# THE GOOD GUIDE TO SELF-EMPLOYED FINANCES

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# Contents


# Introduction - Going it alone

Whether you picture yourself as a digital nomad working from a paradise beach, or setting up shop at home, the lure of self-employment has enticed many Brits over the years.

Interestingly, while the numbers of self-employed Brits rose steadily in the 20 years to December 2020 when it peaked at over five million, the pandemic has seen a reduction in the number of self-employed to just over four million in February 2022.

While employed workers were somewhat protected due to the furlough scheme, the equivalent scheme for the self-employed was more complex and saw many experience significant reductions in income, with little in the way of a safety net to protect them.

So if you're one of the many people considering going it alone, perhaps having experienced a better work/life balance while working at home during the pandemic, it can pay to do your research before you take the leap.

This guide takes you through the different options available, the pros and cons of being your own boss, and all the juicy, must-know financial points including tax, pensions, mortgages, and more.

Check out our website for some of our other guides such as **The Good Guide to Impact Investing** and **Investing for women: a Good Guide.**

**don't forget to read this important info – it's on every page for a reason!**

This guide provides general information only. It is not financial advice. If you invest in any of the products mentioned in this guide, you do so at your own risk. Your capital is at risk, losses from investments are not covered by the Financial Services Compensation Scheme and past performance is not a guide to future performance. Tax treatment is dependent on individual circumstances and is subject to change.

# The financial pros and cons of going self-employed

While there are many financial benefits to being self-employed, there are also some disadvantages to weigh up before you take the leap. Considering both the pros and the potential pitfalls will help you decide whether going it alone is right for you.

## Pros

**The sky's the limit on income.** The most obvious benefit to self-employment is that there is no cap on what you could earn. Grow your business in the right way and you'll see your turnover grow and grow. It's your decision on how big or small you want your business to be.

**Flexible working hours.** One of the biggest draws to being self-employed is the flexibility to choose your working hours, take time off when you choose and maybe even work anywhere in the world. This can be great for managing your career around family (particularly childcare) and personal goals.

**Progress at your pace.** It's up to you how fast and how far you want your career to develop. You're free to take extra qualifications around your working schedule, target better-paying clients and market yourself.

**Set your own rate.** Depending on your industry, you could command a higher rate than the salary you'd be able to achieve as an employee.

**Claim for expenses to reduce tax.** There are many allowable expenses as a self-employed person, which are subtracted from your income to calculate your profit, on which tax is paid. If you are set up as a limited company, this includes your pension contributions.

**Save money on commuting.** If you work from home, you'll be saving a packet on transport to and from the office. The same can apply to workwear, and buying all those coffees and lunches.

**You get to keep the profit!** An employee may get paid extra for working overtime, but as your own boss you can reap all the rewards of your hard work. Remember though, that you will also have to bear any losses.

## Cons

**Income is not dependable.** If you are a freelancer or contractor, you will most likely have gaps where you don't have enough work. If you run your own business you may have stretches of time where your profits are low or even non-existent.

**The tax burden is yours.** When you are employed, your tax is deducted from your paycheck automatically so you don't need to do anything (unless you have other taxable sources of income). As someone who is self-employed, you take full responsibility for paying the correct amount of tax - and on time.

**Book-keeping.** You'll need to keep accurate records of everything you earn during the tax year as well as all business-related expenses. For each tax year, you will need to fill out a self-assessment tax return form. All this can quickly become time-consuming, so you might want to consider hiring an accountant.

**No paid holiday, sick pay, or parental leave.** It's easy to take benefits such as paid leave for granted when you are employed. If you want these when you are self-employed you will need to arrange most of them yourself. This can take a lot of discipline.

**Losing other benefits.** Being employed can bring other perks such as bonuses, help with childcare costs, private health and dental insurance, free or discounted gym memberships, company cars, and so on.

**No workplace pension.** This is a biggie. Employers are now legally required to enrol their workforce onto a pension scheme. Both you and your employer contribute to it, making it an extremely valuable benefit when you retire. If you go self-employed, you will need to set up a private pension.

**Time discipline.** The flipside of flexible working hours is that you'll need to be disciplined with your time. There's a risk with self-employment of either working too much (it can be hard to say no), too little or inconsistently.

**Applying for a mortgage.** This can be a big stumbling block for the self-employed. You'll need to prove you've had a reliable income for at least three years and have self-assessment returns for two years. Chances are you'll be offered a lower amount or poorer deal than someone who has the security of employment.

**Loss of insurance.** Employers are legally required to have insurance that covers them if you get ill or injured because of work. Some also offer life insurance, which will pay out a lump sum to your family if you die while you're working for the company. If you go self-employed, you should consider buying income protection and professional indemnity insurance.

**Start-up costs.** Depending on the type of job you do, you'll need to take into account buying equipment before you start.

# Planning for how much income you'll need

When you are working out how much you need to earn as a self-employed person, it is important to take into account the value of any employee benefits you are currently receiving.

