



Becoming self employed



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Many of us think about saying goodbye to the 9-5 and going into self-employment. No more working on projects you only care about because you're getting paid to care about them. Instead, you can spend time in your local coffee shop planning out your route to self-employment, working on something that enables you to make a living, working when you want, and working on your own terms. Sounds great, doesn't it?

Well, being self-employed is great, but the above description is only half of the story. In addition to working for yourself, you'll obviously need to ensure that you have the clientele that are going to help you keep the lights on, not to mention a Jedi like knowledge of your profession and industry. But most of all, you will need to ensure that you are registered with the HM Revenue and Customs (HMRC) and are recognised as one of the 5 million self-employed individuals in the UK.

Unfortunately, this is where a number of freelancers fall foul of the strict legal obligations of declaring themselves self-employed. Many workers get confused with the exact requirements of the HMRC because they weren't aware on knowing how much money they needed to put aside for taxes.

Expenses are another costly caveat for self-employed workers. By failing to understand the differences between personal and businesses expenses, could land you in hot water with the HMRC.

It's for these reasons why, at Intuit QuickBooks, we have created this helpful guide to help you on your way to self employment. From some of the challenges in the most popular industries to be self employed, all the way to providing you with helpful tips on how to find work, registering with the HMRC and defining the intricate differences between personal and business expenses we're on hand to give you the guidance you need.

In order to help you on your road to self-employment, we recently introduced QuickBooks Self-Employed, the easiest way to separate your business from personal expenses, know your estimated tax payments and simplify your self-assessment submission, all in one easy-to-use platform. With QuickBooks Self-Employed, it becomes easier to track your self-employed income. Find out more on intuit.co.uk/selfemployed

We hope you find this ebook useful and we wish you the best of luck in your self-employed journey.

The QuickBooks Self-employed Team

Top 3 challenges:

Out of the 5 million self employed individuals, Some of the most popular industries are Construction, taxi driving, carpentry, farming or shopkeeping, making them extremely competitive professions to start out in.

Before you begin, we've put together a number of challenges around these different industries, so you can identify all of the obstacles that might get in your way when becoming self-employed.



Construction		
Challenge		
<p>1. Finding work The Economy Committee's 2013 study reveals an apparent paradox in our country: while the UK suffers from a lack of skilled labourers, nearly 150,000 skilled construction workers remain unemployed.</p>	<p>2. Skills shortage The Economy Committee's 2013 study mentioned places like London suffer from a significant shortage of labourers with specific skill sets, including glaziers, plasterers and dry-liners.</p>	<p>3. False self-employment status Essentially, false self-employment is a tax evasion scheme used by many employers (sometimes unwittingly) to redefine employees as subcontractors.</p>
Solution		
<p>What can I do? Referrals are the lifeblood of a sole contractor's business, so don't accept jobs that you don't have the skills to accomplish.</p>	<p>What does this mean for you? The most recent surveys suggest that demand for construction subcontractors is exploding, with a 14% increase in average advertised salary and a 28% increase in number of job vacancies since 2014.</p>	<p>How do you determine if you're self-employed? First, you must understand that you do not get to decide whether or not you are self-employed. There are certain criteria that you must meet, so visit www.selfemployed.intuit.com for more information on self employed definitions.</p>
Taxi Drivers		
Challenge		
<p>1. Getting started You don't need particular qualifications to become a taxi driver, but you must have a full driving licence that you've held for 3 years.</p>	<p>2. Finding work Freelancing for a private taxi firm will enable you to tap into their pre existing customer base, helping you to build up your reputation.</p>	<p>3. Customers Your customers are both your bread and butter and your greatest risk as a taxi driver. You will almost certainly service drunks and rude patrons.</p>
Solution		
<p>What can I do? You'll either need to own your vehicle outright and cover your own costs or rent a vehicle from an operating firm at a fixed rate. Brand new cabs cost around £27,000, but even second hand cabs might set you back several thousand pounds.</p>	<p>What can I do? How you find works depends primarily on what type of taxi driver you are – either a Hackney Carriage (operating in urban areas) or minicab (where there has to be a booking to collect passengers).</p>	<p>What can I do? Whenever possible, refuse jobs that make you feel unsafe and avoid situations that put you at risk.</p>

Carpenters



Challenge

1. Getting started

Carpentry is a specialised trade, and the common way to break into this industry is through apprenticeship programs offered by larger construction firms.

