A complete accountancy service for the small business across the United Kingdom

Sole Trader Guide

theaccountancypartnership
What is a sole trader

A sole trader business (being self-employed) is the most simple business type and is the easiest to both set up and run. A sole trader is defined by the fact that one person is solely responsible for the business. The business is set up under your name and you are entitled to keep all of the profit, but are responsible for the tax owed along with the debts incurred by the business. In essence, as a sole trader you are the business.

Benefits of a sole trader

There are many benefits of trading as a sole trader including:

- Simple to operate
- The profits are yours so you don’t have to worry about paying yourself a salary
- You do not have to deal with Companies House, just HMRC
- It is cheaper to operate as a sole trader
- The business is easy to set up and close down

Disadvantages

- You are personally liable for the debts of the business as they are in your name
- If your profits are reasonable, for example, over £20,000 then it can be less tax efficient to trade as a sole trader
- As a sole trader your customers, suppliers and competitors will know that the business is a small concern, meaning this type of business can hold less weight than a company
Registering as self-employed

If you decide to start working for yourself, you must inform HMRC of your decision, regardless of whether or not you already complete a self-assessment tax return. It is best to register with HMRC as soon as you start trading, however you are allowed to trade for up to 3 months before you do so. HMRC can issue penalties for late registration so it’s best to do this on time!

Registering with HMRC is very straightforward, simply complete and return form CWF1, although, we are more than happy to complete this on your behalf ready for your signature.

What is a UTR number?

A UTR number or Unique Tax Reference Number is a reference that is issued to you as a tax payer. You should quote this number whenever you correspond with HMRC. If you register as self-employed, HMRC will issue you with a UTR number automatically, usually within 28 days.

What is bookkeeping?

Bookkeeping is a term used to describe the process whereby a record is kept of transactions which have taken place within a business, such as income earned and expenditure incurred.

Maintaining a good record of your business transactions is beneficial for many reasons:

1. To comply with the legal requirement that you have
2. Your profit and cash position are more transparent
3. The amounts owed from customers and to suppliers are more visible

In addition, HMRC may want to check your self-assessment for inaccuracies. If you cannot provide accurate records, there can be large penalties to pay.

Your business records should be kept for at least 6 years.
How do I do my own bookkeeping?

If you are completing your own bookkeeping you should ensure that the data you are inputting is accurate and you must keep evidence to back up your entries, such as customer invoices, supplier invoices receipts and bank statements. If you are chosen by HMRC for investigation, then they will expect you to have kept this documentation.

We highly recommend that you do not leave all of your bookkeeping work until the last minute, as entering transactions weeks or even months after they have occurred can make it much more difficult.

Bookkeeping can be completed in various formats such as physical books and ledgers, spreadsheets and bookkeeping software. The most common method for a sole trader is software because if used correctly, there is much less chance of error compared to manual entry or a spreadsheet. Software also has the advantage of extra functionality such as reporting and the ability to import bank statements etc.

As our client you would have free use of cloud bookkeeping software (www.pandle.co.uk) which has been designed to be as simple as possible, whilst providing a comprehensive set of records. Alternatively we can provide you with a spreadsheet if that is preferable.

What expenses can you claim?

Different types of business will have different types of expenditure. For example, a taxi driver will have weekly settle fees and a plumber will have tools and material costs. But the good news is, as a general rule the vast majority of business expenditure is allowable. Even expenses you have incurred personally for the business are generally allowable too.

The most common business expenses are:

- **Motor expenses**
  The cost and running of your vehicle, or a mileage allowance instead
- **Staff costs and wages**
- **Materials or goods that you sell**
- **Use of your home as an office**
  or if you have an office, the rent, rates and utility bills
- **Repairs and renewals**
  This can include repairs to equipment or small renewals such as computer peripherals
- **Admin costs**
  This includes telephone and internet costs. Postage and stationery
- **Advertising and marketing costs**
- **Business insurances**
- **Membership and subscriptions fees**
  If you’re a member of an association for your business or subscribe to an industry magazine for example.
- **Work clothing**
- **Training**
- **Professional fees**
  such as accountancy and some legal fees
- **Travel and subsistence**
- **Bank charges and interest** on things like overdrafts, HP agreements and loans.
- **Capital expenditure**
  for larger items such as equipment and furniture
  And finally,
- **Entertaining costs**
Bank account

It is not a legal requirement to have a sole trader bank account. However, we strongly recommend that you do open a business account and use it solely for your business transactions. Separating your personal and business transactions will mean that your bookkeeping is much more straightforward.

What is the tax year?

