

DNS

Accounting Anywhere



Sole Trader

Guide

Table of Contents

Content	Page No.
Being a Sole Trader	04
• Introduction	04
• Have a clear product or service	04
• Price your product or service right - enough to make a profit	04
• Create your own website	05
• Create your own email	05
• Select the right accounting software to raise invoices and maintain books	05
• Select the right accountant	06
• Work on your books – stay in control!	06
• Advantages of being a Sole Trader	06
• Disadvantages of being a Sole Trader	06
Expenses you can claim as a Sole Trader	07
• Cost of sales	07
• Wages & labour costs	07
• Travel	07
• Subsistence	07
• Vehicle costs	08
• Business premises costs	08
• Working from home	09
• Insurance	10
• Broadband, telephone and mobile bills	10
• Stationery & office costs	10
• Computer equipment & software	11
• Repairs, tools & equipment	11
• Property repairs and renovations	11
• Advertising & marketing	11
• Business entertaining	12
• Interest & finance charges	12
• Accounting fees	12
• Legal fees & bad debts	12
• Training & other expenses	13
Tax Tips for the Sole Trader	14
• Allowances, Tax Reliefs etc.	14
• Pensions, ISAS and Life Insurance	14
• Others	14

Employing People	15
VAT Registration	16
• Compulsory Registration – Why should I register for VAT?	16
• Late VAT Registration	16
• VAT Responsibilities for a business	16
• VAT Threshold Computation	17
• HMRC VAT Registration Process	17
• VAT schemes	17
• VAT Registration Check – How long does it take to get a VAT registration number?	18
• Your first VAT return	18
• VAT Tips	19
How Profits are Calculated	20
How Taxes are Calculated	21
• How much will my tax bill be?	21
• National Insurance Contributions (NICs)	21
• Tax on profits	21
• Conclusion	21

Being a Sole Trader

Introduction

Fundamentally, a sole trader is a sole owner of the business and is a self-employed person. Operating as a sole trader is the most convenient way to start in business and because of its simplicity, being a sole trader is the most popular business structure.

But a business owner needs to have a business, so what makes a business?

Have a clear product or service

A business is selling a product or a service with a view to making a profit. You may buy in that product or service or create it yourself. So,

- What is your business going to sell?
- Who are you going to sell to?
- How are you going to obtain or create that product or service?
- How are you going to get it to customers?

The answers to these questions can contribute to how you create a clear and unique product or service to promote and sell.

When you know the answers to these, you can start to plan your business.

Price your product or service right - enough to make a profit

Now you know what you are planning to do, we need to see if the idea is viable – will it make a profit? There are several elements to making a profit but number one is price.

The price you charge must be one that customers are happy to pay but also one that will cover ALL your costs and gives you a reward on top.

Market research can be key to seeing what customers will pay.

But budgeting costs can be more difficult: -

- What are different suppliers offering? bulk discounts, lead times
- Should you outsource or make it in house? cost, quality, time
- What do you prioritise? health, environment, cost, quality
- Do you plan to sell lots for a small profit each or a few at a big profit each?
- What about premises and plant – do you build, buy or hire?
- How do you do the admin? What are the costs?
- How do you finance all of these?
- And finally – what about taxes?

Only if you have covered all the costs do you make a profit.

Formal budgets may seem like time wasted but they can really help you understand your business, where the money is going, what to monitor and even help you to get finance.

We are happy to assist in preparation of budgets and cash flow forecasts as well as full business plans. And if you need finance, we have a full range of contacts to assist you with loans that are right for your business.

Create your own website

Having a website for customers and potential customers to find is now an essential to most businesses.

A website is your virtual shop. It's a place where you tell the world about what you do, who you can help and where you can educate customers and the world about your product and services. It's one of the most important and essential tools these days to start networking, and building the business relationship, where you can educate / tell / explain as you interact with the potential client.

But your website can now be used for so much more – promotions, sales and lead generation, actual selling, providing information and as a user forum to name but a few.

DNS Group can help you set up a Website that is a great tool for your business.

