

## SOLE TRADERSHIPS

### What is a sole trader?

If you are an individual and you work for yourself, you are classed as a sole trader. You may also have people working for you. An example of a sole trader is: builders, plumbers, electricians and taxi drivers.

As a sole trader, you are personally liable for your business debts. This means that you have to pay these debts out of your own income. If you do not pay, the creditors you owe money to could take further action against you personally. If this happens, both your business and personal assets could be at risk.

In this fact sheet, we describe some important things to consider when you are a sole trader, including:

- How to approach your business;
- important types of bills you have to pay; **and**
- the main options available to deal with your debts.

### Registering as self-employed

You should tell HM Revenue and Customs (HMRC) that you are self-employed as soon as possible. The latest you can tell them is by **5 October** after the end of the tax year for which you should have done your first income tax return. For more information on income tax returns, see the later section 'Income tax'. The tax year runs from **6 April** in one year to **5 April** the following year. For example, if you start your self-employment in **July 2023**, the latest you can tell HMRC that you are self-employed is **5 October 2024**. You should use form **CWF1** to notify HMRC. This is available from the HMRC website. See: [www.gov.uk/working-for-yourself](http://www.gov.uk/working-for-yourself) and search for 'CWF1'. Alternatively, you can call the HMRC Newly Self-Employed Helpline - **0300 200 3500**, or contact Advice NI tax and benefits service on **0800 915 4604**.



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We have a **factsheet on Dealing with Income tax Debt**, which may be of assistance to you.

### Business Plan

It is important that your business has a business plan. This should describe including:

- your intentions for the business;
- what products or services you sell;
- your skills and the skills of any staff who work for you;
- the research you have done about demand for your products and services; **and**
- the research you have done about other similar businesses who may be in competition with you.

The business plan is important when you apply for finance, for setting up your business and whilst you continue to trade. You should review the progress of your business against your plan regularly.

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## Cash Flow

One of the main problems you may face in running your own business is maintaining the payments into and out of your business, known as cash flow. It is very important to plan ahead by doing a cash flow forecast. This will allow you to estimate your income and outgoings for the future.

When you complete a forecast, you should be able to see the times when you are likely to experience financial difficulties. For example, your business may be seasonal so there may be particular times of the year when you have less income coming in.

You can then look at ways to compensate for this, for example by setting up an overdraft with your bank, or building up a cash reserve to prepare for the shortage. If you would like help preparing a cash flow forecast **contact us for advice**.

## Funding

Once you have done a cash flow forecast, you may find you need funding to support your business. You can try your own bank for this or shop around other banks for the best deals. Where possible, it is a good idea to set up a business account with a bank that you do not have any existing debts with. This will help to strengthen your position if at any time in the future you find it difficult to pay your creditors. If you have produced a good business plan and cash flow forecast, you stand a better chance of getting access to credit.

## Credit Control

'Credit control' is a term used to describe how your business:

- provides credit; **and**
- collects money from your customers.

Good credit control procedures are very important to help make your business successful. For example, if you do not ask for customer references, or you do not have a proper procedure to collect money when customers do not pay, there may be a long delay in you getting paid for the work you have done. This can then affect the cash flow of your own business.

## Stock Control

Keep good records of your stock. You can do this either on paper or by using a computer. Don't buy too much stock as this could mean your money is tied up for long periods of time. However, it is still important to have enough stock to meet the demand of your customers. Use your cash flow forecast to help you to budget for your purchases.

Be careful about taking out a secured overdraft against an asset such as your home. This is because if the bank calls in the overdraft and you are unable to pay, your home would be at risk.

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**Contact us for further advice.**

We have a **factsheet** on **Credit Control**, which may be of assistance to you.

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## Business Leases

A lease is a legal agreement, drawn up in writing, which allows you to occupy and use a property for a certain length of time. The terms and conditions of the lease describe the rights and duties that you and the owner of the property have. For example, the lease should state how much rent you have to pay and what services the owner should provide to you.

If you are considering taking on a business lease, be careful. You may be committing yourself to the agreement for a long time. You should possibly seek specialist advice before taking on a lease.

We have a factsheet on

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**Business Property Leases**, which may be of assistance to you.

## Income Tax

As a sole trader, you are required to complete income tax returns each year and submit them to HMRC. The information on your returns helps HMRC work out how much income tax you owe. This process is known as 'self-assessment'. You should keep proper trading records to support the returns, such as receipts and invoices. You do not have to send HMRC detailed accounts, but you will need them to complete your income tax return.

The income tax year runs from **6 April** each year to the following **5 April**. Once the tax year has ended, you then have to complete and send HMRC your income tax return documentation by a set deadline, depending on how you send your tax return in. If you send it by post, the deadline is usually **31 October** each year. If you send in your income tax return over the internet, the deadline is usually **31 January** each year.

For more information about completing your tax return online, see [www.gov.uk/working-for-yourself](http://www.gov.uk/working-for-yourself) and search for 'self-assessment'. Alternatively, **phone us for advice** or contact Advice NI tax and benefits service on **0800 915 4604**.

