



ICAEW Business Advice Service

Prepare for success

# The sole trader and tax



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When setting up a new business, you have to decide what format your business will take. If you have decided to register as a sole trader, there are some requirements you will need to follow to notify HM Revenue and Customs (HMRC). We explain below why you need to notify HMRC and the tax implications for running your business as a sole trader.

## Notify HMRC

You should register for self-assessment at [gov.uk/self-assessment-tax-returns](https://gov.uk/self-assessment-tax-returns). You can appoint someone to register and send your tax return for you e.g. a chartered accountant.

You will be issued with a user ID and password which will be needed when you file your self-assessment tax return. The return allows you to provide details of your earnings and any other income you get during the tax year (6 April to 5 April). This information is used to work out how much income tax and national insurance contributions you have to pay.

## The self-employment self assessment return

You can use a three-line account if your annual turnover from self-employment (or income from UK property) is below the VAT registration threshold (in 2015/16 this is £82,000\*). The three-line account is an easy way of giving HMRC condensed information about your business's income and expenses. Rather than having to give HMRC a lot of detailed information, all you need to provide on the relevant pages of your tax return are:

- details of your business turnover;
- the total of allowable business expenses, rather than a breakdown of each expense;
- net profit or loss; and
- details of any adjustments, allowances or losses (usually detailed in a 'tax computation').

You don't have to use the three-line account but most people find this an easier way of completing their tax return. If you prefer, you can still give a breakdown of all your expenses in the relevant boxes on your tax return. Businesses below the VAT registration threshold can also use cash accounting, so turnover and expenses will be cash received and payments made in the period.

\* Please check the current VAT threshold at [gov.uk/vat-registration](http://gov.uk/vat-registration) as it changes every year

## Tax and NIC liability

Profits from self-employment are taxed firstly at the basic rate of income tax (20% in 2015/16) after deducting the personal allowance (£10,600 in 2015/16). If profits after deducting the personal allowance exceed a specific amount (£31,786 in 2015/16) they will attract income tax at 40% or even 45%.

There are two classes of national insurance contributions (NIC) for the self-employed. The first (called Class 2) starts at profits of £5,965 and is £2.80 per week. Class 4 NIC starts at profits of £8,060 and is payable at 9% up to profits of £42,385 when it drops to 2%. Most people pay Class 2 and Class 4 national insurance through self-assessment.

### >> Payment of tax

Self assessment payments are due by 31 January and 31 July each year. It normally takes three bank working days to pay through the banking system. The deadlines for paying your tax bill are:

- \* 31 January - for any tax you owe for the previous tax year (known as a balancing payment) and your first payment on account
- \* 31 July for your second payment on account.

Failure to make these deadlines will result in interest being charged.

**More information:** [gov.uk/self-assessment-tax-returns](http://gov.uk/self-assessment-tax-returns)

## Other tax payments your business may have to make

The payment deadlines are different for each type of tax/duty. In some cases, if you pay electronically you will get an extended payment date.

### **VAT**

Cleared funds must reach HMRC's bank account by the seventh calendar day after your standard due date. The exception to this is payment by Direct Debit as HMRC will automatically collect payment from your bank account three bank working days after the extra seven calendar days following your standard due date.

### **Employer's PAYE and NICs**

When paying electronically, payment is due either monthly or quarterly and cleared funds must reach HMRC no later than the 22nd of the month following the end of the tax month or quarter to which it relates.

**More information: [gov.uk/business-tax/self-employed](https://www.gov.uk/business-tax/self-employed)**

**If you need further help with running your business as a sole trader, a free initial discussion with an ICAEW Chartered Accountant is a good place to start. Visit [businessadviceservice.com](https://www.businessadviceservice.com)**



## Prepare for business

Decisions you take in the early years of your business can be the most difficult as well as the most important, particularly if you are a first-time entrepreneur.

## Prepare for success

The **ICAEW Business Advice Service** experts will help you make those crucial first steps and then grow your business with confidence.



**Book a free consultation NOW**  
**[businessadviceservice.com](https://businessadviceservice.com)**

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## Prepare for business, prepare for success.

### ICAEW Business Advice Service

The ICAEW Business Advice Service (BAS) provides professional advice for start-ups and owner-run businesses.

As well as practical help online in the form of white papers, short PDFs and blog articles, we enable businesses to receive an initial consultation at no charge from an ICAEW Chartered Accountant.

ICAEW is a world leading professional membership organisation that promotes, develops and supports over 146,000 chartered accountants worldwide. We provide qualifications and professional development, share our knowledge, insight and technical expertise, and protect the quality and integrity of the accountancy and finance profession.



**Book a free consultation NOW**  
**[businessadviceservice.com](https://businessadviceservice.com)**

This leaflet is part of a series.

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