Create your own email

An email address is also an essential business tool. It is usually associated with your domain name and website address so care needs to be taken in choosing a good one.

- Test it out – what do people find if they search for you – your chosen address
- Who is using something similar – typos etc.?
- What is the cost? – do not forget to renew regularly
- Make sure you buy from a reputable supplier
- Take care to buy it before you use it or you could lose it

Remember that your email set up makes you look professional and the positioning of the business to end clients is very important. If you do business these days without emails with Hotmail or Google accounts, there is a risk that your business may be considered too small or less professional. DNS Group can help you get set up with emails.

Select the right accounting software to raise invoices and maintain books

Technology is often more efficient than relying on manual procedures. Cloud accounting platforms employ a range of refined algorithms that help automate the process of entering data and computations, and can also robotically update or amend balances when an adjustment is made. Cloud accounting solutions also permit more integration with other accounting tools such as HMRC services, inventory management platforms and payroll providers. Our cloud accounting software operates under a Software-as-a-Service (SaaS) business model, where customers pay a relatively small monthly fee on a regular basis, rather than having to pay a huge amount upfront.

DNS Group provides free cloud software to clients to help them raise the invoices, collect invoices and pay invoices all in time. It's a very important part of business that you stay on top of your invoices as rightly said Cash is King.

Select the right accountant

A good accountant should have an in-depth knowledge to deliver work in a timely manner, to the uppermost standard and in agreement with all financial and legal regulations. They can help you to reduce operational costs by taking away the burden of managing a dedicated in-house workforce for accounting and taxation. In turn making it possible for the business owner (you) to focus attention on maximizing revenues and profits. It can be challenging to also be on top of a variety of legal reporting requirements and filing deadlines. DNS Group offers small businesses with accounting services to help them stay compliant with the UK accounting legislation and tax rules. Our team of ACA's and CA's are up-to-date and stay on top of deadlines, eliminating the hassle of accounting obligations for small businesses and freelancers or contractors.

Work on your books – stay in control!

Good accounts management is vital for business success, for processes both big and small. For small business or start-ups it is fundamental to get this right from the start, so that the growth of the business is not hampered. In order to make the business scalable individual business owners need to maintain a sound financial structure.

We as accountants can help small businesses understand the position of the business and assist in the maintenance of financial documentation. Rather than considering this a tedious task, businesses should take an active interest in taxation and accounting issues as this will help in running the business better.

Staying in control means you are on top of your cash flow too which can only happen with keeping your books up to date and reconciled. DNS Group with its support can help you stay in control of books and cash flow.

Advantages of being a Sole Trader

1. You remain your own boss
2. All the profits earned by the business are kept by you
3. Maximum Privacy.
4. Easy to establish and operate
5. Low set up cost
6. Easy to change your legal structure in case of any change in circumstances.
7. Easy to wind up the business.

Disadvantages of being a Sole Trader

1. You are personally liable, if the business results in losses, to pay for all losses.
2. Loneliness. You are like a lone Soldier and there can be a feeling of loneliness. Of course you can overcome this by working in co working spaces.

Expenses you can claim as a Sole Trader

HMRC insists that you declare all income but what you claim as expenses is up to you. You can claim anything which is for business, wholly and exclusively. What you claim must be justifiable as being for business and must not include, or actively disallow any private element.

Here are the main categories of expenses you may consider claiming: -

Cost of sales

All the costs associated with acquiring the product or service that you sell, are allowable expenses.

- Cost of the goods sold
- Parts or materials used
- Packaging
- Labour for assembly or packing
- Subcontract costs (for someone else to make the product or do the job)
- Carriage or delivery
- Samples

Wages & labour costs

Many sole -traders are one-man businesses but you do not have to be. You can employ others, including family members. It may be tax efficient to employ family members and they are not subject to minimum wage rules like other employees.

Do remember that there are lots of special rules if you employ people – reporting requirements under PAYE, minimum wage and pension regulations, as well as health and safety and employment rights.

All such costs of employing business workers are allowable business expenses, but not domestic workers.

