

## Setting Up a Creative Business 2008 Programme Notes



*Getting through the red-tape of starting up a creative business with minimum fuss featuring Target Training's Stuart Worthington and the Inland Revenue's Advice Team.*

This workshop covered the ins and outs of getting set up in business – bookkeeping, managing cashflow, registering as self-employed, expenses, setting up a company and much more. All in an easy-to-digest guide from experienced, artist-friendly professionals.

### What type of business are you setting up?

What type of business are you setting up? This is an important first decision for a small business and the many options must be carefully considered.

- **Sole Trader**  
This means that you're an individual who is self-employed.
- You will pay income tax through the Self Assessment system, as well as Class 2 and Class 4 National Insurance.
- You will also pay VAT if you reach the registration threshold.
- You **must** register with the HMRC within three months' of becoming self-employed – see form <http://www.hmrc.gov.uk/forms/cwf1.pdf>.
- **Partnership**  
This is worth considering if there are two or more people in the business.
- Each partner pays income tax, through the Self Assessment system, as well as Class 2 and Class 4 National Insurance.
- The business itself pays VAT once you reach the registration threshold.
- **Limited company**
- Company directors have certain obligations. They need to file statutory documents, such as accounts and annual returns.
- There's also Corporation Tax to think about, which is charged on company profits.
- Company directors are also employees of the company, so there are different National Insurance and PAYE obligations.
- Special note: even though a company director is an employee, they still need to register for Self Assessment. The same applies to each director in a limited company.

### Income Tax and Self Assessment For Your Business

The Self Assessment tax return has sections for income and expenses during the past year. You can also use it to claim allowances and reliefs. The form is used by HMRC to work out how much tax and Class 4 National Insurance you need to pay.

If you submit your tax return online, the calculations are done immediately, so you can see if you owe any tax or not.

#### Key Dates

The paper version of your tax return will need to be posted back to the HMRC by:

- 30<sup>th</sup> September – if you want the tax office to calculate for you, or;
- 31<sup>st</sup> January – if you want to calculate your own tax.

There is a £100 penalty for submitting your forms late and you will also be charged interest on the amount owed if you pay your tax bill late.

**Self Assessment** - [www.hmrc.gov.uk/sa/](http://www.hmrc.gov.uk/sa/)

**Self Assessment Helpline 0845 9000 444.**

**From your second year of trading, you will make payments on account.** These are estimates of what your tax bill will be at the end of the following year, based on the previous year's return. You will usually make two separate payments: one on 31 January and one on 31 July. You still fill in the Self Assessment tax return, but the payments on account will count toward the final bill.

## National Insurance

There are several options when it comes to paying National Insurance Contributions, but you must ensure that you're paying the relevant contribution for your level of business, as your payments go towards benefits, healthcare and pensions.

**Class 1 National Insurance contributions (NICs) are:**

- payable by anyone who is employed.
- They are based on a percentage of your earnings above a certain threshold.
- Employers deduct Class 1 NICs automatically, along with PAYE income tax.

**Special note:** employers also pay Class 1 NICs – and sometimes Class 1A and Class 1B – on their employees' wages.

**Class 2 NICs are:**

- payable by anyone who is self-employed.
- Class 2 National Insurance is a fixed weekly amount, paid by monthly direct debit or quarterly bill.

**Class 3 NICs are voluntary.**

- They cover shortfalls in your National Insurance contribution record and help protect your entitlement to State Pension and bereavement benefits.

**Class 4 NICs are:**

- payable by most self-employed people.
- They are a percentage of your annual taxable profit from self-employment, but you only start paying Class 4 when your profits reach a certain limit.
- You pay your contributions along with your income tax using the Self Assessment tax return.

**Special note:** if you are in a partnership, or if your spouse is self-employed too, then each person pays their own Class 4 NICs.

If you are employed, then it's Class 1. If you are self employed, then it's Class 2 and/or Class 4. And if you are employed and self-employed at the same time, you may have to pay Class 1, 2 and 4. If you are an employer, then you will also have to pay Class 1 – and possibly Class 1A or Class 1B – on employees' wages.

See illustration below for a more detailed explanation of National Insurance Contributions.

<b>£ per week</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Lower earnings limit, primary Class 1</b>	£87	£90	£95
<b>Upper earnings limit, primary Class 1</b>	£670	£770	£844
<b>Upper accruals point</b>	N/A	N/A	£770
<b>Primary threshold</b>	£100	£105	£110
<b>Secondary threshold</b>	£100	£105	£110
<b>Employees' primary Class 1 rate between primary threshold and upper earnings limit</b>	11%	11%	11%
<b>Employees' primary Class 1 rate above upper earnings limit</b>	1%	1%	1%
<b>Employees' contracted-out rebate</b>	1.6%	1.6%	1.6%
<b>Married women's reduced rate between primary threshold and upper earnings limit</b>	4.85%	4.85%	4.85%
<b>Married women's rate above upper earnings limit</b>	1%	1%	1%
<b>Employers' secondary Class 1 rate above secondary threshold</b>	12.8%	12.8%	12.8%
<b>Employers' contracted-out rebate, salary-related schemes</b>	3.7%	3.7%	3.7%
<b>Employers' contracted-out rebate, money-purchase schemes</b>	1.4%	1.4%	1.4%
<b>Class 2 rate</b>	£2.20	£2.30	£2.40
<b>Class 2 small earnings exception</b>	£4,635 per year	£4,825 per year	£5,075 per year
<b>Special Class 2 rate for share fishermen</b>	£2.85	£2.95	£3.05
<b>Special Class 2 rate for volunteer development workers</b>	£4.35	£4.50	£4.75
<b>Class 3 rate</b>	£7.80	£8.10	£12.05
<b>Class 4 lower profits limit</b>	£5,225 per year	£5,435 per year	£5,715 per year
<b>Class 4 upper profits limit</b>	£34,840 per year	£40,040 per year	£43,875 per year
<b>Class 4 rate between lower profits limit and upper profits limit</b>	8%	8%	8%
<b>Class 4 rate above upper profits limit</b>	1%	1%	1%

