The Sole Trader:

If you start working for yourself, you're classed as a sole trader. This means you're self-employed - even if you haven't yet told HM Revenue and Customs (HMRC).

The UK music industry contributed £5.2 billion to the UK economy in 2018. Employment in the industry hit an all-time high of 190,935 in 2018. According to the DCMS, 72% of those working in music, performing and visual arts are self-employed. [UK Music - MU5IC by NUM8ERS].

Before you start charging for the services or products you provide, you should consider starting up and registering your own business. This can take one of two forms, as a limited company or as a Sole Trader. Being a sole trader involves some personal financial risk. As a sole trader, you are the business therefore, you're liable for your business's debts. If you are likely to build up significant debts, setting up a limited company would be a less risky option.

Registering as a sole trader is free and straight forward. You will need to register for self assessment to pay sole trader tax. Self assessment is the system HMRC uses to collect income tax. Registering to become a sole trader can be done online very quickly. HMRC will send you a 10-digit Unique Taxpayer Reference (UTR) and set up your account for the self assessment online service.

You will be asked to register the name of your business. This could be anything that describes your services and need not include your own name or initials. You will also be asked to provide a short overview of the services or products that you supply. When choosing a name, it is worth checking to see what web site and email addresses are unregistered and available, particularly if you intend linking and promoting or indeed running your business online.

You have to pay to set up and register a limited company and running it requires more administrative effort updating annual records with Companies House when it comes to completing tax returns.

Sole traders must also keep detailed financial records. This includes details of all your sales. Up to date and accurate bookkeeping is essential to keep track of how much money you have earned and how much you owe. This can take the form of a simple spreadsheet. There is no need to pay for complex finance management software unless or until your business activities become complex at which point such systems can save you time when raising invoices and tracking payments.

Invoices you raise should be numbered and dated based on a logical system so that you don't inadvertently raise an invoice more than once. Your quotes for work or goods should include hidden expenses such as travel time and costs, running your office and equipment purchased. You should ask for a written purchase order reference and quote this on your invoice. Payments received can then be registered against invoice numbers and a balance can be obtained. Your invoice can form a legal contract with your client and so payment conditions included in the wording should be reviewed by a lawyer unless you use a standard template.

You need to determine your tax year. This can start on any date but HMRC year starts on 6th April and ends on 5th April the following year. Your annual tax records will be made up to and include all income, expenses and payments within that period. It is important to only include work done and payments received for work in that period. It is fraudulent to do otherwise although there are accounting processes to legally deal with such issues.

Anyone can do your accounts and if they are straight forward it can easily be done yourself but if you grow the business or it involves many clients and services it may be worthwhile employing an accountant. If you find one than knows and understands the music and media business they can better advise you on related issues. There are many legal tax considerations concerning being self employed or working through an agency which can complicate the issues.

It is important to establish that you are self employed and not working under contract via an agency in which case you will be regarded as being employed.

When you're a sole trader, you pay tax on your profits above your personal allowance (currently £12500 for 2020-21) and keep what's left, and this is where good book keeping will help you establish what is left after holding back what you may need to pay what you owe, including pending tax payments.

When completing your accounts you can claim any allowances for expenses and reliefs. You must keep proof of any expenses (eg receipts, invoices, utility bills, etc) for which you are claiming for 4 years. Keeping basic financial records (aka bookkeeping) doesn't have to be as arduous as it might sound.

If your turnover exceeds the VAT threshold (currently £85,000 a year 2020-21), you will need to register for VAT. When you're VAT registered, you charge your customers VAT on VAT-able sales and pay it to HMRC. In turn, you can reclaim the VAT you pay on goods and services you buy. You must submit your vat returns quarterly.

Sole trader's pay income tax based on business profits. You (or your accountant) must fill in a self assessment tax return each year, detailing your income and expenses. You'll also have to make flat-rate Class 2 NICs throughout the year (£3.05 a week for 2020/21) if your annual profits are more than £6,475. Also Class 4 NICs (9% of profit between £9501 and £50000). This goes towards your benefits entitlement and retirement pension.

If you are self-employed you are strongly encouraged to purchase **public liability insurance** cover for your services. If something goes wrong and a member of the public is hurt or has their property damaged because of your actions, you are the only one responsible. **Professional Indemnity Insurance** provides cover for legal costs and expenses incurred in your defence, as well as any damages or costs that may be awarded, if you're alleged to have provided inadequate advice, services or designs that cause your client to lose money.

Best wishes and good luck.

JAMES.