

Registering for self-employment

Once you become self-employed, the tax rules are quite different from those that may have applied when you were an employee. Here, we consider the key steps you need to take in order to register for self-employment.

The tax year

Tax returns are issued shortly after the end of the fiscal year. The fiscal year runs from 6 April to the following 5 April (thanks to the switch from the Julian to the Gregorian calendar in 1752), so 2020/21 runs from 6 April 2020 to 5 April 2021. A notice advising individuals that a tax return is due is issued to all those whom HMRC are aware need a return, including all those who are self-employed or company directors. If a taxpayer is not issued with a 'notice to file' a tax return but has tax due they should notify HMRC who may then issue a 'paper' return. A taxpayer is normally required to file their tax return by 31 January following the end of the fiscal year. The 2020/21 return must be filed by 31 October 2021

if submitted in 'paper' format. Returns submitted after this date must be filed online, otherwise penalties will apply.

Obtaining a Unique Taxpayer Reference from HMRC

HMRC will send you your Unique Taxpayer Reference (UTR) when you register for self-assessment. This is a ten digit number. Once you've registered for self-assessment, you'll be able to find your UTR in your Personal Tax Account (PTA) online.

If you cannot locate your UTR, the government advises taxpayers to call the self-assessment helpline to request it.

National insurance numbers

To register for self-employment, you need to apply for a national insurance (NI) number. Additionally, to qualify for certain benefits and a State Pension, individuals pay national insurance contributions (NICs). You need a NI number before you can begin paying NICs. Your NI number ensures your NICs and tax are recorded against your name only. Individuals seeking to work, claim benefits, apply for a student loan or pay Class 3 voluntary NICs need to apply for an NI number. Once you have your NI number, it will be displayed on payslips, on your P60, in the NI section of your PTA and on letters concerning your tax, pension or benefits. You can apply for an NI number here: bit.ly/2yFnBkV.

Class 2 and Class 4 national insurance contributions

NICs are due from the self-employed as follows:

- flat rate contribution (Class 2)
- variable amount based on the taxable profits of the business (Class 4).

The liability to pay Class 2 NICs arises at the end of each year, and is generally collected as part of the final self-assessment payment. The amount of Class 2 NICs due is calculated based on the number of weeks of self-employment in the year and calculated at a rate of £3.05 per week for 2020/21 (£3.00 per week for 2019/20). Self-employed individuals with profits below the Small Profits Threshold of £6,475 for 2020/21 (£6,365 for 2019/20) are not liable to Class 2 NICs but have the option to pay Class 2 NICs voluntarily at the end of the year so that they may protect their benefit rights.

For 2020/21, Class 4 is payable at 9% on profits between £9,500 and £50,000 (between £8,632 and £50,000 for 2019/20). In addition there is a further 2% on profits above £50,000 (£50,000 for 2019/20).

Income Tax

Income tax is due to be paid on the self-employed profits. After the initial first period of self-employment your income tax payments will fall into a regular pattern which is usually three installments:

31 January - in the fiscal year to which the tax liability relates

First Payment on Account - 50% of the previous years income tax liability and Class 4 NICs

31 July - following the end of the fiscal year to which the tax liability relates

Second Payment on Account - 50% of the previous years income tax liability and Class 4 NICs

31 January - following the end of the fiscal year to which the tax liability relates

The balance of any tax and Class 4 NICs due.

Penalties

Individuals will be charged a late filing payment penalty of £100 if they submit their tax return after the deadline, usually 31 January following the end of the fiscal year. This penalty will be charged even if no tax is owed and will not be refunded. If the return is submitted more than

three months late, a daily penalty of £10 per day will be charged, up to a maximum of £900. A return which is outstanding for more than six months will receive a £300 penalty or 5% of the tax owing if this is a greater amount and once the return is 12 months late a further £300 or 5% of the tax owing if this is greater, will be charged.

If the business is a partnership, the penalties apply to the late submission of the partnership return and to each of the partners late returns.

Penalties also apply to the late payment of tax liabilities. The penalty date is 30 days after the due date. In regard to these payments, you may have to pay:

- a 5% penalty if you have not paid the full amount within 30 days of the due date
- an additional 5% penalty if you have not paid the full amount within six months of the due date
- a further 5% penalty if you have not paid the full amount within 12 months of the due date.

A penalty notice will include what you owe, how to pay and how to appeal the penalty, if required. Learn more here: bit.ly/36AiRcO.

Interest

If your tax is late interest will be charged in addition to the penalty. For tax due on the 31 January, interest will run from the 1 February. Interest is also due if you fail to make your payments on account on time.

Self-employment: deductible expenses

Self-employed individuals are able to deduct some of the costs of running their business in order to calculate their taxable profit. The costs can only be deducted if they qualify as allowable expenses. Money taken from your business to pay for private purchases is not considered an allowable expense.

Costs that can be claimed as allowable expenses include:

- office costs, such as the cost of stationery, rent, light and heat, phone, software
- travel costs, such as vehicle insurance, fuel
- specialist clothing, such as steel toe-cap boots
- staff costs, including salaries or subcontractor costs
- items you purchase to sell on or use to provide a service, for example raw materials
- financial costs, such as interest on business loans, hire purchase interest
- costs of running your business
- advertising costs, such as the cost of a website, but not the cost of entertaining clients
- costs of training courses.

The main consideration when claiming business expenses is that the expense MUST be wholly and exclusively incurred for business purposes.

Expenses cannot be claimed if you are claiming the £1,000 trading allowance. Discover more about allowable expenses here: bit.ly/2MiPmmN.

Aster and Trujillo have many years' experience in helping individuals register as self-employed. Please call us if you would like further advice or assistance.

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