



## HMRC - Becoming Self-employed

### The Business Structure

There are different types of business structure for you to consider when you open a business as follows:-

You must choose a structure for your business. This structure will define your legal responsibilities, like:

- The paperwork you must fill in when you commence trading
- How to manage and pay any taxes due
- How you can personally take any profits your business makes
- Your personal liability, if any, should your business fail or make a loss

### Sole Trader

As a sole trader, you run your own business as an individual. You can keep all your business's profits after you've paid tax on them.

You can employ staff. 'Sole trader' means you're responsible for the business, not that you have to work alone.

You're personally responsible for any losses your business makes.

#### a. Tax responsibilities

You must:

- send a [Self Assessment tax return](#) every year
- pay [Income Tax](#) on the profits your business makes
- pay [National Insurance](#)

You must also [register for VAT](#) if you expect your takings to be more than £83,000 a year.

#### b. Registering as a sole trader

Register as soon as you can after starting your business. At the latest, you should register by 5 October in your business's second tax year.

Example

If you start working as a sole trader between April 2016 and March 2017, you should register before 5 October 2017.

If you register later than this, you won't get a penalty as long as you send your Self- Assessment tax return and pay your bill on time.

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### c. How to register

This depends on your circumstances.

New sole trader who's not sent tax returns before:

Tell HM Revenue and Customs (HMRC) you want to be a sole trader by [registering as a new business](#).

You'll register for Self-Assessment tax returns and Class 2 National Insurance at the same time.

You'll then be able to report your self-employment income through a [tax return](#) after the end of each tax year.

New sole trader who's sent tax returns before

You may have sent Self-Assessment tax returns before as an individual, e.g. for rental or investment income.

You now need to register as self-employed and for Class 2 National Insurance using [form CWF1](#). You can keep your existing Self-Assessment account.

You need your 10-digit Unique Taxpayer Reference (UTR) from when you registered for Self-Assessment, so HMRC can link your accounts.

You can find your UTR on previous tax returns, your [online account](#) or other documents from HMRC. If you can't find it, call the Self-Assessment helpline.

Former sole trader who wants to start up again

You need to [reregister using form CWF1](#). You'll need your UTR for the same reasons as new sole traders already in Self-Assessment.

### d. How long it takes

Allow 10 working days to complete the registration process because HMRC needs to post you an activation code. You'll be prompted for this when you first log in to your [online account](#) (also known as a Government Gateway account).

### e. Sole traders: running and naming their business.

If you're a sole trader, you run your own business as an individual and are [self-employed](#).

You can [take on staff](#) - being a sole trader means you're responsible for the business, not that you have to work alone.



## HMRC - Becoming Self-employed

### Your responsibilities

You're responsible for:

- Keeping [records](#) of your business's sales and [expenses](#)
- Sending a self-assessment [tax return](#) every year.
- Paying [Income Tax](#) on your profits and class [Class 2 and Class 4 National Insurance](#).
- Your business debts
- Bills for anything you buy for your business
- [registering for VAT](#) if your turnover reaches the national Insurance Threshold
- Registering with the [Construction Industry Scheme](#) (CIS) if you're a contractor or sub-contractor in the construction industry.

#### f. Naming your business

You can use your own name or trade under a business name - read the [rules for naming your business](#).

You must include your own name and business name (if you have one) on any official paperwork, like invoices and letters.

### Limited company

A limited company is an organisation that you can set up to run your business - it's responsible in its own right for everything it does and its finances are separate to your personal finances.

Any profit it makes is owned by the company, after it pays [Corporation Tax](#). The company can then [share its profits](#).

#### Ownership

Every limited company has 'members' - the people or organisations who own shares in the company.

Directors are responsible for running the company. Directors often own shares, but they don't have to.

#### Legal responsibilities

There are many legal responsibilities involved with being a director and running a limited company.

### Types of company

#### Limited by shares

Most limited companies are 'limited by shares'. This means that the shareholders' responsibilities for the company's financial liabilities are limited to the value of shares that they own but haven't paid for.

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Company directors aren't personally responsible for debts the business can't pay if it goes wrong, as long as they haven't broken the law.

### Example

A company limited by shares issues 100 shares valued at £1 each when it's set up. Its 2 shareholders own 50 shares each and have both paid in full for 25 of these.

If the company goes bust, the maximum the shareholders have to pay towards its outstanding bills is £50 - the value of the remaining 25 shares that they've each not paid for.

### Private company limited by guarantee

Directors or shareholders financially back the organisation up to a specific amount if things go wrong.

### Public limited company

The company's shares are traded publicly on a market, such as the London Stock Exchange.

You can also consider setting up a private unlimited company as an alternative legal structure. Directors or shareholders are liable for all debts if things go wrong.

### How to set up a limited company

You must [register the company with Companies House](#) and let HM Revenue and Customs (HMRC) know when the company starts business activities.

Read more about [setting up a private limited company](#).

