



# HOW TO SET UP A SOLE TRADER BUSINESS IN THE UK?

(step-by-step guide)

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# SOLE TRADER BUSINESS

## Who is it for?

- For those who want to work as self-employed and start a low-risk business (without a bank loan, expensive lease, etc).
- For those who earn more than £1,000 per year from a hobby or part time business.
- Anyone can register as a sole trader regardless of their employment status (unemployed, employed part time or employed full time).

## Who do you register with and how much does it cost?

You need to register with HM Revenue & Customs. It's free to register as a sole trader.

## What do you need?

To register a sole trader business all you need is your National Insurance number. If you don't have a National Insurance number, you need to phone Jobcentre Plus and apply for one. You may be asked to go to an interview to confirm your identity.

## When do you need to register?

HMRC recommend registering as soon as you start trading, but no later than 5 October of your second tax year. The standard tax year runs from 6 April to 5 April. For example, if you start trading in June 2021, you need to register before 5 October 2022.



# THE REGISTRATION PROCESS

## STEP 1: Choose a name for your business

As a sole trader, you can either trade under your own name or use a business name. If you choose to have a business name, you must include both your personal name and your business name on all official documents (invoices, emails, website, etc.). For example, you can have the business name at the top of

your website as long as the full name of your business, that includes your personal name, appears at the bottom.

A good practice is to write it as: “(your name and surname) trading as (your business name)”. For example: “Alex Jones trading as Graphic Cloud”



### The rules

If you choose to have a business name, you have to follow certain rules. For example:

- The name mustn't include: “limited”, “Ltd”, “LLP”, “limited liability partnership”, “public limited company” or “plc”.
- The name cannot be offensive.
- It cannot be the same or too similar to another company's name or trade mark.
- The name cannot contain a “sensitive” word or expression, or suggest a connection with government or local authorities unless you have a permission (eg., “British”, “architect”, “accredited”, “association”, etc.).

Other restrictions, as well as the list of sensitive words and expressions, and who to contact for permission is available at [Gov.uk](https://www.gov.uk).

## Name availability

To check if the name you want to use is still available, you can do:

- a [search on the Companies House website](#) that has information about all businesses registered in the UK.
- a [trade mark search on the Intellectual Property Office website](#). There are 45 different trade mark classes, each relating to a different industry, and you should be concerned only about the trade marks in the class your business belongs to.
- a Google search, if you plan to operate in international markets and want to avoid potential name disputes outside the UK.

## Protecting your business name

A sole trader registration doesn't register a company and the business name you choose won't be checked, registered or protected in any way. HMRC simply want to know what name you will be using so they can track it and make

sure, you are paying enough tax. If you plan to invest in marketing and branding, you should first protect your business name.

To protect your business name, you can:

- register a trade mark (the fee is about £200 for a 10-year licence). More information is available at [Apply to register a trade mark - GOV.UK](#); or
- register a dormant company (the fee is £12, if registered online). You can register a dormant company by selecting SIC Code for dormant company (99999). The rest of the registration process is the same as for any other limited company.

If you plan to have a website, make sure there is a matching domain name available (e.g., yourcompanyname.com). How to purchase a domain name is explained in our free guide [Everything you need to build a website](#). Also, remember that names starting with "A" or "B", will get your business listed at the top in most directories.





## STEP 2: Find out whether you need a licence

There are many business types that require a licence in order to trade, such as taxi companies, food outlets, hotels, pet shops, hairdressers, childminders, etc.

You can use the [Licence finder - GOV.UK](#) tool

to find out if your business needs a licence. It will also tell you who to contact to make an application. In the UK, licences for small businesses are generally granted by local authorities and the fees can be found on their websites.

## STEP 3: Find out whether you need insurance

### **Employers' liability insurance**

If you have employees, unless exempt, you are legally required to have employers' liability insurance, to cover the cost of compensating employees who are injured or become ill through work for your business. To find out whether you need this type of insurance, see [Employers' Liability \(Compulsory Insurance\) Act 1969 - A brief guide for employers](#).

### **Professional indemnity insurance**

It covers your legal costs and any compensation payments due, if your clients take a legal action against you for a mistake you made while providing professional services to them. It's not a legal requirement but many industry bodies and regulators require from their members to have a certain level of cover. It's highly recommended to IT consultants,

engineers, accountants, solicitors, designers and medical workers, but other professionals could benefit from having this type of insurance.

