



Thinking of working
for yourself? ””



HM Revenue
& Customs

There are a number of short online videos to help you understand the different aspects of starting a business. Visit www.businesslink.gov.uk/taxhelp to see these videos which cover:

- Business allowances
- Construction Industry
- Corporation Tax
- Employing other people
- Importing and exporting
- Income Tax for the self-employed
- National Insurance for the self-employed
- Record keeping
- Setting up in business
- VAT

There are also short videos, 'The Start Up Diaries', following three new businesses through the highs and lows of their first year. To view these videos, visit www.businesslink.gov.uk/taxhelp

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.businesslink.gov.uk/taxhelp or call the Newly Self-Employed Helpline on **0845 915 4515** and give them details about you and your business. 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.hmrc.gov.uk/startup 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.businesslink.gov.uk/taxhelp 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 do employ people, you'll have to operate PAYE (Pay As You Earn) on their earnings in most cases, and send your Employer Annual Return to HMRC online.

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 HMRC website at www.hmrc.gov.uk/payinghmrc and select 'Self Assessment (Income Tax and Capital Gains Tax)'.

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 and HMRC has a number of useful guides on Corporation Tax, visit www.hmrc.gov.uk/ct

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 or call the British Franchise Association on **0123 582 0470**

To watch the short online video 'Welcome - Setting up in Business' visit www.businesslink.gov.uk/taxhelp

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 **penalties were introduced in April 2009 for not taking reasonable care** with records and tax returns.

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

- A record keeping factsheet
www.hmrc.gov.uk/factsheet/record-keeping.pdf
- A general guide to keeping records for your tax return
www.hmrc.gov.uk/sa/rk-bk1.pdf

- A short online video on keeping records
www.businesslink.gov.uk/taxhelp
- A record keeping evaluation tool
www.businesslink.gov.uk/recordkeepingcheck
- New penalties
www.businesslink.gov.uk/taxhelp

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 additional charges called surcharges.

For more help visit www.hmrc.gov.uk/sa or call the Self Assessment Helpline on **0845 900 0444**

To watch a short online video 'Income Tax for the Self-employed' visit www.businesslink.gov.uk/taxhelp

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 as a fixed amount, by monthly Direct Debit.

For more information on paying Class 2 National Insurance contributions, including exceptions, visit www.hmrc.gov.uk/working and select 'Self-employed tax and National Insurance'.

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.hmrc.gov.uk/forms/cf10.pdf

For more information on setting up your Direct Debit or paying by another method, visit www.hmrc.gov.uk/payinghmrc and select 'Self-employed Class 2 National Insurance'.

There are also helpful workshops and EmployerTalk events. For more information visit www.businesslink.gov.uk/taxhelp

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.hmrc.gov.uk/working and select 'Self-employed tax and National Insurance'.

To watch the short online video 'National Insurance - for the self-employed' visit www.businesslink.gov.uk/taxhelp

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.hmrc.gov.uk/ct

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

From April 2011, 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 the short online video 'Corporation Tax' visit www.businesslink.gov.uk/taxhelp

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.businesslink.gov.uk/cis or you can call the HMRC Construction Industry Scheme Helpline on **0845 366 7899**

To watch the short online video 'Construction Industry Scheme' visit www.businesslink.gov.uk/taxhelp

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.hmrc.gov.uk/vat/start/register/how-to-register.htm

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

From 1 April 2010, all new businesses registering for VAT on or after that date will have to 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.hmrc.gov.uk/payinghmrc/vat.htm or to watch a short online video on 'VAT' and 'Importing and exporting' visit www.businesslink.gov.uk/taxhelp

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 as an employer with HMRC and choose and set up a payroll system. For information on when you should register as an employer and a link to the online registration form visit www.businesslink.gov.uk/payeregister

For help with choosing which payroll system might be best for your business, visit www.businesslink.gov.uk/payrollsystem

HMRC have also developed a set of Basic PAYE Tools. The Tools contain a number of calculators and most of the forms you will need to help you to run your payroll throughout the year. You can download the Basic PAYE Tools available in February 2011 from www.businesslink.gov.uk/basicpayetools

