



NIXONWILLIAMS

FIRST STEPS  
GUIDE TO BEING A  
**SOLE TRADER**

# Our Promise to You

We at Nixon Williams believe that it is important to adopt an ethical approach to dealing with our clients. As a valued client you can be assured that we will act in your interest at all times. To this end we pledge the following:

## Good Advice

As a company with extensive accountancy and tax experience we will take the time to make sure that you, the client, is aware of the options available to you. As a professional practice we will also constantly review our advice and legislation and procedures to ensure that you get the very best advice and appropriate tax efficient solution.

## A Fair Price

At Nixon Williams we work on lower profit margins than most comparable accountants. This ensures that we are extremely competitive, and that you receive excellent value for money.

## Clear and Simple Documentation

We will ensure that all paperwork is as simple as possible and in plain language. Our terms and conditions shall be clearly understandable, and we will answer any questions you may have.

## Speedy and Efficient Service

We aim to complete each stage of your accountancy requirements in the minimum amount of time possible and will assign a named person to liaise with you, keeping you informed of progress.

## A Consistent Service

For us, our relationship with our clients does not end once you have signed up. We are interested in long term relationships with all clients. As your accountants we see our role as being available for advice and assistance in the event of changes in circumstances or requirements.



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# Business Set Up

Now that you have decided that you want to work for yourself, there are many tasks to do in order that you get it right from day one. This guide will cover most of the areas that you need to consider.

This guide is only intended to be used if you have decided to operate as a sole trader. If you wish to use a limited company, then please refer to our separate guide. If you are unsure which business model is most suitable, please contact us for a free chat.

When you begin working for yourself as a sole trader, you will need to advise HM Revenue & Customs (HMRC) as soon as possible, using form CWF1, or, easier still, register online at **[www.businesslink.gov.uk/taxhelp](http://www.businesslink.gov.uk/taxhelp)**

There is no legal process to set up a business as a sole trader, so it is just a matter of registering with HMRC, consider if you need to register for VAT, opening a bank account etc.

A penalty of £100 may be due if HMRC are not advised within 3 months.

# Bank Account

One of the first actions after the creation of your new business is to open a separate bank account.

There are numerous banks, all very keen to open an account for you, however for simplicity and a great deal, it is unlikely that you will find a better option than using one of our recommended banks, HSBC or Cater Allen.



Cater Allen's deposits are fully and unconditionally guaranteed by Santander UK PLC, which is part of the Santander Group, one of the world's most secure and profitable banks.

## KEY FEATURES

- Operated by telephone, post and online
- In-branch deposit taking available at Royal Bank of Scotland branches.
- 30 free day-to-day banking transactions per statement month.
- VISA Deferred-Debit Cards available
- Monthly statements by post as well as downloadable transaction listings online
- View balances, pending credits and payments online
- Set up and manage Standing Orders, Direct Debits, transfers and payments online
- Full cheque book and banking facilities on Sterling accounts

Due to our special relationship with Cater Allen, there is no minimum balance and no charges payable (provided you do not exceed 30 transactions per month) if we arrange the account for you.



HSBC is a global banking and financial company. Offering a vast array of in-depth services for businesses, it is now the world's second largest banking and financial services group.

## KEY FEATURES

- Operated via internet and telephone.
- Over 1600 branches throughout the UK.
- Monthly limit of 20 cheques can be written.
- Monthly limit of 20 cheques can be paid in at a branch.
- View balances, credits and payments online.
- Online statements and Quarterly statements by post.
- Set up and manage Standing Orders, transfers etc online.
- Cheque book and paying in book supplied.

Even after the end of the Free 12 Months banking, no charges will apply provided you do not write or pay in more than 20 cheques per month and you do not deposit or withdraw cash.

# PAYE/NIC

If you intend to employ staff, then you will need to set up a Pay As You Earn (PAYE) scheme with HM Revenue & Customs (HMRC). Nixon Williams offers this registration service free of charge to all new clients.

HMRC will allocate a reference number to your business and you will be required to deduct tax and National Insurance from any salaries paid to employees.

There are several PAYE responsibilities you have as an employer, the main ones being:

1. Deduct & pay to HMRC, Income Tax and NIC from salary payments.
2. File Annual Returns to HMRC by 19th May after the end of the tax year.
3. Report benefits & expenses paid to employees by 6th July after the end of the tax year.

