



Thinking of working  
for yourself? ””



HM Revenue  
& Customs

There is a range of products and services including online presentations (webinars) and E-learning to help you understand the different aspects of starting a business. Visit [www.hmrc.gov.uk/startingup/help-support.htm](http://www.hmrc.gov.uk/startingup/help-support.htm) to see the range of help and support available.

You will also find lots of 'bite-sized' tax information videos on HMRC's YouTube pages. Visit [www.youtube.com/user/HMRCgovuk](http://www.youtube.com/user/HMRCgovuk)

**So you've got an idea and want to start out on your own. Here is some information you may find useful.**

## Important next steps

**When you start working for yourself, you need to tell HM Revenue & Customs (HMRC).** HMRC can help you understand what you need to do about tax to get it right.

To register with HMRC all you have to do is visit [www.gov.uk/new-business-register-for-tax](http://www.gov.uk/new-business-register-for-tax). If you're starting a limited company, you need to register with Companies House first. Companies House will inform HMRC who will then send you an introductory pack that includes form CT41G (new company details). Please complete this form to let HMRC know you have started in business.

If you have any problems or aren't sure if you qualify as self-employed visit [www.gov.uk/business-legal-structures/overview](http://www.gov.uk/business-legal-structures/overview) for more information or call the Newly Self-Employed Helpline. If you're unemployed at the moment, don't forget to tell the jobcentre that you've started working for yourself.

There's also a helpful guide 'Giving your business the best start with tax' available at [www.hmrc.gov.uk/startingup/working-yourself.pdf](http://www.hmrc.gov.uk/startingup/working-yourself.pdf) It covers important issues such as Income Tax, National Insurance and record keeping.

# Self-employed, partnership, limited company or franchise

## Self-employed – individual

This means that you're working for yourself, although you may also have people working for you. You'll pay Income Tax on your taxable profits, through Self Assessment. You may also need to pay National Insurance.

If you employ someone – even if it's only yourself, as a director – you'll have to operate PAYE (Pay As You earn) on their earnings. You'll need to register as an employer with HM Revenue & Customs (HMRC).

## Partnership

A partnership is where two or more people set up a business together. Each partner is personally responsible for all the business debts, even if the debt was caused by another partner. For more information on how to do your Self Assessment go to the GOV.UK website at [www.gov.uk/self-assessment-tax-returns](http://www.gov.uk/self-assessment-tax-returns)

## New for 2013 Simpler Income Tax

Cash basis is a way of working out your income and expenses for your Self Assessment tax return.

You can use cash basis if you:

- are a small self-employed business (sole traders and partnerships)
- have an income less than the threshold when you have to register for VAT.

You can start using cash basis from the 2013 to 2014 tax year.

Limited companies and limited liability partnerships can't use cash basis. Visit [www.gov.uk/simpler-income-tax-cash-basis – simplified expenses](http://www.gov.uk/simpler-income-tax-cash-basis-simplified-expenses)

Simplified expenses allows you to use flat rates instead of working out your actual business expenses which can require more complex calculations.

Only sole traders or business partnerships can use simplified expenses.

You can start using simplified expenses from the 2013 to 2014 tax year. Visit [www.gov.uk/simpler-income-tax-simplified-expenses](http://www.gov.uk/simpler-income-tax-simplified-expenses)

Watch 'Simpler income tax – cash basis and simplified expenses' on [www.youtube.com/user/HMRCgovuk](http://www.youtube.com/user/HMRCgovuk)

## Limited company

A limited company is legally separate from its shareholders or directors. This means the company is liable for any debts.

