



BUSINESS & PERSONAL TAX SUPPORT

Considering Self-Employment

Tax and NIC considerations – 2022/23



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If you are self-employed and operate as a sole trader or run an unincorporated business, you will need to register as self-employed with HMRC.

Unlike a company (which is a separate legal entity), if you are self-employed, you do not benefit from limited liability (unless you are operating a limited liability partnership). Further, you are taxed personally on any profits that you make from running your business.

Taxation of profits

If you make a profit, you will pay income tax if your total income for the tax year (from all sources) exceeds your personal allowance. The exception to this is if your income from self-employment is £1,000 or less for the tax year, in which case it is covered by the trading allowance, and you do not need to report it to HMRC or pay tax on it.

Where income from self-employment is more than £1,000, you must work out your profit for the tax year. Special rules apply in the first three years of the business, but once your business is established, your profits for the tax year are those for the accounting period that ends in that tax year. So, if you prepare your accounts to 31 March each year, for 2022/23, you will be taxed on your profits for the year to 31 March 2023.

You can choose to work out your profits by reference to money received less money paid out. This is known as the cash basis; however, if you want to use this basis you must elect to do so. Otherwise, you must use the traditional accruals basis.

In working out your profit you can deduct expenses wholly and exclusively incurred for the purposes of the business. If expenses are less than £1,000, you can deduct the £1,000 trading allowance instead.

It is important to note that you are taxed on the profit made by your business, not on the drawings that you take for your own personal use.

Your tax liability for the year is worked out on your total income for that year from all sources, not just on any profits from your self-employment. You will pay tax to the extent that your income exceeds your personal allowance, set at £12,570 for 2022/23.

Self-assessment tax return

Each year you must file a self-assessment tax return. You will need to complete the self-employment pages to tell HMRC about the income and expenses from your business. You must file your self-assessment tax return online by 31 January after the end of the tax year. Your 2022/23 tax returns must be filed online by 31 January 2024. You can file a paper return instead but must do this by the earlier deadline of 31 October after the tax year.

Paying tax and payments on account

If your total income tax and Class 1 National Insurance liability for a tax year is £1,000 or more, you will need to make payments on account for the following tax year. Payments on account for 2022/23, where your 2021/22 liability is at least £1,000, are due as follow:

- 31 January 2023: 50% of 2021/22 tax and Class 4 National Insurance liability.
- 31 July 2023: 50% of 2021/22 tax and Class 4 National Insurance liability.
- 31 January 2024: any balance due for 2022/23 (plus first payment on account for 2023/24).

If your tax and Class 4 National Insurance liability is less than £1,000, you do not need to make payments on account. Instead, you must pay any tax due for 2022/23 by 31 January 2024.

National Insurance Contributions

If your profits are above certain levels, you must also pay National Insurance contributions. The self-employed pay two classes of contribution – Class 2 and Class 4.

We have used reasonable care and skill in assembling the information in this update. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of this publication. Accordingly, the material presented does not constitute personal or business advice. You should not rely solely on this update to make (or refrain from making) any decision or take (or refrain from taking) any action.

Class 2 contributions are payable at the rate of £3.15 per week for 2022/23 if your profits exceed the small profits threshold of £6,725. If your profits are less than this, you can choose to pay Class 2 contributions voluntarily to ensure that the year is a qualifying one for state pension purposes.

You will also pay Class 4 National Insurance contributions if your profits exceed £11,908. You will pay Class 4 National Insurance at the rate of 10.25% on profits between £11,908 and £50,270 and at 3.25% on profits in excess of £50,270.

You will need to pay any National Insurance for 2022/23 by 31 January 2024 together with any tax due under self-assessment.

VAT

If you are registered for VAT, you will need to comply with the filing requirements of Making Tax Digital for VAT.

Making Tax Digital

Making Tax Digital (MTD) is changing the way that taxpayers communicate with HMRC. If you are VAT-registered and have turnover above the VAT registration threshold, you will already be complying with MTD for VAT.

MTD for income tax is being introduced from 6 April 2024 and if your turnover from self-employment is more than £10,000, you will need to comply with MTD for income tax from the start of your next accounting period beginning on or after 6 April 2024. Under MTD for income tax, you will need to keep digital records and provide quarterly updates to HMRC instead of filing a self-assessment tax return.

Although April 2024 may seem to be some time ahead, landlords and self-employed taxpayers with turnover in excess of £10,000 – and who are not using accounting software that is compatible with MTD filing obligations – would be advised to consider their options in the coming months.

We can help you choose appropriate software and provide installation and training support if required.

Self-employed v incorporated

As everyone's personal tax affairs are unique, planning for the best type of business structure can be tricky.

Please call if you would like to discuss your options.

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