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# Sole Trader Guide

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## Sole Trader Guide

### What is a sole trader?

Sole trader businesses are the smallest and most simple businesses both to set up and to run. Essentially, a sole trader business is defined by the fact that one person is solely responsible for it. It is set up under your name and you keep all the profit, pay the tax owed and are also liable for any debts incurred by the business. One way to look at it is an individual who trades as a sole trader IS the business as opposed to the owner of it. It is important however, that being a sole trader is not confused with being a 'one man band' so to speak. Many sole traders have employees or contractors working for them and/or are contracted by other companies.

There are many benefits to trading as a sole trader. The benefits include the simplicity of it, in that you don't have to worry about taking a wage from the company as any income made is classed as yours anyway. In addition, as sole trader you do not have to submit abbreviated accounts or annual returns to Companies House so money can be saved on accountancy fees and annual return charges. Another benefit is that it is easy to set up your sole trader business and close it down, and there are fewer deadlines to meet due to the more straightforward tax process.

There are disadvantages to trading in this way however. As you are, in essence, the business, you are not protected from debt liability and therefore if a sizeable amount of debt was incurred, it would be up to you to pay it meaning that your home or any other assets you may have would be at risk of repossession.

We usually advise that it is more simplistic to trade as a sole trader when your net profit does not exceed around £15,000. Anything above this amount however and it may be more tax efficient to trade through a limited company. If you are not sure and would like some further information and advice on the best way to trade then please do not hesitate to contact us.

### 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 as self employed with HMRC straight away, however you are allowed to trade for up to three months before you do so. HMRC will issue penalties for late registration and therefore it is beneficial to be proactive and timely when registering.

Registering as self employed is very straightforward. All you have to do is complete a CWF1 form and return it to HMRC.

The form is relatively simple and requires you to provide basic details about yourself and your business. HMRC will then issue you with a Unique Tax Reference number (UTR).

As a client, we can assist you in this process. We will send out the form to you to complete and return to us. Upon receipt of your completed form, we will check that everything has been filled in correctly and forward it to HMRC on your behalf.

### What is a Unique Tax Reference number?

A Unique Tax Reference number or 'UTR', is a number that is assigned to you by HMRC. This will be your reference number that should be used when corresponding with HMRC. If you register for self assessment, HMRC will automatically assign your UTR number which will be posted to you within 28 days of registering.

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

You will need to keep your paperwork for all of your business transactions. This will form the basis of the bookkeeping.

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Once the bookkeeping has been completed (i.e. entering the paperwork on to a spreadsheet/ software package) up to 5th April, then it can be sent to us. We will use the spreadsheet to produce a set of accounts and your tax return. We will send a copy of your accounts to you once completed for you to approve. Once approved, we will submit your tax return. Your tax return is due before 31st January following the end of the tax year so it is always a good idea to get your records to us shortly after you receive our reminders.

### What paperwork do I need to keep?

If we are completing your bookkeeping then you will need to provide all of the following:

**Sales Invoices:** These are the invoices you send to customers for products you have sold or services you have provided and act as a representation of the income you have received.

**Purchase Invoices:** These are invoices you have been issued by suppliers.

**Bank statements/ credit card statements:** Any statements which show transactions relating to the business should be provided to your accountant.

**Receipts:** Any receipts you receive for expenses relating to the business should be maintained and supplied to your accountant. For example, fuel receipts.

**Cheque Book stubs:** Cheque books that contain details of cheques used to pay for things relating to the business should be kept and given to your accountant with the rest of your records.

**Hire purchase/loan agreements:** If you purchase anything of a high value for your business or you take out a loan for your business you should hold on to the agreements and include them in the paperwork you give us.

However we do encourage our clients to keep their own records, with our ongoing support, as we believe it is beneficial for you to have a good understanding of how much profit your business is making throughout the year and not just once your accounts are completed. If you are more comfortable having us do the bookkeeping for you, so you can concentrate on running the business, we are more than happy to do so. Our accountants are always available to answer any questions you might have such as, what paperwork to keep hold of. We will be sure to contact you regarding missing expenses or incomplete records.

### 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 received and money spent.

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

- 1) To comply with the legal requirement business owners have to keep accurate records.
- 2) Your records indicate how well the business is doing and show areas that money could be saved.
- 3) You can easily see how much money you are owed and how much money you owe.

In addition, HMRC may want to check that the tax return submitted for your business is accurate. To do this, HMRC may ask to see the records from which your tax return is based. If you cannot provide these records you may have to pay a penalty. Business records must be kept for at least 6 years.

### How do I do my own bookkeeping?

If you are doing your own bookkeeping you do need to ensure that you are accurate with the data you input and keep evidence of the income and expenditure, for example sales invoices, purchase invoices and receipts.

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This is important as HMRC can choose people at random to investigate and if you are chosen, they will expect to see this paperwork.

We highly recommend that you do not leave all of your bookkeeping until the last minute. It is understandable that, at the end of a long day at work, the thought of sitting down and inputting the day's figures is unappealing to say the least.

However, day's, week's or even month's of data entry will not take more than a few hours. Whereas sifting through twelve months worth of old paperwork will be extremely time consuming, tedious and confusing, especially if you're under pressure from the deadlines.

