

WORKING WITH COACH HOUSE FACT SHEET – Limited Company

To work as an Associate of Coach House you will need to have a limited company or be registered with an umbrella company

This factsheet has been produced by Coach House to help you with thinking through the options. It does not take any liability for the option you chose and is not intended to replace advice offered by professional services firms.

Self Employment

How are you going to work? As a Business Proprietor, an Interim Manager, a Consultant or Contractor?

What professional advice will you need?

You may need legal advice for forming your business, employing staff or operating from premises, or financial advice on funding, tax or accounting issues. You may need advice on business administration, regulation, insurance etc.

Being in business involves a whole range of potential financial, legal, insurance and other professional areas. So think about whether you need to engage an accountant, solicitor, insurance broker or other professional advisers. This will depend on the type of business you are running and the complexity of it buy you also need to assess your own experience and knowledge of these areas. And remember that these advisers can help you get things set up on the right footing and should cut down on problems (and potentially costs) later on!

These are 4 key areas that need to be addressed during the year.

1. Keeping a record of your business income and expenses

If you are doing this yourself then it is very important to keep complete and accurate record of everything. We suggest you set up a simple database with various income and expenditure categories. Note many of these packages can be purchased on-line. The net result is to make your tax return as straightforward as possible.

2. Year End

It is likely that you will need to submit a personal tax return and business accounts will need to be prepared and various PAYE (including P11D) and NIC returns may need to be completed if you have employed anyone in the business or if you are a director of the Limited company. Whilst not overly complex you will need an awareness of HMRC requirements. There are monetary penalties for late submission.

3. Tax and NI

Throughout the year there may be Income Tax and NI issues to be addressed. If you are a Director of the company or your business employs anyone (perhaps your spouse or another member of the family) monthly PAYE and NIC deductions from salaries need to be made and accounted for to HMRC.

4. VAT

If your business is one where 'taxable supplies' are made, you may need to charge VAT on your invoices if your turnover is above a certain level. And you may then need to complete regular VAT returns and account for the difference between the VAT you charge and the VAT you pay on your business expenses making payments to, or claiming refunds from, HMRC. There are a number of VAT accounting schemes (including cash accounting and Flat rate) in place which attempt to simplify accounting for VAT and which you may want to consider implementing. And even if your turnover is below the level at which you are required to register for VAT, you could still choose to do so and this may prove beneficial but you would then need to complete regular VAT returns.

What is IR35?

One issue that you may need to address is whether you are operating as a truly self employed individual or whether you are in reality an employee. Why would this matter? Read on....Even if you are setting up your own limited company, the issue of IR35 may rear its head.

HMRC will need to establish whether the nature of your business relationship is a client-supplier-relationship or an employer-employee one. Where it is not so clear HMRC have a number of indicators to assess the status relationship and therefore the tax and national insurance treatment that should apply. If you are operating as a truly self employed person, providing services to a wide range of clients, there is not usually an issue, though it may be the case that HMRC decides that one piece of work is exempt from IR35 and another is not.

There are a number of "Business Entity Tests" which some are described below:

1. **Control** – who has the right to decide where, when and how the work is carried out? If it is the client then this is an indicator of employment rather than self-employment.
2. **Personal Service** – are you able to hire someone else to carry out the work to be done? If not, this is an indicator of employment rather than self-employment.
3. **Equipment** – Does your client provide any necessary equipment for the work to be carried out? If so, this is an indicator of employment rather than self-employment.

4. **Financial Risk** – Do you bear any financial risk in carrying out the work, for example buying assets, incurring running costs, paying for overheads etc.? The greater the financial risk you bear, the more likely it is you are self-employed rather than employed.
5. **Basis of Payment** – Have you agreed a fixed price for a piece of work you will carry out and will you issue invoices in respect of that price? If so, this is often a key indicator of self-employment rather than employment.
6. **Holiday pay, sick pay and pension rights** – Does your contract with your client entitle you to holiday pay, sick pay or pension rights? If so, this is an indicator of employment rather than self-employment.
7. **Right to terminate a contract** – Does your client have the power to terminate your contract, by giving notice of a specified length? If so, this is an indicator of employment rather than self-employment.
8. **Opportunity to profit from sound management and efficiency** – If you complete the piece of work efficiently so that you spend less time than originally estimated, does the price for the work remain the same? If so this is often an indicator of self-employment rather than employment.
9. **Operational factors** – Do you provide similar services to many clients and have a business-like approach to obtaining and organising your services? Do you incur expenditure in this area of a type not normally associated with employment (for example by having professional indemnity insurance, providing your own office accommodation and buying your own office equipment, etc.)? If so, this is an indicator of self-employment rather than employment.

Please also refer to www.hmrc.gov.uk to find out more and consider if you wish to use their Contract Review Service

If you want to be certain about your position you can use HMRC's Contract Review Service. HMRC will review a written contract for you, and if they decide that IR35 doesn't apply to your contract, they'll give you a confirmation letter with a unique reference number that will be valid for 3 years. If, later on, HMRC open an IR35 review, you can give them this number and they'll suspend the review while they consider all the information. HMRC will close the IR35 review if:

- the contract reviewed is typical of your engagement terms and conditions
- the information provided is accurate
- evidence shows that circumstances haven't changed

Please note the business entity tests and scenarios are available until 5 April 2015. After that they'll be withdrawn and at this stage we are unsure what will replace this.

Also **COBRA Business Information Factsheets** can provide you with a wealth of additional information and a comprehensive range of self employment topics.

Umbrella Company

You may also chose to work under an umbrella company. There are a wide range of companies offering their services on the internet. We recommend you do your research. Look at what they offer and what they charge. Talk to others who use an umbrella firm to make sure your business needs are met and at the right price.

A key difference will be that you will not have to complete Companies House reports (apart from a Tax Return to HMRC).