

Becoming a sole trader – the basics

Becoming a sole trader is the most straightforward way to start a business. There are no registration fees to pay, it is easy to keep a close eye on financial records, and you can make key decisions quickly as you are your own boss.

While becoming a sole trader is relatively easy in business terms, going it alone can be a daunting move for many people. This guide therefore aims to give you a good overview of what will be required of you as you move into the world of business.

Choosing a name

It may seem obvious, but the first thing you should do as you look to become a sole trader is choose a suitable business name. It is useful if your name accurately reflects the nature of your business.

You should also try to steer clear of selecting a business name that is too similar to those already in existence. This could be crucial in preventing legal headaches in the future if another company believes that you have intentionally adopted its name.

Becoming a sole trader - Tax and VAT

The moment you have started trading you will need to make sure you register as self-employed with HMRC. If you fail to do this within the first three months of becoming self-employed, you could suffer a hefty fine. To register as self-employed, you can either enter your details on the HM Revenue & Customs website or call the Newly Self-employed Helpline on 0845 915 45 15.

As a sole trader you are liable to pay income tax on any profits that your business makes and you will need to fill out a self-assessment tax return every year. It is therefore important that you keep your records up-to-date and well-organised.

Some sole traders may only run a small operation and will not have to worry about VAT. However, if your business has, or is expected to have, a turnover of over £60,000 a year, you will need to apply for a VAT number. You will then have to charge your customers VAT, complete the appropriate VAT returns, and send VAT payments to HM Revenue and Customs.

Becoming a sole trader - National Insurance

Using the self-assessment tax return you submit, HMRC will also calculate any profit-related National Insurance Contributions (NICs) that need to be made. These are called Class 4 NICs, and are payable at 8 per cent on profits between £5,715 and £43,875 (for 2009-10) plus 1 per cent on any profit over that amount.



Call us now on free phone 08081 686868

Visit us at www.Constructaquote.com™

You do not have to work out the Class 4 NICs amount yourself. If you send in a paper tax return by 31 October following the end of the tax year and leave the space blank, HMRC will work it out for you.

As a self-employed person you will also have to pay Class 2 NICs. For the 2009/10 tax year, this is £2.40 a week. It might be advisable to set up a monthly direct debit so you don't miss any payments.

Becoming a sole trader - Special Licences

While you start up immediately as a sole trader for most types of business, for some occupations you might require a special licence or local authority permissions. Taxi drivers, childminders and buskers all require a local authority licence before they can start earning.

If you are unsure about whether you require a particular licence or not, you should contact your local council for further advice.

Becoming a sole trader - Business Insurance

It is a mistaken belief that you do not require the core types of [business insurance](#) if you are a sole trader and a smaller-sized business. In fact, it is possibly more important that a sole trader takes out [business insurance](#) because he or she is personally liable for any debts that the business accrues.

If you are visiting other premises, or you have people visit your own, you should seriously consider purchasing [public liability insurance](#). This covers you against any damages awarded to members of the public as a result of injury, or damage to their property, caused by your business operations.

If you employ people, you should also think about taking out [employers' liability insurance](#). This covers you against any claims issued against you by employees that have allegedly suffered injury, illness or any other hardship because of your business. There are likely to be other business-specific types of insurance available to you too, so it is essential that these are carefully weighed up before you start trading.



Call us now on free phone **08081 686868**

Visit us at **WWW.CONSTRUCTAQUOTE.COM™**