

A guide to going self-employed in the UK

by Jade Wimbleton

If you're thinking of going self-employed, we've got some tips for getting started - from weighing up the pros and cons of self-employment, to understanding tax and benefits when you're self-employed.

- [Should I go self-employed?](#)
- [Is self-employment right for me?](#)
- [The advantages of being self-employed](#)
- [The disadvantages of being self-employed](#)
- [Going self-employed for the first time](#)
- [Going self-employed checklist](#)
- [Paying tax when self-employed](#)
- [Going self-employed but working for a company](#)
- [Being self-employed and getting a mortgage](#)
- [What can I claim for as self-employed?](#)
- [Further reading](#)

Should I go self-employed?

There are plenty of reasons to go self-employed: you get to 'be your own boss' and work more flexibly, and depending on your industry you may be able to command a much higher rate than the salary you'd be able to achieve as an employee. But there are downsides too, and when you're thinking through being self-employed there's lots to take into account.

Is self-employment right for me?

There are pros and cons to being self-employed, and when you're thinking about being self-employed vs. being an employee there are a number of things that you need to consider, including:

- Are you clear about how you'd acquire clients or customers?
- Do you have some money to set yourself up?
- Would you be able to cope with periods of little or no income?
- Do you feel confident about managing your own business, for example managing cashflow, keeping thorough records and completing tax returns?
- Have you thought through the impact of losing employee benefits, for example holiday pay, sick pay, and employer pension contributions?
- If you were self-employed, would you miss working alongside colleagues?
- Do you have a space where you'd be able to work, and any equipment you need, or do you have budget to buy it?
- Do you have any life-changing events to take into account, for example an upcoming house move, wedding or new baby?

The advantages of being self-employed

There are plenty of perks of being self-employed, including:

- You have more flexibility and control, so it may be easier to fit your work around other commitments and responsibilities, including childcare.
- Your work can be more varied, as you may be working on several different projects for different clients at any one time.
- You can explore your creative and entrepreneurial side as you build your own business.
- You can deduct certain costs - travel and some utilities bills, for example - from your income when you're calculating your tax liability.
- You may have the potential to earn more money, as day

rates for self-employed consultants and freelancers tend to be much higher than salaries.

- You should be able to ditch your commute, as you're likely to work from home, or from your own business premises.

The disadvantages of being self-employed

It's important to take into account the disadvantages of being self-employed too, in particular the risks and costs that come with self-employment, for example:

- Finding a route to market or acquiring clients can initially be challenging.
- There are likely to be some start-up costs, so you may need some money to get started.
- Your income isn't guaranteed, which can sometimes make

it hard to keep up with rent or mortgage payments, loan payments and living expenses.

- You bear the responsibility for the failure or success of the business, so you don't have much back-up if things go wrong.
- It can be difficult to separate your home life from your work life, and get a good work-life balance.
- If you're working on your own a lot, being self-employed can be isolating.
- It can be more difficult to get approved for renting property, taking out a mortgage or getting a loan when you're self-employed.

- You need to deal with the admin side of your business, which involves bookkeeping and complying with regulations.
- If you take a holiday or can't work, you won't get paid.

Going self-employed for the first time

When you're going self-employed, there are several things you need to do, including telling HMRC that you're self-employed for tax purposes, thinking about the business structure (which has an impact on the paperwork you'll need to complete), and sorting out insurance.

Going self-employed checklist

When you go self-employed, you're effectively setting up a business, even though you might not see it that way. This means that you need to decide on a business structure.

We've taken an in-depth look at setting up as a sole trader - usually the simplest business structure to choose when you go self-employed. However, you may also decided to incorporate as a limited company.

Starting a limited company

If you're starting a limited company, there are certain things you need to do, including registering with Companies House, drawing up a [memorandum of association](#), and paying corporation tax. Take a look at our article on [sole traders vs. limited companies](#) if you're not sure about the differences between these business structures.

Starting up as a sole trader

If you're going self-employed in the UK as a sole trader, these are some of the things you need to do:

- Tell HMRC that you're self-employed, so that they know you need to pay tax through self-assessment and pay Class 2 and 4 National Insurance contributions. Go to the [government's website](#) to register, or look at our article on [registering as a sole trader](#) with HMRC for more information.
- Set up a [business bank account](#). If you're struggling to pick a provider, check out our article for a round-up of some of the [best business bank accounts for 2016](#).
- Establish a process for recording your profits and evidence of your business expenses. This will make it much easier when it comes to completing your HMRC tax return.
- If you'll be working from home, check your tenancy agreement or mortgage agreement to make sure you're

- not contravening any terms. You may need to notify your landlord or mortgage lender.
- Sort out your insurance. [Professional indemnity insurance](#) and [public liability insurance](#) are the main types of business insurance to consider, but there are plenty of other covers too, and if you'll be employing anyone, you're usually legally obliged to have [employers' liability insurance](#). Take a look at our [self-employed insurance](#) page for more details.
- Think about your pension. Since you won't be paying into a workplace pension any more, it may be a good idea to set up a private pension so that you're still putting money aside for retirement. Although you won't benefit from employer contributions, you'll still get government contributions into your pensions in the form of tax relief.