The cost of all these extras that employees can take for granted will suddenly become yours alone to shoulder. What is the value of what you are losing - and what would you have to pay to replace them yourself?

A study by Royal London found that - based on the average UK full-time employee salary of £30,000 - people who are self-employed must earn £9,586 a year more than full-time staff to make up for lost employee benefits. If maternity leave is included, the cost is a startling £20,836.

The table below breaks down the value of typical benefits offered by a large company, plus the likely cost to you of replacing them.

## Loss of employee benefits

| Benefit | Typical offer | Gross value to employee on £30k a year | Replacement cost when self-employed |
|---|---|---|---|
| **Holiday pay** | 25 days | £2,885 | £2,885 |
| **Sick pay** | 2 weeks full pay | £1,154 | £1,154 |
| **Maternity pay** | 3 months full pay, 3 months half pay | £11,250 | £11,250 |
| **Paternity pay** | 2 weeks full pay | £1,154 | £1,154 |
| **Parental leave** | 4 weeks unpaid leave per child per year | £0 | £0 |

| | | | |
|---|---|---|---|
| **Carer's leave** | 10 days paid leave | £1,154 | £1,154 |
| **Bereavement leave** | Up to 10 days paid | £1,154 | £1,154 |
| **Employer contribution to pension** | 5% employer contribution | £1,500 a year | £1,500 a year |
| **Death in service/Life insurance** | 4 x salary cover (£120,000 on death) at no cost | £120,000 on death | £360 a year depending on health/age |
| **Health insurance** | Salary sacrifice benefit policy cost of £600 a year | Around £120 tax a year saved | £120 + extra cost of individual policy (a typical yearly premium is £1,200) |
| **Cycle to work** | Average cost of a bike (paid for before tax) | On a £300 bike, approx £60 yearly saving | £60 in tax |
| **Total benefits replacement cost (compared to female employee using all the benefits including maternity leave)** | | | £20,837 |
| **As above, not including paternity pay** | | £0 | £9,587 |
| **Total benefits replacement cost (compared to male employee using all the benefits including maternity leave)** | | £0 | £10,741 |
| **As above, not including paternity pay** | | £0 | £9,587 |

*calculations by Royal London, March 2021

If you remove the one-off benefits (it is unlikely, for example, that one person would need maternity or paternity pay as well as the maximum carer's leave and bereavement leave entitlement all in one year), the yearly cost of replacing employee benefits is around £7,200.


# Savings and investments

## Building up a savings pot before you take the plunge

Once you've decided to leave the employed job you've fallen out of love with in favour of being your own boss, it can be tempting to hand your notice in straight away.

But it is far better to give yourself at least a few months to build up a savings pot first. Having some money to fall back on will help to keep your stress levels down and also give you the confidence to hold out for the kind of work you want.

The more you have in reserve, the less likely you will be to give in to pressure to work all hours to pay the bills or accept lower paid work just to be doing something.

With interest rates on cash savings pretty uninspiring across the board, you might as well choose an ethical option for your money.

## How much should I save?

A good rule of thumb for anyone is to have three to six months of income in an easy-access savings pot.

For those who are self-employed, the need for this ready pool of cash is far greater as there will undoubtedly be gaps between work, or periods where you earn less because you need to care for a family member or look after young children.

This means that ideally, you would have more than this set aside before you become self-employed. You might find you need this back-up more frequently early on while you build up a reliable stream of work.

Of course in reality, saving this amount of money is hard. Something is always better than nothing and any size of pot will provide a buffer that will prevent you from relying on debt.

Remember, just as important as saving an emergency fund to start with, is putting the money back as soon as you can afford to.

*By Jeannie Boyle*
*Director & Chartered Financial Planner at EQ Investors*

# Sustainable investment approaches

Financial jargon can be hard to keep track of at the best of times – and just when you think you've gotten a handle on the latest money mutterings; they change all over again.

But whether it's termed green, ethical, ESG (environmental, social & governance) or sustainable investing, the aim is generally the same: it's making money while making the world a better place, and it's clear this is a fast-growing market.

Historically, ethical investing focused on excluding specific companies and sectors – like tobacco or arms. Today though, most strategies have evolved to include companies that have best in class ESG scores in a particular sector. Whilst impact investing goes a step further by investing in companies whose products and services generate social and environmental impact as well as financial returns.

At EQ Investors (EQ), we offer a wide range of sustainable investment options across the green investment universe which can be tailored to suit your goals.

With a ten-year track record, the **EQ Positive Impact Portfolios** are mapped against the UN Sustainable Development Goals and designed to address the biggest challenges faced by humanity.

Our **EQ Future Leaders Portfolios** combine the growing preference for socially responsible portfolios with the increasing popularity of low-cost passive funds.

Recently launched, the **EQ Climate Action Portfolios** allow you to align your financial goals with the global effort to reduce climate change risks and reach net zero.

Going forward investment portfolios will need to continuously decarbonise to tackle global climate change and low emissions portfolios are better prepared

for climate change transition risk, so we measure the carbon footprint for all our portfolios.

