



ACCURACY ACCOUNTING & TAX

ACCOUNTING FOR THE FUTURE

BUSINESS AS A SOLE TRADE

LOOKING DEEP WITHIN YOUR SOLE

Accuracy Accounting & Tax

E: daryl@accuracyaccountingandtax.com

W: accuracyaccountingandtax.com

Becoming a Sole Trader

When you decide to go into business it's essential that you seek proper accountancy advice. They will be able to advise you on whether you should trade as a sole trader, partnership or a limited company.

This will be dependent on many factors, which MPH Accountants will be able to help you with.

The smaller sized client tends to start as a sole trader because there are very little costs in operating the business, less compliance and lower accountancy fees.

As a sole trader, you will be taxed on profits the business makes regardless of how much money you take from the business.

Losses may be carried forward to be offset against future profits, or offset against other forms of income within the same tax year.

This short publication will help you understand the basics of becoming a sole trader.

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1. The Importance of seeking professional advice

There are many pros and cons of trading as a sole trader. For example, trading as a sole trader does not give you any protection against creditors and, unlike a limited company, means that should your business fail, your creditors can take legal action against you and any assets you may have.

There is also the concern of whether or not it would be tax efficient to trade as a sole trader. This again can be explained by us.

Many clients will start as a sole trader and once the business develops, we advise them at what point they should become a limited company and the reasoning for this. We explain how the tax savings can be implemented and ensure that you understand fully the reasons for going limited.

However, at the initial meeting, it may be that the right course of action would be to commence trading as a limited company straightaway.

Informing HMRC that you have commenced self-employment can be done by completing just one form. This should be done within three months of the date you commenced trading and can be done online.

2. Income Tax

Any profits after your personal allowance will be subject to tax and national insurance. You pay income tax, Class 2 national insurance which is a set amount per week, and Class 4 national insurance which is payable on profits.

These figures are subject to change within the government budget and again would form an important part of reviewing whether or not trading as a sole trader is beneficial for you.

3. VAT

You can register for VAT at any stage of your self-employment, however, you do have to register once you break the VAT threshold.

We would always recommend to the client that before this happens, they contact us so that we can again review, their legal status and how they should register for VAT, as well as what scheme they should be on.

For example, there is flat rate scheme where you only pay a percentage of your turnover directly to HMRC.

There are some industries this is beneficial for, however, it's always worth comparing the two schemes to see which would be more beneficial for you on an on-going basis.

4. PAYE

If you employ a member of staff, you need to operate PAYE and ensure that you comply with submitting monthly returns under RTI; pension regulations also need to be complied with.

We would always recommend paying your staff monthly as there are only 12 transactions a year as opposed to weekly where there are 52, resulting therefore in more work to be carried out.

With the above, we can assist by dealing with all aspects on your behalf, work with you online or help you so that you can do this yourself.

We have another free downloadable article 'Taking on your first employee' which will help you further.

5. Income and Expenditure

When declaring your income and expenditure to HMRC, there are certain expenses that can be claimed. Any expense used for the sole purpose of the business can be offset against business profits.

You need to ensure that you keep all your records for 6 years after the financial year end, as required by HMRC.

Expenses are, but not limited to, the following: -

- Wages
- Consultancy fees
- Telephone
- Print and postage
- Stationery
- Advertising
- Travelling
- Motor expenses
- Repairs and renewals
- Subscriptions
- Accountancy
- Computer consumables
- Professional fees
- Rent or use of home (if you work from home)
- Insurance etc.

If ever you are in doubt of what you can claim, you should always contact us to be certain.

6. Keeping your records

Keeping good income and expenditure records is necessary to meet the requirements of HMRC and to give you basic information regarding your business. This will also help you to make decisions which, in turn, will help develop and grow your business.

With Making Tax Digital (MTD), this is even more important as you will be required to submit quarterly returns directly to HMRC.

7. HMRC enquiries

Anyone can be investigated by HMRC. Currently, HMRC is using a system called Connect which gathers data from all sources to decide who should be investigated.

Once their system selects a client, it goes to an analyst to review. At present, over 90% of investigations are launched this way. They also, on fewer occasions, carry out random investigations.

In addition to this, there are also compliance checks which will often cover income tax, PAYE and VAT.

With a compliance visit, you should ensure your books are organised and well presented. If a VAT Inspector walked into an office to carry out an investigation or compliance visit on a client and their books were all nicely organised, kept on a computerised system and easy to follow, this would give the investigating officer more confidence than it would with someone who has bags of receipts and records that are not kept properly.

The outcome is likely to be more favourable and it will take a lot less time to deal with.

8. Software

There are many different bookkeeping software packages on the market. We deal with all the major software houses and it's essential that we understand your business to determine what you require from your software package.

For example, some of our clients will use a system where they can raise invoices, take payments online, have their bank account automatically fed into their bookkeeping system, issues statements, see what clients are paying and which clients owe and use the system to its full potential.

Others will just want a system to be used to summarise their income and expenditure ready to supply to their accountants at the end of each year.

A meeting or phone call will enable us to assess what you require from your software package and the best one suitable for your requirements. We are then able to supply this software as well as provide training.

9. Summary

We hope you have found this information useful. Being in business is one of the biggest challenges that you can take on but it can also be one of the most rewarding and change your life for the better.

Good luck with your business and if you would like any help, please contact us.