### **Public liability insurance**

It's also not required by law. This type of insurance can cover compensation payments and legal costs if a member of the public (customer, supplier, passer-by, etc.) sues your business because they've been injured or their property has been damaged. It's usually purchased by tradesmen, hairdressers, shop owners, restaurant owners, event organisers and other businesses that interact with the general public.

If your business uses vehicles (car, van, truck, minibuss, tipper, HGV, etc.) to transport goods or passengers you are legally obliged to have **commercial motor insurance**.

## STEP 4: Find out about applicable laws and regulations

Some laws and regulations apply to all businesses such as [Product labelling: the law - Gov.uk](#) or [Data Protection Act 2018 - Legislation.gov.uk](#), but there are many laws and regulations that apply only to specific businesses such as [Food safety - Gov.uk](#).

The best places to start your research are [Business and self-employment - Gov.uk](#) and [Legislation.gov.uk](#). You can also seek advice from legal professionals.



## STEP 5: Register with HMRC for Self Assessment tax return



There are two ways to register:

- The easiest way to register is [online](#) on the HMRC website.
- If you cannot use the online service, you can fill in a [form](#) on the HMRC website and post it to them.

You'll be asked to provide certain information about yourself and your business activity.

About yourself: your name, date of birth, National Insurance number, postal address, phone number, email address and whether you are a UK resident and/or if you have moved to the UK in the last 12 months.

About your business:

- Date you started (or will start) working as self-employed
- Type of work you do
- Name of your business (if any)
- Address of your business (can be your personal address)
- Business telephone number (can be your personal phone number)
- Whether you are a subcontractor under Construction Industry Scheme (CIS)
- Whether you are a share fisherman

There's no certificate to show that someone is registered as a sole trader, and there's no public database of sole trader names and their UTR numbers. The only proof of your sole trader registration you will get is a 10-digit Unique Tax Reference (UTR) number. HMRC will send it to you approximately 14 days after the registration, and you'll need it to complete the annual Self Assessment tax returns. They will also create an online account for you and send you a 12-digit activation code, which you will need the first time you log in.

## STEP 6: Open a bank account for your business

Most UK banks don't allow using personal bank accounts for business purposes, meaning you'll probably have to open a business bank account. Anyway, using a separate account will make it easier for you to track business transactions. You'll have a choice between traditional high street banks such as Barclays and NatWest, mobile banks such as Starling Bank and Monzo, and banking apps such as Tide and Revolut.



Most high street banks offer free business bank accounts for the first 18 months and charge about £6/month after that initial period. They also charge transaction fees. The emerging mobile banks and banking apps offer free accounts and charge only transaction fees. However, be careful when signing up for those because the services they offer are still limited compared to high street banks.

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## STEP 7: Register for the Construction Industry Scheme (CIS)

This applies to you only if you plan to work in the construction industry as a contractor or subcontractor. You'll need your UTR number to register for CIS and there are different forms for self-employed individuals, limited companies and partnerships.

The information about who needs to register and how to register is available at [Gov.uk](https://www.gov.uk):

[Construction Industry Scheme \(CIS\)](#)  
[Construction Industry Scheme: a guide for contractors and subcontractors \(CIS 340\)](#)

## STEP 8: Register for VAT

You must register for VAT if your annual turnover is over £85,000. If your annual turnover is below £85,000 you can register voluntarily if it would benefit your business (e.g., if you work with other VAT-registered businesses and want to reclaim the VAT). When you first start a business, it might be difficult to estimate your annual turnover. However, you can register for VAT at any time during a tax year. If at any point you think that you may reach the £85,000 mark in the following 30 days, you should register immediately.

After registering for VAT, you have to: charge the right amount of VAT by applying the correct VAT rate (standard, reduced or zero), pay any VAT due to HMRC, submit VAT returns, have a



VAT account and keep VAT records. Most businesses can register online but some are required to fill in a form and post it to HMRC. More information is available at [VAT registration - GOV.UK](#). You can also appoint an accountant to deal with HMRC on your behalf.

# YOUR LEGAL OBLIGATIONS AS A SOLE TRADER

## 1: Keeping accurate records of your business activity

You must keep accurate records of all business transactions (sales invoices, supplier invoices, expense receipts, etc.). You will need this

information to calculate your profits and to submit a Self Assessment tax return each year.

In case you have to manage a large number of transactions, you should consider using accounting software (see our free [Accounting software guide for startups and small businesses](#)) or hiring an accountant, or both. You must keep your income and expense

records (electronic or hard copies) for at least 5 years after the Self Assessment deadline. HMRC can charge you a penalty if your records are not accurate, complete and readable. More information is available at [Set up as a sole trader - Gov.uk](#).



