

Sole Trader

The Sole Trader option is the simplest way for contractors to run a business. There is no complex accounting or administrative structure and record keeping is relatively straight forward.

There is however none of the liability protection enjoyed by Limited company owners. A Sole Trader is personally responsible for any debts incurred by the business and their personal assets (i.e. home) will be at risk if they run into trouble.

To set up as Sole Trader, contractors need to register as self employed with HMRC. There is no fee for registration, however HMRC can impose a £100 fine if individuals fail to register within 3 months of becoming self employed.

Sole Traders are in complete control of their affairs and make all key decisions personally. Profit is determined by deducting income from expenses.

Profits are taxed as income and benefit from lower rate national insurance contributions than those paid by PAYE employees. A Sole Trader earning £60,000 per year who is able to offset £7,000 of business expenditure would save approximately £5,000 over conventional PAYE employment.

As stated, record keeping is fairly simple and the main responsibility a Sole Traders has is to make an annual self assessment tax return to HMRC. They must also keep records to prove their business income and expenditure. It is prudent to appoint a qualified Accountant to help with this paperwork.

The Sole Trader option is an attractive one for those contractors who wish to obtain serious benefits without having much of the complexity that goes hand in hand with other forms of self employment. It particularly suits individuals who provide their services to multiple clients at any one time. Also, IR35 does not apply to Sole Traders.

The Sole Trader will typically receive a Contract for Service from the client organisation who they have undertaken to provide work for. The Sole Trader will then raise invoices at agreed intervals and receive gross payments into a designated bank account. Statutory HMRC payments are made via the annual self assessment tax return process.

There is only one area that will not support the Sole Trader option and this relates to instances where individuals want to supply their services via a recruitment agency. Chapter 7 of the Income Tax (Earnings & Pensions) Act 2003 states that “where an individual worker contracts with an agency and is subject to control over the manner in which their services are provided, that agency is obliged to apply the rules of PAYE to any money it pays the individual for any work done. For the purposes of taxation, that individual is treated as an employee”. As a result, most (if not all) agencies will not enter into a Contract for Service with a Sole Trader.