

## **Working for Yourself**

If you are thinking of, or have started, working for yourself and are not sure what to do about your tax situation and other matters it is hoped that the following will be of some help to you. However, the information provided is of a general nature and you are advised to seek the services of an accountant if you are not sure how to deal with tax returns and the Inland Revenue. Also, the advice given is intended mainly for those who would be trading either as an individual, or in partnership; it is not intended for those considering the possibility of trading as a limited liability company in which event you would not be self-employed but would be an employee of the company. Ideally, you should discuss the pros and cons of the various forms of trading that are available to you with an accountant before starting up.

Even though your income may be low, once you have started trading as an individual, or in partnership, you have become self-employed and should register with the Inland Revenue whether or not you already send in a tax return. You must register within the first three months of starting self-employment otherwise you may incur a penalty of £100. Additionally, if working in partnership, you should register the partnership with the Inland Revenue. Your accountant, or local tax office, should be able to give you advice regarding this requirement.

Helpfully, the Inland Revenue provide a booklet entitled 'Thinking of working for yourself?' The booklet's reference number is PSE1 and it can be obtained by calling the Helpline for the Newly Self-Employed on 08459 15 45 15. The booklet includes a form CWF1 that can be used for registering as self-employed and for the payment of National Insurance (NI) contributions. Alternatively, you can register directly on the telephone with the Helpline but you may wish first to obtain the booklet so that you have an idea of the information you will be required to provide. Having registered, the Inland Revenue will send you a 'Starting up in business guide'. Also, the guide and other information can be previewed on the Inland Revenue website at [www.hmrc.gov.uk/startingup](http://www.hmrc.gov.uk/startingup)

As a self-employed person, NI contributions are chargeable under two classes – Class 2 and Class 4. Class 2 contributions consist of a weekly amount (£2.10 in 2006-2007), payable on a four-weekly basis if you elect to pay by direct debit, or payable every three months if you decide to pay by cheque. Class 4 contributions are based on the profit that you earn and are paid at the same time as settlement of your tax liability. For 2006-2007 the contribution would be 8% of profits earned between £5,035 and £33,540 plus 1% of all profit above the latter amount. If you believe that your profit for the year will be below a certain amount (£4,465 in 2006-2007) you can apply for exemption from paying Class 2 contributions. However, you should consider that payment of these contributions helps with regard to your state pension and sickness benefit.

You are required to keep adequate records of the transactions of your business in terms of your income from your business activities and the expenses incurred in carrying out those activities. In this respect, adequate records can range from keeping a simple cash book (or spreadsheet), recording dates and details of your income and expenses, to sophisticated spreadsheet systems, or commercially supplied bookkeeping systems. Whatever system you use, your income should, ideally, be supported by records noting dates of courses, attendees thereat and amounts paid by them. Also, expenses should be supported by invoices, receipts, or other vouchers. However, as it is not always possible to obtain receipts for every item of expenditure, for example, postage, keep a diary/notebook handy in which to jot down the date, salient details and the amount spent.

It may be possible, also, to claim for a proportion of expenses in respect of business use of your home and business use of your car. With regard to your home, note that if you set part of it aside specifically for the purpose of your business with no other use you may incur a charge to Capital Gains tax on sale of your house. With regard to use of your car, it is probably more straightforward to keep a note of your business miles and charge this expense on a mileage rate basis (40p per mile for the first 10,000 miles and 25p per mile for additional miles in 2006-2007). However, these are items where it is recommended that you talk to your accountant.

Apart from the tax implications of working for yourself you should obtain professional indemnity insurance and if using your home when giving instruction to your clientele you should take out cover for public liability. If using/hiring other locations for the purpose of giving instruction, ensure that the venue is adequately covered for public liability. Also, if keeping details of your clientele on a computer, you should register with the Information Commissioner under the terms of the Data Protection Act 1998.

Whether self-employed as an individual, or in partnership, the above details give a brief introduction to the steps you need to take.

I hope that this article has been of some help and encouragement to you in starting out working for yourself. The initial requirements may at first sight seem a touch onerous but in practice you will find that they are reasonably straightforward. The Inland Revenue can be very helpful if you have queries. Also, ideally, seek the services of an accountant. Good luck for the future.

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