Travel

The travel expenses rules for the self-employed are different from those of a limited company. It is important to understand the “base of operations” from where a self-employed individual carries out their business. Allowable travel is the cost of making a business trip from home or any base of operations. There can be multiple “base of operations” and these can include areas instead of a single location. In the case where home is treated as a base of operations then business travel from there will be allowable to a different location, however travel between home and any “base of operations” is not an allowable expense.

Subsistence

When traveling on business (see above definition), you may have to refuel, with a coffee or a meal. This is called subsistence. HMRC does not allow subsistence costs that are wholly or partly normal living costs and has hence restricted allowable subsistence expenses to those associated with:-

- overnight business trips, or
- itinerant workers (e.g. commercial travelers), or
- trips outside your normal working pattern,

Vehicle costs

Self-employed individuals working as sole traders can use a van or car for work. There are two different methods of claiming these travel costs and it is important to follow the same method for the life of that vehicle.

Mileage rates – Calculating using the mileage rate method is simple. Here, a log is maintained (including journey date, beginning and ending point, purpose of travel, and number of miles traveled) of all the allowable business journeys. Currently, the computation works as follows: For the first 10,000 miles – 45 pence per mile and 25 pence per mile thereafter. DNS Accountants can help sole traders with a free mileage log. The mileage rate is most suitable if the VAT taxable income of the business is below the VAT threshold rate of £85,000.

Actual costs less private element deduction - This method is a little complicated, but more tax effective. Under this method, interest costs for vehicles bought on lease can be included. The purchase price of the vehicle is treated under “Capital Allowance” rules. Vans bought will be eligible for an annual investment allowance (AIA), whereas, a car won't be eligible for an AIA. The main element when using this method is, computing the percentage of the vehicle that should be disallowed because of private use.

These computation methods are only applicable to the self-employed. The rules are different if operating through a limited company.

Tax Tips

- Buy a hybrid car or a vehicle with Co2 emissions of less than 50gm/km and get 100% tax relief up front
- Claim mileage NOT car and fuel expenses if you have a new car as you can claim more.
- Don't forget to claim back VAT on mileage.
- Claiming fuel, repairs, and maintenance for older cars and newer expensive cars is more tax efficient.
- When claiming VAT on mixed use fuel, don't forget to pay scale charges.

Business premises costs

If your business has dedicated business premises, then all the running costs may be tax allowable e.g.

- Rent
- Landlords Service charges
- Business rates
- Utilities – gas, electricity water, sewage
- Cleaning
- Interest on mortgage

There is also a new allowance for building your own business premises / factory etc.

Please see below for shared use premises

Working from home

Working from home or the freelancing model is very common with the millennial generation. Hence, it becomes important to understand the costs related to using the home as an office. Let's study this through the two standard models:

HMRC Simplified Expenses– If you work at home for 25 hours or more per month then HMRC have given us a flat rate expense allowance that may be claimed

Hours of business use per month	Flat rate per month
25 to 50	£10
51 to 100	£18
101 +	£26

Apportionment of actual costs – A portion of your home running costs can be allocated as allowable expenses to the business.

A sole trader or freelancer needs to work out, what the actual cost is for running the business from home. If you own the property, then costs can include mortgage interest but not capital repayments. If the property is a rented one, the rental charges need to be captured. Also, you can include costs that are paid jointly but not costs that are being paid completely by someone else. Other costs that can be included are insurance, council tax, gas, cleaning, service charges, and electricity.

Now, a sole trader needs to calculate what proportion of the cost would be fair to apportion to the business.

A simple method of computing this is:

- count the number of rooms in the house excluding hallways, bathrooms, and kitchens e.g.6
- estimate the number of rooms used for business, taking into account time used for business verses time used for other things e.g.50% of dining room plus 100% of study = 1.5 rooms
- apportion above captured costs to the business in this proportion i.e. 1.5/6

An important tip: *The entire office room should not be used for business. A small portion of the room must be kept for personal use as this protects the sole trader from possible capital gains.*

Insurance

As a sole trader, you and the business are one. Hence you may wish to take out some insurance to protect your personal property from business risks e.g.