But no investment is included based on its environmental or social credentials alone – it must also aim to deliver an attractive return for investors. Demand is being driven by this combination and an increasing number of people who prefer to invest in alignment with personal values.

Many studies from heavy-hitting financial institutions including Morgan Stanley have shown that green investment can boost returns while reducing risk. This makes sense when you consider this approach favours companies that are actively trying to do good and run their businesses in a sustainable way.

Such companies avoid fines and other penalties and have stronger relationships with their customers, suppliers, and employees. Moreover, they tend to operate in new sectors with high-growth potential. In short, these are the green companies of the future, and those we want to be invested in.

Suitable for ISAs and personal pensions, we'll provide all the investment advice you need, so you can just sit back and check your performance online, anytime.

# State benefits for the self-employed

Depending on how much you earn as a self-employed person, you might qualify for some state benefits to top up your income. This could be particularly valuable in the early days when you are building up your business.

In terms of which benefits you are eligible for and how much you might get, the same rules usually apply whether you work for an employer or are self-employed. However, it can be a bit trickier working out your hours and earnings if you are self-employed.

Turn2Us, a national financial hardship charity, has a handy benefits calculator to help you.

## Universal Credit

Universal Credit is being rolled out across the UK to replace other benefits such as Working and Child Tax Credits, Housing Benefit and Income Support. It can provide vital financial support while you grow your business.

To qualify, you must be able to show that:

- self-employment is your main job or your main source of income
- you get regular work from self-employment
- your work is organised – this means you have invoices and receipts, or accounts

It will be assumed that you are earning the same amount as someone in a similar position to you who is in paid work, at the national minimum wage. This amount is called the Minimum Income Floor.

If you earn less than the Minimum Income Floor, Universal Credit will not make up the difference. If you earn more, your Universal Credit payment will be based on your actual earnings. You must report your earnings from self-employment to the Department for Work and Pensions every month. Your earnings or losses from one month can be taken into account when working out how much Universal Credit you receive in a later month.

If you are newly self-employed, the Minimum Income Floor will not be applied for the first 12 months to enable you to grow your income. But you will need to show that you are taking steps to build your business and increase your earnings.

### What you'll get:

| Your circumstances | Monthly standard allowance |
|---|---|
| Single and under 25 | £265.31 |
| Single and 25 or over | £334.91 |
| In a couple and you're both under 25 | £416.45 (for you both) |
| In a couple and either of you are 25 or over | £525.72 (for you both) |

If you have one or two children, you'll get an extra amount for each child. If you have three or more children, you'll get an extra amount for at least two children.

| How much you'll get | Extra monthly amount |
|---|---|
| For your first child | £290 (born before 6 April 2017)<br>£244.58 (born on or after 6 April 2017) |
| For your second child and any other eligible children | £244.58 per child |
| If you have a disabled or severely disabled child | £132.89 or £414.88 |

You will be eligible for a further extra amount if you have a disability or health condition, or are a carer for a severely disabled person.

## Managing your fluctuating income

When you are self-employed, your income and expenses are likely to go up and down from month to month. It's a good idea to smooth this out as much as possible throughout the year. This is particularly important when you are receiving Universal Credit because it's paid monthly in arrears and is based on the Minimum Income Floor (you won't get topped up in lean months).

To manage your income peaks and troughs, you could work out the total amount you earn in a year minus all your eligible expenses. Divide this by 12 to get an average monthly amount. Whenever you earn more than this average in a month, try to put the extra to one side. This is so you can use it when you have a less profitable month.

Also, don't forget to plan for infrequent bills, such as Income Tax.

## Employment and Support Allowance

If you have a disability or health condition that affects how much you can work, you can apply for Employment and Support Allowance (ESA). This can be useful for self-employed people who don't qualify for Statutory Sick Pay.

To get ESA, you need to have been paying National Insurance contributions for the previous two to three years.

### What you'll get:

| If you expect to return to work | If your illness/disability means you can't return to work |
|---|---|
| £77 a week, or £61.05 if you're under age 25 (for up to one year) | £117.60 a week (no time limit) |

## Pension Credit

Once you (and your partner, if you live together) are above State Pension age, you may be eligible to receive Pension Credit. Whether you're a long way off or just round the corner from State Pension age, put this on your radar – it's a really important one for the self-employed.

Pension credit tops up your weekly income to £182.60 if you're single, or your joint weekly income to £278.70 if you have a partner. If your income is higher, you might still be eligible for Pension Credit if you have a disability, you care for someone, you have savings or you have housing costs.

Your 'income' includes a State Pension, other pensions, earnings from self-employment or employment, and most social security benefits. Any savings and investments over £10,000 will affect the amount you can get.

## Tax and National Insurance

When you are self-employed, you are responsible for paying tax and National Insurance on your income. It's really important to stay on top of all your records to work out how much you need to pay.

