

**RIFT**

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# A GUIDE TO STARTING UP AS A SOLE TRADER/SELF EMPLOYED

[RIFTACCOUNTING.COM](https://riftaccounting.com)

# **A GUIDE TO STARTING UP AS A SOLE TRADER/ SELF EMPLOYED**

**This guide assumes that you have made a decision to become a Sole Trader as opposed to operating as a Limited Company. If you are not sure about the difference, read our “A GUIDE TO CHOOSING BETWEEN A LIMITED COMPANY AND SOLE TRADER”.**

**Below is the process you will need to go through to become a Sole Trader. It is possible to do all this yourself, but of course if you want peace of mind you could use the RIFT Accounting service to set it up for you.**

**We also have another document on the website called “A GUIDE TO YOUR RESPONSIBILITIES AS A SOLE TRADER” which you may find useful. This explains what you need to do every year to satisfy HMRC filing requirements.**

## STEP 1

# DECIDE WHAT TO CALL YOURSELF

You can use your own name for trading, or have a business name that you would like to trade under. There are some restrictions to the business name you can use, which you can find here: [www.companieshouse.gov.uk/about/gbhtml/gp1.shtml#ch6](http://www.companieshouse.gov.uk/about/gbhtml/gp1.shtml#ch6), but you don't have to register it anywhere. It is a good idea to check that it isn't too close to another business that is very well known and if you want to set up a website check your business name is available as a web address here: [www.123-reg.co.uk/domain-names](http://www.123-reg.co.uk/domain-names). If you want to use a business name you will need to make sure your personal name and address are shown on all publicity and correspondence.

## STEP 2

# SET UP A BUSINESS (OR SEPARATE PERSONAL) BANK ACCOUNT

You don't have to do this, but it is probably a good idea to keep your business transactions separate from your personal finances. You could set up a business account with a bank or just a separate personal account for your business dealings. If you want a loan from the bank, they are likely to need a full business plan.

## STEP 3

# REGISTER AS A SOLE TRADER (SELF EMPLOYED) WITH HMRC

You need to inform HMRC that you are a Sole Trader within three months of starting your business. You can go online to do this and they will issue you with a Unique Taxpayer Reference (UTR) number. The information they require will be used to set up a Self Assessment online account, and they will send you a reminder each year to fill in a Self Assessment personal tax return. At the same time, they will set up records for your National Insurance payments. You are expected to pay these 'Class 2' National Insurance payments straight away. However, if your earnings are below the current threshold you might not need to pay.

## STEP 4

# TAKE OUT BUSINESS INSURANCE

If you are the only employee in your company or you employ only close family members, you do not have to have any business insurances. However, if you employ anyone else you are legally obliged to take out Employers' Liability Insurance. The cost can be as low as £100 a year. It is highly advisable to take out business insurance right from the start to protect yourself. The other three key insurances are:

- Professional indemnity insurance.
- Public liability insurance.
- Directors and officers insurance.

For more detailed information, please read our "GENERAL GUIDE TO BUSINESS INSURANCE".

## STEP 5

# CHECK THAT YOU CAN WORK FROM HOME

If your business is based at home you may need to inform other people about it. Generally, you should not have to pay business rates for minor business use of your own home if:

- You use a small part of your home for your business (for example, you use a bedroom or study part of the day as an office), and
- Members of the public or business clients do not use your home to collect goods or receive your services, and
- You do not employ other people to work at the premises, and
- You have not made alterations that would not usually be associated with a home (such as converting a garage to a hairdresser's salon or installing a hydraulic car lift).

If you think business rates could apply, you need to contact your local council and they should advise you. If you alter your premises specifically to accommodate your business activities, you will need to ask for planning permission.

If you keep stock or have equipment, you will need to inform your insurers who are likely to want to change your home insurance policy to a business one. It's also probably a good idea to let your neighbours, landlord or mortgage provider know too.

## STEP 6

# REGISTER FOR VAT (IF APPLICABLE)

You must register for VAT with HMRC if your business turnover becomes more than the current threshold or when you know that it will be over that amount. Most businesses can do this online at the HMRC website. When you register, you will be sent a VAT registration certificate that confirms your VAT number and when to submit your first VAT return and payment. For more detailed information, please read our "GENERAL GUIDE TO VAT RETURNS AND PAYMENTS".

## STEP 7

# REGISTER AS AN EMPLOYER WITH HMRC (IF APPLICABLE)

If a Limited Company is paying permanent and part-time workers (including yourself) you will need to operate a PAYE (Pay As You Earn) scheme through a payroll system. You will need to register as an employer with HMRC, which you can do online. You also have to let HMRC know when a new employee joins or their circumstances change. Some staff are exempt from PAYE payments if they are on a low salary but you will still have to keep payroll records. Our "GENERAL GUIDE TO VAT RETURNS AND PAYMENTS" explains all the things you will need to do as an employer. Please also check the National Minimum Wage Rates, and remember that from April 2017 you will need to contribute towards your staff's Workplace Pension.

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