



Sole traders

Fact sheet no. BDL17 EW Sole traders

April 2018

This fact sheet tells you about being self-employed as a sole trader. It explains how you can approach your business, the important bills you have to pay and what options you may have to deal with debts.

Use this fact sheet to:

- understand how to register as self-employed;
- find out what a business plan is; and
- get practical tips to run your business successfully.

This fact sheet includes some useful contacts and links for you to get further help.

What is a sole trader?

If you are an individual and you work for yourself, you are classed as a sole trader. You may also have people working for you. Common examples of sole traders include: builders, plumbers, electricians, painters and decorators, taxi drivers and window cleaners.

As a sole trader, you are personally liable for your business debts. This means that you have to pay these debts out of your own income. If you do not pay, the creditors you owe money to could take further action against you personally. If this happens, both your business and personal assets could be at risk. In this fact sheet, we describe some important things to consider when you are a sole trader, including:

- how to approach your business;
- important types of bills you have to pay; and
- what to consider when choosing an option to deal with your debts.

Registering as self-employed

You should tell HM Revenue & Customs (HMRC) that you are self-employed as soon as possible. The latest you should tell them is by **5 October** after the end of the tax year in which you started trading. For example, if you started your self-employment in **July 2017**, the latest you should tell HMRC that you are self-employed is **5 October 2018**.

Use **form CWF1** to notify HMRC that you are self-employed. This can be completed online and is available from the HMRC website www.gov.uk/government/organisations/hm-revenue-customs. Alternatively, you can call HMRC on **0300 200 3500**. You will need your National Insurance number to register.

Information:

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the tax year

The tax year runs from **6 April** in one year to **5 April** the following year.



If you are self-employed and have **not** told HMRC by **5 October** after the end of the tax year in which you started trading, **contact us for advice**.

For information on income tax returns, see the **Income tax** section later on.

Business plan

It is important that your business has a business plan. This should describe:

- your intentions for the business;
- what products or services you sell;
- your skills and the skills of any staff who work for you;
- the research you have done about demand for your products and services; and
- the research you have done about other similar businesses who may be in competition with you.

The business plan is important when you apply for finance. It is also helpful when you set up your business and whilst you continue to trade. Go to www.gov.uk/write-business-plan for an example template and more information on how to write a business plan.

Extra advice:



review your progress

Review the progress of your business against your business plan regularly and update it if necessary.

Cash flow

One of the main problems you may face in running your own business is how regularly money comes in (cash flow). It is very important to plan ahead by doing a cash flow forecast. This will allow you to estimate your income and outgoings for the future. When you complete a forecast, you should be able to see the times when you are likely to experience financial difficulty. For example, there may be particular times of the year when you do not have any income coming in. You can then look at ways to compensate for this; for example, by setting up an overdraft with your bank.

Filling in the **cash flow forecaster** provided by **Start Up Loans Company** will help you estimate your income and outgoings for the future. Go to www.startuploans.co.uk/cash-flow-forecast-template. The Start up Loans Company provides Government funded loans and business mentors. It is designed to help support people with viable business ideas, but who have no access to finance.

Funding

Once you have done a cash flow forecast, think about what funding you may need. You can try your own bank for this or shop around other banks for the best deals.



Where possible, it is a good idea to set up a business account with a bank that you do not have any existing debts with. This will help to strengthen your position if you later find it difficult to pay your creditors. If you produce a good business plan and cash flow forecast, you stand a better chance of getting an overdraft.

Warning:



secured overdrafts

Be careful about taking out a secured overdraft against an asset such as your home. If the bank calls in the overdraft and you are unable to pay, your home would be at risk.

Credit control

'Credit control' is a term used to describe how your business:

- provides credit; and
- collects money from your customers.

See our fact sheet:



Credit control.

Good credit control procedures are very important to help make your business successful. For example, if you do not ask for customer references, or you do not have a proper procedure to collect money when customers do not pay, there may be a long delay in you getting paid for the work you have done.

Stock control

Keep good records of your stock. You can do this either on paper records or by using a computer. Don't buy too much stock as this will mean your money is tied up for long periods of time. However, it is still important to have enough stock to meet the demand of your customers. Use your cash flow forecast to help you to budget for your purchases.