## Income tax

As a self-employed person, you will pay income tax on your profits rather than your total income. To work out your profits, simply deduct your business expenses from your total income.

The amount of income tax you pay on your profits is the same as if you were employed. In his Spring Statement, Chancellor Rishi Sunak announced a long-term plan to cut the basic rate of income tax from 20p to 19p. This will take effect from 2024.

The table below shows the rates of income tax for the 2022-23 tax year, according to how much you earn:

| Rate | 2022-23 |
|---|---|
| Personal allowance: 0% | £0 to £12,570 you will pay zero income tax on your profits |
| Basic rate: 20% | £12,571 to £50,270 you will pay 20% tax on your profits |
| Higher rate: 40% | £50,271 to £150,000 you will pay 40% tax on your profits |
| Additional rate: 45% | Over £150,000 you will pay 45% tax on your profits |

## National Insurance Contributions

National Insurance Contributions (NICs) are paid whether you are employed or self-employed until you reach state pension age. It is important to keep up with them as they entitle you to a state pension as well as other key benefits.

While employees on a payroll system will have their NICs taken automatically via PAYE, self-employed people have to organise their own payments through their yearly self-assessment tax return.

### National Insurance threshold to rise

Sunak has also announced that from July 2022, the level at which NICs start to be charged will rise from £9,880 to £12,570 a year. This will put it in line with the level at which income tax starts to be charged.

The self-employed usually pay two types of National Insurance, depending on how much profit they make – Class 2 and Class 4.

**Class 2** contributions are currently paid at a flat rate of £3.15 per week once you reach the "lower profits threshold" of £9,880. In July 2022, this threshold goes up to £12,570 (as mentioned above).

If you earn profits above the "small profits threshold" of £6,725, you are still able to build up National Insurance credits. This means you maintain your entitlement to the state pension and other benefits.

You might want to consider paying voluntary NICs even if you have low profits, so you don't end up with gaps in your National Insurance record.

### Class 2 payments in 2022-23:

| Profit (per year) | April-June | July onwards |
|---|---|---|
| Below £9,880 | £0 | £0 |
| £9,880 – £12,570 | £3.15 per week | £0 |
| £12,570+ | £3.15 per week | £3.15 per week |

**Class 4** contributions kick in on higher profits. For the 2022-23 tax year only, Class 4 (and Class 1) NICs are being increased by 1.25 per cent to fund Health and Social Care costs and help clear NHS backlogs. In 2023, the rise will be replaced by a Health and Social Care Levy, which will also be 1.25 per cent.

So, for the 2022-23 tax year, self-employed people will pay 10.25 per cent on profits above the "lower profits limit" of £9,880 and 3.25 per cent above £50,270 a year. This will then go back down in 2023 to nine per cent and two per cent respectively.

As with Class 2 payments, the threshold for paying Class 4 contributions rises to £12,570 from July.

### Class 4 payments in 2022-23:

| Profit (per year) | April-June | July onwards |
|---|---|---|
| Below £9,880 | £0 – no Class 4 payable | £0 – no Class 4 payable |
| £9,880 – £12,570 | 10.25% | £0 – no Class 4 payable |
| £12,570 – £50,270 | 10.25% | 10.25% |
| Over £50,270 | 3.25% | 3.25% |

Thankfully, the amount of Income Tax and Class 2 and Class 4 NICS you pay will be automatically calculated when you file your self-assessment tax return. But it's important to have an idea of how much it will set you back ahead of time.

To get estimates for these outgoings, you can enter your estimated weekly or monthly profit on the government calculator.

# Pensions

If you've been employed before, you may have been enrolled into a workplace pension, or even several. But once you become self-employed, it's up to you to think about the best way to keep your pension savings going.

While it is now a legal requirement for employers to enroll their employees onto a workplace pension scheme, if you are self-employed then you'll need to start one and pay into it every month yourself.

Currently only around 18 per cent of self-employed people have a pension. This means that many self-employed workers will struggle to make ends meet in later life. The maximum State Pension is currently only £185.15 a week (2022/23), and the State Pension age is rising.

## Why do you need a pension?

### 1. Tax benefits.

As a self-employed person, you are entitled to all the same tax reliefs on pension contributions as someone who is employed. When you contribute to your retirement savings, you get a tax top-up at the rate of 20, 40 or 60 per cent. So for example, if you are a basic rate taxpayer who pays £80 into your pension, the government will automatically boost this by £20, so you end up with £100 in your pension pot.

If you are a higher rate or additional rate taxpayer, you will get an extra £20 or £25 respectively on top of this, which you can claim back via your self-assessment tax return.

Annual allowance: Self-employed workers can receive tax relief on contributions up to £40,000 a year into a pension or up to 100 per cent of their earnings, whichever is lower.

Lifetime Allowance: There is a limit on how much you can have in your pension, without incurring extra tax. This tax year, the Lifetime Allowance is £1,073,100.

### 2. A decent retirement income

A pension is essential for ensuring a decent retirement income. Even if you decide to continue working part-time in your later years, you'll need an additional income to help plug the gap.