Managing tax and accounts for limited companies can be complicated. A solicitor or accountant will be able to offer advice on setting up a limited company. Visit [www.gov.uk/running-a-limited-company](http://www.gov.uk/running-a-limited-company)

## Franchise

Running a franchise means you are making a contract with the franchiser. It can be complicated, so you should always get legal advice. However, for general guidance you can visit [www.thebfa.org](http://www.thebfa.org) or call the British Franchise Association on **0123 582 0470**

## Keeping records

**It's vital to keep full and accurate records of your income and expenses from the start.** Keeping records makes sound business sense and is a legal requirement. So it's important to get a proper system in place from the outset, and update the information regularly.

Also, keeping records is important as a **penalty may be due for not taking reasonable care** with records and tax returns.

For more information about taking reasonable care, you may find the following resources useful:

- [www.gov.uk/self-employed-records](http://www.gov.uk/self-employed-records)
- A short online presentation on keeping records [www.hmrc.gov.uk/startingup/help-support.htm](http://www.hmrc.gov.uk/startingup/help-support.htm)

- Penalties [www.gov.uk/self-assessment-tax-returns/penalties](http://www.gov.uk/self-assessment-tax-returns/penalties)
- for businesses on the go HMRC has worked with developers to produce 'apps' for mobile devices. Find out more at [www.gov.uk/government/news/mobile-apps](http://www.gov.uk/government/news/mobile-apps)

**Please remember**, it's your responsibility (even if you employ an accountant or tax adviser to do all this for you) to make sure all tax returns are completed accurately and received by HMRC in time. Also, remember to pay your Income Tax and National Insurance contributions and - if you have any employees - to set up a PAYE scheme and operate PAYE correctly.

## Self Assessment

If you are self-employed, you pay Income Tax through Self Assessment. After the tax year ends on the 5 April, you will need to complete a Self Assessment tax return, which you can either do online or by filling in a paper form.

If you complete a **paper tax return you need to make sure we have received it by 31 October**. You may be charged a penalty if your paper return is received after this date.

If you choose to do your **tax return online, you need to make sure we have received it by 31 January** the following year, giving you an extra three months. If it is late, you may be charged a penalty.

Whether you complete a paper tax return or choose to do it online, you also need to pay any tax you owe by 31 January. If you pay your tax late, you will be charged interest from the date your tax was due and may be charged penalties.

For direct access to HMRC's ready reckoner tool for the self-employed click here **HM Revenue & Customs: Self-employed ready reckoner**

For more help visit **[www.gov.uk/self-assessment-tax-returns](http://www.gov.uk/self-assessment-tax-returns)**

To watch an online presentation on 'Self-employment and HMRC - what you need to know' visit **[www.hmrc.gov.uk/webinars/self-employed.htm](http://www.hmrc.gov.uk/webinars/self-employed.htm)**

HMRC have designed an e-learning session called 'Starting your own business'. You can work through at your own pace. It includes sections about telling HMRC you've started, keeping records and paying your tax and National Insurance. Visit **[www.hmrc.gov.uk/startingup/help-support.htm](http://www.hmrc.gov.uk/startingup/help-support.htm)**

# National Insurance contributions

National Insurance contributions are paid by almost everyone who works for a living and go towards paying for pensions, benefits and healthcare. If you are self-employed, there are two main types of National Insurance contributions you need to know about.

## Class 2 National Insurance contributions

Most self-employed people have to pay Class 2 National Insurance contributions but in certain circumstances you may be exempt from paying. You pay Class 2 National Insurance contributions at a fixed amount, by monthly Direct Debit.

For more information on paying National Insurance contributions, including exceptions, visit [www.gov.uk/national-insurance/overview](http://www.gov.uk/national-insurance/overview)

To apply for an exemption from paying Class 2 National Insurance contributions (if your earnings will be low), download form CF10 'Self-employed people with small earnings' at [www.gov.uk/self-employed-national-insurance-rates](http://www.gov.uk/self-employed-national-insurance-rates)

For more information on setting up your Direct Debit or paying by another method, visit [www.gov.uk/national-insurance/how-much-national-insurance-you-pay](http://www.gov.uk/national-insurance/how-much-national-insurance-you-pay)

## Class 4 National Insurance contributions

You pay Class 4 National Insurance contributions if your annual taxable profits are over a certain amount. In certain circumstances you may be exempt from paying. You pay Class 4 National Insurance contributions at the same time as your Income Tax if you're self-employed or in a partnership. If your spouse is self-employed too, then each person pays their own Class 4 contributions.