Bookkeeping can be done using various formats. The most common tool used by small businesses is either a spreadsheet or a software package such as SAGE. The spreadsheet needs to include details of income and expenditure along with details of any assets that have been acquired and liabilities that have been incurred.

We can provide our clients with spreadsheets if they keep relatively basic records or can recommend useful software packages if they keep more detailed records. In addition, we offer ongoing support so if you have any queries along the way we are always here to help.

### What expenses can I claim?

Most business expenses are allowable. There are many expenses that can be claimed by a business and they can vary depending on the nature of the business. Here is a list of the most common types of expenditure that sole traders can claim:

**Motor Expenses:** If you use a vehicle for work you can claim all costs of that vehicle including insurance, road tax, fuel, vehicle lease/hire, vehicle wash and repairs. Alternatively business mileage can be recorded and you can claim a set amount per mile traveled.

If you also use the vehicle for personal use then we should be provided with a proportion from you so that we can make the necessary adjustments.

**HP Interest:** When paying for a vehicle or equipment on hire purchase you are able to claim the interest payable as an expense. Most clients will leave this to us to calculate.

**Materials:** Materials or goods bought.

**Use of home as office/premises costs:** If you have premises you are able to claim the rent and rates as business expenditure. HMRC also give people an allowance for using their own home for an office. If you do not supply us with this figure, we will incorporate it into your accounts.

**Repairs & renewals:** This is for general repairs to for your business and small renewals that would not be classed as capital expenditure.

**Wages:** This is the amount you have paid other people for business related activities. For example, you may pay your spouse £100 per month to complete admin work for the business. NB this is not your personal drawings from the business.

**Bank Charges:** Any business bank charges you may have incurred. If you use a personal account the charges can be included but please tell us what proportion of the account you use for business. E.g. 60% business 40% personal (best estimate).

**Telephone:** Any landline or mobile phone costs. Please tell us what proportion of this is business use.

**Internet Costs:** This can be website maintenance costs, your broadband provider costs etc.

**Postage & Stationery:** Any business stationery can be included.

**Advertising:** This is allowable whether it be in a magazine, on a website or a leaflet drop.

**Membership fees:** Any trade associations or networking fees.

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**Work Clothing:** Clothing can be driving shoes or 'T' shirts you have had printed etc.

**Training:** Study courses etc. NB Training costs in order to qualify for your profession cannot be claimed.

**Subsistence:** If you work away from home occasionally then you can claim for your food etc.

**Professional Fees:** Accountancy fee, solicitors fees etc.

**Business Insurance:** Payments made for liability insurance/professional indemnity insurance.

**Sundry Expenses:** Sundry expenses are small expenses you may incur.

**Capital Expenditure:** This is for any large items purchased. For example, a new vehicle or computer. These amounts will then be depreciated and capital allowances claimed.

It is also possible to introduce set up costs and personal assets into the business. For example if you incurred expenses prior to the date of trading then you can include these expenses. Personal assets such as tools or a computer etc can be introduced by you into the business at the market value at the date of introduction. The value can usually be estimated by you but it must be a fair value i.e. what you could sell it for.

### 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 bank account solely for your business. This will keep your business and personal transactions separate and will mean that your bookkeeping will be more straight forward. Please contact us if you would like recommendations on which bank to use.

### 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 provided

### 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.

### What is the tax year?

The tax year (or financial year) is the period on which you are taxed by HMRC. In the United Kingdom, 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 because that person started trading partway through the tax year and requested their year end to be exactly a year from the date they started trading as opposed to the default of 5th April.

### 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 that can be earned before any tax is payable. Over this amount the current rates are 20% tax and 9% NI. In addition sole traders must pay class 2 national insurance (if they earn a profit of over £5,595) which works out at £2.65 per week. These rates can change, please see the following links for further details: <http://www.hmrc.gov.uk/rates/it.htm> and <http://www.hmrc.gov.uk/rates/nic.htm>

### 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.

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If the tax 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 a further £300 (or 5% of the tax due) for returns submitted 12 months or more late.

The high penalties mean that it is important to send your records to us in good time before the deadline. Following the tax year end we will send you out periodic reminders requesting your records.

### 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 pay 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>

**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>

### When do I need to register for VAT?

You must register for VAT if your turnover in any given 12 months reaches £77,000. However it is possible to register for VAT voluntarily before you reach this threshold. Voluntary registration may be beneficial if your customers are VAT registered. We will be able to help you decide whether or not it would be beneficial for your business.

### Register as an employer:

If you take on an employee you will need to register as an employer and start running payroll. We can complete your payroll for you or you can complete this yourself. You can contact HMRC on 0845 60 70 143 or by giving us a call.

### What is a HMRC tax investigation?

Every year HMRC will select tax returns to investigate. HMRC will select tax 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 then you would be asked to show your paperwork to back up the figures submitted to HMRC. If you are chosen for an inspection then we would represent you at no extra cost.

### FAQ's

You may find it useful to have a look through our FAQ's for further help. Please visit <http://www.theaccountancy.co.uk/faq>