

Record Keeping Case Study

John Ellis started in business as a plumber on 1 September 2011. Listed below are details of money he has paid out and cash and cheques he has received in his first month in business.

1 September	purchased van from previous employer	£2,500
4 September	stamps	£39
4 September	Public Liability Insurance	£175
8 September	business cards	£25
9 September	web page design	£120
10 September	purchase Pay As You Go phone & top up card (value £30)	£60
10 September	advertising in local paper (Oct to Dec)	£100
15 September	purchased Laptop computer	£399
15 September	paper and ink cartridges	£91
15 September	sign writing for van	£200
15 September	quarterly lock-up rental (in advance) for Oct to Dec	£240
18 September	contents insurance for lock up	£70
18 September	materials purchased for job (Mrs Jarvis)	£15
22 September	materials purchased for job (Mrs Cooke)	£115
25 September	materials purchased for job (Mr Jonas)	£75

Mileage *

week ending 4 Sept	35
week ending 11 Sept	52
week ending 18 Sept	61
week ending 25 Sept	102

John's income for the month was:

- 18 September cash received from Mrs Jarvis for £45.00
- 24 September cheque received from Mrs Cooke for £260.00
- 25 September cheque received from Mr Jonas for £150.00

* John has decided to claim the HMRC mileage rate.

The P45 he received from his employer shows Pay £10,833 Tax £1,627.00.

Motor Expenses

You can deduct the cost of using your car for business purposes. There are two ways of working out how much you can deduct:

- a fixed rate for each mile travelled on business, using our fixed mileage rates
- the actual expenses, worked out using detailed records of business and private mileage to apportion your recorded expenditure.

Mileage Method

You may calculate your motor expenses using a fixed rate for each business mile provided that:

- the rate used does not exceed the appropriate Approved Mileage Payments (AMAPs) mileage rate for the vehicle at the time it is used, these rates are published annually.
- the annual turnover of the business at the time the vehicle is acquired does not exceed the VAT threshold (currently £73,000),
and
- no other motoring expenses (other than interest on a loan to purchase the vehicle) are claimed and no capital allowances are claimed on the vehicle (since AMAPs rates already contain an element to allow for depreciation),
and
- such a basis is applied consistently from year to year so that any change to or from an 'actual' basis (including one required by a change in turnover relative to the VAT registration threshold) takes place only when one vehicle is replaced by another.

The VAT registration threshold is used here purely as a convenient limit whose real value is regularly reviewed; this practice has no application to VAT accounting and does not affect existing VAT rules and practices.

This practice applies to cars, vans, motorcycles and bicycles. The AMAPs mileage rates vary between vehicles.

The amounts used are

From 2011-12	Rate per mile for first 10,000 miles	Rate per mile for any further miles
Car/Van	45p	25p
Motorcycle	24p	24p
Bicycle	20p	20p

Actual Cost Method

You must keep records of all motoring costs, for example, receipts for fuel, repairs, insurance etc. If the vehicle is used for both private and business purposes, you can only claim for the proportion of the costs that relate to the business use.

Expenses are calculated using the following method

Business miles travelled in the year	(.....) = A
Total miles travelled in the year	(.....) = B
% costs relating to business use	$\frac{A}{B} \times 100 = C$

Example

7,600 (A)
15,200 (B)
(A) 7,600 divided by (B) 15,200 x 100 = 50% (C)

Vehicle running costs

	£
Insurance	360
Vehicle Tax	175
Repairs/servicing	405
Parts	85
Fuel/Oil	3,120
Recovery subs	45
MOT	<u>50</u>
Total costs for year	£4,240

Allowable costs that relate to business £2,120 (£4,240 x 50%)

You must make a note of the mileage reading at the start and end of your Accounting Period when you use this method.

You can also claim Capital Allowances, but these are restricted to the business use of the vehicle.

For more information visit our website at www.hmrc.gov.uk

Record Keeping Grid

September 2011											
Income			Expenses								
	Invoice number	Takings	Receipt Number	Materials	Premises Costs	Motoring Costs (mileage x 45p)	Accountancy legal and other professional costs	Financial charges <i>ie</i> bank and credit card	Office costs <i>ie</i> phone, fax and stationery	Other allowable business expenses	Drawings
04/09			1 & 2			15.75			£39	£175	
08/09			3							£25	
09/09			4							£120	
10/09			5 & 6						£60	£100	
11/09						23.40					
15/09			7 & 8		£240				£91		
18/09	1	£45	9 & 10	£15	£70	27.45					
22/09			11	£115							
24/09	2	£260									
25/09	3	£150	12	£75		45.90					
Totals		£455		£205.00	£310.00	£112.50			£190.00	£420.00	

This handout is purely an example of how you could record your income and expenses and is no way a recommendation. You may have to keep additional records if you are VAT registered.