The tax year (or financial year) is the period on which you are taxed by HMRC. In the UK, the tax year is 6th April to 5th April each year. In some instances, a sole trader’s financial year can be different. This is usually due to the sole trader starting to trade part way through a tax year and opting for their year-end to be one year from the date of commencement. However most sole traders will set their period end as the 5th April so that it falls in line with the tax year. This is the more straightforward option.

How much tax and national insurance will I pay?

Every person in the UK is entitled to a tax free allowance. This is the amount of profit than can be earned before any tax is payable. Over the allowances the rates are 20% tax (which increases to 40% above another threshold) and 9% national insurance. These rates can change so please see the following links for further details:

http://www.hmrc.gov.uk/rates/it.htm
http://www.hmrc.gov.uk/rates/nic.htm
When and how do I pay tax?

Your tax is due no later than 31st January following the tax year end. If your tax bill is over £1,000 then you must make payments on account. This means that HMRC will collect your tax plus the current year’s tax in two payments; one payment before 31st January and the second before 31st July.
You can pay your tax bill using the following methods:

- **Faster payment**
  You can transfer the tax you owe directly into HMRC’s bank account through faster payment. This means it will reach HMRC instantly.

- **Direct debit**
  It is possible for you to set up a direct debit with HMRC so that they take the amounts due automatically on 31st January and 31st July.

- **Budget payment plan**
  This is a direct debit that will pay HMRC an amount that you choose each week/month which reduces your tax bill due at 31st January. You must be up to date with your payments to HMRC to be able to pay in this way.

- **Billpay**
  This online service allows you to pay your tax bill online with your debit or credit card. You can register for Billpay at the following link: [https://www.santanderbillpayment.co.uk/hmrc/scripts/index.asp](https://www.santanderbillpayment.co.uk/hmrc/scripts/index.asp)

- **Bank Giro**
  If your bank or building society offers the bank Giro Service then you can pay your tax bill at your own branch with cash or cheque.

- **Post Office**
  You can pay your tax bill at the Post Office with cheque or cash.

- **Post**
  You can send a cheque to HMRC for your tax bill through the post. However HMRC highly recommends that you pay electronically. For further information about paying HMRC please call the payment helpline on 0845 305 1000 or by visiting [http://www.hmrc.gov.uk/payinghmrc/selfassessment.htm](http://www.hmrc.gov.uk/payinghmrc/selfassessment.htm)

What is the process for completing my accounts and tax return?

Once your bookkeeping has been completed up to the financial year end then it can be sent to us. We will check the bookkeeping thoroughly and use it as a basis to compile your annual accounts and self-assessment tax returns. Once completed, we will send you a copy of the accounts and tax returns for your approval. Once approved, we will make the submissions to HMRC on your behalf. It’s as simple as that!

What is the tax return deadline and penalties for late submission?

The tax return deadline is 31st January following the tax year end. For late submission, HMRC will charge a £100 penalty which will increase the later the return is submitted. If the return is submitted more than 3 months late, then daily penalties of £10 per day will be incurred for up to 3 months. After 6 months, an additional £300 penalty or 5% of the tax due will become payable and the same again after 12 months overdue.

The high penalties means that it is important to send your records in to us promptly after we request them. We send out regular automated reminders to our clients so there is very little chance a deadline will ever be missed.
How do I take money from my business?

As a sole trader the profits generated from the business belong to you. You can simply take the money you need from your business as and when you like. It is always wise to set aside a portion of your profits to cover your tax bill.

When do I need to register for VAT?

You must register for VAT if your turnover exceeds £82,000 (2015-16) in any given 12 months. However it’s possible to register for VAT voluntarily before you reach this threshold. This could be beneficial if your customers are registered for VAT also. Please contact us if you would like to discuss this further.

Registering as an employer

If you take on an employee you will need to register as an employer with HMRC straight away and start running payroll. We can complete payroll for you or you can complete it yourself. You can contact HMRC on 0845 60 70 143 or give us a call.

What is a HMRC tax investigation?

Every year HMRC will select self-assessment tax returns to investigate. HMRC will select returns either at random or because the submitted figures do not look right. It is unlikely that you would be selected for an inspection but if you are, you would be asked to show your paperwork to back up the figures submitted to HMRC. As a client, if you are chosen for an inspection then we would represent you at no extra cost.

Insurances

When you start a business you must make sure you have the correct insurances in place. You will need employer’s liability insurance if you have any employees, public liability insurance in case a customer or member of the public suffers loss or injury as a result of your business activity. If you sell your skills or knowledge then it would be a good idea to have professional indemnity insurance. This insurance protects your business against claims for damage or loss made by a customer or third party if you make mistakes or are negligent with some of the services you have provided.

Why not speak with our insurance broker. He will guarantee you the best policy available at the best possible price, please contact us for further details.

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