### 3. A buffer if circumstances change

You may be planning to work past retirement age, but this could change due to ill health or caring for a partner or family member. Having a good pension pot gives you choices, but also security when your only choice is to stop working.

## Types of pensions for the self-employed

- Personal pensions
- Self-invested personal pensions (SIPPs)
- Stakeholder plans

### Personal pensions

Personal pensions offer funds for investors according to their needs and appetite for risk. The types of funds and charges can vary greatly between providers. It is worth checking if a provider offers the option to invest in sustainable funds and if they will charge a fee for transferring other pension pots in.

### Self-invested pensions (SIPPs)

SIPPs usually offer a wider choice of investments and more flexible retirement options then a standard personal pension. However, it's down to you to choose and manage the investments in your SIPP. This makes them most suited to people who are happy to make their own investment decisions, or are willing to pay a financial adviser to help.

### Stakeholder pensions

This is a type of defined contribution pension that comes with low and flexible minimum contributions and capped charges. It could suit if you are just starting to save for retirement and can't afford larger payments, or want to stop and start payments - which may be useful if you are self-employed.

## The three point plan

Once you have decided which type of pension is the best for you, you should consider:

### 1. Fund choice

Look at the types of funds you can invest in with different providers, whether they match the level of risk you are comfortable with, your investment goals and also your ethical values.

### 2. Charges

This is an important one as charges will eat into your investment growth and reduce your retirement pot. Charges that come in under one per cent are competitive.

### 3. Contributions

How much can you afford to pay into your pension, and how frequently will you contribute? Would you rather pay in lump sums when you can afford to (and does the scheme you are interested in offer this), or is a monthly direct debit more convenient?

## Consider consolidating your old pensions

The average person holds 12 jobs in their lifetime, according to career expert Zippia, which means old pension plans can sometimes get forgotten.

If you have old workplace or personal pensions, consider consolidating your pots into one plan that is in the right place for today's investment market and easier for you to view and to manage.

### Use your pension for the planet, too

Research by Make My Money Matter, led by Love Actually film director Richard Curtis, shows that greening your pension is 21x more powerful than going vegan, giving up flying and switching to a renewable energy provider combined.

Online pensions provider PensionBee can help you find and consolidate all your old pensions and put them into a plan such as its Fossil Fuel Free option. The Sustainable Pension Company also has a range of sustainable and ESG (environmental, social and governance) funds. Positive Impact specialists EQ Investors can review your existing pensions – making sure that your pension is suitable not only for your future, but for the planet too.

The good news is that, on average, ethical investments tend to outperform their non-ethical peers. The latest Good Investment Review shows that responsible investing global equity funds grew by 77.4 per cent over the five years to April 2022, compared with 62.3 per cent growth for their traditional counterparts.

# 5 top financial planning tips for the self-employed

*By Dale Scorer*
*Senior Financial Planner at EQ Investors*

The number of people running their own businesses has soared in recent years. Self-employment offers increased flexibility – with the opportunity to map out your own work destiny and plot a better work-life balance. But it's important not to neglect your personal finances in the process.

If you're already self-employed, the list below will hopefully serve as a reminder of the aspects of your financial planning that need to be considered.

## 1. Set up an emergency fund

Having a safety net is one of the first rules of financial planning. Your first step should be to build up an emergency pot of cash that you can fall back on should you lose your job, see your income cut or face any unexpected costs. The coronavirus pandemic is a great example of this.

Your 'emergency fund' should have at least three to six months of expenditure, and ideally twelve months, and should be easily accessible with no lock-in periods.

## 2. Tax & HMRC

You are responsible for paying tax and National Insurance on your income, these won't be deducted from your employment income automatically. Good record keeping is essential to work out how much you will need to pay. Once you know this, you should keep funds aside for your expected and upcoming tax bills.

You need to tell HMRC as soon as you become self-employed. The latest you can register with HMRC is by 5 October after the end of the tax year during which you became self-employed.

You will receive a state pension as a self-employed person. You need to have ten qualifying years on your National Insurance record to get any State Pension and 35 qualifying years to receive a full State Pension.

### 3. Get pension savvy

If you're self-employed you don't get the benefit of auto enrolment and employer pension contributions. You'll need to consider your own pension arrangements to avoid neglecting this key part of your financial planning.

When you pay into your pension, you'll receive basic-rate tax relief from the government.

So, if you pay in £800, the government add £200. If you are a higher rate or additional rate taxpayer, then you can claim back even more tax relief on your self-assessment. Self-employed individuals are subject to the same annual allowance limits.

Options include stakeholder pensions, which are simple and have capped charges. Alternatively, you could go for a self-invested personal pension, with wider investment choice.

### 4. Peace of mind

An important consideration is, what would happen if you became seriously ill, disabled, or unable to work. You may wish to consider income protection; this covers you if you become ill or are unable to work due to an injury. You could receive a pay-out between 50 per cent and 60 per cent of your average income each month.

