A guide by the Low Incomes Tax Reform Group of **The Chartered Institute of Taxation**
April 2023

Low Incomes Tax Reform Group.
A voice for the unrepresented.

Self-employment:

A LITRG guide

Who is this guide for?

This guide is intended to supplement the material in the self-employment section of the LITRG website. We wrote this guide to help self-employed people who want detailed information in one accessible place and non-specialist advisers who help low-income self-employed individuals.

The guide is split into two parts: the first considers the main areas that concern most self-employed people with straightforward tax affairs and also covers in greater detail more complex areas which may arise – for example, if you are claiming certain state benefits or have additional tax obligations such as registering for the Construction Industry Scheme (CIS). The second part includes general useful information such as advice on contacting HMRC, important tax deadlines and checklists. Please note the guide is written from the perspective of addressing the self-employed individual rather than their adviser.

Throughout this guide, you can find details of other organisations who may be able to help you further.

Some of the information in this guide may be new to you and can be quite technical in nature. We have tried to simplify things as much as possible and have included top tips to help you deal with self-employed tax affairs. We have included a case study to illustrate how to prepare business accounts and Self Assessment tax return on page 33, and a glossary from page 74 that explains some of the terms used in the guide.

The coronavirus (COVID-19) outbreak resulted in some temporary changes to tax and benefits rules which affected the self-employed but mainly impacted on the 2020/21 and 2021/22 tax returns. There is detailed information about these changes on the LITRG website.

Contents

Contents

continued

Contents continued

Introduction

The last ten years have seen a large rise in the number of people who are self-employed,[1] many of whom earn a low income, perhaps working in the 'gig economy' and unable to afford tax advice. Setting up a new business can be a daunting prospect and, for many, the complex tax and benefit rules are difficult to fully understand. Therefore, these people will often turn to other organisations to help them make sure they are both fulfilling their obligations and receiving the benefits that they are entitled to.

For the low-income self-employed worker there have been some important changes in the tax system in the last ten years with the introduction of the trading allowance, cash basis, and simplified expenses, as well as temporary changes because of the coronavirus outbreak, such as the Self-Employment Income Support Scheme, and there are major changes expected over the next few years due to HMRC's Making Tax Digital programme. The first phase of the programme, Making Tax Digital for VAT, has applied to all non-exempt VAT registered businesses since April 2022 and Making Tax Digital for Income Tax is being phased in from April 2026 starting with those with annual gross income of over £50,000.

There are also significant changes taking place to the benefits system with the continued roll-out of universal credit which is replacing tax credits and other benefits.

We are also concerned that some of the information provided on GOV.UK is insufficient to enable people to fully understand their tax and benefits situation. There is less personal help available from HMRC and a greater expectation that the self-employed will be able to deal with their own tax affairs through online assistance rather than speaking to HMRC staff or face-to-face help.

As explained above, this guide has been written in two sections.

The main part of this guide aims to answer the key questions that most self-employed people with straightforward tax affairs will have. Some sections of this guide will link across to the self-employment guidance on our website. There are also parts of this guide which address more complicated tax and benefit issues that some low-income self-employed workers may face.

The second part provides general information which may be useful to know about such as tax deadlines, organisations that may be able to provide further help, and tax rates.

1 Estimated at 4.8 million (Trends in self-employment in the UK) in 2017 which is approximately 15% of the UK workforce

First things first

This section explains what your responsibilities are from a tax perspective if you are self-employed. We cover National Insurance contributions in our starting to trade section from page 10.

It addresses the following questions:

What is self-employment?

A self-employed person is often described as running their own business or as a sole trader. You do not have a choice over whether to be treated as employed or self-employed for tax purposes; it depends on the circumstances.

It is important to realise that you may be neither employed nor self-employed if you are volunteering, training or gaining work experience, or undertaking an activity on a one-off basis. If you are a director of your own limited company then you are not self-employed but an office holder and employee of your company.

For many people their employment status will be straightforward. However, for some people the distinction between employment and self-employment is not as clear. Some businesses try to exploit this by treating people as self-employed when they should be treated as an employee. They do this to avoid operating Pay As You Earn (PAYE) and complying with employment law. In this situation, if HMRC believe the individual is an employee, they could assess the taxpayer for the tax that would have been due if they had been taxed correctly as an employee – although HMRC should usually approach the employer first.

Be wary if:

- **you are offered work and given a choice of being an employee or self-employed; or**
- **someone you are going to work for tells you that you are self-employed – in this case you should ensure you check this to confirm it is correct.**

Top Tip

We strongly recommend that you understand your employment status before you start work. If you are self-employed you will have no entitlement to any employment rights, which include things like paid holidays and sick leave. You will also have to take full responsibility for your tax affairs.

If you are uncertain about your employment status then we cover this area in greater detail on our page Am I employed, self-employed, both or neither? and in Further help and guides from HMRC from page 69. Be aware that the rules which are used for income tax and National Insurance contributions differ from the guidance used for tax credits and universal credit purposes. So, you need to make sure you refer to the correct guidance, depending on your situation.

What help is available with tax status (self-employed vs employed)?

If you think that something is wrong with your employment status so that your income tax and National Insurance contributions are not being dealt with on the right basis, you could challenge the business that is offering you the work and ask them to put things right. However, this may affect your offer of work.

HMRC can help you determine whether you are employed or self-employed by using their online tool called the Check Employment Status for Tax (CEST) tool. It will ask you a set of questions about your situation and it will then give you an indication of your employment status for tax. You can then print this off and show your engager (the business that is offering you work).

If you think your income tax and NIC is still not being dealt with correctly by your engager, you may wish to report them to HMRC.

Note that the engager is described as the client in the questions in CEST tool and you are the worker. HMRC state that in the event of a HMRC enquiry you can rely on a status decision produced via the CEST tool, provided the questions are answered accurately and honestly.

HMRC may challenge individuals they class as **hobby-traders** – these are people who consider themselves as self-employed but HMRC consider they are not carrying on a commercial trade with a view to making regular profits. An example of where HMRC are becoming stricter with hobby-traders is in relation to losses incurred in a business where you work fewer than 10 hours a week. Losses are explained under Starting to trade on page 27.

What are your tax and National Insurance responsibilities if you are self-employed?

If you are self-employed, you are responsible for settling your own tax and National Insurance contributions. You will need to:

- **register with HMRC for self-employed National Insurance and Self Assessment,**
- **understand what taxes you must pay and when, and**
- **file a Self Assessment tax return.**

Some business sectors, such as the construction industry, have special tax rules and require additional registration.

How and when should you notify HMRC that you are self-employed?

You need to register your self-employment with HMRC because you will be responsible for paying income tax and National Insurance contributions on the profits from your business. There is an exception to this - if your total trading and miscellaneous income is no more than £1,000 and you are eligible and want to claim the trading allowance (see page 22), then you do not need to notify HMRC of your self-employment income.

We cover the various ways you can register your self-employment with HMRC on our webpage: I am self-employed. How and when do I register?.

You will need to know your National Insurance number (NINO) to register as self-employed. This can usually be found on most HMRC correspondence, or on your payslips if you have been employed, or you can check on your Personal Tax Account if you have registered for one on GOV.UK (see page 68).

If you cannot find your NINO then our page on What to do if I lose or forget my National Insurance number? explains how you can have it confirmed.

Important note:

Once you start trading you should register with HMRC as soon as possible and no later than 5 October after the end of the tax year in which you started your self-employment.

If you do not register then you could be charged a penalty. There is further information on how a penalty is calculated in our tax basics section.

What happens after you have registered with HMRC?

If you have never completed a Self Assessment tax return before then after you have registered with HMRC you will receive your **Unique Taxpayer Reference (UTR)**. The UTR is a ten-digit number which you will need when completing your tax return and corresponding with HMRC. If you have previously filed tax returns – even if it was a long time ago – your old UTR number will become active again on registering as self-employed.

You will then be sent a notice to complete a Self Assessment tax return for the tax year in which you started your business. How you receive this notification will depend on whether you have opted for electronic communications from HMRC. There are more details on the page What happens after I register?. The notice shows your UTR number and the tax year for which a tax return is required.

We cover Self Assessment tax returns later in this guide.

How do you register under the Construction Industry Scheme?

If you are going to be self-employed in the construction industry, then you can **choose** to register with HMRC as a subcontractor under the Construction Industry Scheme (CIS). If you are a contractor engaging other self-employed workers on construction projects, then you **must** register for the CIS with HMRC. Under the CIS, construction activities include most building work such as site preparation, alterations, dismantling, repairs, demolition, decoration and construction.

Being registered with HMRC as a subcontractor under the CIS means the contractor (the organisation who engages you as a self-employed worker) must usually withhold 20% of the amount of your invoices (except for any amounts for materials, plant hire, etc.) and pay it to HMRC on your behalf as an advance payment for your income tax and National Insurance contributions. This means that only 80% of your earnings will be paid directly to you, together with any amounts recharged for materials, plant hire, etc.

If your tax affairs have been kept up-to-date and your turnover exceeds £30,000, then you may be able to apply to HMRC for 'gross payment status'. This allows the contractor to pay you in full, without withholding any amounts for tax. There is more information on how to apply for **gross payment status** and the conditions which must be satisfied on GOV.UK.

If you decide not to register with HMRC nor apply for 'gross payment status', then contractors **must** withhold 30% as advance payments.

The sums withheld by contractors and paid over to HMRC on your behalf are then set against your tax and National Insurance bill once the relevant Self Assessment tax return is submitted and processed. Note that your CIS income should be reported on the self-employment pages of your tax return, not the employment pages. Unless you have approved 'gross payment status', there will often be a tax refund due.

There is general information on the CIS on GOV.UK and Booklet 340 contains more detailed guidance. There is also a short film on YouTube produced by HMRC explaining how to register for the CIS.

Our page What is the Construction Industry Scheme (CIS)? has more detailed information and examples showing how the CIS works. If you are registered for the CIS and you stop being self-employed then you should contact the CIS helpline on 0300 200 3210 as soon as possible.

Starting to trade

Starting self-employment can be a very busy and exciting time. You will have lots to think about to get your business up and running and this should include considering what financial information you will need to prepare your Self Assessment tax return in due course. This section discusses:

What type of business are you setting up?

One of the important decisions you need to make when you are starting your own business is what type of business structure to use. For example, you could decide to set up a limited company, or a partnership, or be a self-employed individual (sole trader).

There can be some advantages and disadvantages to whichever entity you choose to run your business as, and there are differences in the tax treatment too. For example, companies pay corporation tax on the company profits and as the owner (shareholder) you may pay income tax and National Insurance on your wages (through Paye As You Earn), and/or on your dividends (through Self

Assessment). On the other hand, if you are self-employed you pay income tax based on taxable profits from your self-employment.

If you are unsure about what type of business structure to use, then you should consider obtaining professional advice. Some businesses start off as a sole trader (self-employed) and become limited companies as the business develops.

This guide focuses on being self-employed and so detailed advice in connection with running a limited company is outside its scope. For further information on setting up a company (incorporation) see GOV.UK.

A partnership means that the partners (owners) personally share responsibility for the business. Partnerships can either be formed formally using a legal document called a Partnership Agreement or informally through an understanding between two or more self-employed people. There is information on GOV.UK about setting up partnerships. We cover partnerships in more detail on page 30.

What business records do you need to keep?

One of your responsibilities to HMRC is to keep adequate records of your business income and expenses in order to prepare an accurate Self Assessment tax return.

Currently there is no standard format as to what accounting records a business will need to keep, unless you are VAT registered. It will vary depending on the size and nature of the business. However, most self-employed people will need to keep records digitally and submit details of business income and expenses using software when Making Tax Digital for Income Tax is eventually implemented.

Top Tip

It is very important that you keep personal transactions separate from your business transactions. This does not necessarily mean that you need to have a separate business bank account (depending on your bank's terms and conditions), but having separate accounts can be helpful.

Our page What business records should I keep? lists examples of what type of information you should keep, how that may vary depending on whether you use the accruals basis or the cash basis of accounting, how long you should keep your business records and what the penalties are for not keeping adequate business records.

If you have claimed the Self-Employment Income Support Scheme (SEISS) grant then you will have to keep some additional records to show how your business was eligible to claim the grant(s) because of the coronavirus outbreak.

GOV.UK has a general guide to record keeping under Self Assessment and record keeping if you are self-employed or registered under the Construction Industry Scheme (CIS) (as a contractor).

If you are VAT registered you will need to keep records which meet the requirements of Making Tax Digital for VAT unless you are exempt. If you employ staff you also need to keep additional records.

Why do you need to prepare accounts?

You need to prepare accounts so you can work out what profits or losses you have made from your self-employment. This information is then used to calculate what income tax and National Insurance contributions are due from your self-employed earnings.

There is no set format for your accounts but a typical profit and loss account is shown on page 13. The accounts need to be able to show the business income and expenses accurately and you should choose a process you feel confident in using. Some people use book-keeping software or spreadsheets, others will keep a manual cash book or annotated bank statements. Your accounts are not sent to HMRC, but you will use the information from the accounts to complete your Self Assessment tax return. You will need to include details of your self-employed business, including your income and expenses, on your return. Only the Self Assessment tax return is filed with HMRC.

As part of HMRC's Making Tax Digital initiative, some self-employed businesses will eventually be required to provide accounting information online to HMRC at quarterly (three-monthly) intervals; however, this is not now expected to be introduced until 2026 at the earliest, and some of the details are still to be worked out.

What important things do you need to consider when preparing your accounts?

Below is an example of what a typical profit and loss account may look like and refers to some questions you will need to consider when completing your Self Assessment tax return. Remember your accounts may look different to this – that is fine as long as you have included all the income (sales) and deducted any business expenses (costs) so you can calculate your business profit which is used to work out any income tax and National Insurance contributions due.

Important note:

There are two ways of preparing your accounts: either the cash basis or the accruals basis. The profit and loss account below (ABC Services) shows the cash basis of accounting. We also show what a profit and loss account prepared using the accruals basis would look like (XYZ Services, see page 17).

Certain trades may have special tax rules, such as authors, artists, childminders, farmers and market gardeners. We cover this in our section Special rules for calculating profits for certain trades and businesses on page 18.

ABC Services (an example using the cash basis and not registered for VAT)

Profit and loss account for the year ended 5 April 2023 (see Note 1 below)

Tax year 2022/23 (see Note 2 below)

	£	£
Sales (turnover or income) **(**Note 3**)**		15,000
Less cost of sales:		
Product purchases/materials		(1,750)
Gross profit		13,250
Less other expenses: **(**Notes 4 & 5**)**		
Marketing	650	
Rent	4,000	
Travel – mileage **(**Note 6**)**	400	
Working at home **(**Note 6**)**	120	
Sundry	75	
Capital equipment **(**Note 7**)**	1,500	
		6,745
Net profit		6,505

Note 1: what accounting date should you use?

You will need to consider what date to prepare your accounts up to. Usually, accounts are prepared to the same date in each year (the accounting date), so you will want to choose a date that is convenient for you. This can be any day in the year, although from a tax point of view, the easiest dates to choose are either 31 March (if you prefer to work in whole months) or 5 April. Any date chosen from 31 March to 5 April inclusive will be treated as 5 April when completing your Self Assessment tax return, to make it as easy as possible.

Top Tip

If you want to keep things simple use an accounting date of either 31 March (if you prefer to work in whole months) or 5 April so it matches the tax year then you will not be affected by the new basis period reform rules.

It is possible to change your accounting date. See the Can I change my accounting date? page for further information.

Note 2: What is the tax year?

The tax year runs from 6 April to 5 April, so the 2022/23 tax year will be from 6 April 2022 to 5 April 2023 and the 2023/24 tax year will be from 6 April 2023 to 5 April 2024.

If you choose an accounting date of 5 April then your accounts will follow the tax year. So, if you started your business on 1 September 2022, when you prepare your accounts for the 2022/23 tax year you will use the period 1 September 2022 to 5 April 2023. In subsequent years, your accounts will follow a complete tax year, so for the 2023/24 tax year the accounts will be from 6 April 2023 to 5 April 2024.

It is more complicated if you use a different accounting end date (but remember any date chosen from 31 March to 5 April inclusive will be treated as 5 April for the purposes of your Self Assessment tax return). If you use a different accounting date then you will need to understand basis periods which we cover in our page What is my basis period?. From 2024/25 self employed profits must be reported to HMRC for the tax year itself, due to basis period reform. The 2023/24 tax year is a transitional year and so there are special rules that must be applied for 2023/24 tax returns.

Note 3: What accounting method (accounting basis) should I use?

You will need to decide which accounting method to use when recording your business transactions. As mentioned at the start of this section, there are two methods: the cash basis and the accruals basis. Not all businesses can use the cash basis, and we explain who can use it on our Who can use the cash basis? page, but if you can use this method then it may be the simplest way to record your business transactions.

The cash basis was designed to make accounting and completing a Self Assessment tax return easier for small unincorporated businesses (that is, sole traders and some partnerships). Most self-employed businesses are eligible to use the cash basis if they have annual trading income below £150,000 (or £300,000 if claiming universal credit). If you can use the cash basis and elect to do so on your Self Assessment tax return, then you are allowed to account for income and expenses when you actually receive payment or when you actually pay for a business expense. By using the cash basis you will not need to calculate your debtors and creditors at the year-end, perform a stock-take or estimate accruals and prepayments.

