ScreenCraft Works
Building Your Cross-Border Career:
Setting up a business in the UK as a sole trader or freelancer

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Elizabeth McIntyre:
Welcome to the first talk in our new series: Building your Cross-Border Career. My name is Elizabeth McIntyre, my pronouns are she/her. And I'm a white woman with glasses and light brown hair, and I'm here with my co-director Rebecca del Tufo from ScreenCraft Works.

The topic today is setting up a film and TV craft business as a sole trader or managing your business life as a freelancer. Although the knowledge shared is from a UK perspective, the advice is useful to apply more generally across other countries as well. I'm delighted to hand to our speaker Abu Chowdhury of Maple Wharf to introduce himself more fulsomely and give his presentation. Thank you Abu and welcome.

Abu Chowdhury:

Hi, good afternoon. Thank you very much for the introduction, Elizabeth. My name is Abu Chowdhury. I'm a co-founder and associate director of Maple Wharf. I'm working as an accountant over 15 years. I provide accountancy services throughout SMEs and SME businesses in the UK. We have some clients from outside the UK who trade within the UK treasury. In terms of what kind of services provided, we provide all sorts of accounting services, including sole trader, freelancers, limited company, private companies. In terms of the nature of services, we do business coaching as well as normal day-to-day bookkeeping, accounts, auditing, all sorts of things we do.

So that's all about me. Let's talk about what I would like to talk today. So today's topic is setting up a sole trader business in the UK. What I'll do, I'll quickly go through what exactly I will cover in today's topic.

First of all I'll cover what is freelancing. This is really important for the film industry - TV and film industry - and then I'll talk about the difference between employment and freelancing, different type of freelancers, and understanding the UK tax system. So that will be pretty much what I will cover.

Within understanding the UK tax system, I will cover some specific legal or tax rules regarding film & TV: how to set up sole trader accounts, how to register as a sole trader, and then most importantly what is the responsibility of a taxpayer. And likely I will touch upon MTD, which is Making Tax Digital. HMRC is really pressing on this issue, so that will be a topic I'll cover. I've got a lot to cover, so I'll try to squeeze everything within my 45 minute presentation, and I'll keep 15 minutes for a Q&A. I also try put my timer on so I can keep track of my time.

Okay, so let's quickly talk about what is freelancing. A freelancer is someone who does work on a series of separate contracts each year. Those contracts can be one after another, and it could be recurrent, depending on the role. The one thing to bring all freelancers together is they need to source their own work, that's what they need to do. Once you source your own work, then you can classify as a freelancer. This is unlikely a permanent contract of employment, where employer's responsibility to provide work to you, which always happens within an employee environment, but as a freelancer you need to find your own work and people will hire, and they will hire because of your specific or specialist skill set. So that's basically classed as a freelancer.

Now let's talk about what is the difference between freelancing work and employment. Freelancing work is basically what I mentioned in the screen: is contracted for specific work and amount of time, paid by the job. So you don't get paid by a monthly basis, you'll work for a specific project and you'll get paid for this one. This is not a regular income, this is kind of more irregular. It could be you've got one project going on with this film industry, or it could be this production and then maybe at the same time, concurrently, you're having another one. But whereas in employment you will work under an employer and then they will pay a salary on a monthly basis, regardless of what work you're doing, they will provide the work. Most importantly, as a freelancer you need to pay, or you need to look after, your own tax. So you need to pay your income tax, you need to pay your National Insurance, all other taxes like VAT, it could be if you've got a student loan, all of those, you need to provide.

In terms of pension, if you really want to invest money in a pension, then you have to a self-funded pension, whereas if you're employed, then your employer will provide a pension scheme, and then you contribute, they contribute, so that's how it works.

And finally, you need to use your own equipment in order to do that job. So say, for example, if you are a cameraman, most of the time you might have your own camera and you can take your own camera to the set. This is maybe not really a good example, but say, for example, if you're a bookkeeper, you take your own laptop and you go there and you do the work.

So that's basically what's different between employment and freelancing work.

