
3.5 Tax and National Insurance

Taxes and HMRC

Whatever the status of your business you'll need to deal with taxes and Her Majesty's Revenue and Customs (HMRC), a.k.a. the tax man. The tax calculations are usually based on the tax year which runs from 6 April to 5 April the following year.

Make sure you register, submit returns and make payments within the deadlines that are set.

HMRC increasingly expect businesses to handle these things on-line. This is another reason to make sure you have a decent computer and Internet access, whether this is something you own, borrow or use in your local library.

Personal taxes – self-employed

If you are self-employed you'll be liable to pay National Insurance (NI) and income tax. The amount you pay will depend upon the profits your business makes. There are two forms of National Insurance you may have to pay. These are only due if your profits are above a set amount or threshold. To complicate matters, these thresholds will change in July 2022. Class 2 contributions are a flat rate weekly amount (£3.15 for 2022-23) once your profits are above £9,880 between 6 April and 5 July, or £12,570 from 6 July (these amount to £11,908 over the year). Class 4 contributions also start once your profits are above these thresholds. You then pay 10.25% of your profits above this level and 3.25% on profits above £50,270.

You may also have to pay income tax. The following figures are for the tax year 2022-23. You start paying this at the rate of 20% once you earn more than your Personal Allowance. Most people have a tax code of 1257L; this means you have a Personal Allowance of 10 times this, £12,570.

You will need to submit a self-assessment every year. An important part of this will be telling the tax man what expenses you have had to cover in your business. You can see what they will allow as expenses at <https://www.gov.uk/expenses-if-youre-self-employed>. This can be complicated but there is a simplified scheme; see <https://www.gov.uk/simpler-income-tax-simplified-expenses>.

HMRC like you to register as self-employed as soon as possible. The law says you have to register by 5 October in your **second** tax year. So, for example, if you began self-employment in May 2022, you would have until 5 October 2023 to register. Once you are sure you're going down the self-employed route it may be best to register well ahead of this deadline to avoid any nasty shocks about back tax and NI that is owing. It is also a good idea to keep putting a bit of money aside to cover your future tax and NI demands. HMRC have an on-line calculator to help you work out how much you may have to pay at <https://www.gov.uk/self-assessment-ready-reckoner>.

For more information general information taxes and self-employment see <https://www.gov.uk/set-up-sole-trader>.

Personal taxes – employed

If you're employed by your own company then the company will have to deal with income tax and National Insurance through the Pay As You Earn (PAYE) system. You can find out more about this at <https://www.gov.uk/payee-for-employers> . HMRC will expect you to use specialist payroll software and make returns to them on-line. If you employ less than ten people then there are some free programs you can use: see <https://www.gov.uk/payroll-software/free-software> .

As a director of the company you'll also be asked to complete a self-assessment tax return.

What was said about Income Tax in the previous sub-section on self-employment will also apply.

Business taxes

A new company has three months to register for Corporation Tax (see <https://www.gov.uk/limited-company-formation/set-up-your-company-for-corporation-tax> . If you are setting up a new company, you can now register for this tax through the same process that you use for registering the company with Companies House). This is a tax you pay annually on profits the business makes. The company's financial year does not have to be the same as the tax year. You need to submit accounts every year; the bigger your company the more information you need to provide. You can find basic information at <https://www.gov.uk/annual-accounts/microentities-small-and-dormant-companies> and a link to a document that will give you full details.

You will have to register for Value Added Tax (VAT) if your VAT taxable turnover exceeds £85,000 (in 2022-23). VAT taxable turnover means the sales you make that are not exempt from VAT. (There's a list of goods and services that are exempt at <https://bit.ly/1NN2Zq4>). You can also choose to register for this tax if your sales are lower than this. For more information on VAT thresholds, including the special retail schemes, go to <https://www.gov.uk/vat-registration-thresholds> .

Registering for VAT has advantages and disadvantages.

Advantages	Disadvantages
Your business can look bigger and more established to potential customers	You will usually have to charge VAT on your sales, making your costs 20% higher for customers
You can claim back VAT on your purchases	Your accounts will be more complicated and you'll have to submit a VAT return every quarter

Getting help

You've probably noticed that this worksheet includes a lot of links to HMRC information that is available at the www.gov.uk website. You'll find lots of other useful information there.

Training webinars are also available on-line from HMRC at <http://www.gov.uk/government/collections/hmrc-webinars-email-alerts-and-videos>. Some of these you can log in to and watch live. You'll also find that most of them have been recorded, so you can watch these whenever you want.

You may want to consider getting professional help from a bookkeeper or accountant. There's more on this in worksheet 3.4, Bookkeeping and banking.