Also ensure your Will is up to date. This is the only way to make sure your property, possessions, and investments (known as your estate) go to the people and causes you care about.

### 5. Build a picture of your current and future finances

Financial planning is all about anticipating the consequences of different choices and situations. By looking at your income, outgoings, savings, and other assets, you can crunch the numbers to create a long-term projection of your finances. Identifying trends (positive or negative) can help to give you the best chance of achieving your goals and have a huge impact on how in control of your finances you are.

We've designed our free online health check to help you measure your financial fitness, and to see what your finances might look like in the future.

If you do not have a plan for your future finances or would like some advice on your existing plan, please get in touch.

# Keeping business records

If you are self-employed, you must keep business records such as business accounts and records relating to your income. You'll need these to help you work out your profit or loss for your tax return and to show to HMRC if asked.

You should get into the habit of maintaining your business records as soon as you start to trade.

You'll need to keep accurate records of:

- All sales and income
- All business expenses
- VAT records (if you are registered for VAT)
- PAYE records (if you employ people)
- Records about your personal income

Make sure you keep hold of proof such as receipts for goods and stock, bank statements, cheque book stubs, sales invoices, till rolls and bank slips

You must keep your records for at least five years after the 31 January submission deadline of the relevant tax year. HMRC may ask to check your records at any time to make sure you're paying the right amount of tax.

## A business bank account

It's a good idea to open a business bank account as soon as you become self-employed. You aren't legally required to do so if you're a sole trader but it makes good sense. Here's why:

1. It will keep your business outgoings and income separate from your personal banking. This will simplify your admin and save you a huge amount of time.

2. Many banks offer useful features for business account customers such as:
    - business finance
    - specialist business banking managers
    - the ability to take payments from customers
    - online accounting tools and software to help you run your business
3. It will help you build your credit rating (and credibility with your bank), which will be important if you want to apply for a business loan in the future.
4. It will make you look more professional as it allows you to provide your company name on invoices.

Note: If you have set up a limited company then you are required by law to have a business bank account, as your business is legally a separate entity.

Things to watch out for:

Business accounts for the self-employed often come with higher fees - typically between £5 and £15 per month.

Transactions such as paying in cash over the counter or cashing in cheques can incur additional fees.

These fees may be waived as part of a 'grace period' when you join a new bank, but make sure you can afford them in the longer term. It's important to shop around to find a business account that suits your needs best.

### Sustainable business bank accounts

Sadly, the big name banks that lead the charge in business banking (Barclays, Santander, Lloyds Banking Group, HSBC, and NatWest) are the top culprits for investing customers' cash in practices that are harmful to the environment such as fossil fuels, tobacco, oil, or arms production.

For a more ethical option, you could try Unity Trust Bank, Cumberland Building Society, Starling, or the Co-operative Bank. Online provider Tide offers free business current accounts that you can then upgrade as your business grows.

## Benefits of an accountant

When you're self-employed, keeping an eye on your income and outgoings can quickly become a full-time job in itself. It might be tempting to see an accountant as an unnecessary additional expense, but using a good one can actually help you to grow your business.

Here are the top three benefits to using an accountant:

**1. Save valuable time.** When you become your own boss, your top priority is to generate new business and then to fulfil that work. If you add in doing all the paperwork, and keeping on top of your income, outgoings and expenses, it can eat into your time and focus. Using an accountant who is knowledgeable about tax laws and deadlines can save you many hours.

**2. Reduce your tax liability.** A good accountant will be able to advise you on the most tax-efficient way to run your business, including how to take money out of your company. They will take you through paying yourself dividends, what you can and can't claim through business expenses and whether using the flat rate VAT scheme would benefit you. This is a government incentive designed to simplify your record of sales and purchases. It allows you to charge VAT on invoices at the standard rate (20% in 2022) but pay HMRC back at a lower percentage.

**3. Prevent hefty tax penalties and fines.** Having an accountant takes away any worry over looming tax deadlines. They will keep on top of paperwork for you and ensure you avoid late fines. These can range from £150 for a day-late submission of annual accounts to a painful £1,500 for a six month delay. There are also fines for incorrectly completing your self-assessment tax return, VAT return and corporation tax. Self-employed contractors working through a limited company can benefit from certain tax breaks, but you must comply with IR35 rules to do so. Your accountant can help with this.

# Mortgages

It has always been more difficult to get a mortgage if you are self-employed. Lenders prefer the security, predictability and ease of calculation that comes from a regular income, rather than the more up and down, complex incomes (generally) associated with self-employment.

The pandemic and lockdowns have amplified this issue, especially as many self-employed people have been less well supported by grants and furlough schemes.

There are no mortgages specifically for the self-employed, so you'll be applying for the same mortgage products as homebuyers who are employed.