It is possible to move between the cash basis and the accruals basis (which we explain at Note 8 below), however you must stick to the same basis for an accounting year. If you want to move from the cash basis to the accruals basis you need to have a change of circumstances relating to any trade carried on by you to do so. This can include having a trading loss, as there are more ways to use a trading loss under the accruals basis than under the cash basis.

Our How do I prepare my accounts? page explains what other reasons there are for why you may want to use the accruals basis, how different business transactions are treated under the different accounting bases, what the eligibility rules are for the cash basis, and how you can change between the accruals basis and cash basis.

Note 4: expenses allowable for tax

For a cost to be an allowable expense when calculating your self-employment taxable profit, it has to be **wholly and exclusively** for the purposes of the business. Some expenses do not meet this test and so are not allowable business expenses for tax purposes. Examples include entertaining customers and any personal expenses such as drawings.

Drawings are when you take money from your business to pay for personal expenditure. Drawings are not tax-deductible expenses and should not be included in your business accounts as an expense.

Note

Our pages What business expenses are allowable? and Further comments on business expenses list common business expenses and provide guidance on their tax treatment.

You may have expenses which are split between personal use and business use, such as a mobile phone. You can claim for the amount of business usage – for example, you could analyse your mobile phone bills over a sample period to work out a reasonable estimate of your business use. So, after looking at your phone bills for three months, you estimate that your phone costs are 25% business and 75% personal then you can include 25% of your total mobile phone expenses in your accounts.

Our page on I have prepared my accounts and identified which expenses are not allowable. What's next? illustrates this with a numerical example on splitting motoring expenses between business use and private use.

Note 5: pre-trading expenses

Pre-trade expenses are costs you incur before you start trading. You can usually treat these as if the expenses were incurred on the first day you began trading, so they will be an allowable business expense in your first set of accounts. There is more information on pre-trading expenses including the relevant time limits on our page Can I claim for pre-trade expenses?.

Note 6: simplified expenses

Simplified expenses try and make the calculation of certain business expenses easier by using a flat-rate allowance. As the name suggests it can be much simpler using these flat-rate expenses. However, depending on individual circumstances it may be advantageous instead to claim the appropriate business portion of the expense.

Any self-employed business can use any of the simplified expenses if they want to – this includes sole traders and most partnerships. You can use simplified expenses if you are using the accruals basis or using the cash basis for your accounts.

Note

Simplified expenses were introduced alongside the cash basis, but you do not have to elect to use the cash basis to use one or more of the simplified expenses. Similarly, if you have elected to use the cash basis you do not have to use the simplified expenses rules.

There are three categories of expenses where these simplified rules can be applied and we cover these, including the amounts of the flat-rate allowance, on our website. The categories are:

- Expenditure on motor vehicles
- Use of home for business purposes
- Use of business premises as home

There is also a simplified expenses checker on GOV.UK which is a guide as to whether you will be better off using a flat-rate allowance compared to apportioning actual expenses.

If you decide not to claim the flat-rate allowance for motor vehicles then you may claim capital allowances on the business cost of your vehicle (see below).

Note 7: capital expenditure and capital allowances

Expenses are either classed as capital or revenue. A capital expense is usually a larger amount of expenditure used to purchase an asset that you would expect to use in the business for a longer period of time and which you would expect to have an enduring benefit for the business. There is no fixed time set out in law, but you would expect that asset to last for longer than a year. Examples include a laptop, a machine, or equipment such as a lawnmower.

A revenue expense is something that lasts for a shorter period of time and is often used up during your self-employment work. Examples include printer ink, repairs to a machine, or stock to resell.

Generally capital expenses are not treated as allowable for tax in the same way as revenue expenses are, unless you elect to use the cash basis. However, even under the cash basis cars will not be treated as revenue expenses but should be eligible for tax relief through capital allowances unless you are using the simplified expenses rules.

Capital allowances are the tax equivalent of depreciation. However, the allowances are only available on certain capital assets and have to be claimed on your Self Assessment tax return. Depending on the circumstances there are different rules for which type of capital allowance can be claimed. Many small businesses using the accruals basis will only use the annual investment allowance. This is a special allowance that provides 100% tax relief on assets qualifying as plant and machinery, by allowing the full cost of the asset to be deducted from profits (similar to a revenue expense). The annual investment allowance is not available for cars. The annual maximum amount of annual investment allowance is £1 million.

Top Tip

Many capital items (apart from cars) will be eligible for the annual investment allowance which means they will get full tax relief in the year you buy them. This means the tax treatment will be similar to a revenue expense.

There is detailed information on capital allowances, including examples showing how the annual investment allowance works on our page What capital allowances can I claim?.

XYZ Services (an example using the accruals basis and not registered for VAT)

The profit and loss account below illustrates accounts prepared using the accruals basis.

Profit and loss account for the year ended 5 April 2023 (Note 1)

Tax year 2022/23 (Note 2)

	£	£
Sales (turnover or income) **(Notes 3 and 8)**		16,500
Less cost of sales: **(Note 9)**		
Opening stock as at 1.4.22	500	
Product purchases/ materials	1,750	
Less closing stock as at 31.3.23	(1,000)	
		(1,250)
Gross profit		15,250
Less other expenses **(Notes 4 and 5)**:		
Marketing **(Note 8)**	750	
Rent	5,000	
Travel – mileage **(Note 6)**	400	
Working at home **(Note 6)**	120	
Sundry	75	
Capital equipment **(Note 7)**	1,800	
		8,145
Net profit		**7,105**

Note 8: The accruals accounting basis

Before the cash basis (see Note 3 above) was introduced in the 2013/14 tax year, you had to use the accruals basis of accounting (sometimes called traditional accounting or the GAAP 'Generally Accepted Accounting Principles' basis) for all sets of accounts. The accruals basis uses formal accountancy principles to ensure that only receipts and expenses which apply to the accountancy year are reflected in the final accounts for that year.

Depending on the size and type of business, the records that you need to keep and the accounting that is required may be more onerous using the accruals basis when compared to the cash basis. This is because under the accruals basis you need to account for sales and purchases/expenses in the period to which they relate, not when you receive or make a payment.

This means that, depending on your business, you may need to account for stock, debtors, creditors, prepayments and accruals.

Not all businesses are allowed to use the cash basis and some have to use the accruals basis instead. Although it may be more complicated to use the accruals basis when compared to the cash basis, there may be advantages to using it. For example, if you have interest or finance costs of more than £500 per year you will receive more tax relief on these costs using the accruals basis than the cash basis. It is possible to move from the cash basis to the accruals basis as long as you have a change of circumstances (relating to any trade carried on by you) to do so (such as making a trading loss or having higher interest and finance costs).

There is more information on our page How do I prepare my accounts? including examples of how to account for certain expenses under the accruals basis, who can use the cash basis and how to move from the cash basis to the accruals basis and vice versa.

Note 9: cost of sales

You will see that the cost of sales figure in the profit and loss account for XYZ Services differs from the profit and loss account for ABC Services. This is because of the different way you account for sales and expenses. Under accruals accounting, if you purchase stock to resell then you will need to work out what stock you had at the start of your accounting period (this is called opening stock) and what stock you had at the end of your accounting period (closing stock). The difference is added to the purchases made in the accounting period and is called ‘cost of sales’. The process where you count and value the stock is called a stock-take. Many businesses, even if they are using the cash basis, find it useful to perform a stock-take periodically.

There is an example of accounting for stock purchases using the accruals basis on our page How do I prepare my accounts?.

Special rules for calculating profits for certain trades and businesses

For some self-employments there are special tax rules or additional reliefs. If you are part of a trade organisation you may want to check whether you are claiming all the allowances you are entitled to.

We cannot include all the available tax reliefs in this section but we have highlighted where you can get additional information which may help you.

Authors and artists: information on averaging profits over two years is on GOV.UK.

Childminders: information on expense allowances is on GOV.UK.

Farmers and market gardeners: information on the herd basis election for farm animals and averaging relief is included on Helpsheet 224 on GOV.UK.

Foster carers and shared lives carers: information on Qualifying Care Relief is explained on our page Foster carers and shared lives carers and Helpsheet 236 on GOV.UK.

How to complete your Self Assessment tax return

Self Assessment is the process by which you inform HMRC of what taxable income you have earned and business expenses you have incurred during the tax year through the completion and filing of a tax return. HMRC will use your tax return to calculate what income tax and National Insurance contributions you owe. If you file your tax return online then your tax is automatically calculated during the process.

This section explains about the different ways you can complete a tax return, the filing deadlines for returns and what the penalties are if you submit your tax return after the filing deadline has passed.

You can complete a paper tax return or complete it online using HMRC online services; you do not have to buy software unless you want to. Although HMRC encourage you to file online, whether you use a paper tax return or file it online is your choice – use whichever method works best for you. Generally speaking, the deadline for filing a paper return will be earlier than an electronic return, and this is explained in more detail below.

Paper tax returns

You can choose to file a paper tax return. If you do not receive a return from HMRC then you will need to call the Self Assessment forms orderline on 0300 200 3610 to request that a paper return be sent to you.

A Self Assessment tax return is made up of a core 8-page section and then additional pages which you may have to complete depending on your circumstances (such as being self-employed). There is a list of the supplementary pages and guides on GOV.UK.

You will need to submit supplementary pages for your self-employment. You can complete short supplementary pages if your sales or income from the business is below the VAT registration threshold, which is £85,000 for the 2022/23 and the 2023/24 tax years.

If your business has sales above the VAT registration threshold then you will need to complete the full supplementary pages which are on GOV.UK.

Top Tip

If you file a paper tax return, keep a copy of your tax return and proof of postage (ask for a receipt at the Post Office). This might be important if there is a dispute later on.

Note

If a paper tax return is submitted to HMRC by the filing deadline, HMRC will be able to calculate any tax and National Insurance due and tell you what you need to pay in time for you to make a payment by the payment deadline of 31 January after the end of the tax year. You should still file your tax return by the filing deadline, even if you are calculating your own tax and National Insurance contributions for the tax year.

Online filing of tax returns

You may choose to complete and file your tax return online. There is software available which you can purchase to prepare and file your tax return or you can use [HMRC's free online system](#).

If you use the HMRC system, the online tax return starts with a series of questions which result in a tailored tax return asking for more detailed information about your taxable income and any reliefs which you may be entitled to. You will get an opportunity to provide less detailed information if your self-employment income (sales) is less than the VAT registration threshold, which is £85,000 for the 2022/23 and the 2023/24 tax years. You can save your tax return online and come back later to complete it. There is also help available for certain questions as there are links providing additional explanations and information.

If you want to complete your Self Assessment tax return online then you need to have a Government Gateway log-in. If you registered your self-employment business with HMRC using the online link then you should have automatically been registered with Government Gateway (this is the name of the centralised registration service for e-Government services in the UK) and received a Government Gateway log-in. If you dont already have a Government Gateway log-in you should be able to create this as part of the online process.

Top Tip

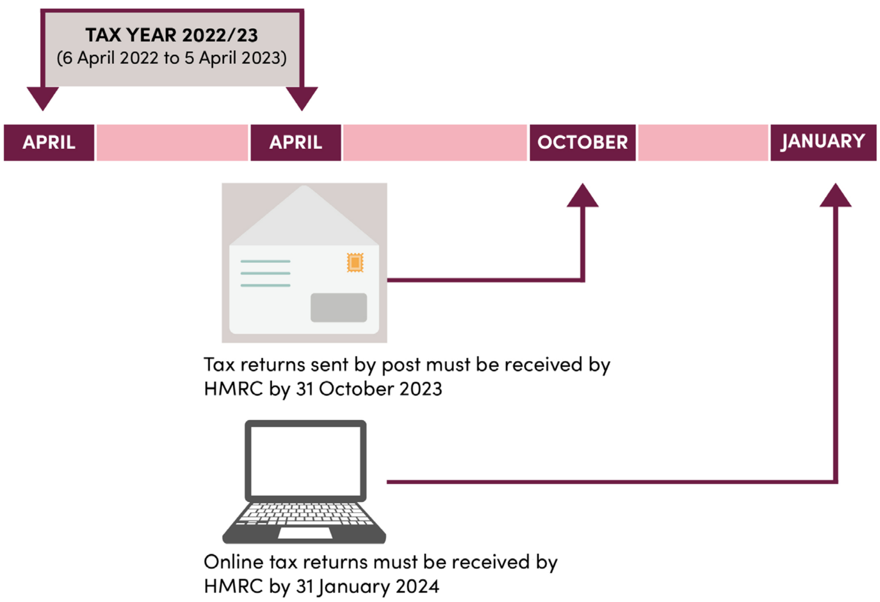
It can take a few weeks to receive your log-in details from HMRC to complete your tax return online – so do not leave it until January to register.

Filing deadlines

There are different filing deadlines depending on whether you choose to use a paper tax return or file online. Usually Self Assessment tax returns must be sent to HMRC by the following dates:

- By **31 October** after the end of the tax year if you are completing it on **paper;**
- By **31 January** after the end of the tax year if you are completing it **online.**

TAX YEAR 2022/23
(6 April 2022 to 5 April 2023)



There are exceptions to these filing dates, usually based on when you receive a notification to file a Self Assessment tax return from HMRC. There is further information on the page When do I have to send my tax return to HMRC?.

If you submit your tax return after the filing deadline then you may be subject to late-filing penalties even when there is no tax due. There is an automatic penalty of £100 for filing a tax return late and there can also be further penalties depending on when the tax return is submitted; these are explained in our tax basics section.

However, if you have a reasonable excuse for why you filed your tax return late then you should appeal against the penalty. Examples of reasonable excuse include problems with HMRC online services, bereavement or serious illness of a close relative or coronavirus-related issues; for more information see our tax basics section.

Problems with your Self Assessment tax return

If you submit your Self Assessment tax return then realise you have made an error, do not worry as it is possible to amend it up to 12 months from 31 January following the end of the tax year to which the tax return relates. If the notice to file a return was issued after 31 October, then you can amend your tax return within 15 months of that notice being issued.

For example, if you need to amend your 2022/23 tax return you normally have until 31 January 2025 to make the amendment. This applies whether you filed a paper version of the return or you filed online. If you did not receive a notice requiring you to file your tax return for 2022/23 until 12 December 2023, then you can amend it up until 11 March 2025.

However, if you do need to amend your tax return to reclaim some tax but you are outside the amendment time window, you can usually still make any changes through an overpayment relief claim, provided it is made no more than four years after the end of the tax year.

Occasionally, HMRC may have questions regarding your tax return once it has been submitted. If so, they will open an enquiry into a specific part or parts of your tax return (an aspect enquiry) or review all areas of your tax return (a full enquiry). This is quite rare but if it does happen there is information on our HMRC: Enquiries, penalties, appeals and complaints page including what your rights are, the HMRC process during an enquiry and what happens if you cannot agree with HMRC following an enquiry.

What tax allowances, reliefs and other deductions are available?

When completing your Self Assessment tax return there are other things you will need to consider in addition to your profits from self-employment. You will need to include any other taxable income on your tax return such as income from a pension, employment or savings. There are also allowances and reliefs which you may be entitled to, which may reduce any tax you owe.

Tax allowances

Most people living and working in the UK can receive a personal allowance for tax. If you are a non-EEA visitor to the UK, you may not be entitled to the personal allowance, even if you are working here. Your personal allowance is the amount of income you can earn before you pay income tax.

For the 2023/24 tax year, the personal allowance is £12,570 (for 2022/23 it was also £12,570). You pay income tax on your taxable income which is above your personal allowance. The more taxable income you have, the higher the amount of income tax you pay. Once your income exceeds £100,000, your personal allowance is reduced.

Married couples or civil partners may be entitled to other allowances and you can find further details in our tax basics section.

If you qualify for the blind person's allowance, your personal allowance will be higher, as this is an additional personal allowance for those who are severely sight-impaired. For more information on the blind person's allowance see our tax basics section.

Trading allowance

From April 2017, this allowance (also called the **trading income allowance**), allows you to receive tax-free income of up to £1,000 each tax year from activities such as selling home-made goods and/or miscellaneous (casual) income. If you have trading or miscellaneous income of no more than £1,000 then you will probably not need to report this to HMRC or pay tax on it. If the income you earn from your business is above £1,000 then you can deduct the trading allowance from your income instead of deducting your actual expenses. Whether it is better for you to claim the trading allowance instead of deducting your expenses will depend on your individual circumstances.

If you make a trading loss then it is advisable to not use the trading allowance but to instead claim loss relief, because the trading allowance cannot create a loss. This will mean you will have to complete a Self Assessment tax return.

There is more information about the trading allowance on our webpage What is the trading allowance?.

Example

Nisha is employed as a part-time teacher and earns approximately £15,000 per year. In her spare time she sells home-made greeting cards. In the 2022/23 tax year her trading income is £850 and she spent £300 on materials and advertising. Nisha will not need to inform HMRC that she is self-employed and will use the trading allowance as her sales are below the allowance of £1,000. This is known as full relief.