## 2: Submitting an annual Self Assessment tax return

Through Self Assessment tax return, you pay Income Tax and Class 2 and Class 4 National Insurance. A UK tax year runs from 6 April to 5 April. For example, the tax year 2021/2022 started on 6 April 2021 and will end on 5 April

2022. If you start trading during the 2021/2022 tax year, you'll need to register your business activity by 5 October 2022, submit your Self Assessment tax return by 31 January 2023, and pay any tax due also by 31 January 2023.

If you miss the 31 January deadline, you'll receive an immediate fine, and will have to pay any tax due by 30 April. If, by the end of April, you still haven't paid it, you'll have to pay additional fines. To submit your Self Assessment tax return, you need to log in to your online account on the HMRC website (created during the registration process) and just follow the onscreen instructions. The online system can save your progress, so you don't have to complete it in one go. All fields can be edited and changed before you click the "Submit" button.

You'll be asked to provide the following information:

- Annual turnover – The total of your sales.
- Expenses - If your annual turnover is below £85,000 you can enter the total amount of expenses. If it's more than £85,000, you have to enter different types of expenses separately, plus the total at the end. See the [allowable expenses](#) you can claim.
- Other income and expenses - Employment income, dividends, partnership income, interest, rental income, foreign income, pension contributions, state benefits,



charitable giving, redundancy payments, employee benefits, capital gains.

If there is anything you're not sure about, see the [Self Assessment forms and helpsheets - GOV.UK](#), consult an adviser or use the HMRC helpline. It's still possible to file a paper return but the filing deadline is earlier in the year. For the 2021/2022 tax year, it is 31 October 2022, compared to 31 January 2023 for online returns.

## 3: Paying Income Tax and National Insurance

As a sole trader, you pay Income Tax, and Class 2 and Class 4 National Insurance.

The payment deadline is about 9 months after tax year end.

### Income tax

You are entitled to the same tax-free personal allowance as someone who is employed. For the 2021/22 tax year, the standard personal allowance is £12,570. You only get one personal allowance, so in case you have more than one job, make sure your personal allowance is applied to the job paying you the most. The amount of Income Tax you pay on your profits is the same as if you were employed:

Income Tax Rate	2021/2022
<b>Personal Allowance: 0%</b>	£12,570
<b>Basic rate: 20%</b>	£12,571 - £37,700
<b>Higher rate: 40%</b>	£37,701 - £150,000
<b>Additional rate: 45%</b>	Over £150,000

#### Example:

Your profit is £55,000 in 2021/2022 tax year. You must pay £9,432 for income tax (0% on £12,570 = £0 + 20% on 37,700 = 7,540 + 40% on 4,730 = £1,892).

### National Insurance

You also have to pay Class 2 and Class 4 National Insurance:

National Insurance	2021/2022
<b>Class 2</b> (if your profits are 6,515/year or more)	£3.05/week
<b>Class 4</b> (if your profits are £9,568/year or more)	9% on profits between £9,569 – £50,270 2% on profits over £50,270

#### Example 1:

Your profit is £6,000/year – You don't pay National Insurance

#### Example 2:

Your profit is £7,500/year – You pay Class 2 National Insurance

#### Example 3:

Your profit is £10,000/year – You pay Class 2 and Class 4 National Insurance

# WHY YOU MAY CONSIDER SETTING UP A LIMITED COMPANY

## Limited liability

If your sole trader business gets into difficulties there won't be any distinction between the business money and your personal money, and you as an individual will have to clear the debts.

With a limited company it's the company that takes on contracts and loans. If the contract or loan goes bad the company will be responsible and not the individual directors. Your home, car and the rest of your personal finances will be protected from damage.

## Tax efficiency

As a sole trader, your profits between £37,701 and £150,000 are taxed at 40% and profits above £150,000 at 45%.

If you set up a limited company, you'll pay corporation tax (currently 19%) and can choose whether and when to distribute your company's profits. You have the flexibility to pay yourself as an employee and/or in dividends, and keep some or all of the profits in the business to minimise the exposure to higher tax rates.

## Professional image

Having "Ltd" as part of your company name looks more professional than your personal name followed by a trading name. It increases clients' confidence in you and your services, especially if you target B2B clients.

## Succession planning

Limited company is a better option if you want to attract investors or sell your business in the future. Also, to pass your business on to your family is easier with a limited company.

It's possible to start as a sole trader and change to a limited company as your business grows. However, if you plan to employ people or believe your business will have a high turnover, you may be better off setting up a limited company from the beginning.



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