It is important that you get this right from the start; there are various penalties that can be incurred for not getting it right.

## Basic Facts For 2012/13

1. The tax free allowance is £8,105 - so tax is not payable on the first £8,105 of income. If your taxable income exceeds £100,000 this allowance is gradually withdrawn.
2. The next £34,370 of income is taxed at 20% - any income above this (i.e. £42,475) is taxed at 40% upto £150,000 with income over £150,000 taxed at 50%.
3. As a self employed person Class 2 NIC is payable at the flat rate of £2.65 per week this is usually paid by monthly direct debit. If your self-employment income is below £5,595, Class 2 NIC is not payable.
4. Class 4 NIC is also payable at the rate of 9% on self employed profits between £7,605 and £42,475 and at 2% on profits in excess of £42,475.
5. If you have any employees, they will pay NIC at 12% on salaries between £7,605 and £42,475 and at 2% on the amount in excess of £42,475 - as an employer you would pay NIC at the rate of 13.8% on any salary above £7,488.

# Insurance



Generally there are three types of insurance that you need to consider.

**Employer Liability Insurance** - this covers you against claims by an employee for injury etc. This cover is not required if you do not have any employees.

**Public Liability Insurance** - to insure you against claims from third parties that may sue if they have suffered because of your actions.

**Professional Indemnity Insurance** - to insure you against any claims made against you, for example, if your client suffers a financial loss as a result of your error or negligence.

If you require insurance, please visit our Insurance Shop on our website, simply visit [www.nixonwilliams.com](http://www.nixonwilliams.com)

A combined Employer/Public liability can be purchased from £96 and a Professional Indemnity policy from £147.

## PCG

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You may wish to consider joining the Professional Contractors Group (PCG); they represent contractors and consultants with HMRC etc. Their website is [www.pcg.org.uk](http://www.pcg.org.uk) - if you decide to join, you can get a 15% discount if you quote "nixwil".



# Accountant

Take care to choose an accountant that you can work with, they can be very useful in steering you through the tax and reporting issues that you will encounter. Some factors you may want to consider are:

**Freelance Specialist** - Using a specialist firm can be a good decision; they tend to have detailed knowledge of the special tax issues that concern the freelance market. Nixon Williams have specialised in providing accountancy and tax advice to contractors, consultants and freelancers since 1995.

**Qualifications** - anyone can call themselves an “accountant”, so check that the firm you deal with has qualified staff. At Nixon Williams, 90% of our accounting team have an accountancy qualification or are partly qualified.

**Communication** - speak to a few accountants, choose one that you feel comfortable with and can speak to you in a language you understand.

**History** - many accountancy firms who specialise in the contractor market have converted from the provision of Managed Service Companies (MSC's) and/or umbrella companies. Nixon Williams are one of the few accountancy firms that have never offered MSC or umbrella options.

**Fees** - accountancy fees can vary widely and it can be hard to distinguish between different options. There are some firms who will charge as much as they think they can get away with; at Nixon Williams we charge a very competitive fee for a fully inclusive service.

# Testimonials

"...it has had a number of extremely positive aspects to it, and none more so than the discovery of Nixon Williams as a "partner". I have been hugely impressed by everything the company has done for me, from first point of contact to our recent discussion. I believe you are head and shoulders above the majority of your competitors....."

*George Greig - Swift and Sure Consulting Ltd*

"Thank you for the excellent work & service that I have received over the past year. It is very rare these days to find such qualities but I can truly say that I have been impressed by the prompt and quality of service."

*Daryl Porten - Datacon Consultancy Limited*

"Very impressive as to how quickly the company got formed, I wouldn't have a clue where to start, I am so glad I approached you, best decision I have made."

*Saj Khan - Sizn Limited*

"Very efficient service, able to answer all my questions in a straight forward and knowledgeable manner."

*Bruce Tattersall - Risk & Finance Project Management Services Limited*

"Friendly and easy to talk to, not like other accountants I have dealt with."

*Gary Burns - Webflux Limited*

"Another year of excellent service and guidance. Staff are always friendly and approachable."

*Chris Butler - Chris Butler Piping Design Limited*



"Absolutely top service! It's been a stress free 1st year" - Thank you.