If instead, Nisha's sales and expenses were twice as much as the above amounts, so she had trading income of £1,700 and spent £600 on business expenses, she would then make a profit of £1,100. As Nisha has income above £1,000 she would be expected to inform HMRC and register as self-employed. Nisha can still claim to use the trading allowance instead of deducting her expenses. This would then mean that Nisha has taxable profits of £700 only, meaning she will not be taxed on £400 (£1,100 actual profit less £700) which would be the case if she did not claim to use the trading allowance. This is known as partial relief.

If Nisha had expenses of more than £1,000 it would then be better for her to not use the trading allowance and claim all her business expenses on her Self Assessment tax return to reduce her taxable profit. So if Nisha had sales income of £1,700 and expenses of £1,200 and she claims the trading allowance, she will be taxed on profits of £700 (£1,700 less the £1,000 trading allowance). In this case, it is better for Nisha to not claim the trading allowance but include all her business expenses when calculating her taxable profit. This would mean she is taxed on profits of £500 (£1,700 less £1,200 expenses).

Note

If you have more than one trade (or one trade and also miscellaneous income) you still only get one trading allowance. However, you can decide how to use the trading allowance between your different businesses/income streams as it is possible to split the trading allowance if you choose to do so.

Pension Contributions

You may be making contributions to a personal pension scheme. A personal pension scheme is different to the state pension which you contribute to through your Class 2 National Insurance contributions.

If you make contributions to a personal pension scheme then, subject to certain limits, you may receive tax relief. You need to notify HMRC about your pension contributions by including them when you complete your Self Assessment tax return.

You may receive tax relief automatically; this is called **tax relief at source**. For example, suppose you are paying £50 per month, so £600 each year, to your pension provider, which is treated as being net of basic rate (20%) tax. Your pension provider then claims back £150 from HMRC, meaning that the total amount going into your pension scheme is £750 per year. You can check that the basic tax rate on £750 is £150 – that is £750 at 20%.

If you do not get tax relief at source then you can claim relief for your pension contributions on your Self Assessment tax return, subject to certain limits and restrictions.

Note

You may wish to take independent financial advice in relation to your pension savings.

You will find more details on our page Pensions and self-employment.

Student loan repayments

If you earn over a certain amount each tax year then you will usually have to make repayments towards any student loans that you have taken out. The relevant thresholds for the 2022/23 and 2023/24 tax years are:

- **Income-contingent Plan 1 loans – earned income (including income from self-employment) above £20,195 for 2022/23 and £22,015 for 2023/24.**
- **Income-contingent Plan 2 loans – earned income (including income from self-employment) above £27,295 for 2022/23 and 2023/24.**
- **Repayments for postgraduate loans – earned income (including income from self-employment) above £21,000 for 2022/23 and 2023/24.**
- **Income-contingent Plan 4 loan repayments - earned income (including income from self-employment) above £25,375 for 2022/23 and £27,660 for 2023/24.**
- **Other income of above £2,000 for both the 2022/23 and 2023/24 tax years which is reported on your Self Assessment tax return such as savings or rental income (if you have income above this threshold and the relevant loan plan threshold, the total amount, including the first £2,000, will be used to calculate your loan repayments).**

Usually repayments are calculated and collected through the Self Assessment system and loan repayments are due by 31 January following the tax year. The repayments are not included with any payments on account.

LITRG has website guidance covering student loan repayments and this covers student loan repayments in more detail.

When do you pay any income tax due?

You only pay income tax and National Insurance contributions (NIC) if you have made a business profit above certain thresholds. To make a profit your income (sales) must be more than your business expenses and capital allowances.

If your business expenses and capital allowances are more than your income (sales) then you have made a trading loss. We cover losses as part of this starting to trade section (see page 27).

If you file a paper Self Assessment tax return by the usual filing deadline of 31 October following the end of the tax year, then HMRC will calculate your tax and send you a tax calculation. This is called an SA302. You may be asked for this tax calculation if you apply for a loan or a mortgage.

If you file your tax return using HMRC online then your tax is automatically calculated and you can view or print off a copy of the detailed calculation.

We have referred to paying National Insurance and income tax throughout this guide and we cover NIC in more detail below. As a self-employed person you will pay any Class 2 NIC and Class 4 NIC due at the same time as your income tax unless you are required to pay ‘payments on account’ (see below).

You usually have to pay any tax that you owe to HMRC by 31 January following the end of the tax year in question. So if you owe tax for the 2022/23 tax year this is due by 31 January 2024.

Payments on account

Note

From here on, we will refer to payments of tax, but that should be taken to include your Class 4 NIC.

HMRC may ask you to pay some tax in advance towards your tax bill for the following tax year. These advance payments are called payments on account. You will not have to make any payments on account if:

- **Your Self Assessment tax bill (excluding Class 2 NIC) is less than £1,000, or**
- **At least 80% of your total tax has already been paid through deductions at source for example, through Pay As You Earn deductions from being an employee, or** Construction Industry Scheme (CIS) (see page 8) **deductions.**

Payments on account are based on the previous year's tax calculation with a balancing payment due on the usual payment date, 31 January after the tax year. However, they do not include any student loan repayments or Class 2 National Insurance contributions (NIC); payments on account only include income tax and Class 4 NIC. So if you are paying payments on account for the 2023/24 tax year you will pay tax as follows:

- **50% of the 2022/23 income tax and Class 4 NIC calculation by the 31 January 2024 (so before the end of the 2023/24 tax year)**
- **50% of the 2022/23 income tax and Class 4 NIC calculation by the 31 July 2024 (so after the end of the 2023/24 tax year)**
- **Balancing payment for the 2023/24 tax year by the 31 January 2025 (plus the first payment on account for the 2024/25 tax year).**

Our page What are payments on account? shows how payments on account work in the example of Robert.

HMRC should inform you whether you need to make payments on account and how much is due. For example, the totals due **(before any payments that you have made are deducted)** are shown on the tax calculation when using HMRC online services or on the SA302 calculation sent by HMRC.

If you expect lower profits than those of the previous year, then you can apply to HMRC to reduce the payments on account for the current tax year. You can apply to reduce your payments on account any time before they are due using form SA303 (you can either post a paper version of the form or apply online). If you reduce your payments on account too much then HMRC may apply interest on the amount that should have been paid from the time it was due until it is actually paid. HMRC may also charge a penalty if the reduction to the payment on account is considered excessive. Our page What are payments on account? continues the example of Robert, showing how to apply to HMRC for a reduction in payments on account. We also cover in detail what you need to consider when you move to payments on account for the first time.

How to pay

There are various ways you can pay your tax and National Insurance contributions (NIC). HMRC may send you a payslip which explains the different ways you can pay. These are also listed on GOV.UK, along with any transaction costs.

If you do not pay your income tax and NIC on time then you could be charged a penalty as well as late payment interest. There is further information on how the penalty is calculated in our tax basics section.

Top Tip

It can be quite a shock to your cash flow when you first have to make payments on account. It may help you to put a certain amount each time you are paid into a different bank account. Our page How can i best prepare for my tax bill? contains a section showing how you can estimate how much you need to put away to cover your tax bill. Remember you will need to save an additional amount for the first time you move into the payments on account system as you will be starting to pay your tax earlier.

If you are experiencing financial difficulties then you should contact HMRC to discuss a **time to pay arrangement.** You can set up a time to pay arrangement online or call HMRC on their Self Assessment payment helpline.

There is information on time to pay arrangements on our page What if I cannot pay my tax bill? and on the TaxAid website.

Tax losses

One of the characteristics of being self-employed is that you take a risk with your business to make a profit or a loss. If you make a trading loss, then you can usually get tax relief for this. How you obtain this depends on which accounting basis you are using, the accruals basis or the cash basis.

There are different types of losses which may be relieved through the tax system. This section focuses on losses which derive from trading through your own business. If you are a self-employed individual or a partner in a business (but not a member of a Limited Liability Partnership or a limited partner, as restrictions may apply), you will make a loss in your business whenever your costs (such as allowable business expenses and capital allowances) are **more than** your income or sales for your accounting period.

An example of when a trading loss may arise is purchasing stock which then becomes obsolete and is sold at a price lower than what was originally paid for it. You work out your loss the same way as you would work out your taxable profits for the year. Drawings (basically cash or goods that you take from the business for personal use) are **not** an allowable expense for tax purposes. If you make a loss because you have drawn too much income from the business, then those drawings would be disregarded when calculating your taxable trading profit or loss.

Leo's accounting year ends on 31 March. In the year to 31 March 2023 Leo had the following income and expenses:

Turnover/income	**£12,000**
Allowable business expenses	**£14,000**
Annual investment allowance	**£2,000**
Drawings	**£4,000**

Leo's accounting year ends in the 2022/23 tax year. Leo may consider that he has a cash loss of £8,000 (£12,000 - £14,000 - £2,000 - £4,000), but for tax purposes he has a trading loss of £4,000 (£12,000 - £14,000 - £2,000) as the drawings are ignored when calculating the loss.

Tax relief for trading losses

Note

In all cases the business must be operating on a commercial basis with a view to making profits in order to qualify for loss relief– losses from what HMRC consider a hobby will not qualify.

Our page What if I make a loss? lists the different types of loss relief which are available, depending on which accounting basis is used and any specific circumstances of the business. It also shows the time limits for making a claim to relieve your tax loss. It also includes a summary of what you can do to use these tax losses to best effect; later in this guide we cover losses when claiming universal credit or tax credits.

Not all trading losses will receive tax relief; there is a cap which restricts the amount of loss relief an individual can claim. The maximum relief is the greater of £50,000 and 25 per cent of your annual income, although this does not apply to losses used against profits of the same trade. If you spend fewer than 10 hours per week working for your business then your loss relief may be restricted further to £25,000.

If you make a loss but you are still eligible for the trading allowance (also known as the trading income allowance) then you should consider not claiming the trading allowance and instead make a claim to use loss relief. If you are eligible for full relief of the trading allowance but do not use it and instead use loss relief, then you will have to complete a Self Assessment tax return.

If you have multiple trades, each one is considered separately for loss relief purposes so that you can choose to use one loss relief for one trade and a different loss relief for a second trade. The interactions are complex, though, so you may wish to seek advice from a professional tax adviser. If you are on a low income, then the charity TaxAid may be able to help you.

Our page What if I make a loss? has examples which illustrate how these different types of losses work. There is also a helpsheet on losses on GOV.UK.

Top tip

If you use the cash basis of accounting you are far more restricted in how you can use any losses. If you use the cash basis and you make a loss you may want to consider changing to the accruals basis so that you can relieve the trade loss in a different way. This is explained on our page How do I prepare my accounts?.

To utilise loss relief you need to make a claim on your Self Assessment tax return. However, if you want to make a claim for a loss in a previous year then you can write to HMRC stating the name of your business, the amount of loss you want to relieve, the period it covers and how you want to relieve the loss (such as which method of loss relief). The loss relief entries on your tax return can be quite complicated so you may want to refer to GOV.UK or seek extra help (as mentioned above).

Note

Even if you write to HMRC you should still make a claim on your Self Assessment tax return and confirm what losses have been utilised.

What National Insurance contributions do you pay?

As well as income tax you may have to pay National Insurance contributions (NIC) on your earnings. Some NIC count towards state benefits you might receive in the future – for example, the state retirement pension or help if you are ill and cannot work.

There is more information on state benefits in our tax credits and benefits section.

You start paying NIC at age 16 and stop paying them when you reach state pension age. You do not pay NIC on any pension income you receive. You can find your state pension age on GOV.UK.

There are different classes of NIC and what kind you pay depends on whether you are employed or self-employed. If you are self-employed, you might have to pay two kinds of NIC:

- **A fixed amount – Class 2; and**
- **An amount calculated using your profits from self-employment – Class 4.**

When you notify HMRC that you have started self-employment you will also be registered for Class 2 National Insurance.

The table on our page What National Insurance do I pay if I am self-employed? compares the main features of Class 2 and Class 4 NIC.

Small Profits Threshold for Class 2 NIC

As explained in the table on our page What National Insurance do I pay if I am self-employed?, you do not have to pay Class 2 NIC if your profits from self-employment are below a minimum threshold, called the **Small Profits Threshold**. The Small Profits Threshold is £6,725 for the 2023/24 and the 2022/23 tax years.

The table also shows that if your profits are more than the Small Profits Threshold but less than the Lower Profits Limit for Class 4 NIC (£12,570 for 2023/24) you do not pay Class 2 NIC but you are treated as having paid them.

Even if you have profits below the Small Profits Threshold you may choose to pay Class 2 NIC in order to protect your eligibility to some state benefits, such as the state pension, contributory-based employment and support allowance, maternity allowance and certain bereavement allowances, especially if you are not entitled to National Insurance credits (see below). There is further information including why you may want to pay your Class 2 NIC before it is due in our section How and when do I pay my Class 2 and Class 4 NIC?.

If you have profits below the Small Profits Threshold and want to pay Class 2 NIC, but not necessarily before the due date, then you can opt-in to pay it voluntarily on your Self Assessment tax return. This will be the method to use even if you are eligible for full relief under the trading allowance (see page 22) and would usually not be required to register your self-employment and complete a Self Assessment tax return.

National Insurance credits

If you do not earn enough profits from your self-employment to pay Class 2 NIC then you might be given 'National Insurance credits' – for example, you are a parent of a child under 12 years old and are registered for child benefit.

These credits mean that your NIC are covered for the time that you do not pay them yourself. You can find out more about National Insurance credits and whether you are eligible on GOV.UK.

Special circumstances for calculating National Insurance contributions

Some people or trades have special rules for National Insurance contributions (NIC). We explain these as they apply to Class 2 NIC and Class 4 NIC below.

Class 2 NIC

Married woman entitled to reduced rate contributions: you do not need to pay Class 2 NIC if you joined this scheme before it ended in April 1977. There is more information on our page What National Insurance do I pay if I am self-employed? and you may also want to consider whether to pay Class 2 NIC.

Exam markers will usually have tax deducted at source as if they are an employee and also need to pay Class 2 NIC if their profits are above the Small Profits Threshold (see page 29). There is further information on GOV.UK.

Share fishermen: the Class 2 NIC rate is £4.10 per week for the 2023/24 tax year; see GOV.UK for more information.

Voluntary development workers: the Class 2 NIC rate for these individuals is £6.15 per week for the 2023/24 tax year; there is more information on GOV.UK.

Class 4 NIC

Authors and artists may elect to average their profits over two years. This will also affect their Class 4 NIC. There is more information on Helpsheet 234.

Farmers and market gardeners may also elect to average their profits. This will affect their Class 4 NIC. Helpsheet 224 contains further information and explains how to make a claim.

Exam markers will usually have tax deducted at source as if they are an employee and will also need to pay Class 4 NIC if their profits are above the minimum threshold of £12,570 for the 2023/24 tax year (£11,908 for 2022/23). There is more information on GOV.UK. If this is the case, you may need to notify HMRC using the additional information section on your Self Assessment tax return, as your Class 4 NIC may not be calculated automatically using HMRC online services.

Partnerships

Some businesses are partnerships; this means that the partners (owners) personally share responsibility for their business.

Partnerships can either be formed formally using a legal document called a **Partnership Agreement** or informally through an understanding usually between two or more people, although companies can be partners as well as individuals. There is information on GOV.UK about setting up a partnership.

If you are based in Scotland, partnerships are known as **firms** and unlike the rest of the UK have a different legal personality from the individuals who formed it.

Being in a partnership means that you prepare accounts and allocate any taxable profits or losses according to the profit-sharing ratio. For example, if there are four equal partners you will each get a quarter share of the taxable profits (or losses).

There are additional responsibilities to running a partnership and these include:

- **The partnership should check if it can elect to use the cash basis as there are different eligibility rules for the cash basis entry threshold. There is more information in our section Who can use the cash basis?.**
- **You will need to complete a partnership tax return as well as Self Assessment tax returns for the individual partners (see below).**
- **If the partnership is VAT registered then you need to notify HMRC when either a new partner joins or a partner leaves.**

Partnership tax return

If you run your business through a partnership then you will need to complete a partnership tax return as well as individual Self Assessment tax returns. The **nominated partner** for the partnership is responsible for completing and filing the partnership tax return.

The filing deadlines are the same as for an individual's Self Assessment tax return. However, there is no facility to complete a partnership tax return using HMRC's free online system. Therefore, you can either file a paper return, for which the usual filing date is 31 October after the end of the tax year or file online, using commercial software, by 31 January following the end of the tax year.

If a paper partnership tax return is not received from HMRC it can be found, with a guide on how to complete it, on GOV.UK.

Leaving a partnership

If you are leaving a partnership then you must notify HMRC on the partnership tax return and on your individual Self Assessment tax return.

If you were the **nominated partner** (see above) then HMRC must be informed who the new nominated partner for the business is, either on the partnership tax return or by writing to HMRC at: HM Revenue and Customs, BX9 1AS.

We recommend you keep a copy of the letter and proof of postage from the Post Office.

If the partnership is VAT registered and you are a partner leaving the partnership then you must inform HMRC within 30 days using form VAT2 otherwise you may be charged a penalty.

If the partnership is ceasing to trade, so none of the partners are continuing to run the business, then the nominated partner must complete a final partnership tax return and the individual partners must also file Self Assessment tax returns. You should inform HMRC as soon as possible.

Upon the cessation of a partnership there may be capital gains tax matters to address which are beyond the scope of this guide and professional tax advice may be required.