Here's how you can boost your chances:

## 1. Use an accountant

It's crucial that you employ a certified or chartered accountant to get your accounts ready. Many lenders won't consider accounts that aren't signed off by an accountant. It's worth bearing in mind here that while it's common practice for accountants to legally minimise your declared income so you pay less tax, this could harm your mortgage application as your accounts will show a smaller profit.

## 2. Complete three SA302 forms

SA302 forms provide annual tax calculations, and most lenders will ask for three (one for each of the last three years) when you apply for a mortgage. If you've sent your self-assessment tax returns online, you can easily print off your SA302 calculations. If you filed your accounts by post, you'll need to contact HMRC and allow up to two weeks for your forms to arrive.

## 3. Save for as big a deposit as possible

The bigger your deposit, the easier it will be to secure a mortgage at a good rate. You'll need to have saved at least 10-20 per cent of the cost of your new home, and if you don't have a long history of accounts, you could need even more to convince a lender that you're a safe bet.

## 4. Build a good credit rating

Before you apply for a mortgage, make sure your credit rating is as good as it can be. You can do this by paying off any debts as soon as they're due, closing unused accounts, ensuring there are no incorrect entries on your credit report and putting yourself on the electoral roll.

## 5. Use a mortgage advisor

When you apply for a mortgage, it pays to get it right the first time as any rejections can harm your future chances of being accepted. A whole-of-market mortgage advisor will be able to advise on the best lenders to apply to based on your personal situation and credit history.

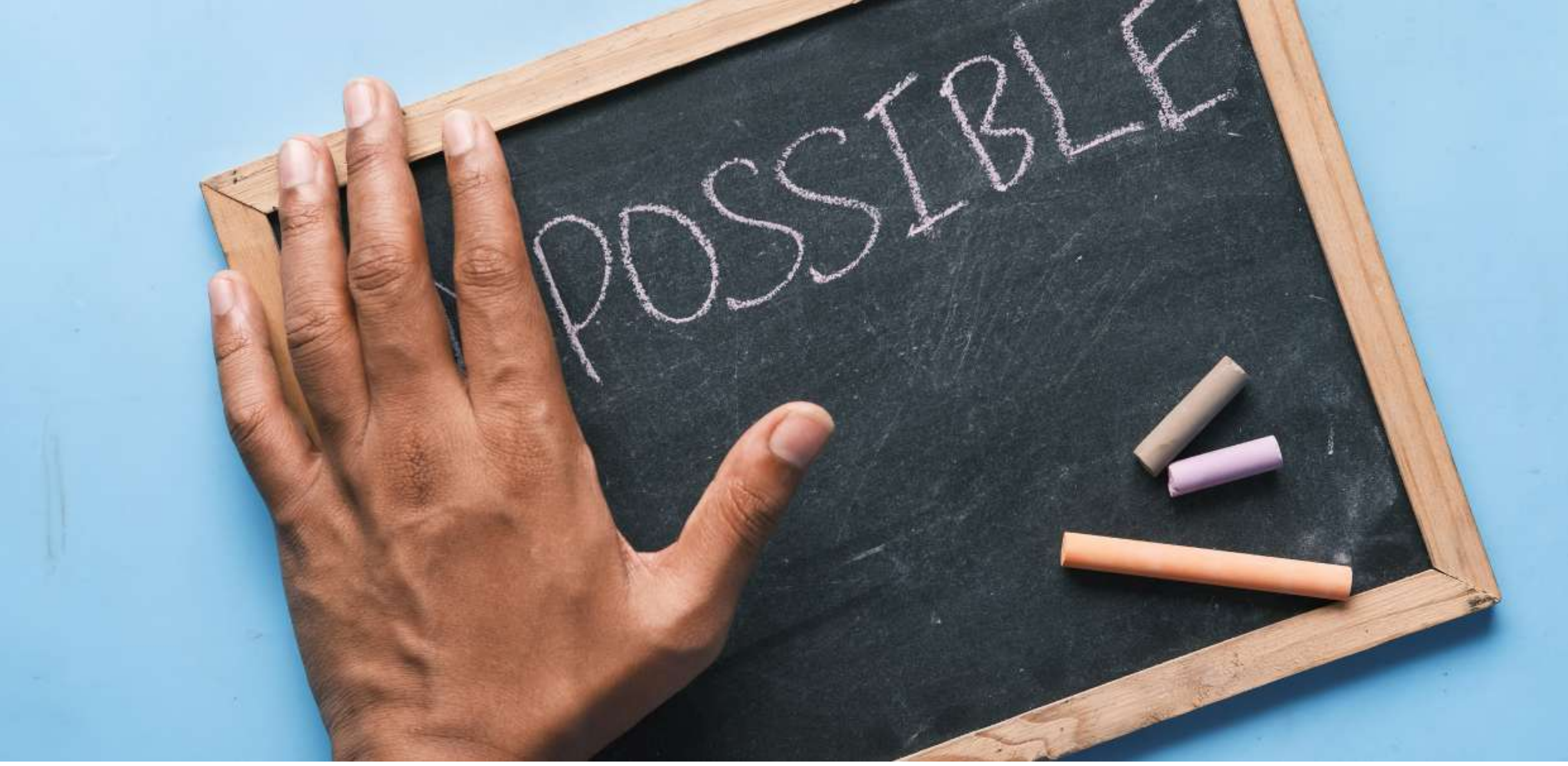
If you want a mortgage for a property or self-build that has a positive environmental or social impact, Ecology Building Society is a great option. Other responsible mortgage providers include Suffolk Building Society, Nationwide and the Co-operative Bank.

