



Starting a business as a Sole trader / self-employed

Help for self-employed people

Helping your business grow!



VNF Accounting can advise self-employed people on all aspects of tax – here is an overview of some of the main things to consider.

Registering with HM Revenue & Customs (HMRC)

If you start working for yourself, you must register with HMRC by 5 October following the end of the tax year in which your self-employment starts. Otherwise, you may be liable to penalty based on the tax due to HMRC.

There are three ways that you can register:

- Online – visit www.gov.uk/log-in-file-self-assessment-tax-return/register-if-youre-self-employed
- Phone – call the Newly Self-Employed Helpline on 0300 200 3500
- Post – download and complete form CWF1 or use the form incorporated in leaflet SE1 (Are you thinking of working for yourself?)

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Once you become self-employed, the tax rules are quite different from those that may have applied when you were an employee. Instead of tax (and national insurance) being deducted from your earnings at source, you must be prepared to receive a bill at some time in the future. This can be a nasty shock if you haven't put enough money aside. We aim to give you as much warning as possible of the likely timing and amount of tax payments, but it is not easy to do this during the first year of your new business, or if you do not keep your records up-to-date.

Tax is payable on the whole of the profits of a trade, and so payments for your own 'wages' (drawings) are not deductible. However, if your spouse works in the business, the wages are an allowable deduction, provided they are actually paid and are a reasonable reward for what is done.

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How is the tax collected?

Tax returns

Tax returns covering income for the year ending 5 April 2021 have to be submitted to HMRC by the 'filing date' which is 31 October 2021 for paper returns and 31 January 2022 for online returns. The return will include a self-assessment of your liability to income tax and capital gains tax.

There are automatic penalties for the late filing of tax returns.

Payment of tax

Payments on account of income tax and Class 4 national insurance contributions (NICs) will be due on 31 January 2022 and 31 July 2022. These interim payments will be based on one half of the total liability (less any tax deducted at source) for 2020/21. You will have the right to reduce payments on account if you believe the income tax for 2021/22 will be lower.

Interest and penalties will be levied for late payment

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What about national insurance?

The self-employed are subject to a two-tier system of national insurance contributions (NICs). Class 2 NICs are at a flat rate of £3.05 per week if earnings exceed £6,475 per annum.

Payments for self-employed Class 2 NICs are due on 31 January following the end of the tax year.

Profits between £9,500 and £50,000 are subject to Class 4 NICs at a rate of 9%. Any excess of profit above £50,000 is subject to Class 4 NICs at the rate of 2%, without any upper limit. Class 4 NICs are collected by HMRC and are payable at the same time as the instalments of income tax.

If you need any help or advice please do not
hesitate to contact us