Checklist for starting a business

The following is a list of points to consider during your first year of being self-employed relating to income tax and National Insurance contributions.

Task	Completed
Consider whether you are self-employed or employed.	
Notify HMRC that you are self-employed and the date you started trading.	
If you are working in the construction industry – register for the Construction Industry Scheme.	
If in a partnership – choose who will be the nominated partner and notify HMRC.	
Choose an accounting date for your business.	
If claiming tax credits – notify the HMRC tax credits team of any change in your employment status and income. Registering your self-employment for tax purposes with HMRC does not mean HMRC are also informed for tax credits purposes too – you will need to contact the HMRC tax credits team separately.	
If claiming universal credit – notify DWP of any change in your employment status and income.	
If you (or your partner) are claiming any other benefits that may be affected by starting work you should also notify the relevant government department and/or your local authority.	
Are you preparing your accounts using the cash basis or the accruals basis? Keep business records showing your income and expenses.	
Do you have any pre-trading expenses? Include these in your business records. Make sure you can separately identify them from other general expenses due to the different tax treatment. (These are treated as a business expense incurred on the day you start to trade.)	
Are you using the simplified expenses rules for mileage, working at home or premises used both as a home and a business? Keep business records showing your usage.	
Are you using any special elections for your trade such as herd basis or averaging?	
Decide whether you want to pay your Class 2 NIC before the due date (to protect yourself if you need to claim any qualifying benefits such as maternity allowance).	
Decide whether you will file your Self Assessment tax return on paper or online.	
If you employ staff – notify HMRC to register for PAYE.	
If your sales are above the VAT registration threshold or will be in the next 30 days – notify HMRC to register for VAT.	

Case study on how to prepare your accounts and Self Assessment tax return

This case study is intended to bring together some of the areas already discussed and show how a newly self-employed person with fairly straightforward tax affairs could go about organising their accounts and tax.

Where there are decisions a taxpayer could make – for example, a choice of accounting year-end – we have chosen what we consider would be the simplest for most people. However, this may not be appropriate in all cases and therefore we recommend that each self-employed person considers the relevant factors in relation to their own business and personal circumstances.

Ruby

Ruby decides to set up her own ironing business in September 2022. She already has an ironing board and iron but decides to spend £350 on leaflets advertising her new business.

Using the checklist for starting a business, Ruby makes the following decisions:

Task

Consider whether you are self-employed or employed.	Ruby decides she is self-employed as she is taking a financial risk starting the business and can decide how much work she can do and when to work.
Notify HMRC that you are self-employed and the date you started trading.	At the start of October Ruby notifies HMRC that she started trading on 10 September 2022. She is confident that she will earn more than the trading allowance so will need to notify HMRC. She has not had to complete a Self Assessment tax return before so HMRC will inform her of her Unique Taxpayer Reference (UTR) number.
Choose an accounting date for your business.	Ruby thinks that her business will be steady all year round so there is not a particular time during the year when she will be excessively busy. The simplest date for Ruby to choose for her accounting year-end is 5 April 2023. This means that Ruby will have a short accounting period in the 2022/23 tax year from 10 September 2022 to 5 April 2023.

Task	
If claiming tax credits – notify the HMRC tax credits team of any change in your employment status and income. Registering your self-employment for tax purposes with HMRC does not mean HMRC are also informed for tax credits purposes too – you will need to contact the HMRC tax credits team separately. If claiming universal credit – notify DWP of any change in your employment status and income.	Ruby has two children and claims tax credits, so she contacts the HMRC tax credits team to let them know that she is now self-employed.
If you (or your partner) are claiming any other benefits that may be affected by starting work you should also notify the relevant government department and/or your local authority.	Ruby does not claim any other benefits.
Are you preparing your accounts using the cash basis or the accruals basis? Keep business records showing your income and expenses.	Ruby's business is one which is eligible to use the cash basis. As Ruby has only a few expenses each month and does not have any interest costs nor does she envisage her business will make a loss, she decides to use the cash basis as this will be simpler to prepare her accounts and tax return. Ruby sets up a cash book to keep records of when she is paid and her business expenses.
Do you have any pre-trading expenses? Include these in your business records. Make sure you can separately identify them from other general expenses due to the different tax treatment. (These are treated as a business expense incurred on the day you start to trade.)	Yes, Ruby has her iron and her ironing board which she paid for personally before she started her business. The ironing board would cost £25 to replace, and a second-hand iron similar to hers is £70 on an online auction website. Ruby includes these expenses, totalling £95, as if she had incurred them on 10 September 2022.
Are you using the simplified expenses rules for mileage, working at home or premises used both as a home and a business? Keep business records showing your usage.	Ruby wants to keep her book-keeping as simple as possible and so decides to use the simplified expenses rules for both mileage and working at home. She keeps records of the number of hours she works from home each month. Ruby uses her car to collect and deliver clothes to her customers. She notes each business trip with the date, her destination and the number of miles she travels.

Task	
Decide whether you want to pay your Class 2 NIC before the due date (to protect yourself if you need to claim any qualifying benefits such as maternity allowance).	Ruby decides that she will not pay any Class 2 National Insurance contributions in advance as she is uncertain whether she will have profits above the **Small Profit Threshold**. Ruby has not decided whether she will pay voluntary Class 2 NIC yet.
Decide whether you will file your Self Assessment tax return on paper or online.	Ruby decides to file her tax return online as she will be able to see her tax calculation straight away, she checks to see if she has been registered to use HMRC online.
If your sales are above the VAT registration threshold or will be in the next 30 days – notify HMRC to register for VAT.	Ruby is confident that her sales will not be above the VAT registration threshold as she keeps a running total of what she has invoiced each month.

At the end of Ruby’s accounting period, 5 April 2023, she looks at what business records she has kept. These are shown below:

Sales

Month	Amount invoiced £	Amount paid £
September 2022	295	295
October	370	370
November	530	530
December	615	615
January 2023	530	530
February	480	450
March	660	480
April (1-5)	60	30
Total	**3,540**	**3,300**

Expenses

(Ruby pays for all her expenses by cash, debit card or direct debit)

Month	Description	Amount paid £
September 2022	Pre-trading expenses (iron and ironing board as above)	95
	Advertising	350
	Mobile phone (see note below)	10
October	Advertising on social media	35
	Mobile phone (see note below)	10
November	Mobile phone (see note below)	10
December	Mobile phone (see note below)	10
January 2023	Advertising on social media	35
	Mobile phone (see note below)	10
February	Mobile phone (see note below)	10
March	New ironing board	85
	Mobile phone (see note below)	10
April (1-5)	New iron	250
	Advertising on social media	15
	Holiday deposit	200
Total		**1,135**

In addition, Ruby calculates that she has travelled 320 business miles. She works at home for 30 hours a month during September and October, but 55 hours per month for November to March.

When calculating the proportion of her mobile phone costs which relates to her business, Ruby worked out that usually she spends about 40% of her call time and texts on work. Her monthly fixed contract is £25 per month, so Ruby calculates that her business cost is £10 per month (£25 x 40%). Ruby should re-evaluate this periodically to see if the business proportion changes as her business grows.

Using this information Ruby puts her profit and loss account together.

Ruby's Iron for Style

Period ended 5 April 2023

2022/23 tax year

	£	£	Notes
Sales		3,300	Ruby is using the cash basis so she includes the sales she has actually been paid for by 5 April 2023.
Less expenses:			
Marketing	435		This is the total of advertising costs: (£350 + £35 + £35 + £15)
Mobile phone	70		This is the amount of business usage Ruby calculated (see note above).
Travel – mileage	144		Ruby has driven 320 business miles, she uses the simplified expenses mileage rate of 45p per business mile (£0.45 x 320 = £144)
Working at home	110		Ruby calculates this expense using the simplified expenses rule: 2 months at 25-50 hours rate is £20 (2 x £10) + 5 months at 50-100 hours rate is £90 (5 x £18) = £110
Capital equipment	430		This includes the pre-trading expenses for the iron and the ironing board and the new equipment purchased in 2023 (£25 + £70 + £85 + £250)
		1,189	See note below on the trading allowance
Net profit		**2,111**	

The expense in April of £200 for a holiday deposit is not included in Ruby's business accounts as it is personal expenditure so would be classed as drawings.

Trading allowance

Ruby considers whether she should claim the trading allowance. Her sales income is more than £1,000 so she can make a claim for partial relief only. As her expenses are more than £1,000 she is better off claiming her business expenses of £1,189 instead of making a claim for the trading allowance. If Ruby had fewer business expenses, say total business expenses of £989, then she should make a claim for partial relief on her tax return to use the trading allowance of £1,000 instead of her actual business expenses.

Now that Ruby has her accounts she can complete her Self Assessment tax return online with HMRC.

Ruby completes the initial questions to tailor her tax return. She has no other taxable income and only has to complete the self-employment questions.

Extracted relevant questions from Self Assessment tax return	Answer	Notes
Was your turnover more than **£1,000** in total from all **self-employments? Please check** help.	Yes	This question is to check whether Ruby can claim full relief using the trading allowance.
Did you have an annual turnover of **£85,000 or more?**	No	As Ruby's turnover is less than £85,000 it would be simpler for her, later on in her tax return, to include her expenses as a single total value rather than as a detailed breakdown showing the separate individual costs (see below).
Please select the circumstances that apply to your self-employment. If none of them apply, please select the box 'None of these apply' (note only certain questions included in this example). - **I am a foster carer or shared lives carer.** - **I wish to make an adjustment to my profits chargeable to Class 4 NICs.** - **I have changed my accounting date.** - **The results of my accounts, made up to a date in the year to 5 April 2023, have been declared on a previous return.** - **My 'basis period' (the self employed period for which I am taxable) is not the same as my accounting period** - **I wish to claim 'overlap relief'**	None of these apply	Ruby uses the online help facility for help with any questions that she does not understand.

Business name	Ruby's Iron for Style	
Description of business, trade or profession	Ironing service	
Postcode of your business address	XZ12 2AB	
Has your business name, description, address or postcode changed in the last 12 months?	No	
If your business started after 5 April 2022, enter the start date DD MM YYYY	10/09/2022	
Did your business cease trading after 5 April 2022 but before 6 April 2023?	No	
Date your books or accounts are made up to	05/04/2023	
Did you use the cash basis, money actually received and paid out, to calculate your income and expenses?	Yes	Ruby checks the online help to be sure she has used the cash basis correctly.

Extracted relevant questions from Self Assessment tax return	Answer	Notes
Turnover – takings, fees, sales or money earned by your business	£3,300.00	
Any other business income		
Trading income allowance (optional)		Ruby decides not to claim the trading allowance.
Total business income	£3,300.00	This is automatically calculated.
How would you like to record your expenses? ▶ **as a single total value** ▶ **as a detailed breakdown**	As a single total value	As Ruby's turnover is less than £85,000 it would be simpler for her to include her total expenses rather than separate the individual costs.
Total allowable expenses	£1,189.00	This is the total cost of marketing, mobile phone, mileage, working at home expenses and the capital equipment (as Ruby is using the cash basis the capital equipment is treated in the same way as a revenue expense).
Net profit	£2,111.00	This is automatically calculated.
You can claim capital allowances for certain buildings and the purchase and improvements to equipment and machinery such as vehicles, tools, computers and business furniture used in your business. If you've claimed '**Trading income allowance**' do not complete the capital allowances boxes.		Ruby reads the notes and working sheets link and is confident that her capital purchases are eligible as revenue expenses as she is using the cash basis.
Net business profit for tax purposes	£2,111.00	This is automatically calculated.
Any other business income not already included		
Total taxable profits from this business	£2,111.00	This is automatically calculated.
If you are exempt from paying Class 4 NICs, select the reason why below (only certain questions included in this example): ▶ **You were at or over State Pension age on 6 April 2022** ▶ **You were under 16 on 6 April 2022** ▶ **You were not resident in the UK for tax purposes during the year ending 5 April 2023** ▶ **None of these apply**	None of these apply	Ruby is not exempt from Class 4 as she is UK tax resident and aged between 16 and state pension age. (This question does not mean that Ruby does not need to pay any because she has earned below the minimum threshold of £11,908.)

Extracted relevant questions from Self Assessment tax return	Answer	Notes
Summary for Ruby's Iron for Style Business income: £3,300.00 Total allowable expenses: £1,189.00 Profit or Loss: £2,111.00 Capital allowances: £0.00 Balancing charges: £0.00 Adjustments: £ 0.00 Total taxable profits or net business loss (before any set-offs): £2,111.00		This is automatically calculated. Ruby checks this summary with her own accounts to make sure it agrees to her records.
If your taxable profits are less than £6,725 or you made a loss, you can choose to pay Class 2 NICs voluntarily to protect your entitlement to State Pension and certain benefits. **Please see the section below.** If your taxable profits are from £6,725 to £11,908, you will not need to pay Class 2 NICs. Your contributions are treated as having been paid to protect your entitlement to State Pension and certain benefits. If your taxable profits are more than £11,908, you must pay Class 2 NICs For 2022 to 2023, Class 2 NICs are £3.15 a week. Your self-employment record shows you owe: **Class 2 NIC amount:** £0.00 **If your taxable profits for 2022 to 2023 are less than £6,725:** You may want to pay Class 2 NICs voluntarily to protect your entitlement to State Pension and certain benefits. Before you decide **please check help** to find out how not paying may affect you. **Do you want to pay Class 2 NICs voluntarily?**	No	Ruby decides not to pay Class 2 NIC voluntarily, as she is entitled to National Insurance credits because of the age of her children for whom she claims child benefit.

Ruby will see and be able to print both her tax calculation, which is automatically calculated by HMRC, and her Self Assessment tax return. Ruby will have no tax to pay as her taxable income (£2,111) is less than the personal allowance (£12,570 for the 2022/23 tax year).

Ruby will have no NIC to pay as she decided not to pay any voluntary Class 2 NIC and her profits are below the Class 4 Lower Profits Limit.

Ruby checks her tax calculation and tax return and is confident it is accurate to the best of her knowledge. She then submits her tax return using HMRC online and waits for confirmation that HMRC have received it. She prints off a copy of the submission receipt from HMRC.

Ruby keeps a copy of her tax return and tax calculations and all her business records until 31 January 2029.

Paper tax return

Ruby could complete a paper tax return rather than complete one online. However, she would need to be aware that there are different filing deadlines for paper tax returns.

Ruby would still need to prepare her accounts as shown above but instead of completing her return online she would complete a main tax return (SA100) and self-employment (short) (SA103S) supplementary pages. The returns and supplementary pages are on GOV.UK (along with the guides to complete the tax returns).

Growing your business

Some people who are self-employed may not want to or are unable to grow their business and take on additional responsibilities such as employing workers. However, many businesses start off as one person, who is self-employed, and as the business grows they find there is too much work so they decide to employ new staff or change the structure of their business. This can be an exciting time for the business but with it comes additional obligations and responsibilities.

In this section we cover areas you will need to consider if you decide to take on staff, these include:

This section also explains about Value Added Tax (VAT), including the following:

Finally, this section covers what local taxes you may have to pay and also other things to consider as your business grows. If the business outgrows being a sole trader then you may decide to enter a partnership, or incorporate so that the business is run through a limited company.

There is information on partnerships in the previous Starting to trade section and GOV.UK has information on setting up a new company. If you are considering changing business structure from being a sole trader you may want to consider getting professional tax advice and look at our page, working through a limited company.

Taking on staff

If you hire extra help in your business, you will need to consider whether you will become an employer as a result. That will depend on the employment status of the person(s) working for you.

For tax law purposes, there are two types of status we need to think about.

- Employee (where a person essentially 'serves' their employer).
- Self-employed (where a person runs their own business on an independent basis).

The most important point to understand is that you cannot just 'decide' that your worker is self-employed. Doing this can be attractive because it removes many responsibilities from you and can save you some money. However, it is your responsibility to check the status carefully.

The LITRG website has more detailed guidance on the general rules surrounding employment status and information on where to get more help, including from HMRC.

Please note that it is possible to have an employee and someone who is self-employed at the same time, for example if you engage someone to work on a particular one-off project for your business. You need to decide the status of all your workers separately.

If you are an employer, what follows is a quick overview of some of the main considerations. For more detailed information, we suggest you look at our Taking on an employee section of the LITRG website.

Registering as an employer with HMRC

If you are an employer then you will be required to collect tax and National Insurance contributions (NIC) from your employee's wages under the Pay As You Earn (PAYE) system and pay it to HMRC. The first thing you will need to do is register as an employer with HMRC and get PAYE and Accounts Office references. You can register online on GOV.UK and HMRC provide support for new employers; the phone number is 0300 200 3211 (textphone number is 0300 200 3212).

Top Tip

In rare circumstances you may not need to worry about registering as an employer with HMRC and operating PAYE. Normally this will only be the case where your employee(s) earns less than the NIC Lower Earnings Limit (LEL) with you and does not receive any non-cash benefits from you. If the employee has more than one job with you, then you consider the earnings from both together. For the 2023/24 tax year, the LEL is £123 per week or £533 per month.