2. Skill specialisation

How can you set yourself apart in an industry when 62% of carpenters eventually set up self-employed practices?

3. Insurance

You've built up your business, seen valuable ROI for the time and energy you poured into your enterprise, and you even have a fairly regular clientele. But an accident happens, and someone gets hurt. Suddenly you're facing legal action.

Solution

What can I do?

There's no replacement for good, old fashioned experience. If you have limited experience, applying to be a joiner's mate can be a step in the right direction.

What can I do?

It's never too late to accrue some new skills and pursue further education. Basic - Level 1 - carpentry and joinery courses will significantly help.

What can I do?

Protect yourself ahead of time and look into liability and professional indemnity insurance plans that make sense for you. Health insurance can also give you some additional peace of mind.

Farmers



Challenge

1. Income

In 2010, the Commission for Rural Communities found that one in every four farming families lived below the poverty line.

2. Stress and sickness

"If [farmers] have a bad back or neck, if it's stopping them from working, they come and see us. Mental health is different," said one medical practitioner. "Generally, up here, patients are getting less access to services."

3. Claiming your benefits

A problem faced by farmers is they rely upon two incomes—their Single Farm Payment and livestock sales—and falsely believe that this excludes them from the benefits afforded to employees.

Solution

What can I do?

Making a cash flow forecast for yourself will help you when times are lean. Try not to rely on the trap of banks overeager to lend you money, which you'll later struggle to repay.

What can I do?

Don't let yourself be shortchanged. Even in self-employed, you still have benefits: you might be eligible for Employment and Support Allowance (ESA), for example.

What can I do?

Most farmers know that they, like all UK residents, can claim State Benefit assistance. The difficulty lies in a lack of follow-up information, such as which benefits they qualify for.

Shopkeepers



Challenge

1. Getting started

Competition is stiff, and you might be understandably nervous about entering a market in which 16 stores closed per day in the first 6 months of 2014, according to PwC and Local Data Company.

2. Building your reputation

Proving your competence to your customer is just as important as providing a quality service, when you're a self-employed shopkeeper.

3. Adapting to the internet age

Britain's online business is booming, with consumers spending £718.7 million weekly online. This number is double what online retail raked in only five years ago, and that figure is only expected to grow.

Challenge

What can I do?

People find appeal in buying locally, so offer them services that their community lacks and your business will boom.

What can I do?

No matter your area of expertise, referrals will only help you succeed as a sole trader. For more advice on finding work and establishing your reputation, please visit our article on the challenges of being self-employed.

What can I do?

Don't let your business fall behind in an interconnected age—make sure you're marketing your shop both within your community and across the internet!



Registering with HMRC



When you're outside looking in, self-employment seems like a fantasy. Imagine: flexible hours, higher income potential, independence. So you take that step and join the ranks of the 5 million other Brits who are there own boss. Then the panic starts; you're on your own.

The responsibilities begin to weigh down on you: you need to find work, decipher expenses, catalogue cash flow, and of course, file your own taxes. And what about job security, and benefits, ...and overwhelming isn't it?

Don't worry. We're here to help.

You've seen the charms inherent in the life of a sole trader, but now it's time to contend with the challenges—beginning with HMRC registration.

When do you tell the HMRC that you're self employed?

The moment you begin working for yourself, HMRC considers you self-employed, or a sole trader. The first step of self-employment should be to register yourself with HMRC.

The HMRC considers your business's active start date to be the earliest of either:

- The date you begin to market your business
- The date on which you have goods or services to sell and a customer base.

Make sure to register as soon as possible! Failure to do so within 3 months of beginning your enterprise will earn you a £100 late fee. If you continue to delay, [your penalty could swell](#) to as much as £1,600.



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How do I tell HMRC that I am self-employed?

There are three ways to inform HMRC that you're becoming a sole trader. These are:

1. [Register online.](#)
2. Fill out the [CWF1 form](#) and register by post.
3. Call the [newly self-employed helpline](#) at **0300 200 3504**.

When registering yourself as self-employed, you'll be asked to provide personal and business information that HMRC uses to establish your tax records. You'll also be registering for HMRC online services simultaneously, which allow you to send your tax forms online.

Registering as self-employed means that you're registering for both [Self Assessment tax returns](#) and [Class 2 National Insurance](#).