*Phil Stowell - Stowell IT Consulting Limited*

"As Always, 5 Star service, highly efficient staff, Victoria & Kate answered my enquiries every time - well worth the money, makes my life less stressful by miles!"


*Mike Hewitson - Blue Event Horizon Limited*

"I'm happy to say I have been provided with excellent customer service. Whatever questions I asked of Marie and Alan they responded quickly and in a way I could understand. Thank you."

*Julie Denyer - Denyer Solutions Limited*

"Superb! Friendly & intelligent advice overcame any fears I had about using a non-local accountancy service. Highly recommended."

*Darren Simmons - Power Gen Careers Ltd*



"May I thank you for your help and assistance over the last financial year - my first as a limited company. On each occasion that I have had to contact you, whether it be by phone or email, my query has been dealt with speedily and most importantly, correctly. I have no hesitation in recommending your company to my fellow contractors."

*Neil Chapman - First Technologies Management Limited*

"I would also like to thank you for first class service you have provided over the last 6 or 7 years. I have recommended several colleagues who have committed to use your service during this time and I will continue to do so in the future should the opportunity arise."

*Lisa Murphy - Seahorse Communications Ltd*



# Invoicing



So that you can receive payment for your services you will need to issue an invoice to your client.

Legally, an invoice must contain the following details:

1. Business name and address
2. VAT number
3. Invoice date
4. Invoice number - this should be a consecutive number, although a prefix can be used if you wish.
5. Itemised breakdown, showing the chargeable period, rate etc.

**Self-Billing** - If you source your assignments through an agency, they may operate a “self-billing system” - this will generate an invoice for you, so there is no need for you to issue one. In fact if you use a self-billing system, HMRC regulations prohibit you from issuing your own invoice.

**Expenses** - if you invoice for expenses incurred, remember to add VAT on top of the expenses, VAT should be added even if the expense does not have any VAT.

There is no legal need to strip out the VAT although some clients insist on this, so that they are not charged VAT on VAT - call our office if you need clarification.

# Checklist



1. Register as self-employed with HMRC
2. Open a business bank account
3. Arrange to have your contract reviewed
4. Register a PAYE scheme with HMRC, if you intend to employ anyone
5. Register for VAT
6. Apply to join the VAT Flat Rate Scheme
7. Arrange any relevant insurance policies
8. Appoint Nixon Williams as your accountant to take care of points 1 to 6

# Expenses



One of the most common questions is often, “What expenses can I claim?” There is no easy answer to this as all expenses must be “wholly & exclusively” for the business. However, typical expenses that may be claimed include:

- Salaries
- National Insurance Contributions (Employer’s)
- Pension contributions
- Business travel (including mileage and public transport)
- Accommodation whilst away from home on business
- Subsistence whilst working away from home
- Accountancy Fees
- Mobile telephone costs
- Postage and stationery
- Home office costs
- Business computer equipment and software
- Internet connection
- Technical books and publications
- Business entertaining
- Subscriptions to approved professional bodies
- Bank charges (if you are paying bank charges you need to change banks!)

If you are unsure about any expenses, please contact the office for advice.

# Expenses (Continued)

We have detailed some of the common expenses that you may wish to consider. Please take a few minutes to read through this guide and check that you are complying with any conditions for claims that you may be making.

## Background

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Expenses are allowed for expenditure that you need to incur to run your business. The exact type and level of expenses can be very complicated and it is important to read this guidance and act accordingly.

Expenses incurred by the business must be “wholly and exclusively” for the purpose of the business. Where the non-business purpose is merely incidental to the business purpose, a claim is still possible.

If any expenditure has a dual purpose, then this expenditure will generally not be claimable. An example is clothing, you need to wear clothing whether you work or not, so the dual purpose prevents a claim.

# Expenses (Continued)

## Private Use

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If any expense has an element of private use, as well as being used in your business, HMRC expect you to identify the element of private use so that an adjustment can be made restricting tax relief.

HMRC take a strict view on the use of estimates relating to private use, so it is vital that updated records are maintained to show that an estimate is reasonable. The record should cover several months, being a reasonable sample to calculate the private use percentage for the year.

## Salaries

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A salary paid to employees will be an allowable expense, together with the employer National Insurance Contributions (NIC).

Remember that your employees must be paid at least the National Minimum Wage rate, currently £6.08 per hour. Lower rates apply to employees under the age of 21.

