



SOLE TRADER GUIDE



What is a sole trader?

A sole trader – also known as the sole proprietorship is a simple business arrangement, where one individual owns and runs the entire business.

It simply refers to the legal structure of a business rather than the number of employees involved in it. A sole-trader is self-employed, but they might have several workers within the business.



How do I register as a sole-trader?

If you decide to be a sole-trader, then you must register with HMRC and inform them of your status within three months of trading. It is advisable to register as soon as you start trading. You should allow 10 working days (21 days if you are abroad) in order to complete the registration process.

Upon successful registration, HMRC will send you an activation code using which you can login to your online account. If you have already registered as a sole-trader and have submitted a self-assessment tax return, then you can [re-register with HMRC using the form CWF1](#).

To proceed, you'll need your 10 digit Unique Taxpayer Reference (UTR).



What is a UTR number?

A UTR or Unique Taxpayer Reference Number is issued by HMRC to all tax payers in the UK. Whenever you correspond with HMRC, you will be required to quote your UTR number. HMRC automatically issues a UTR number within 28 days of your registration as self-employed.

You can find your UTR on

- Your online account
- Previous tax returns
- Documents from HMRC
- By calling the Self-Assessment helpline at 0300 200 3310

If you are newbie and need assistance in registering as a sole -trader with HMRC, please follow the [link](#).

Advantages and disadvantages of sole-trader registration:

Advantages :

- ✓ Establishing and functioning your business is simple
- ✓ Low start-up costs
- ✓ You keep all your profits
- ✓ You don't have to think about paying yourself a salary
- ✓ Easy to change the legal structure in future
- ✓ Easy to wind up your business

Disadvantages :

- ✗ Difficult to retain high-caliber employees
- ✗ You're taxed as a single person
- ✗ You're liable for the debts
- ✗ Less tax-efficient if profit is over £20,000

How do I take care of my bookkeeping?

The work involved with bookkeeping as a sole-trader is minimal. You will have to track your monthly income and expenditure accurately. To track your finances effectively, you should keep record of all your invoices and receipts. Receipts of all work related transactions such as rent rates and utility bills have to be preserved as well. You can track them using software or a spreadsheet.



Spreadsheets:

Using a spreadsheet can be user friendly for some but it can limit your capabilities. Spreadsheets usually work best for those who prefer to send their own invoices themselves by manually entering data.

Bookkeeping software:

Alternatively, you could also choose to use bookkeeping software or an online bookkeeping package to record your income and expenses. Using software makes the process easier and saves time by eliminating duplicates and provides other extra features for small businesses.



Should I maintain a separate bank account?

An ideal business bank account is not a legal requirement for sole-traders as they are not a separate legal entity like a limited company. But, keeping your business and personal finances separate has a definite advantage.

If you maintain only a personal bank account, then you'll have to be more explicit in specifying personal and business related expenses. This process is time consuming and affects how you record your income and expenses.

On the other hand, having a separate business bank account allows you to easily maintain your business transactions. Completing self-assessment and annual accounts becomes easier and less time consuming.

What is a tax year?

The period set by HMRC based on which you are taxed is referred to as tax year or financial year. In the UK, tax year is from 6th April to 5th April of the following year.

Financial year could be different for some sole-traders. It is because they start to trade part way through the tax year and opt for a year-end which is one year from the date of commencement





How much tax and NI will I pay?

Each and every person in UK is entitled for tax free allowances. Generally, it is the amount of profit that can be earned before any tax is payable. The rates over the allowances are 20% and 9% over the National Insurance. These rates are subject to changes so please refer the following links for up to date information:

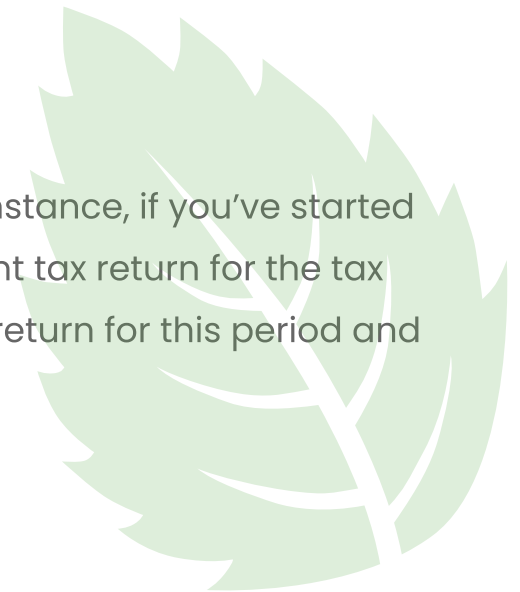
[Income tax rates and personal allowances for sole trader](#)

[National Insurance rates for sole trader](#)



When do I pay the tax?