Now let's talk about different types of freelancer. There's a misunderstanding within the tax area. People think a freelancer is a sole trader. Actually that's not quite true. A freelancer can be a limited company, a freelancer can be both sole trader and employment, a freelancer can be an employee as well. But the difference between employment as an employee and freelancer are as follows: if you're an employee, then you'll have a permanent contract, whereas if you are a freelancer, you might have a short-term PAYE contract. Say, for example, you're working on a project that's for six months or three months, or you might work for a short-term contract, or it could be a fixed contract - literally you come on board and you will do only this production, once this production is finished there is no work for you. So those might be under PAYE but you can be classed as a freelancer. A lot of people use as a freelancer but their business vehicle will be a limited company. Mostly people are sole traders, they are freelancers, and that's the misconception. A lot of people think, if I'm a freelancer, then automatically I'm a sole trader. This always happened, to be honest. Most of the time this has happened - that's why people think this. But as I mentioned, you can be a sole trader, you can have a PAYE mixed contract, and it could be a sole trader as well as PAYE. Say, for example, you're a sole trader; you are doing one project and maybe concurrently you are working on another project, which they hire you under PAYE short-term contract, and sometimes it could be a limited company.

I'll only focus on the sole trader side on this matter, because this is what our topic is. If you're a sole trader, what it means is you're working for yourself, it's your responsibility to invoice for your service, and you need to complete your self-assessment tax return, and you need to submit to HM Revenue & Custom, which is basically the UK tax authority, and you need to pay your income tax and National Insurance.

Let's move on to the next topic, which is understanding the UK tax system. This is what I I'll spend a lot of time explaining: how the UK tax system works when you are a sole trader. We established freelancing and we also established the sole trader side as well.

So if we want to talk about the UK tax system, first and foremost we really need to talk about specific information or specific rules for the TV & film industry. The HMRC has got their own manual, and it's a really big manual just to cover who can be classed as self-employed, which is basically another name for sole trader. In those manuals, I wouldn't be able to cover everything. Under this manual they have a lot of different types of worker. Say, for example, it could be TV crew, cameraman, they could be any kind of artist - basically whoever is working behind the scenes. All those people have got different rules. As I said, it would be very difficult to go through all of those.

So what I really will focus on are the rules HMRC ESM4118. You don't need to worry about this term, but the reason I put it there, so in future, if someone wants to look at this, then they could literally Google it and they could find it from HMRC, and that's the reason I put it on my slide. This is for entertainment industry, TV, radio, workers, behind-the-camera worker rules - normally treated as self-employed, and as long as you fall under Appendix 1. The reason this is quite important, this Appendix 1: HMRC has got guidance, and if you go through Appendix 1, they will tell you a different scenarios and then you can establish for yourself, do you really fall as a self-employed or you are not. I always advise, in that scenario, trying to find an accountant and get professional help from an accountant, unless you can establish yourself - that's fine, but it's better to get professional advice on this.

Then let's talk about seven-day rules. There used to be a lot of different rules actually around this area, and I think back in 2019, they were trying to make it a more simplistic approach, and now they are focusing on seven-day rules and Lorimer letters as well, so I'll talk briefly about those two areas.

Seven-day rules applies to those workers within the entertainment industry with a succession of different employers and who engage for six days or fewer for each contract. Employers need not deduct income tax from the payments made to those employees. However, National Insurance will be paid in the usual manner. So what it means is basically, if you fall within these seven-day rules, then the prospect, your employer, they will treat you as an employee, but they don't take income tax. That will be your responsibility to pay income tax when you're doing your self-assessment tax return, which I will discuss later in this presentation. But they will take National Insurance from your contract.

What is National Insurance? For whoever doesn't know, National Insurance is basically a different form, they don't call it tax, but this is a different form of tax that's more to do with your National Health and, when they do budgeting, if they need more money for spending on the National Health and stuff, basically they use National Insurance. When you get older, normally, if you contribute enough National Insurance, then your pension becomes better. This is very brief, I'm just saying there's a lot more in it.

So that's basically the seven-day rule.

The next one is the Lorimer letter. That's quite popular, because a lot of people use this. So sometimes this is referred to as an LP10 letter, or letter of authority. A lot of camera workers, behind-the-scenes, or prep workers, they use this kind of letter. So basically, if you're a freelance worker, not a head of department or supplier of specialist equipment, and work for companies simultaneously, then you may be eligible for a letter from HMRC that grants you eligibility to be self-employed. Its name comes from a TV vision mixer, Ian Lorimer, who owned a case code, and basically this is how this name came about. The BBC is a prime example. A lot of BBC workers use LP10 letters. If you go to the HMRC website, they have an address where you can literally send the letters you applied for, and then they will issue an LP10 letter. So that's basically how you can get - I think if you go to the BBC website as well, they have a detailed article about how you can apply for an LP10 letter. That was quite helpful, actually, this article. A lot of people use this.