There are other things you need to know, such as ensuring your workers are eligible to work in the UK, your obligations relating to the national minimum wage and making sure you use the correct tax code for your employees. For more information on these subjects and everything to do with payroll for employers, visit www.businesslink.gov.uk/paye

As an employer, you'll need to report to HMRC the amounts of tax and National Insurance contributions you've deducted during each tax year on an Employer Annual Return. Almost all employers must file this information online and, from 6 April 2011, will also have to file forms used when employees start or leave online. For more information on online filing visit www.businesslink.gov.uk/payeonlinefiling

To watch the short online video 'Employing Other People' visit www.businesslink.gov.uk/taxhelp

Allowances, reliefs and incentives

There are allowances, reliefs and incentives that may be useful to your business. For more information visit www.businesslink.gov.uk

To watch the short online video 'Business Allowances' visit www.businesslink.gov.uk/taxhelp

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.hmrc.gov.uk/taxcredits or call the Tax Credits Helpline on **0845 300 3900**. You can also use an online questionnaire at www.hmrc.gov.uk/taxcreditsquestionnaire 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.hmrc.gov.uk/online for more information.

You are required to file your Employer Annual Return and your VAT Returns online. From April 2011, employers with fewer than 50 employees must submit their starter and leaver forms (P45, P46 etc) to HMRC 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.hmrc.gov.uk/sa/file-online.htm

Help with computers and IT

The government's Achieving Best Practice in Your Business programme helps small businesses use IT. For more information visit www.businesslink.gov.uk

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.

Face-to-face

You can get help and advice from HMRC's Business Education and Support Teams. They can provide you with helpful advice on what records to keep, how to complete tax returns and how to pay National Insurance. HMRC also provides 'Business Advice Open Days' and 'EmployerTalk' events. These provide a range of free educational and support products for businesses. For more information visit www.hmrc.gov.uk/bst

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. There's information and advice on how to choose an accountant at www.businesslink.gov.uk

For more information

For help with Self Assessment visit www.hmrc.gov.uk/sa or call **0845 900 0444**

For help with National Insurance contributions visit www.hmrc.gov.uk/working or call **0845 915 4655**

To apply to pay voluntary National Insurance contributions, download www.hmrc.gov.uk/nic/ca5603.pdf or visit www.hmrc.gov.uk/ni/volcontr

For information about paying National Insurance for company directors download www.hmrc.gov.uk/nitables/ca44.pdf

For help with Corporation Tax, visit www.hmrc.gov.uk/ct or if you need to contact your HMRC office visit www.hmrc.gov.uk/contactus for more information

For help with the Construction Industry Scheme visit www.hmrc.gov.uk/cis or call **0845 366 7899**

For help with VAT visit www.hmrc.gov.uk/vat or call **0845 010 9000**

For help with Customs or Excise duties visit www.hmrc.gov.uk or call **0845 010 9000**

Newly Self-employed visit www.hmrc.gov.uk/startingup or call **0845 915 4515**

Employers visit www.hmrc.gov.uk/employers or call the New Employers Helpline **0845 607 0143**

National minimum wage call **0800 917 2368**

For help with tax credits visit www.hmrc.gov.uk/taxcredits or call **0845 300 3900** or text **0845 300 3909**

For more information on starting a new business visit www.hmrc.gov.uk/startingup or call **0845 915 4515**

General help available

Business Link

Business Link is a government funded service that provides information, advice and support you need to start, maintain and grow a business. Rather than providing all the help and advice itself, Business Link puts you in touch with the local experts you need.

Visit www.businesslink.gov.uk or call **0845 600 9006** for more information.

There's also general information available through:

England: Business Link visit www.businesslink.gov.uk or call **0845 600 9006**

Wales: Flexible Support for Business visit www.fs4b.wales.gov.uk or call **0300 060 3000**

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

Scotland (Highlands): Highlands and Islands Enterprise Information Source visit www.hie.co.uk or call **0146 371 5400**

Northern Ireland: Invest NI visit www.investni.com or call **0289 023 9090**

**These notes are for guidance only
and reflect the position at the time
of writing. They do not affect any
right of appeal.**

Issued by HM Revenue & Customs
Communications and Marketing
January 2011
© Crown copyright 2010