Your tax is due by 31st January, following the end of the tax year. For instance, if you've started your business in May 2019, you would need to complete a self-assessment tax return for the tax year from 6th April 2019 to 5th April 2020. You'll have to complete the tax return for this period and pay any tax liability to HMRC no later than 31st January 2021.





How do I pay the tax?

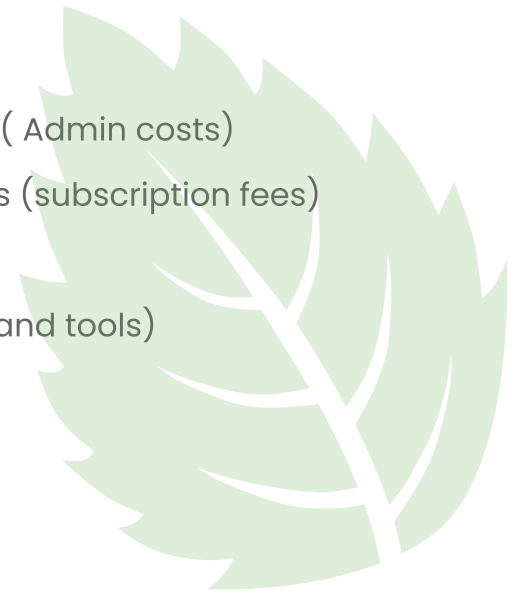
Tax bills can be paid using the following methods:

- ✓ Direct bank transfer to HMRC
- ✓ Direct Debit
- ✓ Online payment using debit/credit card
- ✓ Up to date budget payment plan with HMRC
- ✓ Cheque addressed to HMRC
- ✓ Payment through post office
- ✓ Bank giro

What business expenses can I claim?

Expenditure differs depending on the nature of the business. But as a common rule, a vast majority of these expenses can be claimed which includes:

- ✓ Staff wages and training costs
- ✓ Rent of your business premises
- ✓ Equipment
- ✓ Bank charges and interests
- ✓ Advertising and stationary
- ✓ Travel and sustenance
- ✓ Postage
- ✓ Telephone usage and Internet (Admin costs)
- ✓ Relevant books and magazines (subscription fees)
- ✓ Accountants and lawyers fees
- ✓ Capital expenditure (furniture and tools)
- ✓ Repairs and renewals
- ✓ Business insurances





Expense you may not claim includes:

- ✗ Parking fines and speeding tickets
- ✗ Child care and school fees
- ✗ Client entertainment
- ✗ Gym or other related memberships
- ✗ Training courses which are not related to your business

What late submission penalties and deadlines should I be aware of?

Missed deadline – automatic penalty of £100

3 months late	daily penalty of £10
6 months late	£300 or 5% of tax due (whichever is greater)
12 months late	£300 or 5% of tax due (whichever is greater)





What type of business insurance should I go for?

Three main types of business insurances that you may want to consider for your sole-trader business:

- ★ Employer's liability insurance (if you employ someone)
- ★ Public liability insurance
- ★ Professional indemnity insurance

When should I register for VAT?

VAT registration becomes mandatory if the annual turnover of your business exceeds the VAT threshold of £85,000.

Can I employ staff?

Yes, you can. To employ a staff, you will have to register with HMRC as an employer and start running payroll.

Do I need an accountant?

Using an accountant will help you stay away from various HMRC penalties due to late submission of tax returns, late tax payments and late registration. Please [click here](#) if you would like us to take care of your accounting.





How can we help you?

- ✓ You get free consultation tailored to your exact situation and business needs
- ✓ We are on hand to help you choose the right company structure that would suit you best
- ✓ Our experts handle the entire registration process in a procedural manner
- ✓ We will take care of your entire bookkeeping and sole trader accounts
- ✓ You avoid any pitfalls with advice on legal responsibilities and tax deadline
- ✓ We help you stay aware of the expenses that you can/cannot claim
- ✓ On your behalf, we'll make submission to HMRC and file your self-assessment tax return on-time

A thousand miles journey begins with a single step...we at Mint make sure that you first step is right. Get in touch with us if you have any question on [sole-trader registration](#).

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