

## Setting up as a Sole Trader

### Introduction

Being a sole trader is the simplest way to get started in business (although not necessarily the best, you need to get professional advice before taking the plunge). Once you have informed the government agencies of your intentions to go self-employed, you can start trading right away (subject to any specific licences you might require in your line of work).

As a sole trader, you can quickly adapt to changes in your business with minimal bureaucratic changes required and you have complete control over your business and accounting affairs. However, a sole trader is also ultimately responsible for any liabilities should anything go wrong. It is worth spending time considering which set-up company format is best for you.

### Setting Up

As a sole trader, You will not need to notify Companies House, nor deal with any administrative or accounting requirements which are required of Limited Companies.

If you start working for yourself, you must register with the Inland Revenue as self-employed, even if you already send in a tax return. There are some exceptions and special rules for particular industries, like the construction industry. If you're not sure whether you need to register as self-employed, read the leaflet entitled: [IR56 - employed or self-employed](#) (PDF Format).

If you're thinking about becoming self-employed, call the Inland Revenue Helpline for the Newly Self-Employed on 08459 15 45 15.

You should register the moment you start out as a sole trader, otherwise you will incur a penalty of £100 if you don't register within three months.

We also recommend reading the Inland Revenue booklet, [IR LSE01](#) - "Thinking of working for yourself".

### Taxation

Essentially, your business income is counted alongside your existing personal income, so the accounting side of your business will be very straightforward. As the name suggests, you will be personally liable for any debts you incur in the running of your business which you wouldn't be under the Limited Company route.

In terms of accounting, you will need to submit an annual self assessment form to the Inland Revenue and keep accurate and up-to-date records of all business transactions and accounts. You will also be pay income tax on all profits and pay national insurance contributions on those profits. Losses can be offset against tax on other income.

In the April after your business starts, the Inland Revenue will send you a Self Assessment tax return to fill in. The Revenue will also use the return to assess any profit-related (Class 4) NI contributions you may need to pay.

Self-Employed people are also liable for Class 2 NI contributions (currently £2.05 per week).

If your income from self-employment is low (below £4,215 in the tax year 2004-05), you may be able to apply for the Small Earnings Exception.

Also, if you're already paying NI contributions in another job, you may be able to defer paying your Class 2 contributions until the end of the tax year. There is a dedicated Class 2 NICs Helpline on 0845 915 4655 where more advice is available.

### **Value Added Tax (VAT)**

Even though you will have registered as "self employed" when setting up, you won't automatically be VAT registered. You don't usually need to register for VAT until your turnover reaches a certain limit in any 12 months, or you expect it to do so. This limit – the 'VAT threshold' – is currently £58,000. Your annual turnover is normally the total amount of money coming into your business from the goods or services you sell.

### **Other Considerations**

Being a sole trader will suit a large number of small business people, however it is not always the best route which is why we suggest discussing your choices with an accountant or other adviser. The limited company route limits the personal liability of its directors if something goes wrong, whereas the sole trader is ultimately personally liable for any losses the business makes, of if you are forced into bankruptcy. Also, in some areas of business, having a limited company setup will enhance prestige and provide a more professional appearance in certain industries.