

Tip sheet 3 – Tax and National Insurance (NI)

National Insurance

As a sole trader you pay two types of National Insurance contribution (NICs):

Class 2 - £2.65 per week in 2012-13

Class 4 – 9% of **profits** (from the self-employed business) in 2012-13
between £7,605-£42,475 (2% on taxable profits above £42,475)

Class 2 NICs are paid to HMRC – Direct debit (monthly) is the easiest way.

Class 4 NICs are taken with income tax through the tax return system.

If you're fully paid up, Class 2 NI contributions entitle you to:

- Employment & Support Allowance (absorbed Incapacity Benefit in 2008)
- Maternity allowance
- Bereavements benefits (if you lose your spouse/civil partner)
- State pension

(All arranged through JobCentre Plus, Dept. for Work & Pensions)

You must make contributions if you are under state retirement age and self-employed.

There is a small earnings exception of £5,595 per year (2012-13), but it may still be worth paying to ensure your National Insurance record is complete.

Employees and company directors – NI is paid via the PAYE system.

TAX

You are allowed to be both self-employed and employed at the same time, but careful you are not paying National Insurance contributions twice, as your employer pays your Class 1 NICs through the PAYE system.

You will be taxed on your business's **profits**, after you've taken into account allowable business expenses, pension payments, capital & personal allowances.

Some key dates

31 January – deadline for getting information to HMRC about the previous tax year's income and expenditure. Also the deadline for paying tax owing from the previous year(s) and half the forecast amount owing for the current tax year.

31 July – deadline any outstanding tax not paid in the previous January.

The financial (tax) year runs 6th April to 5th April.

Limited Companies

Must register with local tax office for Corporation Tax and PAYE.

Must use PAYE for Directors and employees. (Partners and sole traders must also operate PAYE system if they are directly employing anyone else.)

Corporation Tax for small businesses (profits up to £300,000) is 20% in 2012-13

Find out more – National Insurance:

National Insurance Helpline - 0845 302 1479

www.hmrc.gov.uk/nic/

www.direct.gov.uk/en/MoneyTaxAndBenefits/ - see also 'Beginner's guide to tax'

Find out more - Tax:

www.hmrc.gov.uk/rates - pretty straightforward list of tax rates and thresholds

www.taxationweb.co.uk/ - more than you really wanted to know about tax

www.freelanceuk.com/ - support for freelancers in creative industries

Unions will normally give advice to their members about tax status.

Useful HMRC (tax office) numbers for media freelancers:

- Film & video production unit - 0191 419 8800
- TV & radio broadcasting unit - 0161 261 3254

The Tax Bathtub for sole traders – showing 2012-13 figures (© 2012 David Thomas Media)