Paying tax when self-employed: how much will I pay?

How much tax you'll pay as a self-employed person will depend on how much money you've made and the 'allowable expenses' you've incurred in the course of your business. Certain business-related expenses can be subtracted from your income when you're calculating your taxable profit.

The tax-free personal allowance and the tax bands are the same for self-employed and employed people, so for 2018-19 you can make up to £11,850 before you need to pay tax. You'll then pay the basic rate of income tax (20%) on income up to £46,350. The higher rate of 40% applies to income over £46,350, and on income over £150,000 you pay the additional rate of 45%.

Going self-employed but working for a company

Of course, you may be going self-employed part time, and continue working for a company during the rest of the week.

This means you're both self-employed and employed, and you'll pay tax through both PAYE and self-assessment.

You could also be self-employed but only work for one company (for example if you have a single major client), but in this case HMRC will be keen to make sure that the company isn't just calling you 'self-employed' to avoid paying National Insurance contributions and giving you employment rights. To count as self-employed you usually need to have choice over when and where you work and you'll usually be paid when you issue invoices. Check the government website or speak to an accountant if you're not sure.

Being self-employed and getting a mortgage

One of the disadvantages of being self-employed is that it can be more difficult to get a mortgage, but it is possible.

When you apply for a mortgage and you're employed, the lender will usually confirm your income by asking for payslips and bank statements. When you're self-employed, you'll usually need to provide business accounts including a copy of your self-assessment tax return forms.

Lenders often ask for between two and three years of accounts, so you may not be able to get a mortgage if you've only just become self-employed.

Usually, the lender will take an average of your income over the last two or three years to calculate how much they're willing to lend you. They may also ask to see other documents - business plans, for example - to check that they're confident you'll be able to keep up with the mortgage repayments.

What can I claim for as self-employed?

Self-employed allowable expenses

In terms of what you can subtract from your income when you're figuring out the self-employed profit that's taxable, the list includes [business insurance](#), part of your utility bills if you work from home, office costs, stock and certain business-related travel. Check the [government website](#) carefully though, as you could get in trouble with HMRC if you subtract something that's not an allowable expense, or if you don't have evidence of the expense.

For a full breakdown, take a look at our guide to [self-employed tax deductible expenses](#).

Self-employed benefits

Depending on certain factors, you may be able to claim

certain benefits. If you're self-employed and not earning very much money, you may be eligible for income support or working tax credit, although the latter is being replaced by universal credit. Check the government website for more details.

Self-employed tax credits

You can claim Working Tax Credit when you're self-employed, but in April 2015 the rules were tightened up. Self-employed tax credit claimants must show that they're trading on a commercial basis with the aim of making profits, and that their self-employed work is structured, regular and ongoing. There's further information on the criteria in [this government briefing document](#).

Self-employed Housing Benefit

You may also be eligible for Housing Benefit and council tax reduction if you're self-employed but you're not earning very

much money. When the council is calculating your eligibility for benefits like housing benefit, they will probably ask to see your business accounts for the last financial year, or a forecast if you haven't started trading yet.

Self-employed Universal Credit

You may be eligible for Universal Credit if you're self-employed. You will have to declare your earnings at the end of each monthly assessment period, and will have to give details of any payments into or out of your business. Your work coach will also ask to see records of customers and suppliers, and marketing materials.

Your Universal Credit payments may be calculated based on your assumed earnings, which are known as the Minimum Income Floor. However, a different method may be used if you are in your first 12 months of self-employment, during which the Minimum Income Floor may not apply. During this period you may also be entitled to meetings with a work

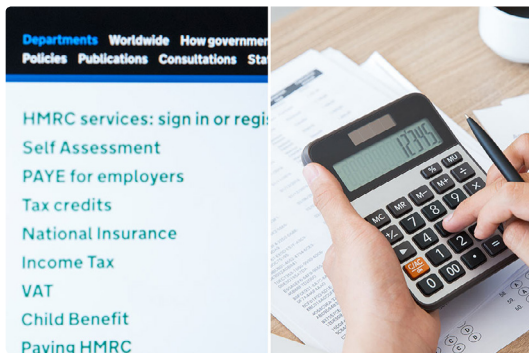
coach who's specifically trained in self-employment.

Self-employed grants

You may be able to get a grant from the government called a New Enterprise Allowance if you're going self-employed. You may be eligible if you or your partner has been receiving jobseeker's allowance or employment and support allowance, or if you've been receiving income support, or if you're a lone parent, sick or disabled. The New Enterprise Allowance is a weekly allowance that can be paid for over up to 26 weeks, up to a total of £1,274.

There are some other small business grants available too, from the government local councils, the EU, and some organisations. Use the government's [finance finder tool](#) to see if there's a grant that could be suitable for you.

Further reading



The self-employed guide to Self Assessment tax returns

If you're self-employed, you'll usually need to fill in a Self Assessment tax return each year.



10 benefits and drawbacks of working from home

You're faced with a choice - rent an office space or work from home?



What type of business insurance do I need?

Read about the reasons why business owners may need business insurance.