Class 1A NICs payable in July 2008 for benefits provided in the 2007-08 tax year are due at 12.8%

## Allowance and Reliefs

Everyone who lives in the UK is entitled to an Income Tax personal allowance. This is amount of income you can receive each year without having to pay tax on it. Depending on your circumstances, you may also be able to claim certain other allowances.

There are four types of allowance, which your business may benefit from:

**Capital Allowance** – This is tax relief on items such as business equipment, computers, cars, tools, furniture, etc.

**Research and Development Tax Reliefs** – are for small and medium-sized businesses, which invest in research and development.

**Direct Investment Incentives** - are schemes offering tax incentives for investors.

**Computer loan tax relief** - for employers. With this relief, you do not pay National Insurance contributions on the value of any computer, worth up to £2,500, that you lend to an employee.

The basic Personal Allowance for the 2008-09 tax year has increased by £600 from **£5,435 to £6,035**. And the basic rate tax band (the amount of taxable income you can earn before paying higher rate tax) has reduced from £36,000 to £34,800.

## Expenses

Expenses may include:

Travel and subsistence costs, car expenses, some entertainment costs, light, heat and power. Telephone, Insurance, stationery and postage, business rates and rent, advertising, protective clothing, repairs, replacement, transport of goods to customers or materials from suppliers, sub-contractors, interest on loans and overdraft used solely for the business, costs of arranging this finance.

The rule of thumb is that costs which are incurred for the sole purpose of making profit in your business are allowable, excluding all personal elements.

## Keeping Records

As a rule, keep anything that will help you, or your accountant, fill in the annual Self Assessment tax return. If you have purchased something for your business, keep the receipt so that you can deduct it from your gross earnings. If you have issued an invoice, keep a copy.

Keeping bank statements and building society books is vital, especially if you don't have a separate business account. You should be able to show clearly what's personal and what's business. And if you deal in cash, you will need till receipts and a record book of some description to keep track of it all.

Also, think about property – if you are using part of your home for business then you should keep copies of the heating bills so that you can work out the amount spent in relation to your business.

Sometimes the least obvious of purchases can be used towards your tax bill: do you have a magazine subscription for a publication that keeps you up to date with your industry? Anything, which you have to buy to enable you to carry out your business is likely to be classed as a business expense.

You must keep your records and receipts for at least five years and always hold on to the original paperwork (even if you transfer details to a computer file).

## Resources and Further Information

Newly Self-Employed [www.hmrc.gov.uk/startingup/](http://www.hmrc.gov.uk/startingup/)

Helpline for the Newly Self-Employed 08459 15 4515

Self Assessment [www.hmrc.gov.uk/startingup/](http://www.hmrc.gov.uk/startingup/)

Self Assessment Helpline 0845 9000 444

National Insurance [www.hmrc.gov.uk/nic/](http://www.hmrc.gov.uk/nic/)

Self-Employment Contact Centre 08459 15 46 55

Companies House 0870 33 33 636 (England, Wales & Scotland), 0845 604 8888 (Northern Ireland)

VAT information - [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

VAT National Advice Service 0845 010 9000

National Insurance Contributions website [www.hmrc.gov.uk/nic](http://www.hmrc.gov.uk/nic)

Self-Employment Contact Centre 08459 15 46 55

Deferment Services Helpline 0845 915 71 41

Research and development tax credits website [www.hmrc.gov.uk/randd/index.htm](http://www.hmrc.gov.uk/randd/index.htm)

Tax credits website [www.taxcredits.hmrc.gov.uk](http://www.taxcredits.hmrc.gov.uk)

Tax credits helpline 0845 300 3900 (England, Scotland and Wales), 0845 603 2000 (Northern Ireland)

The employer's website [www.hmrc.gov.uk/employers](http://www.hmrc.gov.uk/employers)

New Employer's Helpline 0845 60 70 143

National Minimum Wage Act information line 0845 6000 678

England: Business Link 0845 600 9006 [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

Customs National Advice Service (NAS) 0845 010 9000

HMRC website [www.hmrc.gov.uk](http://www.hmrc.gov.uk)

UK Trade Info website [www.uktradeinfo.com](http://www.uktradeinfo.com)

Small Business Service [www.sbs.gov.uk](http://www.sbs.gov.uk)

Business Link [www.businesslink.gov.uk](http://www.businesslink.gov.uk)

UK Trade & Investment [www.uktradeinvest.gov.uk](http://www.uktradeinvest.gov.uk)

Business Support Teams [www.hmrc.gov.uk/bst/](http://www.hmrc.gov.uk/bst/)

Business Link [www.businesslink.gov.uk](http://www.businesslink.gov.uk) 0845 600 9006

Government's Achieving Best Practice in Your Business programme [www.dti.gov.uk/bestpractice](http://www.dti.gov.uk/bestpractice)  
0845 715 2000

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Creative Industries Trafford visit us at:  
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