Business leases

A lease is a legal agreement, drawn up in writing, which allows you to occupy and use a property for a certain length of time. The terms and conditions of the lease describe the rights and duties that you and the owner of the property have. For example, the lease should state how much rent you have to pay. It should also state what services the owner should provide to you.

Warning:



considering a lease?

If you are considering taking on a business lease, be careful. You may be committing yourself to the agreement for a long time. Seek specialist advice before taking on a lease. Business Debtline can help you to find the right type of help. **Contact us for advice.**

See our fact sheet:



Business property leases.



Income tax

As a sole trader, you are required to complete income tax returns each year and send them to HMRC. The information on your returns helps HMRC work out how much income tax you owe. The process of completing and sending in your income tax return is known as 'self assessment'. You should keep proper trading records, such as receipts and invoices. You do not have to send HMRC detailed accounts, but you will need them to complete your income tax return.

The income tax year runs from **6 April** each year to the following **5 April**. You have to complete and send HMRC your income tax return by a set deadline. The deadline depends on how you send your tax return. If you send it by post, the deadline is usually **31 October** each year. If you submit your income tax return online, the deadline is usually **31 January** each year.

For more information about completing your tax return online, see www.gov.uk/log-in-file-self-assessment-tax-return.

Your income tax bill has to be paid by **31 January** following the end of the tax year that it relates to. If you do not pay on time, interest and penalties can be added to your bill.

If your income tax liability for the previous tax year was higher than **£1,000**, you will need to make two 'payments on account' (POA) towards your next tax bill. These are payments in advance. You need to make these payments by **31 January** and **31 July** following the end of the previous tax year. Each payment is half of the tax due for the previous year.

For example, if your income tax liability was **£5,000 in 2015 - 2016**, the payments on account for the following tax year will be **£2,500 by 31 Jan 2017** and **£2,500 by 31 July 2017**.

If you know that your income for the current tax year will be lower than your income for the last tax year, you can ask to reduce your payments on account. You can do this on [form SA303](#). See www.gov.uk/government/organisations/hm-revenue-customs.

See our fact sheet:
Income tax debt.



Information:
overpayments

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Payments on account are paid in advance, so you may end up paying more than you owe when your tax return is put in for that year. If this is the case, you will usually be entitled to a refund.

How long do I need to keep my records for?

You do not have to send HMRC any documents apart from your income tax return. However, you must keep all supporting records in case HMRC starts an enquiry.

As a sole trader, you must keep your business records for **five years** after the deadline of **31 January** following the relevant tax year. This applies whether you sent in a paper return or completed it online. For example, for a 2012 – 2013 tax return sent in on or before **31 January 2014**, you must keep your records until **31 January 2019**.

In certain limited circumstances, you may need to keep your records for longer, for example, if HMRC has already started to check your records. In this case you will need to keep your records until HMRC writes and tells you they've finished the check. You may also need to keep your records for longer, if you sent in your income tax return very late.



Under self assessment, your income tax return must include information about your business on the self-employed supplement pages. You do not have to send HMRC separate accounts. However, if you choose to send HMRC separate accounts, it can help them to get a full picture of your business. You can use the extra space on your return to do this.

For more information on [income tax returns and self assessment](https://www.gov.uk/government/organisations/hm-revenue-customs), see the HMRC website www.gov.uk/government/organisations/hm-revenue-customs. Alternatively, there is an independent charity called TaxAid that offers free advice on tax issues if you are on a low income. See **Useful contacts** at the end of this fact sheet.

The Construction Industry Scheme (CIS)

There are special rules for handling payments that contractors make to subcontractors for construction work. These rules are known as the 'Construction Industry Scheme' (CIS).

You may need to register with HMRC as either a contractor or subcontractor under CIS if you are:

- working in the construction industry; or
- doing other construction-related work.

For more information about [CIS](https://www.gov.uk/government/organisations/hm-revenue-customs), see the HMRC website www.gov.uk/government/organisations/hm-revenue-customs.