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Benefits of Registering

In addition to avoiding hefty fines, registering with HMRC automatically sets up your online account, enabling you to send tax returns online, check payment due dates, register for other applicable business taxes—such as [Value Added Tax \(VAT\)](#), if your annual turnover exceeds a [certain amount](#) (currently £82,000)—and view your account status.

HMRC will also provide you with a Unique Taxpayer Reference (UTR) number. This ten digit number is used to get in touch with HMRC.





Additional Responsibilities

Remember that self-employment means that you're responsible for filling out your own National Insurance Contributions (NICs) along with your tax returns. There are two main types of NICs that you might have to pay:

Class 2 NICs are compulsory and due from the day your self-employment begins.

- Paying into your Class 2 NIC counts towards benefits such as basic state pension, employment and support allowance, and maternity allowance fund.
- Your class 2 NIC can be paid into weekly, monthly, or biannually in January and July. You can pay this fee through
 - [Direct Debit](#)
 - [online or telephone banking](#)
 - [at your bank or building society](#)
 - [at the post office](#)
 - [by cheque through the post](#)
- You may [be exempt from Class 2 NIC payments](#) if:
 - You're under 16-years-old or at state pension age
 - You're a married woman or widow with a Certificate of Reduced Rate Election
 - You have a Certificate of Small Earnings Exception if your earnings are below a certain amount, which varies year by year.

[Class 4 NICs](#) are based on your profits for the fiscal year and are compulsory if your earnings are above a [certain amount](#) (currently £8,060).

- Not a flat rate, but is based on a percentage of your taxable profits, and is changeable year-by-year).
- Automatically calculated when paying online



All of this is meant to stress the importance of registering with HMRC, but the process is quite simple and painless. For more information, visit [Working For Yourself](#) on gov.uk or check out [HMRC's YouTube channel](#).

Fortunately, save for items like expense reports, your paperwork is more-or-less finished. There are no company formation costs to worry about, and your first step into the world of self-employment is complete once you've registered with HMRC.



Find more self-employment resources at our [self-employment hub](#).



Deciphering Expenses



Expenses sound simple: just record what you earn and what you spend, right? Somehow, once you've entered the world of self-employment, it's never that easy. **Is this £8 lunch a personal or business expense? How do I record gas mileage? What exactly is an allowable expense?**

Read on and we'll try to make things a little clearer.

What is a business expense?



Any money used by or in support of your business is a business expense. These range from large expenses, such as rent or a company vehicle, to small expenses, such as the cost of a coffee while you meet a client.

Being self-employed costs money. You'll need to purchase the tools of your trade and cover any other running costs that your work demands. Some expenses—called “allowable expenses”—can be deducted for tax purposes. Other expenses allow you to claim capital allowances, which reduce how much you're taxed on your earnings.



“Some expenses—called “allowable expenses”—can be deducted for tax purposes.”



Allowable expenses

Allowable expenses, as a rule of thumb, are any costs whose sole purpose is to generate revenue for your business. As such, you cannot claim personal expenses. You also cannot claim any items covered by an insurance policy, nor any costs related to the buying or improving of fixed assets (such as buildings) which last for several years.

Allowable expenses include:



Office and equipment, including phone bills and computer software.



Goods purchased for resale (i.e. stock).



Travel expenses, including vehicle insurance and fuel.



Financial costs, such as the hiring of an accountant or business insurance.



Clothing, such as work uniforms.



Some costs associated with your **business premises**, such as heating and lighting.



Staff costs, such as salaries and pensions.



Advertising/marketing costs, including the costs to run a website.

If you're unsure whether an expense is considered business or personal, download [this HMRC PDF guide](#) to help sole traders navigate their expenses or contact the [Self Assessment helpline](#) for more guidance.



Capital allowances



You can claim [capital allowances](#) whenever you purchase major assets, aka. “plant and machinery,” that your business will use over several years. You can usually [deduct the full cost](#) of these items from your profits before tax.

Some items that can’t be claimed as an allowable expense can be claimed as a capital allowances, including:

- Plant and machinery (cars, computers, tools)
- Fixtures (shelves, furniture, fittings)

Repair costs are not considered capital allowances. Instead, self-employed individuals should claim repairs as business expenses. Also, note that claiming capital allowances on some items, such as a vehicle, means that you cannot claim the same item as a simplified expense.



“You can claim capital allowances whenever you purchase major assets”



Simplified expenses



Simplified expenses allow you to calculate some business costs with a flat rate instead of working out the actual costs. These include the costs associated with [transportation](#), [working from home](#), and [living in your place of business](#).