This information is for your guidance only; it does not cover all you need to know about this subject. Please refer to HMRC or Business Link for more help. ©Crown Copyright 2011

Payment Cycle

Example

John Ellis started his plumbing business on 1 September 2011. He received a Notice to complete his first tax return in April 2012. After registering for Self Assessment online and activating the service, John used HMRC's free software to complete and send his tax return.

The automatic online calculation showed John that he would need to pay the following tax and Class 4 National Insurance Contributions for 2011-12.

Income Tax	£1,800
Class 4 NIC due	£800
Total	£2,600

John would therefore need to make the following payments

31st January 2013

£2,600 a balancing payment of tax £1,800 and Class 4 NIC £800

£1,300 1st Payment on Account, equal to half of the previous years tax bill (£2,600 divided by 2 = £1,300) as part payment towards the next tax bill

31st July 2013

£1,300 2nd Payment on Account, equal to half of the previous years tax bill as part payment towards the next tax bill

After receiving a Notice to complete a return in April 2013, John completes his 2012-13 tax return online. The automatic online calculation showed John that he would need to pay the following tax and Class 4 National Insurance Contributions for 2012-13.

Income Tax	£2,500
Class 4 NIC due	£1,100
Total	£3,600

31st January 2014

£ tax and Class 4 NIC due for 2012-13 £ less amount already paid on account £
= a balancing payment of £

£ 1st Payment on Account, equal to half of the previous years tax bill (£ divided by 2 = £)
as part payment towards the next tax bill

Payments on account will not be due if you have overpaid tax or your bill for the previous tax year is below £1,000.

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Useful Information

Employment Status	<p>Employment Status Indicator Tool - available at www.hmrc.gov.uk/calcs/esi.htm</p> <p>Leaflet ES/FS1 available to download from HMRC website or by calling the orderline.</p>
How to register your business with HMRC	<p>By phone call the Newly Self-Employed Helpline</p> <p>Online www.businesslink.gov.uk/registerselfemployed</p> <p>On paper complete form CWF1</p>
Pension Forecast	<p>You can obtain a State Pension forecast</p> <p>By phone 0845 300 0168 Mon-Fri 8.00am to 8.00pm and Sat 9.00am to 1.00pm</p> <p>Online https://secure.thepensionservice.gov.uk/statepensionforecast/</p> <p>On paper by completing form BR19 which is available to download from the Pension Service website</p>
A Guide to Maternity Benefits NI17A	<p>Available from the Department of Work and Pensions website at www.dwp.gov.uk</p>
For changes in your self-employed status, for example stopping self-employment contact	<p>Self-Employed Contact Centre 0845 915 4655 Mon-Fri 8.30am to 5.00pm</p>
To book on an HMRC workshop or presentation	<p>By phone 0845 603 2691</p> <p>Online www.hmrc.gov.uk/bst</p>
Budget Payment Plan	<p>A Budget Payment Plan offers an easier way to pay your Self Assessment tax by allowing you to make voluntary regular payments towards your future tax bill. It is available to customers whose payments are up to date and who pay by Direct Debit.</p> <p>If you are up to date with your payments and wish to set up a Direct Debit visit www.businesslink.gov.uk/payinghmrc</p>

