

The NASDAL guide to starting out in self-employment

Do I need to tell HM Revenue and Customs?

Yes. If this is your first self employment, you will need to complete form CWF1, ideally as soon as you know your starting date. This registers you as self employed and enables you to pay your self employed Class 2 National Insurance contributions. These contributions are payable at the rate of £2.50 per week (for 2011/12) usually by direct debit. If you delay registering, you may have to pay a penalty.

When should I appoint an accountant?

If you appoint an accountant immediately they will be able to advise you on what steps to take and what the deadlines are for paying tax. Even if you don't need them until the first tax return is due, they will chase you so you won't miss any deadlines.

What records do I need to keep?

Most associates will receive monthly schedules from their practice principal(s) detailing the earnings from the practice and the deductions such as lab bills and superannuation. Your accountant will need copies of all of these together with invoices to back up any business expenditure. Other information needed for your tax return will be details of other income received such as Emergency Dental Services or call-out fees, employment income, rental income, interest and dividends received and details of any pension contributions and any gift aid donations.

What business expenditure can I claim?

HM Revenue and Customs will allow you to claim any expenditure which is wholly and exclusively for your business. Examples include professional indemnity insurance, General Dental Council subscriptions and any equipment you buy for the surgery, such as loupes.

Can I claim motor expenses?

Business motor expenses do not include travel to and from your usual place of work. Therefore if you only work in one practice you cannot claim any costs relating to that journey or parking. Travel to courses, labs, call outs, visits to the accountant, visits to the bank manager, are allowable. If your turnover (income before expenses are deducted) is lower than the VAT threshold of £73,000 you can choose to claim either a percentage of total expenses or 45 pence per mile for the first 10,000 miles and 25 pence per mile thereafter. If your turnover is more than £73,000 you can only claim using the percentage method. Your accountant will be able to advise which method is best for you.

How long do I need to keep my records for?

Records must be kept for seven years.

What do I actually pay tax on?

In simple terms, tax is paid on profit and your profits are made up of your income minus your business expenses. You will often find, however, that the profit shown in your accounts is different from the profit in the tax return. This is because the tax rules for certain expenses differ from accounting rules. You pay tax on the figure shown in your tax return. A good accountant will ensure you claim all the tax reliefs available.

When is my tax return and tax liability due?

Tax returns are made up to 5 April each year and are due the following January. If you have just become self employed your first tax return will be made up to 5 April 2012 and your first tax bill will be due on 31 January 2013. The sooner after the 5 April you get your information to your accountants the sooner they will be able to notify you of the liability due, giving you more time to plan.

What rates of tax do I pay?

Personal tax is paid in bands at the following rates:

The first	£7,475	0%
The next	£35,000	20%
>£42,475		40%
>£150,000		50%

If you earn between £100,000 and £114,950, your personal allowance (£7,475 tax free income) is tapered away. This means that income in this band is taxed at an effective rate of 60%.

In addition to your tax you must pay class 4 national insurance. National insurance is also paid in bands, at the following rates:

£7,225	0%
The next £35,250	9%
>£42,475	2%

Is it true I have to pay lots of tax when I make my first payment?

Yes. This is because in addition to your tax liability you must also make "payments on account" for the following tax year. These payments are estimated using half of your tax liability and they are paid on 31 January and 31 July, each year.

Example:

Total tax and Class 4 National Insurance due 2011/12	£20,000
2011/12 tax due 31 January 2013	£20,000
First payment on account 2012/13	£10,000
Total due 31 January 2013	£30,000

Second payment on account 2012/13	
Due 31 July 2011	£10,000

That's £40,000 of payments in the first year!

Thereafter, once you are into the payments on account system, assuming your income remains at a similar level year on year, then your tax payments will even out too.

Should I tell my accountant if my circumstances change?

Yes. You should notify them immediately as they will be able to pre-warn you of the impact on your tax liability. For example if you reduce your hours and are therefore earning less, your accountant can apply to reduce your payment on account.

Can I trade as a limited company?

Yes you can – but that is a whole different article! There are a number of factors to consider when incorporating. Another good reason for appointing an accountant straight away is that they will be able to advise you on the best structure for your business.

Should I appoint a specialist dental accountant?

Yes. Dentists do not only have to adhere to the tax legislation, but also the GDC's Standards and the terms of their NHS contracts. NHS dentists also pay into the superannuation scheme which is a scheme unique to the medical and dental profession. By appointing a specialist you will not only have peace of mind that your accounts and tax returns are taken care of but that you can also seek their advice on any other issues within the industry.