For example, instead of calculating the actual costs of buying and maintaining the vehicle you use for business, you can instead claim a rate of 45p per mile for the first 10,000 miles, and 25p per mile thereafter.

Simplified expenses are only available to sole traders and business partnerships in which no partner is a company, but whether you use simplified expenses or not is up to you. The [government website](#) offers a tool for self-employed individuals to see which method suits you best.



“Simplified expenses are only available to sole traders and business partnerships in which no partner is a company”

Claiming expenses



So, should you keep your receipts? Yes, yes, a thousand times yes.

The [government requires](#) that you keep all records of your business income and expenses for five years. This includes sales receipts, [business expenses](#), [VAT records](#) (if applicable), [PAYE records](#) (if you employ people), and your [personal income records](#).

When you have all your records compiled, you can fill in the total amount on your [Self Assessment tax return](#). While you don't generally need to submit proof of expenses [in order to claim them](#), you do need to be able to produce your records if asked by HMRC.

How you record your expenditures is up to you, but the old cliché of storing your receipts in a shoebox won't last you very long.

QuickBooks allows you to easily record income and expenses. You can categorise your business costs to easily identify how you're spending your money, making it easier to separate allowable expenses from capital allowances come tax season.



The Blurred Line of Expense Claims



What do horse manure and a floating duck island have in common?

Well, not much... but, If you asked [certain MPs](#), they might claim they're tax deductible.

Business expenses involve any costs that are solely and exclusively for work purposes. If you're wondering what a duck island has to do with being a member of parliament, you're not alone.

The good, the bad, the ridiculous



Sometimes, unorthodox claims can be a windfall. Alison Mitchell, a sports broadcaster who commentates regularly on the BBC, discovered that [she was able to claim four crowns on her tax return](#). Her producer told her that the crowns were necessary to continue working in television, which suddenly transformed a would-be cosmetic enhancement into a business expense.

But unless you've got a fantastic reason tucked up your sleeve, you're better off not following the lead of these people (names withheld): a claimant who tried to pass off a bouncy castle and Spider-Man cake as team-building necessities, and another who tried to claim 226 bottles of energy drink, because apparently staying up past 11 am is a chore.

Then, of course, there are the more public and salacious blunders mentioned above.

Claims like Sir Peter Viggers' [£1,600 duck house](#) became symbolic of the MPs' spending scandal. The floating island, which clocked in at approximately 1.5 m tall and was based on an 18th century Swedish building sounds lovely—especially if you're a duck—but seems a little irrelevant to matters of parliament.

Finally—a personal favorite—is David Heathcoat-Amory's [claim for manure](#). Heathcoat-Amory tried to claim £388 worth of manure, along with miscellaneous gardening costs such as £1.95 for sunflower seeds, £2 for mouse poison, and £6 for the use of a chainsaw, all for expenses accrued on a house he owned outright that wasn't even his primary residence.



“Claims like Sir Peter Viggers' [£1,600 duck house](#) became symbolic of the MPs' spending scandal.”



So, what can you claim?

Well, HMRC is actually quite flexible on this, so long as you can defend the item's inclusion as being essential to your business.

Typical examples include:



Travel expenses



Stock



Rent



Utility costs for business premises



Bank charges



Telephone fees



Delivery charges



Stationery & postage



Equipment costs

What can't you claim?

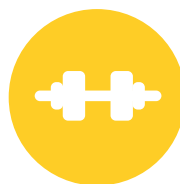


For the more unorthodox claims, you'll need to spin HMRC a good story for why that cost is essential.

Otherwise, you should know that the following are included in items that cannot generally be claimed:



Parking/speeding violations



Gym memberships



Tuition



Client entertainment



Childcare services



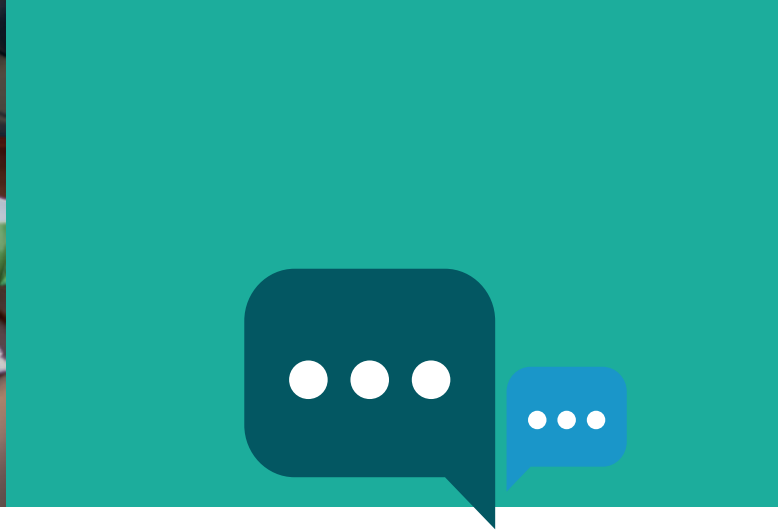
Duck islands
(sorry, Sir Peter!)

For a more complete understanding of what you can and cannot claim from HMRC, visit the [Self Assessment helpline](#) and gov.uk's [Expenses if you're self-employed](#) resource.

For more help demystifying the confusion of self-employment, visit our [resources page](#).



Finding Work



Finding work might be one of the greatest challenges you face as a sole trader. Once you've filled out the paperwork and decided what services you'll offer, the struggle becomes how to reach people and communicate those services.

When you have to worry about cash flow, balancing your expenses, and—of course—actually doing your job, fretting over the source of your next paycheque is the last thing you want.

What follows are three tips on how to find your first customer and then begin building a network of clients that you can draw from.

Generating Referrals

Referrals are the lifeblood of many self-employed individuals.

The first step in securing referrals is to promise quality and deliver on that promise. Impress your clientele! Referrals won't drop into your lap—you need to work hard and [make yourself referable](#).

With your reputation established, there are a few tricks you can use to encourage referrals. For example, you can incentivise your referrals by offering discounts or free consultations when your customers refer you to others.

Another strategy, recommended by Elene Cafasso, president of [Enerpace, Inc.](#), is to build an [automatic referral system](#) into your business model. Her company's newsletters, new client orientations, and feedback surveys all include links that allow her customers to easily refer her business.

And, don't forget, giving a referral to someone else will often mean you get one in return.



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Make yourself visible

You need to market yourself to make it as a sole trader. Fortunately, there's a variety of ways to go about this.

The first is advertising. Whether you put an ad in your local paper or purchase a wrap-around banner for your company vehicle, try to expose people to your business. Consider purchasing space on social media sites, such as Facebook Ads, to give yourself some press.

Also, scour job boards for postings relevant to your work and keep a keen eye out for any listings that have the potential to become recurring. Register your services at online marketplaces such as [reed](#), [guru](#), [upwork](#), [fiverr](#), [peopleperhour](#), or Gov.uk's [Universal Jobmatch](#).

Don't underestimate [LinkedIn](#) as a prospecting tool to help you connect with your clients. LinkedIn allows you to join groups that connect you to other entrepreneurs in your field and their job database and discussion boards are great resources for posting job listings.



Don't underestimate LinkedIn as a prospecting tool to help you connect with your clients.



Start Networking



Unfortunately, as a self-employed individual, you don't have a marketing department to serve as your cheering squad. Entrepreneurs, especially those who work from home, often develop the bad habit of squirreling themselves away from the world while they toil over a project. Don't let that be you!

Your business needs constant exposure to remain relevant. This means [networking](#) both face-to-face and through social media.

Begin by reaching out to former colleagues and employers who might make use of your service. Nothing beats the human element, so try to meet your clients in person when possible and attend conventions that expose you to others in your field.

Start a professional blog that highlights your projects and earns you some exposure from Google. Use platforms like Facebook, Instagram, and Twitter, and give your business its own accounts that address topics such as services rendered and customer service.



Don't underestimate LinkedIn as a prospecting tool to help you connect with your clients.



Conclusion



So, there you have it – your guide to becoming self-employed brought to you by QuickBooks Self Employed!

Hopefully you've found it useful and you'll keep referring to it as a practical guide when you need to manage your expenses, submit details to the HMRC or network and "sell" yourself to a network of strangers.

As you've downloaded this guide, we'd like to make you aware of a free trial to QuickBooks Self Employed, the easy to use platform that can separate your business expenses from personal ones, identify your tax payments and simplify your self-assessment submission. It couldn't be simpler to use – find out more on intuit.co.uk/selfemployed

Thanks,

The QuickBooks Self Employed team