## Salaries to a Partner

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Whilst in theory this is possible, in reality this can be quite hard to justify. You can pay the going rate for secretarial support etc but this generally will not amount to very much.

Typically, the support work for your business will be minimal, say 1 hour per month. At a rate of say £10 per hour you are looking at an annual salary of just £120!

Our advice would be to leave this as being hardly worth it.

## Home Office Costs

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The easiest way to claim for this is to claim the flat allowance of £208 per annum, no receipts are required and this is allowed by HMRC if you use part of your house as an office. Simply claim on your expense form and it will be included in your accounts.

## Travel Costs

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Tax relief is available for travelling & accommodation expenses, which involve two types of journey:

- Journeys which you have to make in the performance of your duties; and
- Journeys, which you make to or from a place you have to attend in the performance of your duties - but not journeys which, are ordinary commuting or private travel.

Relief is available for travel between home and a temporary workplace.

A temporary workplace is where you go to perform a task of limited duration or for a temporary purpose.

Whether you can treat the workplace as temporary depends upon how long you are based at one particular site, or expect to spend at one site.

In most cases a temporary workplace will be one where you do not, NOR expect to be at the site for more than 24 months.

# Expenses (Continued)

## Example

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If you sign a twelve month contract (at a new location), then you will be able to claim for most of the travel/accommodation costs involved.

If, at the end of this contract you extend it for a further twelve months, then at this stage you expect to be at the site for a total of at least 24 months and so any claims for travel/accommodation would cease at the date you sign the contract.

If you extended for just 11 months, you could continue to claim, because at this stage, you do not expect to be at the site for 24 months.

There are some special circumstances that may affect any claims, please contact the office if you require further details:

- If you are only based at one site whilst working through your business and then you close the business, i.e. you only ever work at one site whilst working through your business.
- If you work at more than one site on the same contract.
- If you generally work at various sites within a defined location (e.g. City of London).

The main types of travel costs that may be claimed are as follows:

## Mileage Allowance Payments

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The following rates can be claimed for business journeys:

<b>Per Tax Year</b>	<b>First 10,000 miles</b>	<b>Miles over 10,000</b>
Cars	45p	25p
Motor Bike	24p	24p
Cycle	20p	20p

Other forms of travel (train, bus, plane, etc) are also eligible, however ensure that you obtain receipts for the journeys. Please note that overuse of taxis is not generally accepted so please avoid excessive use.

## Hotels & Guesthouses

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If you need to stay in a hotel or guesthouse, relief is permitted in full for the costs actually incurred. As always the invoice should be in the business name and retained with your records.

If you are staying away from home due to business commitments you may also claim for a subsistence allowance of £5/night (£10/night overseas). This is intended to cover small incidentals such as laundry, newspapers etc.

## Mobile Telephones

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If your business requires you to use a mobile phone then the cost of this can be met by your business. You will need to assess the portion of the cost that relates to private usage, as tax relief will not be available on this portion.

# Expenses (Continued)

## Internet Access

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The cost of Internet/Broadband access at your home can be claimed, assuming that there is no separate billing or record of access connections (if there is, then you can only claim for the business connections). You will need to assess the portion of the cost that relates to private usage, as tax relief will not be available on this portion.

## Computer Equipment

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If you require the use of a computer/laptop in order to carry out your duties then you can claim for the cost of providing one.

If you are on the VAT Flat Rate Scheme (as we generally recommend) then you will only be able to reclaim any VAT if the total cost is in excess of £2,000.

## Pension Contributions

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A personal pension plan (PPP) is a type of defined contribution arrangement.

It is essentially an investment policy that provides an income in retirement. It is available to any UK resident who is under 75 years of age and can be bought from insurance companies, high street banks, investment organisations etc.

The policyholder contributes to the plan, the money is invested and a fund is built up. The amount of pension payable when the policyholder retires is dependent upon:

- the amount of money paid into the scheme
- how well the investment funds perform and
- the 'annuity rate' at the date of retirement. An annuity rate is the factor used to convert the 'pot of money' into a pension.

The policyholder can retire at any age after 55 (subject to plan restrictions). When the policyholder does retire, they can generally take up to 25% of the value of their fund as a tax-free lump sum. The remainder of the fund can be used to buy an annuity with an insurance company.