### Tax responsibilities

Every financial year, the company must:

- put together [statutory accounts](#)
- send Companies House a [confirmation statement](#) (previously annual return)
- send HMRC a [Company Tax Return](#)

The company must [register for VAT](#) if you expect its takings to be more than £83,000 a year.

If you're a director of a limited company, you must:

- fill in a [Self Assessment tax](#) return every year
- pay tax and [National Insurance](#) through the PAYE system if the company pays you a salary

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### 'Ordinary' business partnership

In a business partnership, you and your business partner (or partners) personally share responsibility for your business.

You can share all your business's profits between the partners. Each partner pays tax on their share of the profits. Partnerships in Scotland (known as 'firms') are different, and have a 'legal personality' separate from the individual partners.

### Legal responsibilities

You're personally responsible for your share of:

- any losses your business makes
- bills for things you buy for your business, like stock or equipment

You can set up a limited partnership or limited liability partnership if you don't want to be personally responsible for a business' losses.

A partner doesn't have to be an actual person. For example, a limited company counts as a 'legal person', and can also be a partner in a partnership.

You must choose a name for your partnership and register it with HM Revenue and Customs (HMRC).

### Tax responsibilities

The nominated partner must send a partnership Self-Assessment tax return every year.

All the partners must:

- Send a personal Self-Assessment tax return every year
- Pay Income Tax on their share of the partnership's profits
- Pay National Insurance

The partnership will also have to register for VAT if you expect its takings to be more than £83,000 a year.

### Limited partnership and limited liability partnership

Your liability for business debt differs depending on whether you're a limited partnership or limited liability partnership (LLP).

You can share all the business's profits between the partners. Each partner pays tax on their share of the profits.



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### Limited partnerships

The liability for debts that can't be paid in a limited partnership is split among partners.

Partners' responsibilities differ as:

- 'General' partners can be personally liable for all the partnerships' debts
- 'Limited' partners are only liable up to the amount they initially invest in the business
- General partners are also responsible for managing the business.

Read more about [how to set up and run a limited partnership](#).

### Limited liability partnerships (LLPs)

The partners in an LLP aren't personally liable for debts the business can't pay - their liability is limited to the amount of money they invest in the business.

Partners' responsibilities and share of the profits are set out in an LLP agreement. 'Designated members' have extra responsibilities.

Read more about how to [set up and run an LLP](#).

### Tax for limited liability and limited partnerships

Every year, the partnership must send a [partnership Self Assessment tax return](#) to HM Revenue and Customs (HMRC).

All the partners must:

- Send a [personal Self Assessment tax return](#) every year.
- Pay [Income Tax](#) on their share of the partnership's profits.
- Pay [National Insurance](#)

You must also [register the partnership for VAT](#) if you expect your business's takings to be more than £83,000 a year.

### Unincorporated association

An 'unincorporated association' is an organisation set up through an agreement between a group of people who come together for a reason other than to make a profit, eg a voluntary group or a sports club.

You don't need to register an unincorporated association, and it doesn't cost anything to set one up.

Individual members are personally responsible for any debts and contractual obligations.

If the association does start trading and makes a profit, you'll need to pay [Corporation Tax](#) and file a [Company Tax Return](#) in the same way as a limited company.

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## HMRC - Becoming Self-employed

### Change your business structure

What you need to do depends on the type of business, if you're VAT-registered and if you employ people.

#### Set up the new structure

Follow the normal steps to setting up as a:

- [sole trader](#)
- [business partnership](#)
- [limited company](#)
- [limited partnership](#)
- [limited liability partnership \(LLP\)](#)

#### Tell HM Revenue and Customs (HMRC)

If you're VAT-registered, you must tell HMRC within 30 days of the change or else you'll face a penalty.

You will need to either:

- cancel your VAT registration and re-register
- transfer your existing VAT registration

You can do this [online](#) or send [a form](#) to HMRC by post. The address is on the form.

If you employ people, you'll also need to [talk to HMRC](#) about the change.

#### Sell your business

If you're a self-employed sole trader, in a partnership or own a limited company, there are certain [rules you must follow](#) when you sell your business.

#### Close an existing structure

If you want to close down your existing business structure, follow the usual steps.

#### To no longer be a sole trader

You'll need to:

- [tell HMRC you're no longer going to be self-employed](#) and they'll cancel your Class 2 National Insurance contributions
- complete a [Self Assessment tax return](#) as usual (you'll then start to submit tax returns the next year for your new business structure)

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## HMRC - Becoming Self-employed

### To close a business partnership

You'll need to make sure your nominated partner fills in a [tax return](#) when the partnership ends.

If the business partnership will continue without you as a partner, you must still complete a [Self Assessment tax return](#) as usual. You'll then start to submit tax returns the next year for your new business structure.

### To close a limited company

You'll either need to [close your limited company](#) or make it dormant.

### Changing to a public limited company or an unlimited company

The guidance has information on [changing a limited company to a public limited or unlimited company](#).