



## **Contracting and Freelancing**

### **Sole Trader or Company?**

The biggest question facing most contractors and freelancers is whether they should be a sole trader or a company.

There are several obvious advantages to being a company, including limited liability. But the cost of running a company is about £1,000 per annum more than the cost of being a sole trader.

Over the last few years HMRC has sought to reduce the tax saving in terms of being a company as opposed to being a sole trader. As a result of these changes, we have raised the approximate "break-even" level, from about £25,000 of annual profits to approximately £50,000 of annual profits, before which it is really worth considering being a company.

Therefore, we recommend that you consider the likely level of your profits (before deducting your salary) over the next few years in order to assess which structure is better for you.

### **Payroll**

If you operate through your own company, then it will become PAYE registered and employ you as Director.

The company will give you a salary of approximately £8,000 per annum (this is the level at which National Insurance kicks in (12% employee and 13.8% employer) – this uses most of your tax free personal allowance and is a tax-deductible expense for the company – thereby saving about £1,600 is tax per annum.

### **VAT**

All contractors or freelancers with a turnover of more than £83,000 will have to register for VAT and submit quarterly VAT returns.

You can opt for the flat rate VAT scheme which reduces the administration burden slightly. People used to opt for this because it saved money as well – but recent changes by HMRC mean that it is no longer profitable to be on the scheme – we therefore recommend most people use the normal VAT scheme.

### **What expenses are tax deductible?**

Most of your business expenses will be tax deductible. HMRC considers that anything that is "wholly, exclusively and necessarily" for business purposes will be tax deductible. There are a few exceptions to this (such a client entertaining and fines and penalties which are not tax deductible). In addition, contractors are



restricted from claiming travel and subsistence if they are managed and supervised by the client.

### **How should I keep my books and records?**

For a relatively simple business such as freelancing and contracting we recommend you use Excel. We can provide a template spreadsheet for keeping your records.

You need to keep your invoices, receipts and bank statements for at least 6 years in case HMRC wish to inspect them.

### **What is the cost of running a company?**

The cost of running a company versus being a sole trader is slightly different. In both scenarios below we offer fixed fee rates which include ad-hoc queries and advice during the year – issues such as the cost of taking more dividends, what tax savings you can make by paying into pensions etc. are all covered by our fees.

As a sole trader, we offer a fixed fee service at a cost of £750 plus VAT for your annual accounts and income tax return, including ad-hoc queries and advice when needed.

If you are a company, we offer a fixed fee service at a cost of £1,750 plus VAT for your annual accounts, corporation tax return, income tax return, payroll and company secretarial services (including a registered office if required) along with ad-hoc queries and advice when needed.

We always recommend that you prepare your own books and VAT returns as this will save you additional fees. However, if you do want us to prepare your books and VAT returns from invoices, receipts and bank statements we are happy to help – we offer a fixed fee service of £350 plus VAT per quarter – but we fully recognise that most people can easily do this themselves and we recommend you try to save on our fees by doing so.

### **How much tax should I keep aside?**

#### *Company Structure*

Corporation tax is going to go down from 20% to 17% over the next few years. We recommend that you try to keep 20% of your net of VAT turnover aside for corporation tax – that way there should be a little more put aside than you actually need.

Income tax on dividends will depend on whether you have any other income from sources outside your company (i.e. your salary of approximately £8,000). Assuming you do not then you should put aside the following:

7.5% of the first £30,000 per annum (or £2,500 per month)  
and  
32.5% of everything above that level.



If you anticipate your income exceeding £100,000 then you need individual advice as you risk losing your personal allowance and paying 60% tax!

#### *Sole trader Structure*

You will need to put aside the following:

First £8,000	Nil
Next £3,000	9%
Next £32,000	29%
Over £32,000	42%

If you anticipate your income exceeding £100,000 then you need individual advice as again you risk losing your personal allowance and paying 60% tax!

#### **What are the deadlines?**

##### *Company*

Filing accounts with Companies House	9 months after the year end
Payment of corporation tax	9 months after the year end
Filing accounts and corporation return	12 months after the year end
Confirmation Statement (Companies House)	Annually around the anniversary of incorporation
Payroll	Monthly before 5 <sup>th</sup> of the month
VAT returns and payment thereof	30 days from the end of the Quarter

##### *Personal*

Income tax return	31 <sup>st</sup> January each year
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#### **What about pensions?**

By drawing the basic salary mentioned above you will trigger a credit for your State Pension. We do recommend that you pay additional private pension contributions if you can afford to (especially once you have got things like getting on the property ladder out of the way). This will help you in saving corporation tax or income tax as well as saving for retirement.

If you opt for a company structure your company will pay the pension contributions, rather than you personally – your company will claim this as a tax-deductible expense.

#### **Can I have a no obligation initial meeting?**

We always offer a no obligation initial meeting. If you wish to arrange a meeting please contact John Leyden on 020 7710 5300 or by email on [john@carbonaccountancy.co.uk](mailto:john@carbonaccountancy.co.uk).