By the way, if you have any questions while I'm presenting, please feel free to put it in the chat box and Elizabeth will monitor this. If it's relevant I will be happy to answer those.

Let's move into the next slide, which is How to Set Up a Sole Trader. So once you establish for yourself you are a sole trader, then it's become your responsibility as a taxpayer to register yourself as a sole trader with HMRC. HMRC has got different ways to register. One is you can get a paper application from the HMRC website. You complete it and you submit it manually or by post. Then you can also do it online. The problem with online is - in order to do it online, you have to have - actually it's not a problem, but in order to do it online, you have to have login details with HMRC. It's quite straightforward to do it. You first create your own login with HMRC, and then you go through the process. Why you need to be very careful when you're registering: you need to choose the right boxes why you are registering, and the date you started your self-employment or sole trader business. The reason they are very very important because, if you don't do this and HMRC ever challenge the income before this area, then it gets quite muddy, so it's better to be very precise about those issues. Usually it takes about 30 days to get your registration sorted. So you apply. Once you apply, you get an acknowledgment email, if you do it online. Then HMRC issue a reference. This reference is call Unique Tax Reference, which is UTR. It is known as a UTR. They will issue a UTR number, and it takes about 30 days, unless HMRC is really busy. Since Covid, it takes some time, even two to three months, to get this UTR number.

Once you get the UTR number, then technically you are in HMRC's book. HMRC issue a text notice when you need to do tax return.

This whole name - self-assessment - even though HMRC send you notice to do the tax return, actually it's not HMRC's duty, it is the taxpayer's duty to make sure they're submitting their tax return on time. That's really really important. Some people I've seen over the years haven't submitted because they haven't received any reminder, but as a taxpayer, it is your responsibility to submit the tax return on time.

Technically a registration is quite straightforward. It's a little bit time-consuming but it's not a a difficult job to do.

Let's talk about what is the responsibility of the taxpayer. This is really really important. This part I'll cover quite a bit, which is basically keeping the business records, declare all income, submit return on time, and all those things.

So let's talk about keeping business records. This is where I find a lot of taxpayers struggle. When you set up your business, maybe this is the first time you're setting up as a sole trader, so you don't know what kind of records you need to keep. If you're a sole trader, it's your responsibility to invoice for your services to your customer or your clients. So you issue sales invoices on a regular basis. Whenever you finish your job, you issue your sales invoice, and you need to make sure your invoice is aligned with HMRC guidelines. Just to give you a flavour, in order to be a sales invoice it has to be: how much you're charging, what you're charging for, what is the date of the invoice, who are you charging to, and who you are. I think there are a few more as well but I can remember off the top of my head. But those are the primary things you really need to focus on in order to have a valid sales invoice.

You need to keep track of all of your income as well. So say, for example, some business you might see they receive - again, maybe that's not really appropriate for film & TV industry, but for some other businesses you don't issue a sales invoice, because you are getting payments. For small payments, for example you provide a small service and then they send you £150 and you forgot to issue a sales invoice. Technically the best practice is to issue sales invoice for every single thing, but if you realise I can't issue sales invoices for whatever the reason, then you have to keep track of your income somewhere, and if HMRC ever want to investigate, you should have those readily available for HMRC to view. That's that's a very important part.

Secondly let's talk about business expenses. In order to claim expenses you have to keep a record of those expenses. Later in this presentation, I'll also talk about a concept called MTD, which is Making Tax Digital, and how Making Tax Digital is really aligned with expenses side. I'll talk later on, but let's talk about business expenses.

If you think any expense is wholly and exclusively for business, please make sure you keep a record of those. How do you keep a record? HMRC prefer you to keep the actual invoice or receipts of the payments. Receipts - it doesn't necessarily mean like you go to a shop and buy it, and then you pay by your card and they give you a receipt. That's a payment confirmation. That's not what I'm referring to. I'm referring to, say you go to Tesco and they'll give you a receipt and the receipt will say what did you buy, and what's this for. Say for example you bought a pen, and it will say 'pen' and it will say date, where did you buy, which is Tesco, how much you buy it for. So technically you should have those receipts. A lot of small businesses, they're struggling to keep those receipts because you go and you don't spend a huge amount of money, and you're buying here and there. It's best practice to take a picture of those receipts, if you don't want to keep the actual receipts, and then you will have a digital form, and that will help in the MTD site, which I'll discuss in a minute. The bare minimum: you need to keep track of those expenses in a piece of paper or Excel. Excel is quite famous for this. You could have Excel, you say date, what did you buy, and how much you buy it for. That's another way you could do it.

