



Sole Trader Guide

What is a sole trader?

A sole trader business (being self-employed) is the most simple business type, as it is the easiest to 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 you're responsible for the tax owed along with the debts incurred by the business. In essence, as a sole trader you are the business.

Advantages

- ✓ cheap and simple to operate
- ✓ you don't have to worry about paying yourself a salary
- ✓ you don't have to deal with Companies House, just HMRC
- ✓ easy to set up and close down

Disadvantages

- ✗ you are personally liable for the debts of the business
- ✗ if your profits are over £20,000 it is less tax efficient
- ✗ customers, suppliers & competitors will see you're a small business



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Registering as a sole trader

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 in your best interests to do this on time!

Registering with HMRC is very straight forward, you simply need to complete a CWF1 form, which can be found by clicking [here](#).

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.



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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:

- ✓ to comply with the legal requirement that you have
- ✓ so your profit and cash position are more transparent
- ✓ amounts owed from customers and to suppliers are more visible

In addition, HMRC may want to check your accounts and tax return for inaccuracies. If you cannot provide accurate records, there can be large penalties to pay.

FACT

Your business records should be kept for at least 6 years.



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How do I complete my own bookkeeping?

If you're completing your own bookkeeping you should ensure the data you're inputting is accurate. You must also keep evidence to back up your entries, such as invoices, receipts and bank statements (these documents can be kept electronically). If your company is chosen by HMRC for investigation, they will expect you to have kept this documentation to back up your figures.

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. We recommend using software, if used correctly there is much less chance of errors compared to manual entry. Using software is also vital to prepare your business for Making Tax Digital.

Software can also help automate certain aspects of your bookkeeping through bank feeds, recurring transactions and automated payment reminders.

Our clients have free use of our cloud bookkeeping software [Pandle](#). Quick and easy to use, yet comprehensive in its capabilities. We designed Pandle from the ground up to cater specifically for UK small businesses like yours.



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What expenses can I claim for?

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 business purposes.

The most common business expenses are:

- ✓ motor expenses
- ✓ staff costs and wages
- ✓ use of home as an office (rent, rates and utility bills)
- ✓ materials or goods you sell
- ✓ admin costs (telephone and internet)
- ✓ advertising and marketing costs
- ✓ business insurances
- ✓ membership and subscription fees
- ✓ repairs and renewals
- ✓ work clothing
- ✓ staff training
- ✓ professional fees (accountants and lawyers)
- ✓ travel and subsistence
- ✓ bank charges and interest
- ✓ capital expenditure (equipment or furniture)
- ✓ entertaining costs

It is not a legal requirement to have a sole trader bank account. However, we strongly recommend opening a business bank account to keep your business and personal transactions separate.



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Frequently asked questions

Here are the questions we get asked on a regular basis, we hope this helps!



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 straight forward option.



How much tax and NI 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 (NI). These rates can change so please see the following links for further details:

[Sole trader income tax rates](#)

[Sole trader national insurance rates](#)



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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 (bank transfer direct to to HMRC)
- ✓ direct debit
- ✓ billpay (pay online with debit/credit card)
- ✓ budget payment plan (must be up to date with HMRC)
- ✓ bank giro
- ✓ post office
- ✓ post (send a cheque to HMRC)

However HMRC highly recommends that you pay electronically.
For further information about paying HMRC please call the payment helpline on 0300 200 3601,



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What is the process for completing my accounts and returns?

- ✓ complete your bookkeeping up to the financial year end (or tax period)
- ✓ send us your bookkeeping records (or grant us access via cloud accounting software)
- ✓ we thoroughly check your records for any potential errors
- ✓ then we use these records as a basis to compile your annual accounts and self-assessment tax return
- ✓ once completed we send you a copy of your accounts and tax return for your approval
- ✓ once approved we will make the submissions to HMRC on your behalf

What are the deadlines and penalties for late submissions?

ONE DAY

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.

THREE MONTHS

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.

SIX 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.



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Frequently asked questions (part 2)



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.



When do I need to register for VAT?

You must register for VAT if your turnover exceeds £85,000 (2017/18) 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.



What happens if I start employing someone?

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.



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 our client we would represent you at no extra cost.



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Business insurance

When you start a business you must make sure you have the correct insurances in place. Here are the three main types of business insurance you need to consider:

- ★ employer's liability insurance (if you have employees)
- ★ public liability insurance (in case a customer or member of the public suffers loss or injury due to your business)
- ★ professional indemnity insurance (if you sell your skills or knowledge)

Professional indemnity 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.



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Looking for more advice on sole traders?

If you have any questions regarding your existing sole trader business, or about registering as a sole trader simply phone 020 3355 4047, or ask one of our an accountants (for free).

ASK AN
ACCOUNTANT



Interested in more business advice?

Join our 20,000 strong business community who benefit from our monthly HMRC updates, plus links to our latest guides & articles. To join simply get your instant, no obligation quote.

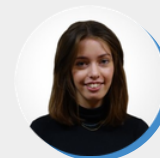
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