There is no limit on the amount of contributions that can be paid. However, there is a limit on the amount which enjoys tax relief. The annual limit is £3,600 or 100% of earnings (capped at the Annual Allowance, which is £50,000 in 2012/13), whichever is greater. There is no limit at all in the year in which benefits are taken in full.

# Expenses (Continued)

## Training Costs

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Work-related training costs can be paid by your business provided that the purpose of the training is to upgrade or enhance your current skills. If the purpose of the training is to gain new skills, the cost will be treated as capital expenditure and your business will claim Capital Allowances.

Notes:

- The training must be designed to impart, instil, improve or reinforce any knowledge, skills or personal qualities which are likely to prove useful when performing your duties.
- Costs associated with the provision of the training are allowable, such as travel and hotel accommodation.

## Insurance

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The main types of business insurance you are likely to come across are:

Employer Liability Insurance - this covers you against claims by an employee for injury etc. This cover is not required if you do not have any employees.

Public Liability Insurance - to insure you against claims from third parties that may sue if they have suffered because of your actions.

Professional Indemnity Insurance - to insure you against any claims made against you, for example, if your client suffers a financial loss as a result of your error or negligence.

## Christmas Party/Annual Event

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An annual event, commonly a Christmas party, is an allowable expense for the business and you will not be taxed upon it providing you meet the following conditions:

- The total cost must not exceed £150 per head - if the cost is just 1p over then the whole cost will be subject to tax and NIC, not just the amount over £150
- The event must be open to all staff, although in reality that will just be you!
- You may invite a partner, but if partners are invited, all staff must be entitled to invite a partner - invited partners will count for the £150 per head allowance.

## Business Entertaining

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Business entertaining is not an allowable expense, whilst you can claim for any such entertaining the cost will be disregarded when calculating the taxable profits of your business.

## Miscellaneous Items

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Other costs that can be paid by your business will include:

- Accountancy Fees
- Postage costs
- Stationery and computer consumables

### IMPORTANT

To avoid potential problems with anything you wish to claim for, where possible, obtain the receipt in the business name.

# IR35

HMRC introduced IR35 to combat what they regard as “disguised employment”. The aim is to increase the tax collected by individuals who set up a business on their own account. The common method that people set up in business is as a limited company but the legislation also covers all other business formats such as sole traders and partnerships.

Where a business provides the services to a client (either via an agency or directly) and the terms are such that without the inclusion of the business, the individual would be an employee of that client, then the IR35 tax treatment is triggered.

To decide whether you are caught by IR35 you will need to consider your written contract together with the actual working practices. The relevant factors to consider are:

## Direction and Control

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The amount of direction and control by the end client must be considered. It is not necessary to prove that the person carrying out the work is doing so under very detailed supervision because even professional persons can be operating under a general and overall framework of control from the end client.

- a) What is done - if a client can move the contractor to different areas of higher priorities will be an indicator of employment.
- b) When it is done - control over when the work is done may be an indicator of employment.
- c) Where it is done - when the contractor is required to work at the client's premises this can be an indicator of control, although if the work can only be done at the client premises, this may not be a factor.
- d) How it is done - this is a strong indicator of employment; it permits the client to prescribe the way in which the work is to be carried out. However, the absence of this level of control does not necessarily indicate self-employment, it is unusual for someone of a particular skill to be told how to do their work, but this does not make them self-employed.

# IR35 (Continued)

**Contract Pointer** - ideally the contract should clearly state that the client has no right to direction, control, supervision etc. The contract can state that the client can make sensible requests but the contractor has no obligation to agree to them.

## Right of Substitution

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Personal service is an essential element of a contract of employment. A person who has the freedom to choose whether to do the task themselves or hire somebody else to do it (on a reasonably unfettered basis) for them, is probably self employed.

**Contract Pointer** - a right of substitution written into all contracts in the chain is probably essential. The contract should state that the contractor is responsible for the completion for the services but should enable a right to use a suitably qualified person to provide the service. A clause to allow the client to be reasonably satisfied that the substitute has sufficient skills is acceptable.

## Mutuality of Obligation

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Mutuality of Obligation would normally appear in all contracts, i.e. an obligation on each party to provide something.

The internal guides for HMRC staff suggest that they ignore this test when considering the IR35 status of a contract. This is quite a complex test but a Judge was critical of the HMRC's instruction to ignore it. This tests if any obligation exists between the client and the contractor. Contracting via an agency would not result in an actual contract between the client and the contractor although this test sees if there is an imaginary one.