For more information on paying Class 4 National Insurance contributions - including exceptions - visit [www.gov.uk/national-insurance/overview](http://www.gov.uk/national-insurance/overview)

To watch HMRC's free online seminars (webinars) for the self-employed visit [www.hmrc.gov.uk/webinars/self-employed.htm#6](http://www.hmrc.gov.uk/webinars/self-employed.htm#6)



## Corporation Tax

If you are running a limited company then you may need to pay Corporation Tax. Corporation Tax is a tax on your company's overall taxable profits.

There is a lot to know about Corporation Tax and many people choose to use an accountant to help them manage this. You can also get help with the basics at [www.gov.uk/running-a-limited-company](http://www.gov.uk/running-a-limited-company)

It's your responsibility - even if you employ an accountant - to make sure all necessary tax returns are completed on time.

**All Company Tax Returns must be filed online and you must pay your Corporation Tax and related payments such as interest or penalties electronically. If you file your return late, you may have to pay a penalty. If you pay your Corporation Tax late or don't pay enough, you'll be charged interest.**

To watch an online presentation on 'Company Directors - understanding your responsibilities to HMRC', which includes an overview of responsibilities to Companies House and HMRC go to [www.hmrc.gov.uk/startup/help-support.htm](http://www.hmrc.gov.uk/startup/help-support.htm)

## Self-employed and the Construction Industry Scheme

The Construction Industry Scheme (CIS) is a set of special rules for handling payments made by contractors to subcontractors for construction work. If you are working in the construction industry or doing other construction related work you may need to register with HMRC as either a contractor or subcontractor under CIS.

If you have any doubt whether CIS applies to the work you are doing, it's a good idea to check.

For more information visit [www.gov.uk/what-is-the-construction-industry-scheme](http://www.gov.uk/what-is-the-construction-industry-scheme)

To watch an online presentation about the Construction Industry Scheme visit [www.hmrc.gov.uk/webinars/index.htm](http://www.hmrc.gov.uk/webinars/index.htm)

## Value Added Tax (VAT)

VAT is a tax charged on most business-to-business and business-to-consumer transactions in the UK.

You **must** register for VAT if your turnover in any 12 month period is over a specific limit - this limit is normally increased annually in the Chancellor's Budget - or if you think your turnover may soon go over this limit. You may register voluntarily at any time.

Most VAT registration applications can be done online. For more information visit [www.gov.uk/vat-registration](http://www.gov.uk/vat-registration)

Once registered for VAT, you need to fill in and submit regular VAT returns online, and pay any VAT due electronically.

**All VAT registered businesses must submit their returns online and pay electronically any VAT that is due.** HMRC provide full details on how to do this in the VAT registration pack which is sent out to all newly registering VAT customers.

For more information visit [www.gov.uk/pay-vat](http://www.gov.uk/pay-vat) or to watch an online presentation on 'VAT' and 'Importing and exporting' go to [www.hmrc.gov.uk/webinars/vat.htm](http://www.hmrc.gov.uk/webinars/vat.htm)

## Employing other people

If you plan to employ other people, you will - amongst other things - be responsible for calculating and paying to HMRC your employees' PAYE (Pay As You Earn) tax and National Insurance contributions. You'll also need to pay Employer's Class 1A National Insurance contributions.

Before you can do any of that you'll need to register with HMRC as an employer. Most employers use the online registration form on the website. Then you need to choose and set up a payroll system. The website has advice about deciding which payroll system might be best for your business.

