

Sole Trader Guide



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What is a sole trader?

A sole trader business (or being self-employed) as its commonly known) is the simplest type of business, as it's the easiest to set up and run.

A sole trader is defined by the fact that one person is solely responsible for the business.



Operating as a sole trader

The business will be set up under your name and you are entitled to keep all of the profits.

But this means you are also responsible for the tax owed, along with any 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 salary and dividends
- ✓ You don't have to deal with Companies House, only 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 can be less tax efficient
- ✗ Customers, suppliers and competitors will see you're a small business



Registering as a sole trader

If you decide to start working for yourself, you must inform HMRC of your decision, regardless of whether you already complete a Self Assessment tax return.

It is best to register with HMRC as soon as you start trading. The latest you can register is by 5th October in your business' second tax year.

HMRC can issue penalties for late registration, so it's in your best interests to do this on time!

Registering as a sole trader is straightforward, and you can [register with HMRC online](#).

If you need any help then please call us on 020 3355 4047.





What is a UTR number?

A Unique Tax Reference (UTR) is a reference number assigned by HMRC to identify you as a tax payer.

You should quote this number whenever you correspond with HMRC.

If you register as self-employed, HMRC will issue your UTR number automatically, usually within 28 days.

Completing your bookkeeping

Bookkeeping is the recording of your day-to-day transactions on some kind of system, such as a spreadsheet or accounting software.

These transactions are then used as a basis for completing your accounts and tax returns.

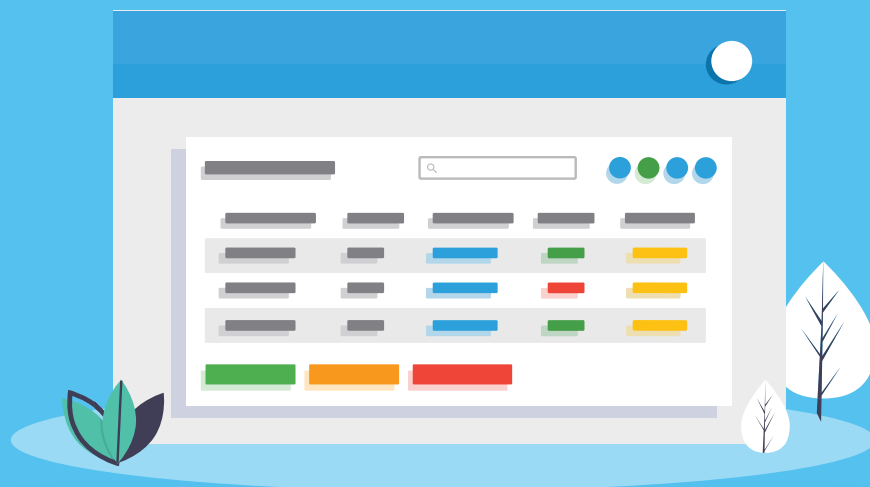
No matter how big or small your business is, you will need to ensure you keep accurate bookkeeping records, to manage your overall finances and get a view of your everyday expenses.

Pandle

We recommend using our very own bookkeeping software, Pandle. Simple and easy to use, we developed Pandle to cater specifically for small businesses in the UK just like yours.

Pandle can automate aspects of your bookkeeping through bank feeds, recurring transactions and automated payment reminders. This only reduces the potential for errors but also allows you to spend more time focusing on your business.

As one of our clients, you will receive free access to Pandle Pro, the premium version of our software (usually £6 per month).



HMRC expect you to keep your bookkeeping records for at least 6 years



How often should I complete my bookkeeping?

We recommend completing your bookkeeping as often as possible, on a weekly or monthly basis.

Doing your bookkeeping regularly reduces the chance of errors and allows you to clearly understand how your business is performing.

Claiming your expenses

Different types of business will have different types of expenditure. But 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
- ✓ Repairs and renewals
- ✓ Work clothing
- ✓ Staff training
- ✓ Professional fees (accountants and lawyers etc.)
- ✓ Travel and subsistence
- ✓ Bank charges and interest
- ✓ Capital expenditure (equipment or furniture etc.)
- ✓ Entertaining costs
- ✓ Membership and subscription fees



We recommend opening a business bank account to keep your business and personal transactions separate.



What is the tax year?

The tax year is the period in which you are taxed by HMRC. In the UK, it is the 6th - 5th April each year.

A sole trader's financial year can be different. 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.



**For further information about paying HMRC please
call the payment helpline on 0300 200 3601**

Income Tax and NI

The amount of tax and National Insurance you need to pay depends on how much you earn, but you are entitled to a tax-free allowance.

Tax and National Insurance rates and thresholds can change each tax year, so check the current rates [here](#).

Paying your tax bill

Your tax is due before the 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 HMRC)
- ✓ Direct Debit
- ✓ Billpay (pay online with debit/credit card)
- ✓ Bank Giro
- ✓ Post Office

Completing your accounts

If we are completing your accounts and accompanying tax returns we follow this simple three step process:

1

We send you a reminder

To let you know when your accounts are due and ask for your bookkeeping records

2

We compile your accounts

After your accounts are completed, they'll be double checked by a Senior Accountant

✓

We submit your accounts

Once we've received your approval, we'll submit your accounts and returns to HMRC





Deadlines and penalties for late submission

The tax return deadline is 31st January following the tax year end.

One day

Failure to submit your accounts on time will result in a £100 penalty from HMRC.

This penalty will rise incrementally until the return is submitted.

Three months

Daily penalties of £10 per day will be incurred for up to three months.

Six months

An additional £300 penalty or 5% of the accounts and tax return are submitted.

The same penalty will be applied again every six months until the accounts and tax return are submitted.

Accounts approval

We are unable to submit your accounts to HMRC until we have received your approval.

So to avoid any unnecessary penalties, please keep an eye out for emails from your accountant requesting this approval.



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 money from your business as and when you need it.

When do I need to register for VAT?

You must register for VAT if your turnover exceeds £90,000 in any given twelve months.

However, if your customers are also VAT registered it could be beneficial to register for VAT voluntarily before you reach this threshold.





What is a HMRC tax investigation?

Every year HMRC selects returns either at random or because the submitted figures do not look right.

It is unlikely that you would be selected, but if you are, you would be asked to show your paperwork to back up the figures submitted to HMRC.

If you're chosen for an inspection, then we would represent you at no extra cost.

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. If you would like to discuss this with us, then call us on 020 3355 4047.



Business Insurance

When you start a business you must make sure you have the correct insurance 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 (if a customer suffers loss or injury)
- ✓ 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 the services you provide.



We've partnered with Counce O'Hara. This partnership enables us to provide you with an exclusive 20% discount off your premiums.

[Get a quote](#)



Looking for more advice on sole traders?

If you have any further questions simply call us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.



Get An Instant Quote