If the client simply pays the contractor or agency for services then it may be that MOO does not exist and so not an “employment” situation.

**Contract Pointer** – A self-employed person will have no expectation of further work at the end of a contract, a clear end date is desirable an exception would be if the contract was for a specific, clearly defined task

## Provision of Equipment

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A contractor engaged to undertake a specific piece of work using their own tools and equipment will be a pointer to self-employment. If the contractor is provided with basic equipment this would be a pointer to employment.

**Contract Pointer** – the contract should not state that the client will provide basic equipment or cover training costs. The client provision of specialised equipment is acceptable.

## Financial risk

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An individual who risks their own money, such as buying assets, bearing running costs and paying for overheads, will be self-employed. The risk of not being paid for an invoice would not qualify; this would be viewed as bad luck. Financial risk could also take the form of quoting a fixed price for a job, with the consequent risk of bearing the additional costs if the job overruns.

**Contract Pointer** – working for a fixed price, agreeing to correct defective work (at your cost), providing your own insurance cover will support a case for self-employment.

# IR35 (Continued)

## Basis of payment

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Employees tend to be paid by fixed rates, paid weekly, monthly etc. and may also be paid for overtime. Self-employed contractors tend to be paid a fixed sum for a particular job.

**Contract Pointer** - if you cannot charge a fixed price, try to issue your own invoice rather than relying on timesheets, steer away from using terms such as "overtime" and try to get any expenses included in the rate. If you must charge for expenses, include on the invoice and do not use the client's claim forms.

## Length of Engagement

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Long periods working for one client may be typical of an employment but not conclusive. Regular working for the same client may also indicate that there is a single and continuing contract of employment.

A period of notice in the contract is more typical of employment contracts, so an absence of a notice period would point towards self-employment. If a period of notice is present, it should only be for a reasonable period.

**Contract Pointer** - ensure that the contract does not contain any clauses that prevent you from working for other clients at the same time. The contract should be able to be terminated early with a notice period of no more than one month.

## Business Set Up

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To show if a person carries out business on their own account, it is necessary to take account of all aspects of the business from an overall view. If the business looks like a real business this will strengthen your case.

**Contract Pointer** - aspects that would help towards showing that you are a genuine business include, having business insurance, equipment, more than one client at a time, business telephone, stationery, other sources of income etc.

## Part and Parcel of the Organisation

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The contractor should not be seen to be an integrated part of the organisation as this can weaken the case for self-employment status. The contractor should not use any benefits provided to the client's employees such as subsidised canteens, gyms, Christmas parties etc.

**Contract Pointer** - the contract should not cover areas seen in employment contracts such as reviews and disciplinary procedures.

Please refer to our free online IR35 checker for an initial assessment on our website (look under "Free Resources").

It is highly recommended that each contract is reviewed to ensure that the obligations of IR35 do not apply. We recommend our partners, QDOS Consulting; we work closely with them to assist our clients.

# IR35 (Continued)



## What happens if the contract fails IR35?

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If the contract fails the IR35 test, HMRC sets out specific rules on how to calculate the tax that should be paid.

The “deemed salary” will have to be calculated. Certain expenses can be deducted from the total income arising from relevant contracts as follows:

- Travelling and other expenses covered under Section 336 ITEPA 2003
- Employer contributions to approved pension schemes
- Employers National Insurance Contributions
- A flat rate 5% of the gross income from relevant engagements - receipts will still be required for Corporation Tax purposes - the 5% deduction will be allowed in all cases to calculate the deemed salary
- Professional indemnity insurance
- Professional subscriptions.

Whilst the overall tax paid on an IR35 caught contract will be higher, it is still more tax efficient to operate through a limited company, rather than an umbrella company, the reasons for this include:

- Ability to save from the VAT Flat Rate Scheme, typical annual saving are £1,300
- Lower administration fees, typical annual savings are £360 but can be over £1,000
- 5% of the income is not subject to PAYE & NIC, typical annual savings are £2,500
- One less company handling your money, after a series of umbrella companies becoming bankrupt this can be perhaps the most compelling reason.



# Tax Returns



As a sole trader, HMRC will expect you to complete a personal Tax Return each year.