If you are self-employed, a mortgage lender will consider you under one of three categories:

**Sole trader.** If you work solo, you - or your accountant - will declare your income using a self-assessment form and your tax will be calculated by HMRC. Once this is done, you can get an SA302 form which outlines your total income and tax paid. Mortgage lenders will base their decision on these figures.

**Partnership.** If you are in business with someone else, lenders will take into account your individual share of profits.

**Limited company.** If you have created a limited company, your business accounts will be separate to your personal ones. As a director, you will usually pay yourself a salary and dividends. Mortgage lenders will take both of these into account. Bear in mind that if you choose to keep profits in the business rather than taking them out, it can create problems as some lenders won't factor them in.




# Challenges to be aware of

The life of the self-employed might appear to be quite carefree. After all, you get to be your own boss, work when you want (even stay in your pyjamas) and take time off when you want.

But that’s not the reality. Here are some key challenges to be aware of before you start.

## 1. Late or non-payment of invoices

Being paid late and not knowing when money is going to come in is one of the greatest challenges for the self-employed. A survey by non-profit campaign group Ipse revealed that 60 per cent of self-employed people had experienced delays in being paid by clients, 35 per cent had waited more than a year to be paid, and 50 per cent had completed work they were never paid for. However, there are things you can do to ensure that your invoices are paid on time.

### Agree terms of payment before you start work

Ask clients to sign a contract or agree to terms and conditions that specify when they must pay your invoice. Include your payment terms on every invoice you send.

### Send invoices promptly

Don’t delay in sending out your invoices. Check that the details are correct before you hit send to avoid delays.

### Keep to a schedule

Invoice on the same date every month or week so that your clients know when to expect them.

## 2. Saying ‘No’

Saying yes to new clients and projects is of course a good thing - it helps you make connections and grow your business. But saying no at the right times can also be critical to the success of your self-employment.

Accepting too much work can quickly lead you to burnout. Taking breaks and being deliberate and steadfast about taking time off are essential to your wellbeing, and therefore your business.

Also be careful about saying yes to offers of work that don't match your skills and experience, or the long-term goals of your business, or that don't pay you what you're worth.

If you're not sure whether to accept a project, think through:

- **General Fit.** Is the work offered a match for your skills and experience?
- **Budget.** Would you be selling yourself or your industry short by taking on the project for a low price?
- **Timeline.** Would the work conflict with your existing commitments? Can you realistically fit it into your schedule?
- **Values.** How good would you feel about this project? Is it in line with your values, goals, and preferences?

## 3. Making hay while the sun shines

An important skill when you're self-employed is learning the ebb and flow of your business. With most industries there are times each year that are run-off-your-feet busy and others that are quiet no matter how hard you try to find work.

It will make your life a lot less stressful if you can predict these periods and plan accordingly. It might mean working longer hours during busy times to then sit back a bit when it's quiet - that's also a good time to book your holidays for.

## 4. Self promotion

Once your business has been up and running for a while, your reputation will help you keep existing customers and attract new ones. Until then, you'll need to allocate a fair chunk of your time (and budget) to promoting yourself and your services or products.

**Know your audience:** Before you even start marketing yourself, you need to understand who you are marketing to. What is your typical customer like and where are they most likely to find you?

**Get a website:** You'll need to invest in a few basics like a well-designed website and URL, and a professional logo.

**Use social media:** You can get a lot of leverage and visibility by setting up a business page on free social media and networking platforms such as LinkedIn, Twitter, Instagram and Facebook.


# Conclusion

While going it alone may seem daunting, there's a huge number of resources out there to help you take your first steps, from this guide to a wealth of online content on other sites. Speaking to experienced financial planners and advisers, like EQ Investors, will bear fruit as well.

We hope you feel more clued up and inspired to take the leap. And of course we wish you every success in your future venture!

# About Good With Money

Good With Money is a money website with a difference: it is all about how your money can do more good for people and planet, as well as line your pocket.

It created the **Good Egg mark**, a licence for financial services companies which make a positive impact.

Sign up to the weekly newsletter for the latest reviews and deals **here**.

# About EQ Investors

### Meet an expert for a virtual coffee

EQ's financial planners help people at all stages of life with their financial goals. Over the years they have found that the best way to start this process is an initial meeting to get to know each other and to understand more about what you need and what they can offer. They offer these meetings free of charge as they are as beneficial for them as they are for you.

**Learn more here: https://eqinvestors.co.uk/meet-us-for-coffee**

# Contact details

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