Starting out as a creative freelancer

Your complete guide

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WELCOME

So you're thinking of starting a creative business and want to know what that means for you, your taxes & your future?

This guide gives you all the tools and tips you need to get yourself started, we hope you enjoy it.

The lagom team

Lagom FINANCE

SOLETRADER VS LTD COMPANY

CHOOSING YOUR COMPANY TYPE

When starting a business, you can choose to operate as a sole trader or form your own limited company.

Just starting out, and not sure which option is best? Book a discovery call and we can help advise you on the best route.

Registering as a sole trader is the simplest route, which only requires you to choose a business name and register as self-employed for your Self Assessment. Once this is done, you're all set to get your business going.

If you're pretty sure your company is going to smash it in year 1, then setting up a limited company could have a number of benefits including protecting any of your personal assets.

Lets dive into the pros and cons of each.

Sole traders

WHAT IS A SOLE TRADER?

As a sole trader, all of the profits made by your business are taken as income. You'll pay Income Tax and National Insurance Contributions (NIC) based on government thresholds for the relevant tax year. If you're a sole trader then there's no legal separation between you and your business.

This means you're personally liable for all activities of the business, including debts. You can keep all your business' profits after you've paid tax on them as it's your money, go crazy.. or you know, save it all.

The accounting process is much simpler for sole traders – there's much less paperwork, fewer expenses to account for its really just 2 numbers (income & expenditure) in a self assessment form once a year.

CONT...

As such, if you do have an accountant helping you with your sole trade business at this stage, it's often less expensive than it is for limited companies, due to less government filings needing to be made.

Registering as a sole trader is the simplest route, which only requires you to choose a business name and register as self-employed for your Self Assessment. Once this is done, you're all set to get your business going.

You can register as a sole trader here.

DEADLINES

Your self assessment is due 31st January following the end of the tax year (5th April)

REGISTER AS SELF EMPLOYED

TAXES

TAX AS A SOLE TRADER

You'll pay Income Tax of 20% on all earnings above your Personal Allowance (£12,570 in the 23/24 tax year) and below the upper limit of the basic rate, which is £50,270 for the 2023/24 tax year.

You'll pay Income Tax of 40% on all earnings above the basic rate limit until you reach the higher rate limit (which in the 2023/24 tax year is £125,140).

National Insurance is great. It builds up your state pension entitlement and helps pay for the NHS and other welfare services. Self-employed people who are sole traders pay National Insurance based on how much profit they make from their business.

Firstly, if your self-employed profits exceed the Small Profits Threshold (£6,725 for the 2023/2024 tax year) sole traders have to pay a flat rate of £3.45 per week. This is called Class 2 National Insurance.

You may also have to pay Class 4 National Insurance. This is charged at 9% on profits between £12,570 and £50,270, and 2% on profits over £50,270 (in 2023/24 tax year).

Just like your Income Tax, Class 4 National Insurance contributions will be worked out on your Self Assessment tax return.

WHAT ABOUT VAT?

If you start doing really well or just want to register voluntarily, you may need to register for VAT. VAT (or Value Added Tax) is a tax charged on most goods and services in the UK and the EU. When you buy a product that is eligible for VAT in a shop, for example, VAT is automatically included in the price you pay.

The VAT threshold (£85,000 in the 2023/24 tax year) is set by the government and is based on your VAT-taxable turnover (the total of all sales that aren't exempt from VAT).

BOOK A CONSULTATION

Limited Company Route

LIMITED COMPANIES

Forming a limited company will mean you become a director **and** a shareholder of the company. You can be paid a salary and/or dividends from the company's available profits (how very fancy!).

As the director of your new company, you'll have responsibilities to fulfil, including annual returns and filing accounts with statutory bodies such as Companies House and HMRC. It's your responsibility as a director of the company to ensure this happens. Being a director will also have a number of tax implications, which I will cover shortly.

By forming a limited company, you create a separate legal entity so it's really a mindset change. You are an employee of your company (Yes, even it it's just you).

PROCESS

A limited company is a legal structure for a business in which the liability of each shareholder is limited to their individual investment – this is known as 'limited liability'.

For example, if your company needs to close or experiences financial difficulties, your personal assets **can't** be taken from you to pay company debts.

Another advantage is that limited companies are often perceived to be more reliable, and you'll be able to work with organisations (for example, large corporations and those in the financial sector) who refuse to deal with unincorporated businesses.

While not quite as straightforward as registering as a sole trader, registering and setting up as a limited company can be done relatively quickly – you can incorporate online at Companies House

#TIP

Your personal address will be shown on the public register at Companies House for anyone to find, a lot of people choose to use a virtual office address or directors service address for which there are many paid options (around £150 a year)

HELP ME FORM MY COMPANY

TAX AS A LIMITED COMPANY

Once your self-employed profits exceed around £35,000, you'll probably find that trading as a limited company could save you money on your taxes.

If you choose to operate as a limited company, then as well as any personal taxes that you may have to pay, your company will also need to pay Corporation Tax and, as mentioned above, VAT if you're over the threshold.

Corporation Tax is applied to limited company profits after salaries and other business expenses have been paid, but before dividends are withdrawn.