As an alternative to commercial software (some of which is free) you can manage your payroll using HMRC's Basic PAYE Tools. Basic PAYE Tools is software that you download onto your computer. It will help you run your payroll throughout the year. It is designed for employers with nine or fewer employees

There are other things you need to know, such as whether your workers are entitled to work in the UK, your obligations to the National Minimum Wage and making sure you use the correct tax code for your employees.

### New for April 2013

All employers now report information to HMRC PAYE in real time. This means they send HMRC PAYE information every time employees are paid, at the time they are paid. The information must be sent electronically using payroll software as part of the routine payroll process. HMRC's Basic PAYE Tools has been updated so you can use it to work out payroll deductions and report information online in real time.

Find out more about being an employer at [www.gov.uk/pay-for-employers](http://www.gov.uk/pay-for-employers)

To watch online presentations designed especially for new and existing employers visit [www.hmrc.gov.uk/webinars/employers.htm](http://www.hmrc.gov.uk/webinars/employers.htm)

## Allowances, reliefs and incentives

There are allowances, reliefs and incentives that may be useful to your business.

For more information on visit [www.hmrc.gov.uk/incometax/relief-self-emp.htm](http://www.hmrc.gov.uk/incometax/relief-self-emp.htm)

## Tax credits

Both self-employed and employed people can get tax credits. Tax credits are payments from the government. There are two types of tax credit - Working Tax Credit and Child Tax Credit.

If you want to check if you qualify for tax credits, visit [www.gov.uk/browse/benefits/tax-credits](http://www.gov.uk/browse/benefits/tax-credits) or call the Tax Credits Helpline on **0345 300 3900**. You can also use an online questionnaire at [www.gov.uk/qualify-tax-credits-quick-questionnaire](http://www.gov.uk/qualify-tax-credits-quick-questionnaire) to check that you qualify for tax credits before making a claim.

If you are already getting tax credits please call the Tax Credit Helpline to tell them that you're starting self-employment and that your income is going to change. It will help if you can give them an estimate of what you think your income is going to be.

**Remember** that if you're going from being employed to self-employed and are already claiming tax credits, this is classed as a change of circumstances and you'll need to inform the Tax Credit Office or call the Tax Credit Helpline.

## Do it online

### Online services

Throughout this leaflet you will have noticed many references to websites and online facilities. Managing your business online has never been easier, and there's a range of different services on offer from HMRC to help you get started. Please visit **[www.gov.uk](http://www.gov.uk)** and search for 'online services' for more information.

To tell HMRC you have started in business, taken on an employee for the first time or if you need to register for VAT, you can use HMRC's online service, which you will find on the HMRC website. The service allows you to register for the following business taxes:

Self Assessment

PAYE

Corporation Tax

VAT

Once you have enrolled to use either HMRC's Corporation Tax or Self Assessment online service you can set up a Business Tax Dashboard. You can use your dashboard to see the tax position for your business across different business taxes as it brings together information from your HMRC online services.

You are required to file your Employer Annual Return and starter and leaver forms (P45, P46 etc.) and your VAT returns online.

HMRC also recommends completing your Self Assessment tax returns online because it's secure and you can do it at a time that is convenient for you. You can also stop, save and come back to it at any point.

To find out more about filing your Self Assessment tax return online visit **[www.gov.uk/how-to-send-self-assessment-online](http://www.gov.uk/how-to-send-self-assessment-online)**

## Getting more help

### Available help

There are many sources of information, advice and support available to people starting a new business. No one expects you to know how to do everything.

### Online seminars for businesses and the self-employed.

HMRC offer a series of free online presentations or 'webinars' to give tax help to businesses and the self-employed. The webinars cover many different topics including:

- business expenses
- capital allowances
- first steps as an employer
- the Construction Industry Scheme
- Limited Companies and company directors
- VAT.