- Business Equipment insurance
- Vehicle insurance for business journeys
- Product liability insurance
- Professional Indemnity insurance
- Tax investigation insurance
- Employers liability insurance
- Employee insurance – sickness etc.
- Keyman insurance

Most of the above are allowable business expenses. But there are more you may wish to consider that are usually not allowable as business expenses

- Life Insurance
- Income protection insurance

DNS can help you find the right insurance for you and your business

Broadband, telephone and mobile bills

A sole trader can claim some of their phone expenses as part of the business expenses. But the complicated part for a freelancer is to understand what proportion to claim as the phone is usually used for both personal and business purposes. As best practice, a sole trader should do a thorough review of a couple of bills during the year and highlight the business phone calls and personal calls. This percentage can be used to arrive at an amount that can be claimed as a business expense. A sole trader must remember that the percentage may be verified by HMRC in the case of an enquiry, so it is important to keep a note of the business phone expenses workings.

Stationery & office costs

As a sole-trader you have to run the business as well as do work for clients. As such you are likely to have an office and a computer and a place to store papers/invoices.

The costs associated with this office are also business expenses and so allowable expenses e.g.

- Stationery& printing
- Postage
- Desk, Chair, Filing Cabinet etc.

Computer equipment & software

Most businesses now use computers or gadgets. If these are only used for business, then they are fully tax allowable. However, if dual purpose then the costs need to be apportioned and only the business part is allowable.

If a large piece of equipment is purchased, that is likely to last a few years, then it may be treated under the capital allowance rules – but under current rules is still fully tax deductible on purchase – up to cost of £1 m

Similarly, for all software for these gadgets – be it a cheap app or an expensive essential tool of your trade.

Repairs, tools & equipment

Tools of the trade are what you use to do the job. They may have a lot of consumables e.g. sand paper, fuel or parts that require regular replacement. All of these are allowable expenses, as well as regular maintenance and repairs.

Do not forget the safety equipment that may go with these tools, or any other protective clothing required for the business these are allowable too.

Large pieces of equipment e.g. plant, along with any transport or installation costs, are also allowable expenses although they too may be treated under the capital allowance rules. If that plant can be split into parts with different life expectancy, then those parts may be treated separately, but was allowable up to £1 m until December 2020.

Property repairs and renovations

Repairs to business premises are allowable business expenses. Renovations however are a specialist area that needs detailed examination, as there is no allowance for property purchase or rebuilding work, but there is for integral features within a property and for building new premises.

Care must also be taken if there is any private element to these works.

Advertising & marketing

A sole trader has to find his own work. To do this he has to advertise, promote, network. All of these are legitimate business expenses. E.g.

- Press adverts
- Sponsorship (as long as no personal element)
- Membership of business clubs
- Attendance at business or trade events
- Leaflets/Letterhead/Business cards
- Branding/Design/Copyright/Logos
- Web or Google advertising
- Promotional Products, T-Shirts, Mugs etc

- Signage
- Google Pay per click / SEO / Linked in Promotion
- Telemarketing expenses
- Mail Shots
- Banner Advertising
- Events / Exhibitions

Business entertaining

Entertaining is a legitimate business activity, this can include a simple coffee or outing to the rugby, or bottle of whisky. This is all speculative, with the hope of winning new business. Bribes are specifically illegal.

However, HMRC do not want to be seen to promote entertaining so although a legitimate business expense, all costs of entertaining or providing gifts to third parties, are not allowable for tax purposes. Do still record them, separately, in order to monitor your business activities and then disallow them on the tax return.

Interest & finance charges

Cost of borrowing money that can be seen to be used for business is allowable – e.g. Interest, loan arrangement fees, overdraft arrangement fees etc., but not actual repayments.

Costs incurred to make business purchases/transactions are allowable business expenses e.g. Business bank account charges, PayPal fees, card collection costs.

Costs of using a personal credit card are not allowable.