The Tax Return will include details of all your income, such as salaries, self-employed income, interest, dividends etc. Allowable deductions such as pension and charity contributions are also declared.

The Tax Return is normally due with HMRC by 31st January after the end of the tax year, this is also the date any outstanding taxes and Class 4 NIC are due.

Nixon Williams can complete the tax return for you as part of our service, provided it covers self-employment, employment, interest and dividend income. An additional charge will apply for other income such as property, capital gains and foreign income.

Tax Returns are normally issued by HMRC in the April of each year, if you have not been issued with one, or an advice letter saying that you need to complete one, you should contact HMRC to request one.

# Payments on Account



Payment on Account is probably the most misunderstood part of the Tax Return process. It was devised as a way of self-employed people spreading their tax bill, although the fact that HMRC receive their taxes earlier is a major factor!

## What is Payment on Account

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Payment on Account is a tax payment made twice a year by self-employed people in order to spread the cost of the year's tax. It is calculated by looking at your previous year's tax bill, and is due in two instalments.

The Payment on Account should be seen as a way of paying off some of your tax bill in advance. The first instalment is due on 31st January (the same day as your 'balancing payment', relating to your tax bill for the previous tax year), and the second is due by 31st July. It is intended to help you spread your payments out during the year.

Each of the two instalments of the Payment on Account will normally be 50 per cent of your previous tax bill.

Example - if, in Year 1, you owed £10,000 in tax for the 2010/11 tax year, you will make the first Payment on Account of £5,000 on 31st January 2012, and another payment of £5,000 on 31st July 2012.

# Keeping Records

It is important to keep full and accurate records of your income and expenses from day one.

Keeping records makes good business sense and is of course a legal requirement. So it is important to get a proper system in place from the outset, and keep the information updated on a regular basis.

There are many good reasons for keeping good records:

- makes preparing your accounts and completing your tax return easier and faster
- helps ensure that you pay the right tax at the right time
- helps you avoid paying unnecessary interest and penalties.

You need to keep invoices and receipts to show what you have bought or sold relating to your business.

If you are employing others, you must keep records of their wages and tax/National Insurance you have deducted/ paid to HMRC.

Keeping bank statements is vital, and we would highly recommend that you open a separate bank account so that your personal and business transactions are not mixed.

You should be able to show clearly what you have spent on business. You will need receipts and a record book to keep track of it all.

Keeping records is important, as penalties were introduced in April 2009 for not taking reasonable care with records and tax returns.

# Keeping Records (Continued)



The key responsibility is that you have will be to submit a tax return each year.

The Self Assessment Tax Return covers the tax year, 6th April to the following 5th April. The tax return should be submitted to HMRC by 31st January following the tax year.

Harsh penalties now exist for tax returns submitted late, with additional penalties if the tax due is also paid late.

Nixon Williams are happy to take care of this for you.

# Financial Advice

Financial Management can be used to cover a wide range of topics, however, in relation to contractors and consultants this mainly covers the following areas:

- Retirement Planning
- Pension transfers
- Income Replacement
- Personal Protection

At Nixon Williams, we are able to introduce you to a leading financial advisor.

You can benefit from the expertise of a financial advisor, focused on your needs.

A face to face meeting with a financial advisor is available to all our clients.

Nixon Williams only introduce financial advisors who are authorised and regulated by the Financial Services Authority.

# Payments on Account (Continued)



## **So on 31st January 2012 you would pay £15,000**

- £10,000 for 2010/11
- £5,000 1st payment on account for 2011/12

on 31st July 2012 you would pay the 2nd payment on account of £5,000

In Year 2 you owe £15,000 in tax for 2011/12, however as you have already paid £10,000 "on account" only the remaining £5,000 will be due on 31st January 2013.

## **So on 31st January 2013 you would pay £12,500**

- £5,000 balance for 2011/12
- £7,500 1st payment on account for 2012/13

on 31st July 2013 you would pay the 2nd payment on account of £7,500

This will include Class 4 National Insurance Contributions where applicable but not student loan repayments or Capital Gains Tax.

In the past, if your total tax bill for the previous tax year was less than £1,000, after any PAYE or other deductions at source, no Payment on Account was necessary. Likewise, no Payment on Account will be due if, in the previous tax year, 80 per cent or more of your tax was deducted at source.

The payment on account can be reduced if you expect your taxable income in the next year will be lower than last year.