Most employers will need to operate PAYE, and if you decide to do this yourself (rather than use a bookkeeper, accountant or payroll bureau to help you) this will include the following tasks:

- **Ensuring that income tax and NIC are deducted under the PAYE system and paid to HMRC.**
- **Paying Employer Class 1 and Class 1A/1B NIC where appropriate.**
- **Sending your PAYE information to HMRC.**
- **Dealing with all statutory payments and student loan deductions if they are relevant.**
- **Reporting any benefits-in-kind to HMRC.**
- **Paying HMRC on time. If you owe HMRC less than £1,500 per month then you may be able to pay quarterly: call the employer PAYE and National Insurance helpline – 0300 200 3401 to make sure they are happy for you to do this.**
- **Keeping accurate and up-to-date records.**

- **Giving your employee a payslip with each payment.**
- **Giving your employee an annual statement on form P60.**

Reporting Pay As You Earn (PAYE) – the options

As explained in our section above on being an employer, you will have to report PAYE information to HMRC. To do this you will normally need to use the Real Time Information (RTI) online system, every time your employees are paid. For online filing, a payroll program will be required and there are several options on the market, including some free ones.

However, provided that some conditions are met, employers can report their payroll information to HMRC by completing and sending paper forms instead. The paper forms will include details of your employees, the payments you make to them and their deductions. This will only need to be done once a quarter (that is, every three months). You should include starter and leaver details on your quarterly return forms.

You may be able to use paper filing rather than the RTI online system if:

- **You are unable to use a computer on religious grounds.**
- **You are getting care or support services for yourself or a member of your family.**
- **You are unable to send reports electronically because you have a disability, are elderly or are unable to access the internet.**

Important note

If you use a bookkeeper, accountant or payroll bureau to operate PAYE for you, you will not qualify for paper filing and your bookkeeper, accountant or payroll bureau will have to submit your PAYE information online on your behalf.

For more information on the exemption from online RTI filing see our guidance for [taking on an employee].

Employment law

As well as the tax status you will need to consider employment law. For employment law purposes, there are usually three statuses we need to think about:

1. Employee

2. Worker

3. Self-employed

You can find more information about these on GOV.UK

Top Tip

You must look at the status of each person you hire for tax and employment law separately, as they could have a different status for each.

Employment law status

Employees enjoy many rights under employment legislation that the self-employed do not. For example, only employees are given protection against unfair dismissal and receiving Maternity, Adoption and Paternity Pay, Statutory Sick Pay and Statutory Redundancy Pay.

However, in recent years, job situations have become more complicated so that some people do not fit neatly into either employment or self-employment status for employment law.

As a result, a third status of a 'worker' was developed. The worker status is only for employment law and is not relevant for tax law. A worker is someone who basically undertakes to do or perform personally any work or services for another person.

Increasingly legislation gives rights and obligations to 'workers' as well as 'employees' – for example, the National Minimum Wage Act, workplace pensions and the Working Time Regulations.

Example of a worker

A carpenter who works exclusively for one firm of building contractors will likely be a 'worker' even though he may decide his own hours and own way of working, complete his own tax returns, pay his own income tax and National Insurance contributions and provide his own tools. He is a 'worker' because the building firm has hired him personally to do the work and it would not be acceptable for him to send a sub-contractor or a friend in his place – even though he is otherwise quite independent of them. If they also set his hours and work tasks each week with specific holidays and wages, he may instead be an employee for employment law purposes. Alternatively, if he had many clients and was only asked to do a one-off job for the building firm, he would probably be self-employed for employment law purposes.

Workers have fewer rights than employees, but more than the self-employed (who have very few legal protections, such as not to be discriminated against and to be provided with a safe and healthy working environment). In 2021 there was a judgment regarding Uber and workers employment law status: please see our news article.

There is no single test to determine whether a person is an employee, worker or self-employed. All the relevant factors need to be considered. You can find out more information about workers on GOV.UK.

National minimum wage

As an employer you will need to ensure that you at least pay the national minimum wage (NMW). The current rates for NMW since April 2023 are shown below, the rates are usually changed on 1 April each calendar year:

Age	NMW per hour (£)
23 and over (often called the national living wage), before 2021 this was for age 25 and over	10.42
21-22	10.18
18-20	7.49
Under 18	5.28
Apprentices (see below)	5.28

The apprentices' NMW rate is for people on an apprenticeship, who are aged 16 to 18, **and** those aged 19 or over who are in the first year of their apprenticeship. Apprentices aged 19 or over and past their first year get the appropriate NMW for their age.

There is further information about taking on apprentices on GOV.UK.

Our guidance for taking on an employee gives an overview of the main rules and contains further information on the NMW including complex areas such as deductions (for example, for uniforms) and travel time.

Pensions auto-enrolment (workplace pensions)

Every employer with at least one member of staff now has a responsibility of putting those who meet certain criteria into a workplace pension scheme and contributing towards it.

The process is called automatic enrolment. This is because it is automatic for staff – they do not have to do anything to be enrolled into the pension scheme. But it is not automatic for an employer and there are several things that the employer has to do.

We summarise the main aspects of auto-enrolment on our guidance for taking on an employee and link to more detailed guidance on The Pensions Regulator website, including their planning tool to help employers work out what to do and when.

What is Value Added Tax (VAT)?

VAT is a sales tax that is added to the end cost of various goods and services.

When running your own business, you might need to or choose to register for VAT. You should then charge VAT to your customers and make regular payments of VAT to HMRC.

VAT is a complex tax that attracts strict penalties. We provide no more than an overview here.

VAT is usually charged at a standard rate of 20%. However, certain items are exempt from VAT or charged at lower rates such as 0% (for example, children's clothing) or 5% (such as household gas and electricity).

If, during the 2022/23 tax year, your sales (income from your business) are:

- **Over £85,000 in any consecutive 12-month period ending in that year; or**
- **Expected to exceed the annual threshold of £85,000 in the next month, just looking at that month alone**

then you might need to register and submit VAT returns online.

You may also choose to register for VAT even though your sales are not over, or anticipated to be above, the registration threshold of £85,000.

Below, we cover registering for VAT and explain about different VAT schemes which your business may be eligible to use.

If you are a VAT-registered trader, you will normally offset the VAT you have been charged by your suppliers against the VAT you have charged your customers. You will then pay over to HMRC the net amount of VAT shown on your VAT return which you submit to HMRC. If the VAT charged by your suppliers is more than the VAT you have charged your customers, then a refund will be due to you from HMRC.

Registering for VAT

If you register for VAT you will automatically be signed up to Making Tax Digital for VAT and will be required to deal with VAT in accordance with these rules unless you are exempt. The Making Tax Digital for VAT regime requires businesses to keep their business records for VAT digitally, and also submit their VAT return via HMRC-approved third party software or via bridging software. There is more information on GOV.UK.

GOV.UK has further information on registering for VAT. If you do not want to register online then you can complete form VAT1.

If you are trading as a partnership (see page 30) then the same registration thresholds apply. If the partners do not want to register online then you need to complete an additional form VAT2 (as well as form VAT1 referred to above).

VAT returns

Usually you complete a VAT return once every three months, however if you are eligible and join a VAT scheme (see page 49) then you may file your VAT returns at different intervals.

LITRG were involved in a successful tribunal case (LH Bishop Electric Co Ltd & Others v HMRC Commissioners) arguing against mandatory digital filing of VAT returns if you struggle to file online due to age, disability or internet access issues. Following this, HMRC now offer an alternative approach to filing if you cannot use computers on religious grounds or because of your age, disability, location or for any other reason. You should contact HMRC and apply for exemption from the Making Tax Digital programme if you are unable to file your VAT returns online. There is more information on Making Tax Digital for VAT on GOV.UK and the LITRG website.

Filing and payment deadlines

Unless you are registered to use a VAT scheme then the deadline to pay and file your VAT return is one month and seven days after the end of the return period. For example, if your quarterly VAT return period is from 1 April to 30 June, you will have until 7 August to submit your VAT return on time and pay any VAT due. Penalties may be charged for paying or submitting your VAT returns late, and for filing inaccurate returns. GOV.UK explains how these penalties are calculated.

VAT records

All VAT records must now be kept digitally as part of the Making Tax Digital requirements unless you are exempt. Usually, you should keep all the information relating to your VAT return, such as business invoices and receipts, for at least six years. If you are using a VAT scheme (see below) then there may be special rules. You should check the detailed guidance on GOV.UK for what you need to keep and how long for.

VAT schemes

Depending on the type of business and your annual sales, you may be able to choose to use a more simplified VAT scheme. Below is a table which includes a brief summary of some of the common schemes self-employed businesses use.

Scheme	Eligibility	Important notes
Annual accounting	Estimated VAT taxable turnover for the next 12 months is £1.35 million or less.	Submit one VAT return annually. Make advanced VAT payments during the year. Not suitable if you anticipate regular VAT repayments.
Cash accounting	Estimated VAT taxable turnover for the next 12 months is £1.35 million or less.	VAT is calculated on actual cash receipts and payments rather than based on invoice dates.
Flat rate	Estimated VAT taxable turnover for the next 12 months is £150,000 (excluding VAT) or less.	Pay VAT based on a fixed percentage of your sales. The percentage used depends on the type of business, and whether or not you are a **'limited cost business'**. Do not claim VAT back on purchases except certain capital assets costing over £2,000.

There are other VAT schemes, including the retail scheme, which are explained on GOV.UK.

Further information on VAT

As you can see from the brief summary here, VAT is a complex area. Below is a list of resources you may want to use:

GOV.UK has information on VAT including: reclaiming VAT, VAT visits and inspections, rules for particular trades, importing and exporting and using VAT online services.

HMRC have developed webinars and e-learning resources to help you understand VAT. A list of these is on GOV.UK.

Local taxes

Local taxes include business rates and council tax (called rates in Northern Ireland) and are devolved taxes, so the rules vary depending on whether you are in England, Scotland, Wales or Northern Ireland. We look at all the different scenarios below.

Business rates

As you are running your own business you will need to consider whether you should be paying business rates. Business rates are charged if you are using a non-domestic property such as a shop, warehouse, factory, office or holiday rental property. If you run your business from your home then, in some circumstances, part of your home may be assessed for business rates.

In **England and Wales**, business rates are collected by your local council. Business rates are calculated by using the rateable value of the property, which is worked out by the Valuation Office Agency (VOA), rather than the income of the individual or the businesses that occupy them. It is important that you notify the VOA regarding any changes to your business property such as if the nature of your business changes or you sublet part of the property. There is more information on GOV.UK.

Local councils are also responsible for giving exemptions and reliefs against business rates. For example, some commercial properties are exempt or receive relief from business rates. These include:

- **Some small businesses (the exemption or relief depends on the rateable value or where your business property is – see below)**
- **farm buildings and land (excluding offices)**
- **fish farms**
- **places of public religious worship and church halls**
- **buildings used for the training or welfare of disabled people**

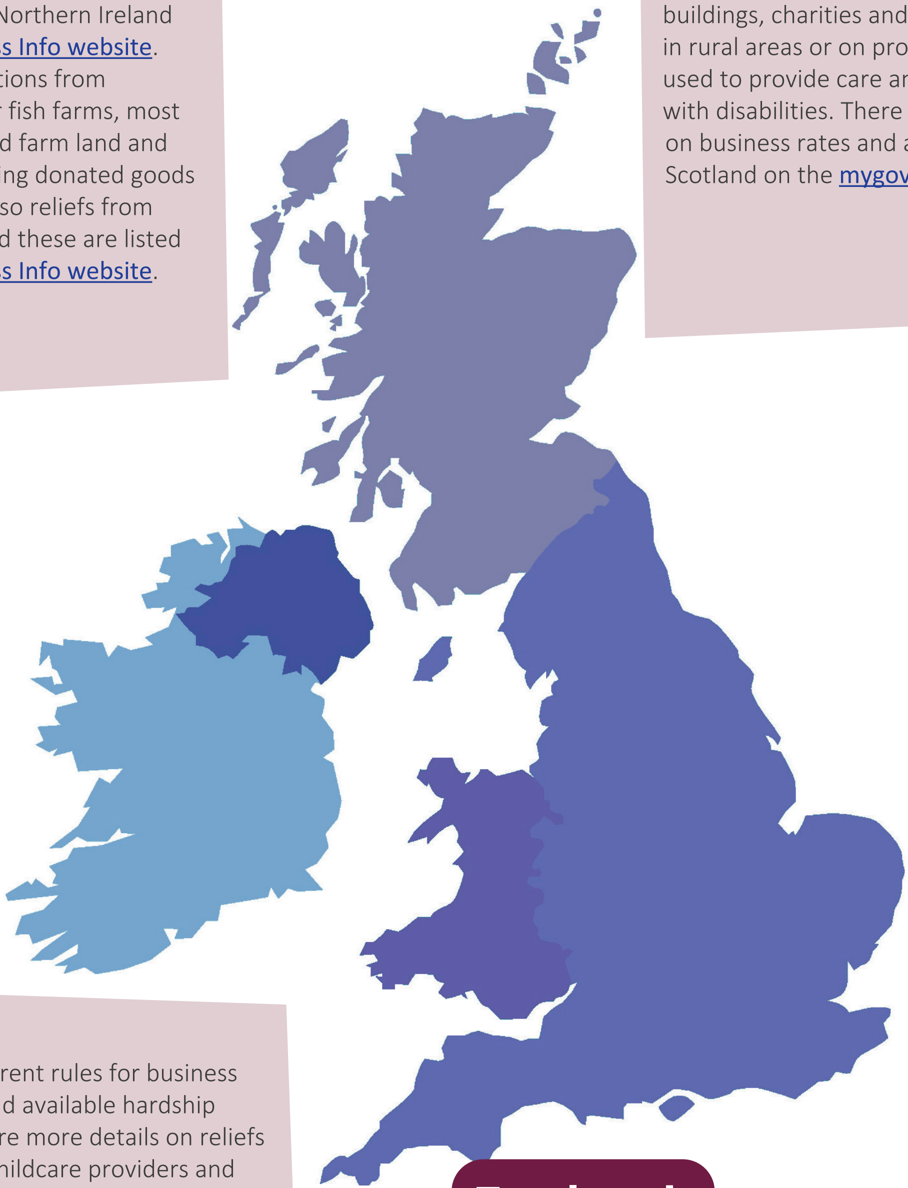
The exemptions and reliefs available can vary depending on which devolved area your business property is in (England, Northern Ireland, Scotland and Wales).

Northern Ireland

Business rates are collected by Land and Property Services. There is information on how business rates are calculated in Northern Ireland on the NI Business Info website. There are exemptions from business rates for fish farms, most farm buildings and farm land and charity shops selling donated goods only. There are also reliefs from business rates and these are listed on the NI Business Info website.

Scotland

Scottish local councils collect business rates and the Scottish Assessors decide the rateable value of the business property and a 'poundage' multiplier rate is applied to this to calculate business rates. There are reliefs for small businesses, empty buildings, charities and properties located in rural areas or on properties which are used to provide care and training for people with disabilities. There is more information on business rates and available reliefs in Scotland on the mygov.scot website.



Wales

There are different rules for business rates reliefs and available hardship funds. There are more details on reliefs for charities, childcare providers and small businesses on the Business Wales website.

England

There are reliefs available for business properties, for example, if the property is located in an enterprise zone or a low populated rural area. There are also reliefs available for small businesses, charities, empty buildings and some councils may also provide hardship relief. There is further information on GOV.UK.

Council tax

In **England**, **Wales** and **Scotland**, this local tax is called council tax and is dealt with by your local authority (also known as councils). In **Northern Ireland**, a similar tax called rates is collected by Land and Property Services. The money collected from these local taxes goes to local authorities to pay for local services such as parks, rubbish collection and the police.

You pay council tax or rates on the property you live in. The amount varies, depending on the size of the property and where you live. The amount you pay could be reduced if, for example, you:

live alone
are disabled
are a full-time student.

If your income is low, you might be able to claim a council tax reduction but this can depend on where you live and your personal circumstances. Find out more about council tax reductions on GOV.UK.

There is also information about council tax in England, Scotland and Wales on GOV.UK.

There is more information about rates in Northern Ireland on the NI Direct website.

Working from home and local taxes

If you run your business from your own home then part of your property may be liable to business rates and part may be charged council tax, and there may be an alteration to the property's council tax banding. The Valuation Office Agency (VOA) considers a number of things when deciding whether or not your property should be liable to business rates and may visit your property as part of their assessment.

As well as considering whether your home is liable for business rates you will want to ascertain whether you will be charged capital gains tax upon the sale of your home if you move. There is more information on our capital gains tax page.

Other things to consider as your business grows

Below is a list of some of the areas you may want to consider as your business develops:

Cashflow: setting money aside, for example, for expansion plans, replacing capital equipment, paying your tax and National Insurance contributions.

Pension: considering your financial plans for the future. Will you be entitled to the state pension? Should you obtain professional advice regarding a private pension?

Trade through a different structure: such as a company or partnership; you should consider obtaining professional advice on what structure would suit the future plans for your business.

Legal obligations: depending on the sector your business is in, there may be additional legal requirements covering areas such as health and safety, data protection and employment law. You should ensure you understand and comply with any regulations which affect your trade.

Stopping your business

This part of the guide discusses things you need to do and be aware of if you decide to finish trading and cease being self-employed or stop being a partner in a trading partnership. This may happen because your business is not trading profitably, and you are making losses or maybe you decide to sell your business to a new owner.