Accounting fees

If a sole trader engages an accountant like DNS Accountants, then the accounting fees for work on self-employed accounts can be claimed as a tax deductible expense. Conversely, if there is any fee related to the preparation of a personal tax return, this is not an allowable expense. Practically this means that, until the time that there is self-employed income on the tax return, the accounting fee cannot be claimed.

Legal fees & bad debts

Legal fees can be incurred for many different reasons. If business related, then they are probably allowable expenses, but maybe not against income. So, remember to note what fees are for when recording them in your books.

Those incurred in trying to recover bad debts, and the unrecovered bad debts themselves are allowable. So do not miss out these bad sales from your income – add them in and then claim them as bad debts, in order to justify all associated costs

Training & other expenses

When starting up one of the extra significant cost may actually be training for your profession, which may be allowable if in anticipation of this business.

The above is not an exhaustive list of all allowable expenses, but a flavor to get you going under each of HMRC basic headings. The fundamental rule remains that any expenses incurred wholly and exclusively for the business can be claimed as expenses. So, if you are not sure if an expense is business or personal always ask yourself if this expense is wholly and exclusively for business or not? Remember expenses with dual purpose or driven by private needs may not be claimed as business expenses.

DNS and its accountants are always there for any support or clarification.



Tax Tips for the Sole Trader

There are some perfectly legal, highly lucrative ways to ensure you minimise your tax bill. Take a look!

Allowances, Tax Reliefs etc.

- Make sure you have claimed all your business expenses, even if it takes you into losses this year.
- Remember to claim start-up costs (costs incurred before the first sale but in anticipation of it).
- Put your family to work in your business.
- Share your assets/income to use spouse allowances.
- Apply for married couples allowance transfer if your spouse has little income and you are not a higher rate tax payer.
- Claim Working Tax Credits.
- Claim child tax credits if your family earns below £60,000 .
- Make regular gifts now, out of your ordinary income to reduce IHT liability.
- Invest in EIS and VCTs and claim higher rate tax reliefs.
- Claim the extra relief for paying into pensions or making gift aid donations.

Pensions, ISAs and Life Insurance

- Invest in Pensions and save higher rate taxes. Even if you are a basic-rate tax payer, the government tops up your basic-rate tax to your pension plan.
- Use your ISA Limits and build a pot of tax-free income.

Others

- Do not hide your income. Always make a full disclosure on you tax returns to avoid prosecution and penalties.
- Always keep complete and full records.
- Always check PAYE coding notices and make sure they are correct.
- Consider converting from a sole trader to a limited company if your profit is more than £20K per annum.

Employing People

Are you a sole trader who is looking to expand? Hiring people to help you run the business is the next logical step to ensure future growth.

However, one thing you may be wondering about is how this affects your sole trader status. Can you employ people as a sole trader or does that turn you into a company?

The short answer is yes; you can employ people and remain a sole trader. There's no need to set up a limited company if you don't want to.

While sole traders operate on their own, that doesn't mean they have to work alone. The term sole trader just means that you are trading as yourself, under your own name.

You can choose to employ people on a permanent, part-time or freelance basis– whatever suits you best.

So, now you know you can hire people and maintain your sole trader status, it's time to ensure everything is done above board.

Tax Tips

- Employ two part-timers rather than one full-timer; in this way, you use two allowances and pay less tax.
- Payment on Termination of employment is tax-free. Why not look into it?



VAT Registration

Traders must register for VAT (Value Added Tax) with HMRC, if their VAT taxable income is greater than £85,000. The business receives a VAT registration certificate when they register the business with HMRC. The certificate confirms the VAT number, details for submission of first VAT return and payment, and effective date of registration. The effective date is when the business is officially subject to VAT rules. A trader can register voluntarily; apply for a VAT registration number, if the turnover is less than £85,000, except if all sales are VAT exempt. The business VAT registration certificate can be received within 14 working days, nevertheless it can take longer. The certificate is sent either to the VAT online account or by post if it's not an online registration or through a third party.

Compulsory Registration – Why should I register for VAT?