E-Learning for self-employed visit [www.hmrc.gov.uk/startingup/help-support.htm](http://www.hmrc.gov.uk/startingup/help-support.htm)

To view a webinar visit [www.hmrc.gov.uk/webinars/index.htm](http://www.hmrc.gov.uk/webinars/index.htm)

### Tax Help factsheets

A series of easy to understand, downloadable factsheets produced by HMRC covering the issues that small and medium size businesses need know about.

Find out more at: [www.hmrc.gov.uk/thelibrary/tax-help.htm](http://www.hmrc.gov.uk/thelibrary/tax-help.htm)

### Enterprise agencies and chambers of commerce

Enterprise agencies and chambers of commerce also offer support. If you are aged 18-30, you might be able to get help from the Prince's Trust. In addition, a charity called PRIME offers help to the over-50s.

### Jobcentre Plus

If you're unemployed, tell your Jobcentre Plus that you're thinking about working for yourself. They may be able to provide assistance.

### Getting someone else to do it for you

An accountant can help you organise your business to make it as financially rewarding for you as possible. Please remember, if you do use an accountant, it is your responsibility to make sure any tax returns are completed accurately and received by HMRC on time and any payments are made by the due date.

## For more information

For help with Self Assessment visit [www.gov.uk/self-assessment-tax-returns](http://www.gov.uk/self-assessment-tax-returns)

For help with National Insurance contributions visit [www.gov.uk/national-insurance/overview](http://www.gov.uk/national-insurance/overview)

To apply to pay voluntary National Insurance contributions, [www.gov.uk/pay-voluntary-class-3-national-insurance](http://www.gov.uk/pay-voluntary-class-3-national-insurance)

For information about paying National Insurance for company directors [www.gov.uk/running-a-limited-company/taking-money-out-of-a-limited-company](http://www.gov.uk/running-a-limited-company/taking-money-out-of-a-limited-company)

For help with Corporation Tax, visit [www.gov.uk/running-a-limited-company](http://www.gov.uk/running-a-limited-company) or if you need to contact your HMRC office visit [www.gov.uk](http://www.gov.uk) and search for 'Contact HMRC' for more information.

For help with the Construction Industry Scheme visit [www.gov.uk/what-is-the-construction-industry-scheme](http://www.gov.uk/what-is-the-construction-industry-scheme)

For help with VAT visit [www.gov.uk/browse/tax/vat](http://www.gov.uk/browse/tax/vat)

For help with Customs or Excise duties visit [www.gov.uk/browse/business/imports-exports](http://www.gov.uk/browse/business/imports-exports)

Newly self-employed visit [www.gov.uk/set-up-sole-trader](http://www.gov.uk/set-up-sole-trader)

Employers visit [www.gov.uk/pay-for-employers](http://www.gov.uk/pay-for-employers)

For help with tax credits visit [www.gov.uk/browse/benefits/tax-credits](http://www.gov.uk/browse/benefits/tax-credits)

For more information on starting a new business visit [www.gov.uk/starting-up-a-business](http://www.gov.uk/starting-up-a-business)

For a range of online seminars for businesses and the self-employed visit [www.hmrc.gov.uk/webinars/index.htm](http://www.hmrc.gov.uk/webinars/index.htm)

## General help available

There's also general information available through:

UK visit: **[www.gov.uk](http://www.gov.uk)**

Wales: Flexible Support for Business  
visit **[www.business.wales.gov.uk/](http://www.business.wales.gov.uk/)** or call  
**0300 060 3000**

Scotland (Lowlands): Small Business  
Gateway visit **[www.bgateway.com](http://www.bgateway.com)**  
or call **0845 609 6611**

Scotland (Highlands): Highlands and  
Islands Enterprise Information Source  
visit **[www.hie.co.uk](http://www.hie.co.uk)**  
or call **01463 234 171**

Northern Ireland: Invest NI  
visit **[www.investni.com](http://www.investni.com)**  
or call **0800 181 4422**



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and reflect the position at the time  
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