Your income tax bill then has to be paid in full by **31 January** following the end of the tax year that it relates to. If you do not pay on time or in full, interest and penalties will be added to your balance.

We have a factsheet on

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**Dealing with Income Tax Debt**, which may be of assistance to you.

If your income tax liability for the previous tax year was higher than **£1,000**, you will need to make two 'payments on account' (POA) towards your next tax bill. These are payments in advance. You need to make these payments by **31 January** and **31 July** following the end of the previous tax year. Each payment is half of the tax due for the previous year.

For example, in 2024 - 2023, if your income tax liability was **£5,000**, the payments on account for the following tax year will be **£2,500** by **31 Jan 2024** and **£2,500** by **31 July 2024**.

Payments on account are paid in advance so you may end up paying more than you owe when your tax return is put in for that year. However, this will be balanced out in later years as your tax liability varies. If you know that your income for the current tax year will be lower than your income for the last tax year, you can ask to reduce your payments on account. You can do this by submitting a form **SA303**. See [www.gov.uk/working-for-yourself](http://www.gov.uk/working-for-yourself) and search for 'SA303'.

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## How long do I have to keep my records for?

You do not have to send HMRC any documents apart from your income tax return. However, you must keep all supporting records in case HMRC start an enquiry.

As a sole trader, you must keep your business records for **five years** after the deadline of **31 January** following the relevant tax year. This applies whether you sent in a paper return or completed it online. For example, for a 2022 – 2023 tax return sent in on or before **31 January 2024**, you must keep your records until **31 January 2029**.

In certain limited circumstances, you may need to keep your records for longer. For example, if HMRC have already started to check your records. In this case you will need to keep your records until HMRC writes and tells you they've finished the check. You may also need to keep your records for longer if you sent in your income tax return very late. If this is the case **contact us for advice**.

Under self-assessment, your income tax return must include information about your business on the self-employed supplement pages. You do not have to send HMRC separate accounts. However if you choose to send HMRC separate accounts, it can help them to get a full picture of your business. You can use the extra space on your return to do this. For more information on income tax returns and self-assessment, go to the HMRC website [www.gov.uk/working-for-yourself](http://www.gov.uk/working-for-yourself) and search for 'self-assessment'. Alternatively, **contact us for advice** or contact Advice NI tax and benefits service on **0800 915 4604**.

## The Construction Industry Scheme (CIS)

There are special rules for handling payments that contractors make to subcontractors for construction work. These rules are known as the 'Construction Industry Scheme' (CIS).

You may need to register with HMRC as either a contractor or subcontractor under CIS if you are:

- working in the construction industry; **or**
- doing other construction-related work.

For more information about CIS, see [www.hmrc.gov.uk](http://www.hmrc.gov.uk) and search for 'construction industry scheme'.

If you are unsure about whether CIS applies to the work you are doing, contact the HMRC Construction Industry Scheme Helpline on **0300 200 3210**. Alternatively, **phone us for advice** or contact Advice NI tax and benefits service on **0800 915 4604**.

## National Insurance Contributions (NICs)

As a sole trader, you are liable to pay two classes of NICs:

- Class 2 NICs are paid at a set rate. For the 2024 – 2025 tax year, this rate is **£3.45 per week**. You can set up a direct debit from your bank to pay this. You can claim exemption from paying class 2 NICs if you earn less than the 'small earnings exemption limit'. For the tax year 2024 – 2025, this limit is **£6,725 per year**. If you claim exemption from paying class 2 NICs, you may not be entitled to certain contribution-based benefits. Your state pension may also be reduced. If you need assistance on this **contact us for advice** or contact Advice NI tax and benefits service on **0800 915 4604**.
- If you earn above **£12,570 per year**, class 4 NICs are payable as well as class 2 NICs. They are payable as a percentage of your earnings along with your income tax. If you need assistance on this **phone us for advice** or contact Advice NI tax and benefits service on **0800 915 4604**.

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## Value Added Tax (VAT)

VAT is a tax that is charged on most goods and services that certain businesses provide. If your gross turnover for the tax year is bigger than (or is likely to be bigger than) **£90,000 for 2024-25**, you must register for VAT. Gross turnover means the income coming into your business before any deductions are made. You may also voluntarily register for VAT if you feel you would benefit from this. Discuss this with your accountant, **contact us for advice** or contact Advice NI tax and benefits service on **0800 915 4604**.

VAT on the purchases you make is known as 'input tax'. The VAT you charge on the sales that you make is known as 'output tax'. You will need to send HMRC a VAT return either monthly, quarterly or annually. You must give details of your input and output tax.

- If the output tax is greater than the input tax, you will have to pay the difference to HMRC.
- If input tax is greater than the output tax, HMRC should refund you the difference.

For more information on VAT, you can go to the government's website [www.gov.uk](http://www.gov.uk) and search for 'VAT'.