A Sole Trader needs to register for value added tax if:

- Taxable VAT turnover is greater than £85,000 in a 12 month period.
- Goods are received in the United Kingdom from the European Union and the value is more than £85,000.
- The trader anticipates that he will cross the threshold in the next 30 days alone.

There is a zero threshold for businesses based outside the United Kingdom; the business must immediately register for VAT if they have supplied any goods or services in the United Kingdom or anticipate doing so within the next 30 days.

A Trader may also be required to register for VAT if a business has been taken over.

Late VAT Registration

If a trader does not register for VAT within time, he is liable to pay a penalty depending on how much VAT is due for the period of the delay. As stated earlier, it is imperative for the business to register for VAT within 30 days of the business turnover crossing the threshold.

If the taxable turnover of the business goes over the threshold temporarily, the business can apply for a registration exception. A written application needs to be sent to HMRC with facts showing why the threshold will not be crossed in the next 12 months. If HMRC is convinced with the written application, they will send a written confirmation else, the business will need to register for value added tax.

VAT Responsibilities for a business

From the effective date of VAT registration the business must:

- Charge the correct VAT amount on the invoice
- Timely file VAT Returns
- Regularly clear all VAT dues to HMRC
- Maintain VAT records

Until a trader is VAT registered, he should not charge or collect VAT on sales. However, the business is liable to pay value added tax on all sales made after the effective date of registration to HMRC.

VAT Threshold Computation

The VAT taxable turnover is the full value of goods and services sold that aren't exempt from VAT. The UK VAT threshold for registration is £85,000 (from 1 April 2017). A trader is required to register with HMRC for VAT if their total VAT taxable turnover over all their businesses exceeds this threshold in a 12 month rolling period.

To calculate if you've exceeded the threshold in any 12-month period, you need to add together the total value of sales of your products or services that aren't VAT exempt, this will include the following:

- Goods that are hired or loaned to customers
- Business merchandise used for personal reasons
- Goods bartered or part-exchanged, or given as gifts
- Services received from businesses in countries that you had to 'reverse charge'
- Building work over £100,000 your business did for itself

HMRC VAT Registration Process

Almost all businesses can register for VAT online, even partnerships; and a group of companies can register under one VAT number. Once the trader is registered online and has a VAT online account, he will need to submit VAT returns to HMRC as and when they are due. Businesses can even appoint accountants like DNS Accountants or agents to help them submit the VAT returns on time, meeting all deadlines, and interact with HMRC on behalf of the business.

It may benefit some businesses to be VAT registered as they can recover the VAT on assets and overheads, especially if their sales are zero rated e.g. farmers.

VAT schemes

The basic rule for VAT return preparation is to record the VAT on the accruals basis i.e. record each individual sales and purchase invoice based on invoice date and then report the total for the VAT period (monthly, quarterly or annually as you choose). However, there are various VAT schemes you may choose to join that may make life simpler, aid cash flow or even pay less VAT. Here are a few to think about but your accountant will help you assess which is best for you:-

- Cash accounting – you record and/or report VAT based on payment date not invoice date
- Flat rate scheme – account for VAT on sales and assets only – not purchases
- Second Hand Margin Scheme – account for VAT on profits not sales and purchases
- Retail Margin scheme – account for VAT pro-rata on total takings when selling goods at different VAT rates

VAT Registration Check – How long does it take to get a VAT registration number?

Usually, HMRC takes a month to process VAT applications, but it can take longer if HMRC needs to carry out further checks. The government of the United Kingdom claims that it can even take as little as 14 working days to process an application. HMRC intends to process 70% of applications within 10 business days and most are processed within 30 days. From the time of applying for VAT registration and getting the VAT registration number, the business must keep account of and pay all VAT dues. The business becomes liable to keep records of all the invoices from the time of voluntary registration for VAT. It actually does not matter when the business applied for registration or the date the VAT registration number was received. Business can reclaim any VAT paid on purchases from the date of registration. To do so, records of all inwards invoices from suppliers need to be maintained.