As a limited company director, you need to ensure that you and your company are registered for all the relevant taxes and that any returns are submitted correctly to HMRC and Companies House within the statutory deadlines.

Ultimately, as a director you are the person who is legally responsible (that's right, not even your accountant!).

The following is a list of returns you will need to be aware of when running a limited company:

- Corporation Tax return

- Self assessment

- PAYE each month (if you run payroll)

- Confirmation statement (filed once a year with Companies House)

- VAT returns quarterly (if you are registered)

Depending on your specific set up there may be more but these are the most common.

It is not as scary as it sounds, it's all very manageable especially if you have a trusted advisor and good accountant!

HELP ME FORM A COMPANY

SOLETRADER

Pros and cons at a glance

Pros:

Simpler accounting (just a self assessment once a year)

Therefore, lower accounting fees

No need to open a business bank account (although - why wouldn't you?)

More privacy - no public register

Cons:

No legal separation between you and the business - you are liable

Not tax efficient if your profits are over £40K

Doesn't look as 'professional'

LTD COMPANY

Pros and cons at a glance

Pros:

Limited liability - your personal assets are protected

Much more tax efficient when profits exceed £40K per year

Seen as more professional/legitimate to your clients

Greater protection over trademarks/names

Cons:

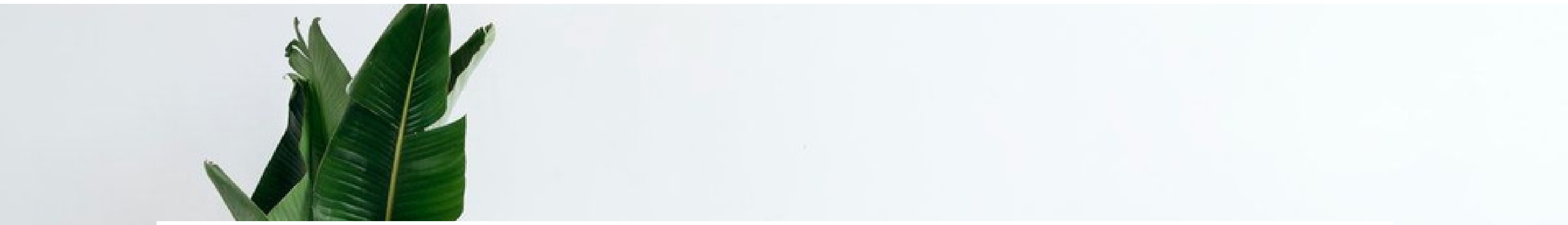
More 'admin' and accounting - you will need an accountant

There is a public register (although you can hide your private address)

WHAT CAN YOU EXPENSE?

This is a question we get asked a lot, although this isn't a definitive list - hopefully it gives you some idea of a few things you can and can't claim tax relief on when it comes to that time of year.

YES	NO
○ Accountancy Fees	○ Non client lunches
○ Advertising costs	○ Dog walking
○ Co-working space/rent	○ Deliveroo
○ Insurance	○ HMRC Penalties
○ IT Costs	○ Coffee machine
○ Legal fees	○ Mortgage payments
○ Professional subscriptions	○ Clothes (unless company branded)
○ Salaries	○ Hair & make up for a shoot
○ Phone contracts	○ Gym membership
○ Accommodation fees related to work	○ Travel between home and work



TOOLS & SOFTWARE

GET THE RIGHT SOFTWARE

Automate as much of your bookkeeping as you can using software. We love Xero, but if you're on a budget then try Crunch, it's free! Software and banks help with creating automated payments for salaries, subscriptions, pension payments and more. It can also help with reminders to save, if you’re forgetful.

GET A BUSINESS BANK ACCOUNT

This might seem obvious but it's super important and can help you keep tracking of income and expenditure, and many sync with accounting software as well as allowing you to make savings pots for taxes. We recommend Starling bank to all our clients but Monzo and Tide are also good options and Coconut is ideal for sole traders.

STORE YOUR EXPENSES DIGITALLY

Store all your expenses digitally. Wave comes with a free app to snap pictures of your receipts and Dext (formally Receipt Bank) provides secure easy storage of all your receipts and invoices.

FURTHER RESOURCES

DOWNLOAD OUR BOOKKEEPING GUIDE

In this free guide, you'll find clear information on what to know, what to do with your finances and accounts and how to continue according to best practices. Whether you're setting up a business or already self-employed, this resource will become your go-to for all things bookkeeping, records, reconciliations, invoices and expenses.

