

The Graduate's "Mini Guide" to PAYE and SELF EMPLOYMENT.

Please note the following is a simple guide to introduce you to the world of PAYE and Self Employment. It can be much more involved than this depending on your circumstances. The following is just the basics!

Everybody has to pay Taxes and National Insurance Contributions (NIC) to HM Revenue & Customs (HMRC). Taxes collected are used to fund government spending on health (NHS), education, transport, public order, safety etc. Paying NIC means you qualify for certain benefits and the state pension when the time comes.

As a working individual you will be concerned with the payment of Income Tax and NIC.

Income Tax is the tax you pay on money you earn. You are either paid through the PAYE ("Pay As You Earn") system or you are Self Employed. You don't usually pay Income Tax on all of your taxable income. This is because most people qualify for one or more allowances. An allowance is an amount of otherwise taxable income that is tax-free each tax year. Similarly how much NIC you pay depends on your type of employment and how much money you earn.

WHAT IS PAYE?

Most people are paid under this system. You may be familiar with this from part time or summer jobs previously held. It means that your employer works out from the "**Gross**" they agree to pay you, the **Income Tax** and **NIC** you need to pay on that money. Your employer deducts these amounts, pays them to **HMRC** and you are left with the "**Net**" pay that is yours to keep.

What is meant by SELF EMPLOYED?

This is different to a PAYE job as the onus is on you to work out the Tax and NIC due to be paid on the money you earn. A person is Self Employed if they run their business for themselves and take responsibility for its success or failure.

If you decide to become an entertainer and you find your own jobs/gigs through advertising, etc. you are classed as Self Employed. Most people in the entertainment industry are Self Employed. Sometimes if you work in a large show or production you may be employed under the PAYE scheme. When working it will be under one or other of these systems and you can be Employed and Self Employed for different jobs that you do.

PAYE is reasonably straight forward, Self Employed less so!

Officially setting up your status as Self Employed requires you to be registered with HMRC for what is called Self Assessment. This results in the issue of your 10 digit Unique Taxpayer Reference number. The process has then begun!

Being Self Employed is much easier if you have an advisor (Tax Professional/Accountant) to help you. You must ensure that the advisor you choose has relevant experience in dealing with the taxation affairs of those working in the entertainment industries. The employment world is huge and individual areas require specific knowledge.

WHEN? Accounts and Tax Returns need to be prepared annually. (The tax year runs from 6 April to 5 April). Accounts provide a breakdown of the Self Employed Income you have received and business expenses you have incurred during the tax year. A Tax Return is a document that declares your liability for taxation from the accounts prepared.

From these items Tax and NIC liabilities are calculated and that amount is paid to HMRC either in one lump sum on 31 January following the tax year or in two instalments, in January and July.

WHAT CAN I CLAIM?

To summarise (in simple terms):-

You agree an amount you are to be paid by a person using your services. From this amount you can deduct “reasonable” expenses. These are costs you incurred whilst carrying out the job/service. “Reasonable” expenses have to be within the **HMRC** guidelines and not just what you think you should not have to pay tax on!

Example

If you are a Singer/Guitarist with gigs all over the place you can obviously claim **travel expenses** to the venue and home again. You can claim for **advertising, stationery, other things that enable you to do your job/service**.

Instrument maintenance costs are claimable (strings, servicing, new guitar strap etc). If the gig requires you to perform in a specific outfit, a glitzy top or sparkly dress (not ideal for everyday wear) then you can claim the cost of that.

Expenses that are solely attributable to, in this instance the paid gig, can be claimed.

Any expense from which you can also get a **personal use** (glitzy top worn on a night out with friends) **will not necessarily be allowed or may need to be apportioned**. Expenses claimable are those solely incurred in order for you to carry out your job/service.

You **CANNOT** claim for something which is predominantly for personal use e.g. TV License, make up, hairdressing etc. You cannot claim expenses when you “*wine and dine*” prospective clients or send clients “*thank you, it’s been great working with you, please think of me next time you require a singer, guitarist/whatever*” gifts etc. **HMRC** are very **SPECIFIC** about claimable expenses: they must be “**wholly and exclusively**” business expenses. Remember, your accounts are individual to **YOU**. Whatever your friends claim may not be the same as what you can claim. It is not always black and white.

In this business, it is essential you keep excellent records. Income can be recorded in various ways via a booklet, spreadsheet etc. The same is true with your expenses, plus you need to keep copies of receipts for anything you are claiming. Having a proper organised system means should you be randomly selected for an investigation by HMRC (this means a deep and thorough check of you tax affairs) you have everything in order. Under-declaring or over-claiming are fraudulent offences carrying penalties and fines. Remember a lot of your advertising will be through social media etc, HMRC know this and will use such means to check out what you do, how much you charge, where you are working, etc.

We cannot emphasise enough that this is not a comprehensive and exhaustive guide to being Self Employed, your own Tax Professional/Accountant will be able to advise you more thoroughly. Having an advisor means they will take care of your tax affairs once you hand your records over to them. From the records they can prepare the accounts and tax return for you. They will inform you of your tax liabilities and how to settle them. For their services they will either charge you per hour or some offer a fixed fee service.

WHAT IS SEAFORTH TAXATION?

Seaforth Taxation Limited was formed to provide a tailored taxation service for those in the various branches of the arts. With over 30 years' experience in this field, we prepare tax returns and accounts for over 450 clients. These include musicians; music teachers; actors; artists; journalists and broadcasters. Being a smaller company, we offer a personal service at very affordable prices for individuals whose income can be unpredictable.

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We'd like to offer graduates and those starting out some extra help.

We will register you with HMRC and do your first years accounts and tax return for a fixed fee of £150 plus VAT.

You can check out our normal terms and conditions on our website
www.seaforthtaxation.co.uk