## What options are there to deal with my debts?

If you are struggling to pay your business and personal debts, you need to consider whether you can trade through your financial difficulties. To do this you will need to complete a budget sheet showing your business and personal income and outgoings. You will need to work out the average income and outgoings for your business (normally over a period of 3 to 12 months). You may need help from your accountant. You may also need to budget for VAT and income tax on your profits. The options available to you to deal with your business and personal debts depend on whether your business makes a profit.

To help you budget to maintain your payments, you should complete a business and household budget sheet. We can assist with this. **Contact us for advice.**

## Options if your business makes a profit

**Informal Negotiation:** You can use your business and household budget to show your creditors how much money you have available every month after your essential outgoings. This is known as your 'surplus' income. You can use your surplus income to make affordable offers to your creditors. Some creditors are priority and others are non-priority. Priority creditors have stronger powers to recover their money. You will usually need to treat them differently to your non-priority creditors.

To help you budget to maintain your payments, you should complete a business and household budget sheet. We can assist with this. **Contact us for advice.**

**Free Debt Management Plan (DMP):** A DMP is an affordable repayment programme that we can help you to set up. It is managed by an independent debt-management company. We help you work out what you can afford to pay each month and you pay this amount to the debt-management company who then divides and pays your money to all your creditors for you.

Your creditors do not have to accept your offers or freeze interest and charges. However, the DMP company we refer you to will try their best to get this to happen. They also do not make any charges for managing your plan, so all of your payments go towards your debts. You may not be able to include certain business debts, such as supplier accounts that you are still using, in your DMP, **contact us for advice.**

We have a **factsheet** on **Debt Management Plans (DMPs)**, which may be of assistance to you.

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**Individual Voluntary Arrangement (IVA):** There is an alternative to bankruptcy called an Individual Voluntary Arrangement (IVA). This is a formal arrangement to pay an agreed amount off your debts over a shorter period, such as **five years**. Any unpaid parts of the debts included in the IVA are written off at the end of the arrangement. The IVA will be set up by an insolvency practitioner whose fees can be very high.

Creditors, and in particular HMRC can stop the IVA going ahead by voting against it. It is usually only worth looking at if you can repay HMRC and your other creditors a large proportion or all of the debt, either by monthly instalments or if you have a lump sum or assets that you can include. Your home may also be affected by an IVA. **Contact us for advice.**

## Options if your business does not make a profit

**Debt Relief Orders:** There is another alternative to bankruptcy called a Debt-Relief Order (DRO) to end liability for your debts. If you get a DRO, debts included in the order are written off after **12 months**.

To propose a DRO you must satisfy certain eligibility criteria which can prove difficult if you are self-employed and you will require specialist assistance to complete the application for a DRO.

**Contact us for advice.**

**Bankruptcy:** Bankruptcy is a court order which ends liability for most debts after **one year**. Bankruptcy might be a good option if you:

- owe a lot of money
- cannot see a way out of your debt; **and**
- have no assets or are prepared to lose your assets and potentially your business.

You can apply to make yourself bankrupt but the fees are high. A creditor can also petition for your bankruptcy if you owe them more than **£5,000**. Also, a group of creditors can 'club together' to make you bankrupt.

Bankruptcy may mean that any assets you own could be sold to raise money to pay to your creditors. This means that if you own your own home or business premises and you go bankrupt, they could be sold.

A bankruptcy order will be recorded on your credit reference file for **six years**. This will make it more difficult and expensive to get further credit.

Bankruptcy is a serious option. If you are considering making yourself bankrupt, **contact us for advice.**

**Ceasing to trade:** 'Ceasing to trade' is the term used to describe the process of your business closing. If you do decide to cease trading, you will need to take certain steps, such as letting HMRC, utility suppliers, your local council and any suppliers know. This will help to make sure that your final bills are accurate. If you are considering ceasing trading, **contact us for advice.**

We have a **factsheet** on **Individual Voluntary Arrangements (IVAs)**, which may be of assistance to you.

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We have a **factsheet** on **Bankruptcy**, which may be of assistance to you.

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**Contact us for advice.**

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## Useful Contacts

### Advice NI Business Debt Service

Free advice for small businesses, partnerships and sole traders.

Helpline available Monday to Friday 9.00am to 5.00pm.

**Phone: 0800 915 4604**

### Chamber of Commerce

You can join the NI Chamber of Commerce. This may help you to get in contact with other businesses. They also provide seminars and useful ideas.

<http://www.northernirelandchamber.com/>

**Phone: 02890 244113**

### Federation of small businesses

Membership offers benefits such as a legal helpline for matters such as employment law. Their Northern Ireland office is located in Belfast.

[www.fsb.org.uk](http://www.fsb.org.uk)

**Phone: 02890 326035**

### NI Tax and Benefits Service

This is a free helpline that offers advice on all personal tax and benefit issues. Helpline available Monday, Wednesday and Friday 9am to 5pm, Tuesday and Thursday 9am to 7pm.

**Phone: 0800 915 4604**