For me, the best way to have a software. You have a lot of digital software out there, like Xero, QuickBooks, Cash Flows. You can use those software to keep record of your income and expenses, and that's the best form. HMRC is moving towards digitalization, which is part of MTD, so having those software helps.

Within this sole trader, there is a thing called VAT, which I put in there: Value Added Tax. If your income is more than £85,000 within a 12 month period (it's a little bit more complicated than just 12 months, but just for simplicity reasons say 12 months), within the 12 months, if your income is £85,000, then you have to register for VAT. Once you register for VAT, that brings a lot more complication. You have to register for VAT with HMRC, then you have to keep more records. In this scenario, you have to have actually physical invoices and receipts. Writing down in a piece of paper or an Excel wouldn't work, because you don't know how much VAT you paid. So it's really important to have a system in place, ie. any of those digital software will help you to keep track of your VAT situation.

Some of the sole trader businesses, they hire people to work for them. In this scenario you have to have a PAYE. You get a PAYE registration, which is Pay As You Earn, with HMRC again, and you need to issue payslips - how much you're paying to your employee. You have to run those with HMRC, and you have to pay relevant tax to HMRC on behalf of your employee, and you need to submit RTI, which is Real-Time Information, with HMRC.

So that's basically, in terms of what complication you need to deal with when you're a sole trader, and if you hit the VAT threshold, and PAYE.

Now let's talk about self-assessment tax return itself. When you finish one 12 months, there's two way you can deal with the situation. Say for example, if you become a sole trader on 1st April, then there are two ways you can deal with the situation. Number one: you can do from 1st May to 30th April, which is 12 months, you could do your tax return for 12 months. But most of the people, the way they do it, and that's the most easy way, you follow the UK tax year. The UK tax year runs from 6th April till 5th April in any year. When you follow this, then it doesn't matter when you became a sole trader. If you become a sole trader, say 1st May in my previous example, then instead of your doing 12 months tax return, you will do only in this scenario 11 months worth of accounts, and you pay tax for 11 months, and then next year you'll do a full 12 months. So that's basically how a lot of sole traders manage their accounts.

In terms of declaring your income, when you're doing the tax return, that brings a little bit more complications though. What it means is all of your income, even something taxable income, you need to declare on your tax return. Say for example, in one of my previous slides, I discussed as a freelancer you might have a sole director income as well as you might have PAYE. And PAYE, generally speaking, you've already paid tax. They call it tax at source. Even though you already have paid those, you still need to declare that income in your tax return, and all other income, say for example if you receive any dividend interest, those things, you need to declare. We talk about pensions - say, for example, if you're investing money in pensions, those kind of investments - actually it's not really investment as such,. but they call it contribution, and even though those kind of contributions need to be declared in your tax return. So you need to make sure you are declaring all of your income. Again, self-assessment is your job as a taxpayer to provide all income and expenses within the tax return. If you don't do it, then HMRC can penalize you and there will be no excuse.

So again, you might have an accountant or get personal advice from an accountant or agent and they will help you to do this, unless you are confident you can do this correctly, which is absolutely fine.

You need to submit your tax return once in every year and your tax yea, as I mentioned, runs from 6th to 5th [April] and your deadline is the following year 31st January. So if year end is 21/22, which is 6th April 2021 till 5th April 2022, the tax deadline is 31st January 2023, which basically we passed a couple of months ago. So that's basically the deadline in terms of submission.

In terms of paying the liability, first payment liability is by 31st January. There will be two liability, generally speaking, but that depends based on the individual circumstances. If your tax is more than £1,000, normally HMRC ask you to pay it's called payment on account. You pay 31st July one, and you also pay 31st January another one, so it's two tax.

Let's move on to the next one which is - what kind of tax do you normally pay within the tax return? Within the tax return you pay three different types of tax, actually four different types of tax. One is not really tax, but say tax.

Number one is you pay income tax.
Number two, you pay Class 2 National Insurance.
Number 3, you pay class 4 National Insurance.
Number 4 is called student loan. That's not really tax as such, but you also need to pay a student loan.

So what is student loan? In the UK - I mean, if someone is from outside the UK, just for their purposes - in the UK you could get an interest-free student loan from the government and then, once you have income, and I think, previously I checked, your income is £24,000 a year or more, then you start paying student loan based on your income. This is a scaling system, and the system will calculate how much you need to pay tax. So if you're earning, say £24,000 is correct (I can't remember exactly), so if it's less than £24,000, you don't pay any student loan, if it's more than, then if it's £25,000 you pay scaling student loan on this income.