# Penalties



If you do not file your Self Assessment Tax Return on time or fail to pay your tax on time, you will be liable for penalties.

Penalties for filing your tax return late:

- Just one day late and you will be charged an initial penalty of £100 - this is charged even if you have no tax to pay or if you have already paid the tax due.
- If the tax return is still outstanding after 3 months you will be charged an automatic penalty of £10 per day, up to a maximum of £900.
- If the tax return is still outstanding after 6 months you will be charged additional penalties; whichever is the greatest of 5% of the tax due or £300.
- After 12 months you will be charged more penalties; whichever is the greatest of 5% of the tax due or £300. In serious cases the penalty could be as much as 100% of the tax due.

Penalties for paying late:

- 30 days late and you will be charged an initial penalty of 5% of the tax unpaid at that date.
- 6 months late and you will be charged a further penalty of 5% of the tax that is still unpaid.
- 12 months late and you will be charged a further penalty of 5% of the tax that is still unpaid.

These penalties are additional to the interest you will be charged on all outstanding amounts, including unpaid penalties, until the payment is received.

# Glossary

- 64-8 Form to authorise HM Revenue & Customs to provide company details to your accountant.
- CWF1 Form to register as self-employed with HMRC.
- P11d Annual statement of benefits and expenses paid to each director and most employees.
- P11d(b) Annual company declaration that P11d's have been filed for each director/employee.
- P14 Annual statement for each employee provided to HM Revenue & Customs by the employer.
- P45 Leaving statement of payments and tax deducted from an employee.
- P46 Notice to complete if you do not have a P45
- P60 Annual statement for each employee provided to the employee by the employer.
- SA1 HMRC form to register for self assessment.
- SA100 Self Assessment Tax Return
- SA102 Self Assessment Tax Return - Employment Pages

# Glossary (Continued)

- SA103 Self Assessment Tax Return – Self-Employment Pages
- SA104 Self Assessment Tax Return – Partnership Pages
- SA105 Self Assessment Tax Return – UK Property Pages
- SA106 Self Assessment Tax Return – Foreign Income Pages
- SA108 Self Assessment Tax Return – Capital Gains Pages
- SA303 Self Assessment Claim to reduce Payments on Account
- VAT1 VAT Registration application form
- VAT7 VAT Deregistration Form
- VAT100 Quarterly VAT Return
- VAT101 VAT EC Sales List – for reporting sales to EU customers
- VAT600 VAT Flat Rate application form

# Premier Service Summary - what is included?

## Set Up

- Register your business with HMRC.
- Register your business for VAT.
- Register your business for the VAT Flat Rate Scheme.
- Assist with opening a HSBC or Cater Allen Bank Account

## Monthly

- Operate your payroll with payslips for each employee.
- Calculate and issue a profit statement for your business.

## Quarterly

- Calculation & advice of VAT returns & payments.
- Calculation & advice of PAYE payments.

## Annually

- Issue and file P14's/P60 & P35 with HMRC.
- Issue and file P11d & P11d(b) with HMRC.
- Calculate and advise of Class 1A NIC payments.
- Prepare & file business accounts with HMRC.
- Personal Tax Return - standard return plus employment and self-employed pages.

## Ongoing

- Dedicated Account Controller including their direct phone number & email address.
- Unlimited telephone & email support.
- Ongoing book-keeping.
- Deal with any general HMRC correspondence and queries.
- Deal with change of address for the business.
- Mortgage and tenancy references.
- Complete National Statistical Office questionnaires.
- Deal with HMRC investigations where we have done the work, provided you have followed our advice and not concealed anything from us.
- If you decide to cease using our services, your only commitment is to give us one month's notice.
- If you choose to move to another accountant, we do not make a charge for the transfer.

## Your obligations to us:

- Update us with copies of your invoices.
- Update us your details of your expenses.
- Send us a copy of your business bank statements.
- Respond to letters and emails from us.
- Pay our fees each month.

All the above Premier services are covered by our fee of £95 + VAT per month.

**Disclaimer** - for information of users - This briefing is published for the information of clients. It provides only an overview of the regulations in force at the date of publication, and no action should be taken without consulting the detailed legislation or seeking professional advice. Therefore no responsibility for loss occasioned by any person acting or refraining from action as a result of the material contained in this briefing can be accepted by the authors or the company.

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