<p>Class 2 National Insurance</p>	<p>You pay Class 2 National Insurance contributions at a flat rate of £2.50 per week. HMRC will issue two payment requests in October and April showing payments due by 31 January and 31 July respectively. You can also pay your Class 2 National Insurance by monthly or six monthly Direct Debit.</p> <p>Class 2 National Insurance contributions count towards certain benefits, like the basic State Pension, Employment and Support Allowance and Bereavement Benefit, but they do not count towards the additional State Pension, Statutory Sick Pay or Jobseeker's Allowance.</p> <p>If you earn less than £5,315 per year (2011-12) you can apply for a certificate of small earnings exception and not pay Class 2 National Insurance contributions. However, you might decide to carry on paying them voluntarily to keep your entitlement to the State Pension and other benefits.</p>
<p>Class 4 National Insurance Contributions</p>	<p>The amount of Class 4 National Insurance contributions you have to pay for any tax year is based on your profits for that year. You pay 9 per cent on annual profits between £7,225 and £42,475 (2011-12) and 2 per cent on any profit over that amount.</p> <p>Class 4 National Insurance contributions do not count towards benefit entitlements.</p>
<p>Deferment of payment of Class 2 and/or Class 4 National Insurance contributions (NICs)</p>	<p>You may defer your Class 2 NICs if you are likely to pay Class 1 NIC on earnings of at least £817 each week (£3,540 each month) for the whole year.</p> <p>You may defer some of your Class 4 NICs if you can show that you are likely to pay too much in Class 1, Class 2 and Class 4 NICs.</p> <p>You will need to complete a form CA72B which can be downloaded from the HMRC website, before the start of the tax year that you wish the deferment to apply.</p>
<p>Pre trading expenditure</p>	<p>If you are about to start a trade and purchase equipment specifically for use in that trade, then the expenditure that qualifies for allowances is the cost of that equipment. (Subsequent private use of the asset may not affect how it is treated, if the original reason for purchase was that it was bought specifically for use in a trade.)</p> <p>However, if you start a trade and use equipment that you had bought for a purpose other than this trade, then the expenditure that qualifies for allowances is the market value of the equipment at the time it is brought into the trade.</p> <p>It is also possible to make a claim for pre trading revenue expenditure. Further information can be found at www.hmrc.gov.uk/manuals/bimmanual/BIM46351.htm</p>

Information on setting up a simple profit and loss account	Online	www.businesslink.gov.uk/startprofitandloss
Information on allowable and non-allowable expenses	Online	www.hmrc.gov.uk/worksheets/sa103f-notes.pdf (pages 8 and 9)
Information on Capital Allowances	Online	www.businesslink.gov.uk/capitalallowances
Tax Help series factsheets	TH FS1	<i>Keeping records for business - what you need to know</i>
	TH FS2	<i>Self Assessment - what you need to know about using the three line account</i>
	TH FS3	<i>Employing someone for the first time - what you need to know</i>
	TH FS6	<i>Problems paying your tax - what you need to know</i>
VAT series factsheet	VAT FS1	<i>What you need to know about VAT</i> These can be found on the HMRC web site at www.hmrc.gov.uk/thelibrary/tax-help.htm

Income Tax rates 2011-12 by tax band and type of income

Income Tax Band	Income Tax rate on non-savings income	Income Tax rate on savings	Income Tax rate on dividends
£0 to £2,560 <i>Starting rate for savings</i>	Not available	10%	Not applicable - see basic rate band
£0 to £35,000 <i>Basic rate</i>	20%	20%	10%
£35,001 to £150,000 <i>Higher rate</i>	40%	40%	32.5%
Over £150,000 <i>Additional rate</i>	50%	50%	42.5%

Useful telephone numbers

Helpline for the Newly Self-employed and registration	0845 915 4515
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National Insurance Self Employed (Class 2)	0845 915 4655
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Self Assessment Helpline	0845 900 0444
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New Employer Helpline (<i>employers less than 3 years</i>)	0845 607 0143
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Construction Industry Scheme (CIS) Helpline	0845 366 7899
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VAT & Excise Helpline	0845 010 9000
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Useful website addresses

Business Link	www.businesslink.gov.uk
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HMRC	www.hmrc.gov.uk
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Direct.gov	www.direct.gov.uk
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Department Business Innovation and Skills (BIS)	www.bis.gov.uk
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Ready Reckoner 2011-12

This ready reckoner is a guide of how much money you might need to set aside to meet your tax and (where appropriate) Class 4 NIC bill when it becomes due and payable. It is based on a basic tax allowance of £7,475 and assumes that self-employment is your only source of income.

The correct liability can only be determined once a completed Tax Return has been filed.

Weekly		Monthly	
Estimated net weekly profit (£ per week)	Approximate amount to set aside for tax and Class 4 NIC (£ per week)	Estimated net monthly profit (£ per month)	Approximate amount to set aside for tax and Class 4 NIC (£ per month)
100	0	450	0
150	3	500	0
200	17	600	0
250	32	800	53
300	47	1000	112
350	61	1250	184
400	75	1500	257
500	104	2000	401
600	133	2500	546
700	162	3000	691
840	207	3656	905
844 + (?)	207 + (? x 42%)	3657 + (?)	905 + (? x 42%)

Taxable income over £150,000 will be liable at the additional tax rate.

These figures do not include Class 2 NIC (£2.50 a week in tax year 2011-12).