This section covers the following:

Top Tip

We recommend that you obtain professional advice if you are selling your business or share in a partnership or if you decide to incorporate and change your legal structure from self-employed or a partnership to a limited company.

Notifying HMRC

To tell HMRC that you are no longer self-employed, either:

- **notify HMRC by completing this online form. We recommend that you print a copy of this form before submitting it to HMRC.**
- **Telephone HMRC on 0300 200 3300 (textphone 0300 200 3319). Keep a note of the telephone call.**

HMRC will use the date you finished trading to cancel your Class 2 National Insurance contributions as these are calculated on the number of weeks you have been self-employed in the tax year.

Self Assessment tax return

If you have stopped trading then you will still need to complete a Self Assessment tax return for your final period of self-employment and make any income tax and National Insurance payments by their respective due dates.

After ceasing to trade you may still need to complete a tax return if you have other income which must be reported via the Self Assessment tax system. There is more information on when you may need to complete a tax return on GOV.UK.

If you receive a notice to submit a Self Assessment tax return and you have not traded during the tax year, and there is no other reason to complete a tax return, then contact HMRC to confirm whether you still need to complete the return. If you do not complete the tax return or contact HMRC then you may be subject to late filing penalties (even if there is no tax to pay). You can contact HMRC by telephone on 0300 200 3310.

When completing your final Self Assessment tax return, ensure that you include all your business income and expenses relating to your self-employment. You will also need to consider whether you have **overlap profits**. These are profits which arise because you have paid tax twice on some of the same profits from self-employment. Whether or not you have overlap profits depends on what basis period you used when preparing your accounts. You will receive tax relief for these overlap profits (known as overlap relief) either on the cessation of trading or in the 2023/24 tax year at the latest, as this is the transition year for moving to new basis period rules. See our information on Basis Period Reform for more details. Our page How do I work out my taxable profits? explains more about overlap profits, with an example illustrating how they are calculated.

If you have ceased trading because of financial problems and you are unable to pay any outstanding tax and National Insurance contributions, you should contact HMRC as soon as possible. There is more information on our page What if I cannot pay my tax bill? and the TaxAid website has detailed guidance on debt and what you can do.

Business records

You still need to keep your business records used to prepare your last Self Assessment tax return for five years from 31 January following the tax year for which the tax return is made. For example, if you stop trading during the 2023/24 tax year, you will need to submit your Self Assessment tax return by 31 January 2025, therefore you must keep your business records until 31 January 2030.

However, in some cases you may need to keep the records longer than the above time limit, for example where there is an ongoing investigation by HMRC you will need to keep your records until the end of the enquiry.

Top Tip

Do not forget to notify HMRC (for tax credits) and DWP (for universal credit) if you have stopped being self-employed. See below for more information.

Stopping your business – if registered for PAYE or VAT

Pay As You Earn (PAYE)

You need to notify HMRC as soon as possible when you stop employing staff. You can contact HMRC using the Employer Helpline on 0300 200 3200. Keep a note of the telephone call.

You will also need to submit a final payroll return, making any PAYE deductions and payments to HMRC. You will need to provide forms P45 and, if applicable, send your expenses and benefits returns (forms P11D and P11D(b)).

If you stop being an employer then you will have to consider whether you are making your staff redundant and any employment law implications. There is information on GOV.UK which may help you.

If you have sold your business and your staff will continue to be employed, you will need to notify HMRC. There is information on GOV.UK about what you need to do in this situation.

VAT

If your business is VAT registered, then you will need to cancel the registration unless you have sold your business as a **going concern** and the new owner has kept the same VAT registration number (in which case see below for what you need to do).

You must cancel your VAT registration within 30 days of ceasing to trade or you may be charged a penalty. You can notify HMRC online, or by completing form VAT7 which is available on GOV.UK.

There is information on GOV.UK on what happens after you cancel your registration and about completing your final VAT return.

If you are a partner leaving a partnership then you must inform HMRC within 30 days using form VAT2 otherwise you may be charged a penalty.

If you have sold your business then your VAT registration may be transferred to the new owner, if they decide to use the existing VAT registration. We recommend that you take professional advice as there may be issues for which you need tailored tax guidance. Both you and the new owner need to inform HMRC about the transfer of a **going concern** by completing form VAT68. There is further information on GOV.UK about transferring a VAT registration.

After cancelling your VAT registration, you need to keep your VAT records for six years.

Stopping your business – if claiming tax credits or universal credit

We cover tax credits and universal credit in the state benefits section below.

If you have stopped trading and you are claiming tax credits or universal credit then you will need to contact either HMRC (for tax credits) or the Department for Work and Pensions (DWP) (for universal credit) to notify them about your change of circumstances.

When you inform HMRC that you have stopped trading for income tax purposes they will not inform the tax credits team at HMRC – you must inform them separately. There is information about reporting changes when you receive tax credits in the tax credits and benefits section of our website. This guide covers tax credits and self-employment below.

If you are claiming universal credit then you will need to inform DWP using the universal credit helpline (telephone 0800 328 5644; textphone 0800 328 1344 Relay UK 018001 then 0800 329 5644) that you have stopped being self-employed as soon as possible. This guide explains about universal credit for self-employed claimants below.

State benefits

You might be able to claim state benefits if you have a low income or have children. HMRC not only collect tax, they also pay child benefit and tax credits (see below).

Whether you can claim some state benefits depends on things like your National Insurance contributions record, your income, your immigration and residence status and where you live. The rules are different for each state benefit – just because you are entitled to one does not mean you can claim the others. So it is important to check the rules, or get advice, before you claim.

Some state benefits are taxable (called taxable benefits) which means you may have to pay tax on them (depending on your circumstances). Other benefits are tax-free, which means no-one has to pay tax on them. You can see a full list of benefits and whether they are taxable or tax-free in our state benefits section on page 63.

This section covers:

Tax credits

There are two tax credits – child tax credit and working tax credit. Both are tax free. You can claim one or both if you are entitled to them. Now that universal credit (UC) is available across the UK, HMRC state that it is no longer possible to make a brand new claim for tax credits. If you are already claiming working tax credit and wish to add child tax credit (or vice versa) or you are routinely renewing your tax credits award from the previous year, note that neither of those counts as making a new claim in this context.

If you are married or in a civil partnership, or if you are living with a partner as if you are a married couple or civil partners, you must have made a joint claim. You can read about this on our website for welfare advisers, Revenuebenefits.

You can get child tax credit if you are aged at least 16 and live in the UK and are responsible for a child under 16 or for a young person up to the age of 20 who is in, or has recently been in, certain types of education and training. You do not need to be working to claim child tax credit and it is separate to child benefit. The amount of child tax credit you receive depends on your household circumstances and income. There are extra amounts for children who are disabled.

You can get working tax credit if you work and are on a low income. The amount of working tax credit you receive depends on your household circumstances, your income and also on your partner's income if it is a joint claim. To qualify, there are restrictions relating to both age and the minimum number of hours normally worked each week. There is more information about tax credits on our tax credits page.

Tax credits and self-employment

To qualify for **working tax credits** the self-employed activity should be organised and regular, undertaken on a **commercial basis and with a view to realising a profit**, in other words it must be a serious undertaking with the main aim and clear intention to return a profit. There is no clear threshold level of profit or in some cases what level of loss will be acceptable to satisfy this rule. In fact, simply making a profit does not necessarily mean the activity is commercial, although HMRC are unlikely to look further into whether any claim meets the test where profit from the business at least equates to the relevant national minimum wage for the number of hours the claimant is required to work. Each case will be determined by HMRC on its own merits by applying a series of tests. There is information on these tests on our website for welfare advisers, Revenuebenefits.

Activities which amount to hobbies rather than commercial self-employment will be unlikely to meet the definition for tax credit purposes. Even if you make a profit from a hobby it does not necessarily mean you are self-employed for tax credit purposes. Profit from a hobby may still be taxable and therefore count as miscellaneous income for tax credit purposes. The treatment of income for tax and tax credits may sometimes be different.

When checking to see if you are self-employed for working tax credits, HMRC will initially compare your previous year's income, declared for tax credit purposes, against the number of hours you declare for your self-employment in the current year. Where earnings fluctuate, claimants can notify HMRC of a revised current year estimate to reflect anticipated changes in their income for the full tax year.

If the self-employment shows fluctuations in activity or profits (or losses), HMRC can look at information covering a reasonable period which reflects the nature of the business. As explained above, where it appears that profit from self-employed activities equates to at least the relevant national minimum wage rate (see page 47), HMRC will generally accept on face value that the activity meets the definition.

The self-employed activity must be **organised**. HMRC will look to see that the business is run in an organised manner, with proper book-keeping, relevant insurance cover, marketing plans, business bank accounts, tools, equipment and so on, as appropriate and relevant to each business.

For many types of self-employment it would be advisable to draw-up and maintain a business plan, indicating activities, expected bills and payments, client base and advertising or other business growth options which could be presented to indicate a clear commercial and organised approach with the intention of realising a profit and growing the business where opportunities arise.

It may not be appropriate for all trades, vocations and professions to use a business plan, but other business-related paperwork should be drawn-up and maintained to ensure accurate business records are kept and can be presented to HMRC if required.

HMRC may ask claimants to provide evidence to help confirm entitlement to **working tax credit**. The type of evidence will vary according to the type of business and circumstances. Individual cases will be assessed each on their own merits but may include a business plan, cash book, records of suppliers and advertisements placed. The business records (see page 11) you need to keep to prepare your accounts and Self Assessment tax return may also be used as evidence.

The activity must also be **regular**. By this, it seems that HMRC would expect to see that business-related activity, performed with a view to making a profit, is undertaken regularly throughout the period of the award.

Tax credits and trading losses

Tax credits generally follow the tax system when it comes to calculating income (profits) from self-employment. HMRC have produced some online guidance on GOV.UK, which explains how to calculate income from self-employment. There are some exceptions to this general rule (that tax credits follow the tax rules) so you should check the guidance carefully.

The remaining figure is to be entered into the self-employment income box on the form. If the figure is a loss, '0' should be entered on the form.

Working sheet TC825, provided by HMRC, can be used to calculate income where trading losses, gift aid and pension contributions are involved.

While the computation of trading profits and losses is the same for income tax and tax credits, there are the following important differences in the way **loss relief** is calculated between tax and tax credits. The treatment of tax losses (see page 27) for income tax purposes is explained in the 'starting to trade' section. For tax credit purposes:

- **A trading loss in a year must be set off against the claimant's total income for that year. Where the trader is part of a couple and a joint claim has been made, a trading loss in a year must be set off, for tax credits, not only against the trader's current year income but against the total joint household income of the trader and his or her partner.**
- **Any surplus may be set off against profits of the same trade in subsequent years for tax credits (with the exception of losses incurred before the 2001/2 and 2002/3 tax years). This treatment is the same as carrying forward losses for tax purposes.**
- **There is no carry-back of losses for tax credits.**

Note

Trading losses cannot be carried forward for tax credits unless the trade in which they were incurred is being undertaken on a commercial basis and with a view to realising profits.

For more details and examples on this see our website for welfare advisers, Revenuebenefits.

How income, including losses, is worked out for in-year finalisation when you move to universal credit may be different, see separate section on our website for advisers, Revenuebenefits.

Further information on tax credits

There is information on tax credits in our tax credits and benefits section, including information on claiming with a disability, renewals, backdating a claim and under or overpayments.

There is also detailed information on our website for welfare advisers, Revenuebenefits, which includes childcare and tax credits, and changing of circumstances.

If HMRC decide you are not self-employed in order to claim tax credits then you can challenge their decision through the appeal process; there is information in our tax credits and benefits section which can help you.

Transition from tax credits to universal credit

Tax credits and some other working-age means-tested benefits are being gradually replaced by universal credit. Universal credit is administered by the Department for Work and Pensions (DWP) and has been introduced gradually across the UK. It is now available in all areas of the UK and HMRC state that it is no longer possible to make a brand new claim for tax credits. It is expected that most tax credit claimants will have moved over to universal credit by the end of 2024.

Top Tip

You can find out more about the transition to universal credit on our website for advisers, Revenuebenefits.

Universal credit

Universal credit is a state benefit generally paid monthly in arrears designed to support working age people (broadly those who have not reached their state retirement pension age) who are on a low income, although alternative payment arrangements are available and claimants in Scotland and in Northern Ireland have more options. It replaces several working-age benefits and payments, including working tax credit, child tax credit, housing benefit (except for specified accommodation), income support, income-related employment and support allowance and income-based jobseeker's allowance.

We explain who can claim universal credit on our LITRG website. You can claim universal credit if you are self-employed, however the way your claim works is different to being an employee, as the Department for Work and Pensions (DWP) receives information about an employee's wages automatically from HMRC in most cases. Claiming universal credit if you are self-employed can be complicated and it is important that you understand the process and what you need to do.

Universal credit for self-employed claimants

Universal credit can be more complicated to understand and deal with if you are self-employed, as you will have more reporting obligations than claimants who are employees only. The table on the next page lists the main areas that self-employed claimants should be aware of.

Issue	What does this mean for you?	Where can I get more information?
Initial Rules Newly self-employed claimants have a 'start-up' period of 12 months. Anyone who is gainfully self-employed when they make a universal credit claim will usually have a 12-month grace period. This includes anyone who migrates from a legacy benefit to UC	The Minimum Income Floor (MIF) is not applied during this time even if profits are below the MIF threshold. Claimants are allowed one start-up period every five years.	There is some general information about universal credit and self-employment on GOV.UK. Information on what counts as self-employment is on our website for welfare advisers, Revenuebenefits.
The Department for Work and Pensions (DWP) define gainful self-employment as: (a) The claimant is carrying on a trade, profession or vocation as their main employment (b) Their earnings from that trade, profession or vocation are self-employed earnings; and (c) The trade, profession or vocation is organised, developed, regular and carried out in expectation of profit. The profession or vocation must be carried out in a capacity other than as an employed earner. Partnerships will be tested to see if the partners are gainfully self-employed.	The gainful self-employment test is very important because it determines whether a person will be subject to the Minimum Income Floor (MIF) and whether they qualify for a start-up period. A DWP adviser will meet with you to decide whether you are gainfully self-employed. Being registered as self-employed with HMRC will not automatically mean that DWP will consider you in gainful self-employment. If DWP decide you are not gainfully self-employed then you will be subject to **conditionality** rules, such as looking for employment. This will be explained to you by your DWP adviser. Even if you are not gainfully self-employed, any self-employed earnings will still count as income.	There is more information on gainful self-employment on Revenuebenefits.

Issue	What does this mean for you?	Where can I get more information?
Monthly reporting – Claimants must report their self-employed earnings for the monthly assessment period up to 7 days before and 14 days after the end of the assessment period. If a claimant is a business partner then the profit (earnings) is shared in accordance with the partnership agreement. If there is no partnership agreement then the profit is shared out equally amongst the partners. **Earnings** are calculated as Gross Profits (that is actual receipts minus permitted expenses) minus income tax, National Insurance and pension contributions.	The rigidity of monthly assessment periods means that the system cannot deal fairly with: Self-employed claimants who have uneven earnings throughout the year (for example, farmers and seasonal workers) Self-employed claimants who have big expenses (such as an annual insurance premium), falling in a particular month Periods in which losses are made either in the early years of the business (after the **start-up period**) or due to an unexpected change (such as the loss of a contract, or damage from flooding resulting in a period when the business is unable to trade).	There is more information on reporting income from self-employment on Revenuebenefits.
Minimum Income Floor (MIF) – this is applied if you are gainfully self-employed and in the 'all work' requirements group and have monthly earnings which are lower than a certain threshold. The MIF threshold is usually calculated as the relevant rate of national minimum wage x 35 hours x 52/12 less a deduction for notional income tax and National Insurance contributions. Please note, the number of hours used in this calculation may vary according to individual circumstances so for example if you have caring responsibilities the MIF may be calculated using less than 35 hours.	If you are a universal credit claimant and your profits fluctuate during the year then you may earn less in a monthly assessment period than the MIF threshold. If that occurs, then for the purposes of your universal credit claim you are treated as having earned the MIF in spite of what your actual earnings are. This will result in you receiving less universal credit than if your actual earnings were taken into account. If the MIF is applied to your award in an assessment period then you will not receive any benefit in your universal credit claim for making pension contributions in that assessment period.	There is more information about the MIF on our website for welfare advisers, Revenuebenefits, including how the MIF works, explaining the problems with the MIF and exceptions to the MIF.

