National Insurance) and self-employed in others.

If you're not sure whether your work counts as self-employment, ask yourself these questions:

- Do you have the final say in how the business is run?
- Do you risk your own money in the business?
- Are you responsible for meeting the losses as well as taking the profits?
- Do you provide the main items of equipment you need to do your job, not just the small tools many employees provide for themselves?
- Are you free to hire other people on your own terms to do the work you have taken on? Do you pay them out of your own pocket?
- Do you have to correct unsatisfactory work in your own time and at your own expense?

If you answer 'yes' to most of these questions then you are probably self-employed already, and should notify HM Revenue & Customs immediately. You may be charged a penalty of £100 if you fail to register within the first three full months of becoming self-employed.

Setting up as self-employed – a checklist

In order to legally set yourself up as a self-employed sole trader there are several things you must do. Make sure that you:

- register as self-employed with HM Revenue & Customs (HMRC)
- obtained any permits and planning permission that you may need from your local authority
- contact your local authority to find out whether you need to pay business rates
- contact HMRC to register for VAT if you expect to have turnover of more than £60,000 a year
- set up a financial record-keeping system
- put your name on all your business stationery, including letters, invoices, receipts and cheques

It's worth noting, though, that this is just a start. As you continue in business, you may well have other legal and tax issues to consider.

Remember, these details are for information only. For advice on individual cases contact us to arrange a free, informal and no obligation initial business and taxation review.