So this is how you pay this for, and you have to make sure you're paying all of those correctly. Again, and going back to the same thing, it's self-assessment so it's your, as a taxpayer, responsibility to make sure that's done correctly.

I also talk about pension. Pension is just contribution. If you want to do a self-contribution to your pension provider, you can do, but you need to also disclose those. Providing pension, if you are a higher rate taxpayer, that normally helps you to reduce your tax liability. Again, get promotional advice on these matters. In terms of where to invest money or contribute money for pension, you need to get a financial advisor who will help you to identify the best option for you. As an accountant, tax perspective, the more pension you - and again there are some other regulations within the pension, how much you can contribute. I think it's a lifetime limit is £1 million, and I think each year you can maximum contribute about £40,000 pension. The reason is, the more you contribute, the less tax you pay, so that's that's the reason they put in this limit there.

We also talked about VAT side. VAT is, if you earn £85,000 or more, you have to register for VAT, and you have to pay VAT on this matter.

The next one - I think I'm quite on track in terms of timewise - sorry, I missed Making Tax Digital. Making Tax Digital: around 2019, initially HMRC introduced this, sorry 2016 initially they proposed this and since 2019 they start introducing this phase by phase. So the ultimate goal is to have MTD for every single business owner in the UK from sole trader, rental sole trader, to rental accounts ie. people receive rental income, to limited company - all of them. So initially they started with VAT. Once they finished VAT, they're meant to introduce sole trader from this April, which is 2023, but they postponed again due to some complication. Now they've postponed it to, I think, 2025. So from 2025 now, MTD will kick in.

So what is MTD? MTD is Making Tax Digital, which is basically they want to make it easier for business to stay on top of their day-to-day accounts. Basically they're doing digitalization, even though some people think HMRC is making their life difficult, because at the moment, as I mentioned previously, you submit only once. Now you'll submit five times in a year. But they're saying they want to make it easier for businesses. I could see, actually, if you really want to keep track of your business, it might be easier if you start doing bookkeeping on a regular basis, whereas a lot of sole traders, they only focus on sales invoices, and they get money, and they are spending money as well, but they don't keep track of everything. Then when tax time comes, they basically start hunting everything and putting together, they spend a lot of time doing this, and then throughout the year they don't know exactly how much time they spend, so that's basically what's happened throughout the time. Doing the MTD, the idea is to make the whole thing more efficient and effective and easy to be compliant with HMRC. But that brings a lot of complication for the taxpayer. Once the MTD will be kicked in, then you cannot submit anything manually. A lot of accountants and individuals submit the tax return through the HMRC portal. You can't submit through the HMRC portal once this is done, you have to submit through a certified software.

So currently a lot of software out there, they're certified by HMRC, like Xero (I mentioned previously), QuickBooks, Cashflow, so many others out there. Part of this is basically putting every single thing on this software and then HMRC could see everything quite clearly. Eventually - this is my guess, again there is no evidence for this - they want to really monitor every single receipt and every single invoice from you. So obviously they might create something in the back end to monitor this, but at this stage, this is what they're doing. They want you to put everything on software. You don't really need to put the receipts at the moment, but eventually that would be the case so they can monitor very easily.

So that's basically, in terms of MTD. Once MTD will be successful for sole trader and rental accounts, then they will move into limited company as well. One of the problems, taxpayer-facing, you need to submit four times, which will basically become a time-consuming exercise for the taxpayer. Once you get used to the whole idea and you do everything as you go along, then maybe it's not a big problem, you can do all of those quite quickly and easily, and you don't really need to worry about spending three or four days, or maybe a couple hours, at the end of the year, putting everything together and give your accountant or do by yourself.

When you do this, a lot of people miss so many receipts, because obviously, if you think about it, your 12 months is gone, and now after two months, you've got another nine months to do the tax return. So 12 + 9 is 21 months, so you might have missed some of the expenses, so you're losing out money. But if you do it as you go along, then there is less chance you miss any of those expenses, which means you can save tax. I mean, if you look at the positive side. But obviously that means you have to spend a lot of time doing that work throughout the year. But if that becomes a habit, then that will become second nature.

A huge thank to Abu.

Look out on our screencraftworks.org website for further talks and activities. Thank you very much indeed. much for this wonderful Cross-Border Conversation.

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