The MIF only applies to those who are in the 'all work' requirements group. Those placed in other groups, for example due to their limited capability for work, will be exempt from the MIF requirement.	The MIF only applies to those who are **gainfully self-employed** and who are in the 'all work' requirements group and are not classed as a start-up or are within their **grace period**.	
Accounting rules – DWP use a cash-based accounting system which is different to cash basis accounting which you may be able to elect to use for your tax return. All self-employed universal credit claimants must use the DWP cash accounting rules for their monthly reporting.	How different the accounts you prepare for HMRC are to the monthly ones for DWP will depend on the type of business transactions and whether you are eligible and choose to use the cash basis accounting rules for your tax return. Even if your type of business is eligible to use cash basis accounting for tax, there is also a sales threshold which is £300,000 for the 2023/24 tax year if you are a universal credit claimant.	These rules and the potential differences between reporting for HMRC and for DWP and what expenses are permitted on your universal credit claim, are explained on our website for advisers, Revenuebenefits.
Surplus earnings – DWP introduced complex rules from April 2018 which mean excess income in one assessment period is carried over into the following assessment period.	This means that if a self-employment claimant has their award terminated due to excess income then a calculation will be done to work out their 'surplus earnings' for that month and the following five months. If this person then needs to start claiming universal credit again within that period, say because their income fell after four months, the surplus earnings left after those four months will be applied to their new claim as income, subject to a de minimis threshold of £2,500 (this threshold remains at the temporary level of £2500 for 2023/24 and is is expected to revert to £300 at some point). This means they will receive either a reduced universal credit award or potentially no award and that will continue until the surplus earnings are used up.	For more information on how surplus earnings are calculated see our website for advisers, Revenuebenefits.

Losses – before April 2018 there was no relief available under universal credit for losses incurred from self-employment. From 11 April 2018, a method of loss relief was introduced whereby a loss in one universal credit assessment period can be carried forward. However, there will also be an interaction between the loss relief and the Minimum Income Floor rules so, in effect, full loss relief and consequently relief for pension contributions, will not be given in some cases.	Because earnings from self-employment have to be **reported monthly** using a **cash-based accounting system**, it is likely that there will be losses during some months. Examples include when: ▶ **a large expense which may have accrued over a whole year is paid in one assessment period.** ▶ **income is received in only a few months of the year due to the nature of the business (for example, tourist trade), so in other months there are only expenses.** ▶ **the business is forced to temporarily stop trading due to unforeseen circumstances such as flood damage.**	There is additional information on the loss relief rules on our website for advisers, Revenuebenefits.

You can find further information on universal credit on our website for advisers, Revenuebenefits.

There is also information on universal credit on GOV.UK and the DWP has produced a guide on universal credit for the self-employed.

Other state benefits

The state benefits system is complicated and we cannot cover every benefit in this guide. There is further information on child benefit and guardian's allowance below.

Apart from child benefit, guardian's allowance and tax credits, most other state benefits are paid by the Department for Work and Pensions (DWP) or your local authority. In **Northern Ireland** most benefits are dealt with by the Department for Communities and Land and Property Services.

Tax credits and some other means-tested benefits are being replaced by universal credit (see section above).

State benefits may be available if you have a disability that affects your mobility or you need help with your personal care, or are on a low income and need help with your rent and council tax. You may also be able to get help with the costs of having a baby, prescriptions, glasses and other costs.

Some state benefits are taxable. If you get a form P60U or form P45U from DWP or Jobcentre Plus, you should keep it safe, as you may need it in the future. You can find a full list of benefits and whether they are taxable or tax-free on our state benefits page.

You can find out more about entitlement to other state benefits in Great Britain on GOV.UK.

In Northern Ireland you can find out more about benefits on the NI direct website.

Child benefit

If you are responsible for a child or qualifying young person in the UK, you can claim child benefit – you do not have to be the child's parent.

Child benefit is a tax-free benefit; although since 7 January 2013, if you have adjusted net income over £50,000 for a tax year, you may have to pay a tax charge, the **High Income Child Benefit Charge**. You can claim child benefit if you are responsible for a child under 16, or if a young person (up to the age of 20) you are responsible for is, or has recently been, in certain types of education or training.

The High Income Child Benefit Charge applies where you have, or a partner who lives with you has, adjusted net income over £50,000 for a tax year and

- **you or they receive child benefit; or**
- **someone else gets child benefit for a child living with you, but they contribute at least the amount of the child benefit towards the child's upkeep (and neither they nor their partner are liable to the charge themselves).**

Those who are affected by the charge can choose to continue receiving child benefit and pay the charge or they can make an election to stop payments of child benefit, so they do not have to pay the charge. You can find out more about this on our website.

The amount of child benefit you get is not affected by whether you have paid National Insurance contributions. You can claim it even if you are not working.

You can find out more about child benefit from HMRC on GOV.UK. The HMRC helpline is 0300 200 3100.

Guardian's allowance

Guardian's allowance is a tax-free payment, paid in addition to child benefit, for people who are bringing up children whose parents have died. In certain circumstances you may qualify for guardian's allowance where only one parent has died. You can find out more about guardian's allowance on GOV.UK.

Additional help for those with disabilities

This section considers some additional areas you may want to think about if you are self-employed and have a disability. There is information in other parts of this guide if you are self-employed and have a disability and are registered for Pay As You Earn (PAYE) (see page 45) or VAT (see page 48).

Accessibility when contacting HMRC

If you have accessibility needs there are a number of different options for contacting HMRC. For example, if you are deaf, do not hear well or have difficulty speaking, you can contact HMRC by Relay UK. If you are blind or cannot see well, you can ask for written materials in other formats like Braille or large print.

If you cannot deal with HMRC by telephone you can ask for a home visit.

Details of these additional services can be found on GOV.UK.

Top Tip

If you do contact HMRC in person or by telephone, keep a note of the conversation.

Write down: The name of the person you speak to / The time and date of the visit /telephone call / The advice you receive.

If you write to HMRC, keep a copy of your letter and proof of postage (ask for a receipt at the Post Office) and any reply you receive. This might be important if there is a dispute later on.

Access to work scheme

The Access to Work scheme gives grants to help disabled people or people with a physical health or mental health condition to start working or stay in work, including self-employment. You can find out more in our disabled people and carers section.

Blind person's allowance

If you are severely sight impaired you are entitled to an additional allowance to set against your income – the blind person's allowance. It is £2,870 for the 2023/24 tax year. If you cannot use all the allowance yourself you can transfer the excess to your spouse or civil partner. There is more information about how this allowance works and how to claim it in our tax basics section.

Relief from VAT if you have a disability

If you have mobility issues, you may be able to buy or lease a car that has been specifically adapted for you, free of VAT. You can read more about this on our webpage VAT reliefs for disabled and older people.

When things go wrong with your tax affairs

Within the tax system there are important dates, often called deadlines. You might get a penalty if you do not meet these deadlines, for example:

- **The date by which you must tell HMRC if you have any income or gains that have not been taxed already (unless the income is fully covered by the trading allowance (see page 22); or**
- **The date by which you must send in your Self Assessment tax return; or**
- **The date by which you should have paid your tax.**

Any penalties must be paid on top of any tax that you might owe HMRC. Be aware that there is a very tough penalty regime for tax returns that are filed late – even if you have no tax to pay or are due a refund.

HMRC can give you a penalty if your tax return is inaccurate or if you give them inaccurate information. HMRC can also ask you questions about your tax or information that you have given to them. These are called compliance checks. However, it is quite rare for this to happen. If you do not do as HMRC ask, you might have to pay a penalty. But you do have rights and you should get help if you receive a letter asking you for information. Find out more about compliance checks and enquiries on our Enquiries page.

Top Tip

Be careful of requests which pretend to be from HMRC. HMRC never send notifications of a tax refund by email, and rarely ask you to disclose personal or payment information by email.

If you are in doubt about whether correspondence or phone calls from HMRC are authentic then contact HMRC or check your Personal Tax Account (see page 68).

If HMRC make a decision about your tax or have sent you a penalty and you think it is wrong, check if you can challenge that decision as HMRC can make mistakes. This process is called an 'appeal' and usually you must appeal within 30 days. If you appeal, HMRC will look at the decision again. You can also ask for a separate HMRC team to look again at the decision. This is known as a statutory review (also known as an internal review).

If you cannot agree with HMRC, you can appeal to an independent tribunal. A tribunal means that people outside HMRC look at your case and decide whether HMRC made the right decision. If you think you have been treated badly by HMRC, you can complain. Find out more about tax complaints and appeals in the tax basics section of our website.

HMRC have guidelines that they should follow when dealing with you, these are detailed in The HMRC Charter. This Charter sets out HMRC's standards of behaviour and values.

Note

If you owe money to HMRC and cannot afford to pay, it is important to talk to HMRC about your tax debt. Your situation may not be as bad as you think, but you should act quickly. There is guidance on what to do about a tax debt on our page 'What if I cannot pay my tax bill'. If you do nothing at all you could face legal action. The TaxAid website has a detailed guide on debt and what you can do.

There are two charities that may be able to help you free of charge if you are on a low income: TaxAid and Tax Help for Older People.

Other useful things to know

This section includes how to find out more about the subjects this guide covers, useful facts such as tax deadlines and tax rates, and a glossary explaining what certain words used throughout this guide mean:

Advice on how to contact HMRC

We have included contact details for different parts of HMRC throughout this guide and advice on what to do when calling HMRC by telephone.

If there is no contact information listed you should contact the following general numbers:

Income tax	Telephone 0300 200 3300 (text relay (Relay UK) 18001 0300 200 3310). If you are calling from abroad the number is +44 135 535 9022.
Self Assessment	Telephone 0300 200 3310 (text relay (Relay UK) 18001 0300 200 3310). If you are calling from abroad the number is +44 161 931 9070.
National Insurance	Telephone 0300 200 3500 (text relay (Relay UK) 18001 0300 200 3500). If you are calling from abroad the number is +44 191 203 7010.
Tax credits	Telephone 0345 300 3900 (text relay (Relay UK) 18001 0345 300 3900). If you are calling from abroad the number is +44 2890 538 192.
Construction Industry Scheme (CIS) helpline	Telephone 0300 200 3210. If you are calling from abroad the number is +44 161 930 8706.

HMRC have services for people who need additional help (see page 65).

If English is not your first language, HMRC will let a friend or family member translate for you. If that is not possible, HMRC have access to an interpreter service. You should tell HMRC when you telephone that you need help.

Digital tax accounts and Personal Tax Accounts

HMRC want to change the way people inform them about their taxable income by making better use of digital services. Most taxpayers now have access to their own Personal Tax Account.

Digital reporting is now compulsory for most VAT returns unless the business is exempt. Our page What is Making Tax Digital for VAT? explains this new digital reporting process in more detail.

Personal Tax Accounts

Personal Tax Accounts can be accessed through GOV.UK and enable you to manage some of your tax affairs with HMRC through an individual online account. More functions are becoming available through Personal Tax Accounts such as finding your National Insurance number (NINO) or filing your Self Assessment tax return.

You can see what HMRC services you can currently use through your Personal Tax Account on GOV.UK. Also, you can sign up to receive electronic communications only but be warned that if you choose to do this, you must check your inbox regularly to avoid missing any filing deadlines or payments.

There is more information on Personal Tax Accounts including how to access your account in our tax basics section.

Websites for further information

In this guide we have tried to highlight where you can go for more information and organisations that may be able to help you.

Note

If you cannot find the information you are looking for or you would like to let LITRG know about any problems you have experienced with the tax and tax credits system that will feed into our work, please let us know through our Contact us page. We read every email we receive but cannot always promise to enter into correspondence with you, due to our limited resources.

Listed below are contact details for organisations which offer help and resources for the self-employed. These include government departments and charity and voluntary organisations.

Government help

GOV.UK: This is a website that provides UK government information and advice. It brings together most public information in one place. It covers the whole of the UK, although if you live in Northern Ireland, Scotland or Wales you may find their individual devolved government websites useful. These websites are listed below.

There are links to government organisations who may be able to help you when you start your business.

The Business Support Helpline can provide advice on running a business; there are different helplines for England, Northern Ireland, Scotland and Wales.

NI direct: This is the official government website for Northern Ireland. It gives information about important services including tax and state benefits.

The Scottish Government: This is the official government website for Scotland. It holds information on council tax, non-domestic rates, and Scottish income tax. It also holds all the policy type information for the devolved taxes and benefits.

The mygov.scot website has information on devolved benefits.

GOV.WALES: This is the official government website for Wales. It gives information about important services for which the devolved government for Wales is responsible. If you live in Wales, GOV.UK provides information about income tax and state benefits.

Welsh Revenue Authority: The Welsh Revenue Authority provides information and guidance about taxes that are fully devolved to Wales such as land transaction tax and landfill tax.

HMRC: All HMRC information and guidance is now on GOV.UK. We provide a useful table of telephone numbers and website links for different parts of HMRC you may want to contact on page 67 above.

There is additional online guidance for the self-employed on GOV.UK; we list useful factsheets and tools in the further help and guides from HMRC section below.

Organisations that might be able to help you further

The Low Incomes Tax Reform Group website has further information for the self-employed.

Revenuebenefits: Our sister website, Revenuebenefits, provides advisers with access to the latest information on the range of HMRC 'products', including tax credits and information and guidance on the transition to universal credit.

TaxAid: TaxAid provides advice to those on low incomes who have tax problems that they have not been able to resolve satisfactorily with HMRC. They offer a free, confidential service to anyone with tax questions who cannot afford to pay for professional advice; the helpline number is 0345 120 3779 (open Mon-Fri 9am to 5pm).

Citizens Advice: Citizens Advice provides free advice for many problems including help with debts and benefits.

The Federation of Small Businesses: This organisation helps members who run small businesses by providing advice, financial expertise and support.

Gingerbread: This organisation supports single parent families through online advice and their helpline.

MoneyHelper: This organisation (which used to be called the 'Money Advice Service') offers free and independent advice and tools on managing your money.

National debtline: this organisation provides free, confidential and independent advice on debt problems.

The Prince's Trust: this organisation helps young people (aged 30 or under) and provides support for those starting their own business through their Enterprise programme.

Further help and guides from HMRC

HMRC provide general help and information for the self-employed.

HMRC run webinars to help the self-employed with their tax responsibilities. Further details on when these webinars are running are listed on GOV.UK.

You can also watch videos made by HMRC on YouTube and use their e-learning guides and sign up for their email alerts.

Employment status

There is information on GOV.UK regarding employment status, either as a general overview or more detailed guidance.

HMRC also have an employment status manual – which offers technical guidance on tax and National Insurance issues relating to the employment status of individuals.

HMRC can help you determine tax employment status if you are unsure of your own status or if you want to check the status of someone you are taking on. They offer an online check employment status for tax tool which you may be able to use to help you. It will ask you a set of questions about the situation and at the end it will give you an indication of the status for tax.

Important note

If you are using the tool to work out whether you need to operate PAYE for someone, HMRC say that you should be able to rely on the tool answer, providing you answered the questions accurately based on the actual terms and conditions under which the person provides their services to you and the tool has been completed by you or your authorised representative.

As such, you should print or save a copy of the enquiry and result screen so that if there are any questions from HMRC at a later date you can show these as evidence that you ran a tax employment status check.

Keeping business records

HMRC provide webinars which cover business records.

Calculating your taxable profits

HMRC have produced Helpsheet 222 How to calculate your taxable profits; this covers topics such as overlap profits, allowable expenses, cash basis, accruals basis, changing your accounting date, losses, cessation of business and partnerships.

Changing accounting basis (cash basis and accruals basis)

There is more information on the cash basis in the HMRC manuals on GOV.UK which includes examples on the transitional adjustments required when moving from one accounting basis to another (for example, changing from the accruals basis to the cash basis).

Simplified expenses

There is a simplified expenses checker on GOV.UK which acts as a guide on whether you will be better off using a flat-rate allowance compared to apportioning expenses.

Completing your Self Assessment tax return

HMRC have produced Helpsheet 229 Information from your accounts; this explains how you complete your tax return using the information from your business accounts.

Tax losses

HMRC have produced Helpsheet 227 on losses.

VAT

HMRC have developed webinars and e-learning resources to help you understand VAT, a list of these are on GOV.UK.

Some important tax allowances and rates

The following table shows the income tax and National Insurance rates and thresholds that apply when you are self-employed. The figures listed below apply to the 2023/24 tax year (6 April 2023 - 5 April 2024) and apply to **England**, **Northern Ireland** and **Wales**.

Rates and thresholds	Figures to use
Personal allowance	£12,570
Basic, higher and additional tax rates (not including the savings rate)	20% on annual taxable earnings above the personal allowance and up to £37,700. 40% on annual taxable earnings, above the personal allowance, from £37,701 to £125,140. 45% on annual taxable earnings above £125,140.
National Insurance Class 2 Small Profits Threshold	£6,725
National Insurance Class 2 rates	£3.45 per week
National Insurance Class 4 Lower Profits Limit	£12,570
National Insurance Class 4 rates	0% on annual profits up to £12,570 9% on annual profits between £12,571 - £50,270 2% on annual profits above £50,270

Income tax in **Scotland** is partially devolved and the table below shows the tax rates for earned income which includes profits from self-employment. There is more information in our tax basics section on Scottish income tax. The National Insurance rates and thresholds will be the same in Scotland as England, Northern Ireland and Wales.