Your first VAT return

Once you have registered for VAT, then you will receive your VAT registration certificate telling you when your first return will be due. But there is a lot to get set up before this.

Firstly, you need to know your business – and the VAT rates that could be associated with the various products or services you will be providing. HMRC produce a lot of industry specific notices to help you get it right. DNS and its accountants are always there for direction, support or clarification.

When raising invoices, you need to add the right VAT – the right set up of software can really help here.

On a regular basis you will need to submit returns to HMRC, electronically from your bookkeeping software. To do this you will need to be registered with HMRC for MTD and have connected your software. DNS accountants can do all this for you.

Getting your bookkeeping right, from the start, is key.

- Remember to collect VAT receipts now you are registered
- Scan and store for easy reference
- A UK VAT number is required to claim the VAT paid
- VAT can only be claimed if charged e.g. there is no VAT on rail fares or magazines
- Small till receipts do not need to show the VAT separately but it may still be claimed e.g. coffee shop
- Use your software to help you be consistent in treatment
- Check VAT status for new suppliers or products

DNS and its accountants are always there for any support or clarification

Your first VAT return can include some pre-registration VAT that you may have paid; so, it is worth taking the time to find the receipts to back up such a claim.

Pre-registration VAT may be claimed on

Stock and business equipment, you have on registration date and you bought less than 4 years previously e.g.

- Van bought new 3 years ago (but not a car)
- New tyre you purchased for it last year (but not labour)
- Stock of brochures
- Half box of screws in stock
- Ink cartridge you bought yesterday
- Desk and shelves bought last year (but not installation or decoration costs)
- Costs of goods in stock awaiting sale
- Costs of part completed goods and materials

Services bought and used by the business (not customers) within the previous 6 months e.g.

- 6 months telephone bills
- Own website design paid for 4 months ago (not clients)
- Accountancy bills in last 6 months (based on invoice date)
- Adverts billed in last 6 months (not publication date)
- Own business Van service last month (labour element only – parts may come under equipment rule)
- Training bills in last 6 months

VAT Tips

- The VAT flat-rate scheme may help you save VAT.
- Remember to claim VAT on entertainment for overseas customers.
- Remember to claim VAT on expenses in relation to staff functions and office parties.

How Profits are Calculated

The starting point will be a profit and loss account which is effectively the sales that the business has made minus the business' costs and overheads. However, some of these costs, although perfectly allowable for accounting purposes are not allowed as expenses for tax purposes. The rules here are complicated and it is important you get it right, so it is worth paying a professional for advice.



How Taxes are Calculated

How much will my tax bill be?

For the 2021/22 tax year, the personal allowance has been increased to £12,570. This is the amount you can earn before paying any income tax at all. You lose this allowance if your income is over £100,000.

Income above this threshold, you will be taxed at the following levels;

- The Basic Income Tax rate of 20% on income up to £50,270.
- The Higher Income Tax rate of 40% on income between £50,271 and £150,000.
- The Additional Income Tax rate of 45% on income over £150,000.

National Insurance Contributions (NICs)

In addition to income tax, as a sole trader, you will also need to make National Insurance Contributions (NICs). The amount you have to pay depends on the level of your earnings. There are currently two types of NICs sole traders have to pay. There are Class 2 NICs – which are £3.05 per week (2021/22 Tax Year) – and Class 4 NICs. HMRC will work out the amount of Class 4 NICs you are liable for during the annual self-assessment process. It is based on the amount of profit you make, essentially 9% on your profits between £9,569 and £50,270, and 2% on any profits above this.

Tax on profits:

- A sole trader pays Class 2 & 4 National Insurance (NI) and Income Tax on the taxable profits of the business

Conclusion

If your profits are consistently higher than what you need from the business on a day to day basis, such that you have money to reinvest back into the business or you want to build reserves, then you may need to speak to an accountant to see if a limited company may be useful to you.

Being a sole trader is something to be proud of. You are an independent trader, carving your own way. Taking on all the risks and rewards and with the help of goods systems and advisers you can hope to take your business forward and upward for years to come.



Get in Touch

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