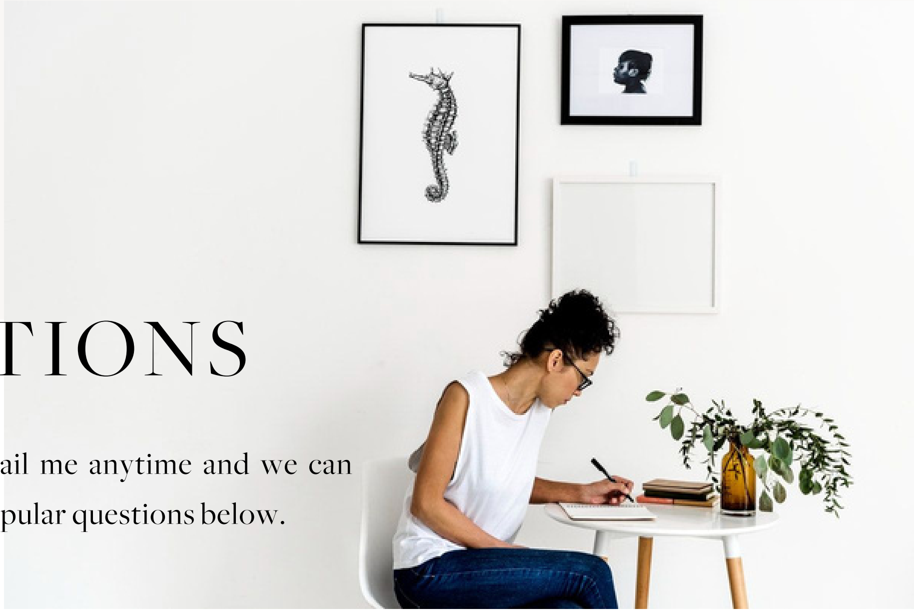
OUR SELF ASSESSMENT GUIDE HAS EVERYTHING YOU NEED TO COMPLETE YOUR OWN SELF ASSESSMENT

We know not everyone is ready to make the investment in professional accountancy advice, so we created this guide to help empower you to feel confident to complete your own tax return and maximise your tax efficiency. This is a 60 page, highly detailed guide on exactly what, how and when to complete your self assessment. It is available to purchase on the website, here.

PAYING YOURSELF & MATERNITY PAY

The most common question we get asked from both sole traders and limited company directors is "how do I pay myself?". We've created a handy guide to explain it all so you can pay yourself with confidence.

It can be scary when you're self-employed or a company director and many people believe there is no help for you with regards to maternity pay - you'd be wrong. Download our free guide here.



MYTHS AND MISCONCEPTIONS

Still got some questions? Feel free to email me anytime and we can arrange a chat. I've put some answers to popular questions below.

HMCR WILL INVESTIGATE ME IF I MAKE A LOSS

On average they pick 5% of returns to inspect at random. Whilst you won't automatically be flagged as suspicious for making a loss HMRC would question your intent if you make a loss year after year.

YOU CAN'T CLAIM TAX RELIEF ON PENSION CONTRIBUTIONS

You can! Whether you're a ltd company or a sole trader you can claim tax relief on contributions you make to your pension.

IF I VAT REGISTER, I CAN CLAIM VAT BACK AT 20% ON ALL MY PURCHASES

This is true… as long as the purchase was a business one and you were charged 20% VAT in the first place. It's important to keep in mind that not everything is VAT chargeable.

IM REGISTERING AS A LTD COMPANY SO I MUST ALSO REGISTER FOR VAT

There is no requirement to register for VAT when setting up a limited company but you may do so if you wish.

YOU ARE LEGALLY REQUIRED TO HAVE AN ACCOUNTANT

There is no requirement to have an accountant, but why wouldn't you? They can look after the numbers so you don't have to, and ultimately save you more than they cost.

ACCOUNTANTS ARE EXPENSIVE

It depends what you consider expensive, our fees are super clear. On average we save our clients triple what they pay us in fees just from utilising our tax knowledge.

IR35 WHAT YOU NEED TO KNOW

IR35 refers to legislation that aims to close a loophole where employees act as contractors to pay less tax than their pay rolled employee counterparts. These changes came into effect in April 2020, so if you're a freelancer or thinking about becoming one, it's important to understand how this may alter the way you work with your clients.

What is IR35?

IR35 came into effect as the government believed that some freelancers were paying less tax than appropriate. It was seen that some people would leave their role as an employee on payroll for a company, only to work in the same role as a contractor. This could mean that they would benefit from this new role as they would be seen as an entity whose earnings are taxed at a lower rate than income tax.

However, it's not all bad news. If you're in a legitimate contract with your clients, this change may not affect you because the laws are subjective. Therefore, assessing whether you operate inside or outside of the legislation is important. Your clients are the ones who will ultimately make the decision on whether you're inside or outside IR35.

IR35 WHAT YOU NEED TO KNOW

As it will be your clients' responsibility to assess your IR35 eligibility, it's vital that both parties understand your contract. It is wise to keep any evidence of the relationship you have with your client and how it is different from anyone on payroll. This may include things like a different email signature, email address or an instance where you informed your client of an absence or holiday and didn't actively request permission as a regular employee would have to.

As a rule of thumb, to sit outside the IR35 law, you must be able to prove that you provide a service as a business, as opposed to an employee.

When it comes to the assessment, your client may choose to use an online tool, like Check Employment Status for Tax (CEST) that can be found on HMRC website, or an independent assessment service.

If you're found to be working under the IR35 legislation, it means the government has classed you as an employee of your client for tax purposes. Your client may want to change your contract so you're no longer affected by the legislation because this classification will mean your client is liable for any tax that you fail to pay.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