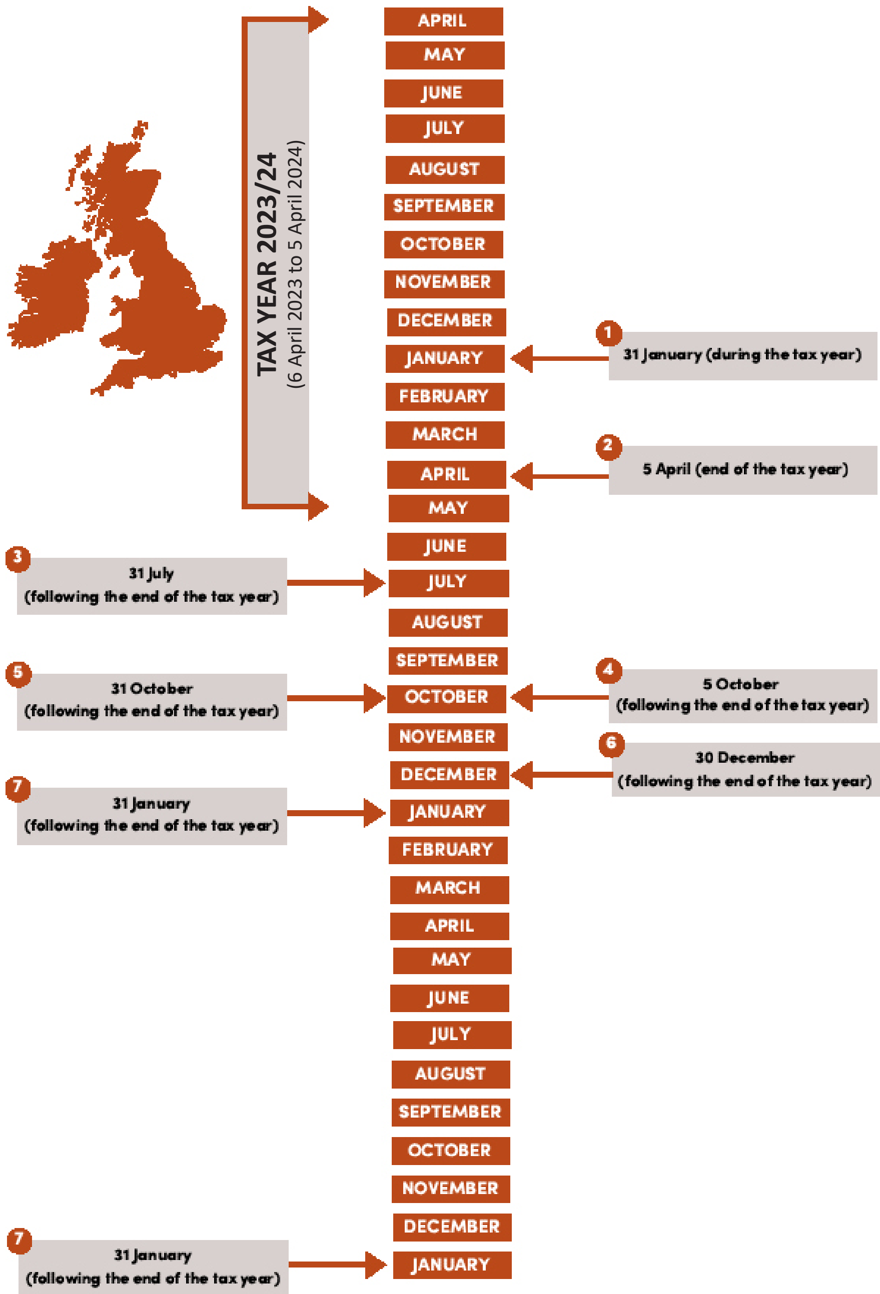
Scottish income tax has applied since 6 April 2017. For 2023/24, the rates and bands of Scottish income tax are as set out in the table on the next page.

Name of Band	Band	Rate of Scottish income tax
Starter (assuming entitlement to the personal allowance)	£12,571 to £14,732	19%
Basic	£14,733 to £25,688	20%
Intermediate	£25,689 to £43,662	21%
Higher	£43,663 to £125,140	42%
Top	Over £125,140	47%

The full rates and thresholds for the 2023/24 tax year and the previous two tax years (2021/22 and 2022/23) can be found in our useful links section.

Some important tax dates

The following graphic shows important deadlines for HMRC when you are self-employed.



Key to important tax dates diagram

1	**31 January (during the tax year):** The first payment on account for the tax year ending the following 5 April is due. For example, the first payment on account for the 2023/24 tax year is due by 31 January 2024. Not everyone has to pay these payments on account. We explain more at When do you pay any income tax due (page 24).
2	**5 April (end of the tax year):** The tax year ends on 5 April and shortly after this date you may receive a notice advising that you must file a tax return for the tax year just ended. If you are newly self-employed, you will need to **register** with HMRC for tax and National Insurance contributions for this to happen.
3	**31 July (following the end of the tax year):** The second payment on account for the tax year ending the previous 5 April is due. For example, the second payment on account for the 2023/24 tax year is due by 31 July 2024. Not everyone has to pay these payments on account. We explain more at When do you pay any income tax due on page 24.
4	**5 October (following the end of the tax year):** The date by which you need to notify HMRC that you have income that has not been taxed before you received it or capital gains in excess of £6,000 (2023/24 tax year) is 5 October (unless all your trading income is less than the trading allowance (see page 22) and you do not want to pay **voluntary Class 2 NIC**). This is so that HMRC can send you notification to file a tax return. If you are self-employed, you need to **register** with HMRC for tax purposes by this date.
5	**31 October (following the end of the tax year):** If you are sending HMRC a paper tax return, it must be submitted by 31 October. If you send the form after this date, there will be a **penalty** even if you have no tax to pay. See our section on How to complete your Self Assessment tax return (see page 19) for information on tax returns for the self-employed and the options for paper or online tax returns.
6	**30 December (following the end of the tax year):** If you file your tax return online, you will need to submit it by this date if you want HMRC to collect the tax through your PAYE tax code. You will have a PAYE tax code if you are also an employee or receive pension income (apart from the state pension). You will not have a tax code if you are self-employed only. Collection through your tax code may be possible where you owe less than £3,000. If your income is more than £30,000, even more tax may be collected through your tax code.
7	**31 January (following the end of the tax year):** All tax returns filed online must have been submitted by this date. If you miss this deadline, a **penalty** will be charged even if you have no tax to pay or have already paid all of the tax you owe. Also your balancing payment of tax is due at this time. For example your balancing payment for 2023/24 is due on 31 January 2025. You may also have a payment on account to make at this time. For example, you may have a payment on account to pay for the 2024/25 tax year on 31 January 2025.
8	**31 January (following the end of the tax year) + 1 year:** If you become aware that an entry on your paper or online tax return is incorrect, you can amend that return up to 12 months from 31 January following the end of the tax year. For example, if you need to amend your 2023/24 return, you have until 31 January 2026 to make the amendment. This applies whether you filed using a paper return or completed it online.

Glossary: important words and phrases

Accounting period	This is the time-period that your accounts cover. So if your accounting period is for the year ended 31 March 2023, this means your accounts will be from 1 April 2022 to 31 March 2023. The accounting period can be different to the basis period and the tax year.
Accounts	Accounts are a way of showing what profit or loss a business has made by listing the income (sales or turnover) and deducting any business costs or expenses.
Accruals	Accruals are an accounting concept you use if you prepare your accounts using the accruals basis. Accruals are calculated at the end of the accounting period by working out what expenses you owe which relate to the previous accounting period. For example, if your accounting period ends on 31 March and you have only paid your quarterly electricity bill for your workshop until the end of January then you would need to estimate what the electricity expense would be for February and March and include it in your accounts.
Accruals basis	This is a method used to prepare accounts, sometimes called the GAAP (Generally Accepted Accounting Principles) basis or traditional accounting. In general terms this means that all income earned and all expenses which relate to the accounting period are included in the accounts, whether they are actually paid or not. You can use the accruals basis or the cash basis to prepare your accounts.
Annual investment allowance	The annual investment allowance (AIA) is a special capital allowance that allows the full cost of an asset qualifying as plant and machinery to be deducted from income, subject to an annual maximum.
Appeal	An appeal is how you object to or dispute a government decision. Government departments' decisions are not always right. If you think that a decision about your tax, tax credits or other state benefits is wrong, you may be able to appeal that decision.
Basis period	This is the period for which you will be charged tax in a particular tax year. From 2023/24 the rules for basis periods are changing, see our page on Basis Period Reform.

Blind person's allowance	This is a special allowance that blind people or people with very poor eyesight can claim on top of their personal allowance. If you are eligible for it, you might be able to earn extra income before paying income tax. If you are certified severely sight impaired and are on a local authority register in England or Wales, or if you live in Scotland or Northern Ireland and are unable to perform any work for which eyesight is essential, you can claim the blind person's allowance.
Business rates	Business rates are local taxes you pay if you have or use a business property. The money raised from them is used to help pay for services in your local area.
Capital allowances	Capital allowances are a way of obtaining tax relief on some types of capital expenditure. They are treated as a type of business expense and so reduce your taxable profit.
Cash basis	The cash basis is a method which some self-employed businesses and partnerships can use to prepare their accounts. The cash basis looks at income actually received and expenses actually paid in the accounting period. If you meet certain criteria, you can elect to use the cash basis instead of the accruals basis.
Civil partners	Civil partners are two people in a relationship similar to marriage. They form a civil partnership when they legally register their partnership in front of witnesses.
Class 2 National Insurance contributions (NIC)	This is a type of National Insurance contribution paid by people who are self-employed. It is a fixed weekly amount.
Class 4 National Insurance contributions (NIC)	This is a type of National Insurance contribution paid by people who are self-employed. The amount due depends on the taxable profits of your business.
Complain	If you are unhappy about how an organisation has treated you or dealt with your case, you can complain. Most organisations have a formal complaints procedure.
Compliance check	This means HMRC want to ask you questions about information or forms you have sent in such as a tax return or tax credits claim.
Construction Industry Scheme (CIS)	This is a scheme for workers in the construction industry, where registered contractors withhold amounts from payments to subcontractors and pay the withheld sums to HMRC. These payments are then offset against the subcontractors' tax calculated under Self Assessment.

Council tax	Council tax is the local property tax in England, Scotland and Wales. You pay it to your local council (see below), and they use these funds to provide services. In Northern Ireland you pay rates instead of council tax.
Councils	Councils run services in your local area. Find your local council on GOV.UK.
Creditors	Creditors are people or businesses you owe money to for business expenses, for example suppliers of stock. You will need to know how much you owe your creditors at the end of your accounting period if you decide to use the accruals basis.
Debtors	Debtors are customers who owe you money for goods or services. You will need to know how much your debtors owe you at the end of your accounting period if you decide to use the accruals basis.
Department for Work and Pensions (DWP)	This is the government department which is responsible for most state benefits in England, Scotland and Wales.
Devolved administrations/ devolved governments	Devolution provides Northern Ireland, Scotland and Wales with forms of self-government within the UK. The Scottish devolved government can partially set the Scottish rate of income tax and from April 2019 the Welsh government began partially setting its own rate of income tax.
Digital tax accounts	Digital tax accounts are an HMRC initiative, which is still being fully developed. Most individuals now have a Personal Tax Account.
Employee	An employee is someone who works for somebody else (called an employer) under a contract of service. An employer will often ask an employee to sign a contract of employment – a document which records the terms they will work under (for example: working hours, how much they will be paid, what happens if they are ill). There does not have to be a written contract for your relationship to be legally counted as employment.
Employer(s)	An employer is a person or business who has to give work to someone and pay them for it under a contract of employment. The employer directs and controls the work that the employee does.
Expenses	Expenses are costs which a business incurs in order to trade. Most expenses are tax deductible but some are not including entertaining customers and any personal expenditure or drawings.

Gig economy	This is a developing area of the economy, for those who work on an ad hoc basis or 'gigs'. These workers have traditionally been classed as self-employed for employment law purposes. However, this view has recently been successfully challenged by some individuals claiming they should be reclassified as 'workers' for employment law.
HMRC	HMRC are part of the government that deals with tax, National Insurance contributions, working tax credit, child tax credit and child benefit.
Income	Income is money you receive, for example from work you do or from interest on savings.
Income tax	Income tax is tax that you pay on most types of income.
Independent tribunal	An independent tribunal is a group of people who look at appeal cases. They will look at your case if you are not happy with a decision about your tax or state benefits.
Land and Property Services	Land and Property services are responsible for collecting rates in Northern Ireland.
Local taxes	Local taxes are taxes you pay to your Local Authority (council) or Land and Property Services (in Northern Ireland). They pay for local services in your community.
Loss/Losses	Losses occur in a business when your expenses are more than your income (sales).
Married couples	Married couples are two people who have got married, by giving notice and having either a religious or civil ceremony in front of witnesses.
National Insurance contributions (NIC)	You pay National Insurance contributions to HMRC if you are aged 16 or over, and you are an employee or self-employed. You stop paying contributions once you reach state pension age. The contributions build up your entitlement to some state benefits.
National Insurance number (NINO)	Your National Insurance number is your personal reference number for the whole UK system of National Insurance and state benefits. This number ensures the National Insurance contributions you pay are noted on your record with HMRC.
National minimum wage / national living wage	The national minimum wage (NMW) sets the minimum hourly rates that employers must pay their employees in the UK. HMRC are responsible for enforcing the rules.
Partnerships	The business is owned by more than one person called partners; sometimes partners can be companies. The partners personally share responsibility for the business and complete a partnership tax return in addition to a Self Assessment tax return for each individual partner.

Pay As You Earn (PAYE)	This is a system of collecting and paying income tax and National Insurance contributions if you are employed. If you are an employee, your employer deducts income tax and National Insurance contributions from your wages and pays them to HMRC for you.
Payments on account	Payments on account are a way of paying some of your Self Assessment tax bill in advance. You normally have to make a payment on account if your previous year's tax bill was over £1,000, unless more than 80% of your previous year's liability was covered by tax taken off at source. Tax will be taken at source, for example, if you are employed and have tax deducted through the Pay As You Earn (PAYE) system.
Penalty/penalties	A penalty is a fine you might have to pay because you have broken a rule. For example, late filing of your Self Assessment tax return.
Personal allowance	This is the amount of taxable income you can have each tax year before having to pay income tax. Most people tax resident in the UK will be eligible for this allowance.
Personal Tax Account	This is an online system operated by HMRC on GOV.UK. It allows you to manage some of your tax affairs digitally.
Prepayments	Prepayments are an accounting concept you use if you prepare your accounts using the accruals basis. Prepayments are calculated at the end of the accounting period by working out what expenses you have paid for in advance for the following accounting period(s). For example, if your accounting period ends on 31 March and you have paid annual van insurance until 30 June, the prepayment would be the cost of the van insurance between 1 April and 30 June.
Profit	Profit is the amount of money you make in a business when your income is more than your expenses.
Rates	Rates are a local tax in Northern Ireland, which you pay to Land and Property Services, it is similar to council tax in England, Scotland and Wales. Councils use your rates to provide local services. This is different from business rates.
Self Assessment tax return	If you are within Self Assessment, you have to complete a tax return every year to tell HMRC about your income and gains. You can also claim allowances and reliefs. People have to complete a tax return if their tax affairs are complicated, for example, because they are self-employed or they receive foreign income.
Self-employed	If you set up your own business and take responsibility for its success or failure, you are likely to be self-employed.
Self-employment income support scheme (SEISS)	These are taxable grants paid to eligible self-employed individuals and partners in partnerships whose business has been adversely affected during the coronavirus pandemic. For further information see our coronavirus guidance.

Simplified expenses	Simplified expenses aim to make calculating some business expenses easier by using a flat-rate allowance. There are three areas of simplified expenses and you can choose to use none, one or all of them. The three areas are: expenditure on motor vehicles, use of home for business and premises used both as a home and for the business.
State benefits	State benefits are paid by the UK government to people who meet certain conditions, for example people with children or people of state pension age.
Student loans	These are loans from the Student Loans Company, a government-owned organisation that provides loans to students at universities and colleges in the UK. They are repaid after graduation or on leaving your course if you earn over a certain threshold.
Tax credits	There are two tax credits – child tax credit and working tax credit. You can claim one or both of them, depending on your household circumstances. HMRC deal with claims for tax credits.
Tax year	The tax year is from 6 April in one year to the following 5 April. You might see the tax year written as '2023/24 tax year' or just '2023/24'. This means 6 April 2023 to 5 April 2024.
Text phone	A textphone (or Minicom) can be used by people with hearing difficulties. It is similar to a normal telephone but has a keyboard and display that allows you to type and read conversations.
Text relay (Relay UK)	This is a text service which can be used by people with hearing and speech difficulties using the national relay service. It can be used through an app on a mobile or tablet or using Minicom or Uniphones.
Trading allowance	From April 2017, a £1,000 allowance is available for small businesses. If you have total trading or miscellaneous income of £1,000 or less then you will not need to report this to HMRC or pay tax on it. If the income you earn from your business is above £1,000 then you can elect to deduct the trading allowance from your trading income instead of deducting your actual expenses.
Universal credit	Universal credit is a single benefit run by the Department for Work and Pensions (DWP) which combines benefits for in and out of work support, housing, and childcare costs, with additional payments for people who have disabilities or caring responsibilities.
VAT (Value Added Tax)	Value Added Tax is a tax on expenditure that is charged by registered traders. If sales in a 12-month period ending in 2023/24 are more than £85,000, the trader will most likely be obliged to register for VAT and charge VAT on their invoices.

Low Incomes Tax Reform Group
30 Monck Street
London
SW1P 2AP
www.litrg.org.uk

The Low Incomes Tax Reform Group is an initiative of the
Chartered Institute of Taxation (Registered Charity number 1037771)

Low Incomes Tax Reform Group.

A voice for the unrepresented.