See our fact sheet:
CIS - Construction Industry Scheme.



If you are unsure about whether CIS applies to the work you are doing, contact the HMRC Construction Industry Scheme Helpline on **0300 200 3210**.

National Insurance contributions (NICs)

As a sole trader, you are liable to pay two classes of NICs.

- Class 2 NICs are currently payable at a set rate. For the 2018 – 2019 tax year the rate is **£2.95 per week**. HMRC usually calculates and collects your Class 2 NICs as part of your self assessment return. If you earn less than the 'small profits threshold' then you do not have to pay Class 2 NICs, although you may choose to. For the tax year 2018 – 2019 the small profits threshold is **£6,205 per year**.
- If you do not pay Class 2 NICs, you may not be entitled to certain contribution-based benefits. Your State Pension may also be reduced. **Contact us for advice.**
- If you earn above **£8,424** per year, Class 4 NICs are payable as well as Class 2 NICs. Class 4 NICs are calculated as a percentage of your profitable earnings along with your income tax.

See our fact sheet:
Tax information sheet.





Value Added Tax (VAT)

VAT is a tax that is charged on most goods and services that certain businesses provide. If your gross turnover for the tax year is bigger than (or is likely to be bigger than) **£85,000**, you must register for VAT. Gross turnover means the income coming into your business before any deductions are made. You may also voluntarily register for VAT if you feel you would benefit from this. Discuss this with your accountant or **contact us for advice**.

VAT on the purchases you make is known as 'input tax'. The VAT you charge on the sales that you make is known as 'output tax'.

You will need to send HMRC a VAT return either monthly, quarterly or annually. You must give details of your input and output tax.

- If the output tax is greater than the input tax, you will have to pay the difference to HMRC.
- If input tax is greater than the output tax, HMRC should refund you the difference.

For more information on **VAT**, go to HMRC's website www.gov.uk/government/organisations/hm-revenue-customs.

Debt options

If you are struggling to pay your business and personal debts, consider whether you can trade through your financial difficulties and negotiate with your creditors. To do this you will need to complete a **business and household budget sheet**. You will need to work out the average income and outgoings for your business (normally over a period of the last **3 to 12 months**). You may also need to budget for VAT, NICs and income tax on your profits. You may need help from your bookkeeper or accountant.

The options available to you to deal with your business and personal debts depend on:

- whether your business makes a profit;
- what type of debts you have;
- whether you have any assets, such as your home or car; and
- how long you want to take to deal with your debts.

There may be several options available to you. It is important to consider the advantages and disadvantages of each option so that you can decide what option is best for you. If you want to discuss your options, **contact us for advice**.

See our fact sheet:



Ways to clear your debt.

Extra advice:



self-help pack

Our self-help pack includes further information on types of debt, guidance on completing a **business and household budget sheet** and how to negotiate with creditors. **Contact us for a copy.**



Ceasing to trade

'Ceasing to trade' is the term used to describe the process of your business closing. If you do decide to cease trading, you will need to take certain steps, such as letting HMRC, your local council and any suppliers know. This will help to make sure that your final bills are accurate. If you are considering ceasing trading, **contact us for advice.**

**See our fact sheet:
Ceasing to trade.**



Useful contacts

Chamber of Commerce

You can join your local Chamber of Commerce. This may help you to get in contact with other businesses. They also provide seminars and useful ideas.

Phone: 020 7654 5800

www.britishchambers.org.uk

Federation of small businesses

Membership offers benefits such as a legal helpline for matters such as employment law.

Phone: 0808 202 0888

www.fsb.org.uk

TaxAid

A charity that offers free advice on tax issues if you are on a low income.

Phone: 0345 120 3779 (Monday to Friday between 10am and 12 noon)

www.taxaid.org.uk

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Business Debtline endeavour to keep our fact sheets as up-to-date as possible, however, we cannot be held responsible for changes in legislation or for developments in case law since this edition of the fact sheet was issued.

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We have over 20 years' experience of helping people just like you.

We are the only small business debt advice charity operating in the UK.

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Freephone **0800 197 6026**

www.businessdebtline.org