

Self-employment means that you will have more responsibility for your own tax affairs. It is essential to keep on top of things as the penalty regime is strict.

Are you self-employed?

You need to decide if you are trading or simply pursuing a hobby. Of course, the problem is that many businesses actually start off as hobbies. If you are selling just a few paintings you have done yourself it is unlikely this would amount to self-employment. It may well be classed as a hobby and not be taxable at all. When the amounts become more substantial, the proceeds would be taxable (after deducting any tax deductible expenses), but the activity may not be an actual trade. If you had your own website and took commissions, for example, the position would be different. The following statements tend towards self-employment and having a trade:

- Frequent transactions
- Advertising
- Buying items and either selling them immediately or changing them/ making them into something else and then selling them on.

There is a useful section on [GOV.UK](https://www.gov.uk) that may help you.

If you have a small amount of trading income then you may be eligible for the trading allowance. If you have trading income below £1,000 then you will not need to pay tax or inform HMRC about this income. If you have income above £1,000 then you may elect to use the £1,000 allowance instead of deducting your business expenses. There is more information on the [LITRG website](https://www.litr.org.uk).



I am self-employed, what do I need to do?

You must tell HMRC you are self-employed *at the latest* by 5 October following the tax year in which your business starts. It is easiest to register for National Insurance contributions (NIC) at the same time. You do this by completing form [CWF1](#) or [registering online](#). If you register late you may be liable to a penalty, but the sooner you bring your tax affairs up to date, the smaller the penalty will be.

When do I need to send in my tax return?

Once you have registered as self-employed, you will automatically be included in the Self Assessment system. This requires you to complete a tax return each year that includes all your income and chargeable gains for the year. The return must be with HMRC by 31 October following the end of the tax year (31 October 2020 for 2019/20) if filed on paper and by 31 January following the end of the tax year (31 January 2021 for 2019/20) if filed online.

When do I pay National Insurance contributions (NIC)?

Between the ages of 16 and state pension age, you are required to pay NIC. On self-employed income you pay two types of NIC – Class 2 and Class 4.

When you register with HMRC as self-employed, you will register to pay Class 2 NIC. These contributions are £3.00 per week (for 2019/20) and they are paid along with the rest of your tax bill due on 31 January following the end of the tax year (31 January 2021 for 2019/20). If your earnings in a tax year are less than £6,365, you do not need to pay Class 2 NIC, but if you do not pay then you need to be aware that you are not building up an entitlement to state benefits, for example the state pension, so you can choose to pay them voluntarily if you are not receiving [NI credits](#). Class 4 NIC is paid at the rate of 9% on profits between £8,632 and £50,000 and at 2% on profits in excess of £50,000 (for 2019/20). It is paid at the same time as your income tax liability.

When do I pay the income tax due?

The normal rule is that you pay income tax (and Class 4 NIC) in three instalments as follows (for 2019/20):

On 31 January 2020 – 50% of the liability for the previous tax year

On 31 July 2020 – 50% of the liability for the previous tax year

On 31 January 2021 – any balance due for the tax year (plus first instalment for following year).

The first two payments above are called payments on account, while the third is called a balancing payment. Remember your Class 2 NIC is also due with your balancing payment.

If you think your tax bill for this year will be lower than the bill for last year you can apply to reduce your payments on account using [form SA303](#).



There are special rules about paying your tax when you start your business and when it ends.

What happens when I stop self-employment?

You should tell HMRC as soon as possible. The easiest way to do this is via an [online form](#). The major advantage of using the online form is that it stops your Class 2 NIC at the correct time as well as advising HMRC that your income tax status has changed. If you do not use the form you need to write to both the tax office that deals with your tax affairs and the National Insurance contributions Office.



Where can I get more help?

For more detailed coverage of the issues raised here and much more, look at the [Low Incomes Tax Reform Group \(LITRG\) website](#).

For more information on tax debts, we recommend visiting the [enquiries, penalties and debts](#) section of the LITRG website.

If you have come from abroad to study and work in the UK, we suggest you also visit the [international students](#) section of this website.

If you or your partner is working you may want to check your entitlement to [tax credits](#) on the LITRG website. At the moment there is both working tax credit and child tax credit, both of which together with certain other benefits, are being replaced by [universal credit](#).

If you think you might be entitled to [state benefits](#), check your entitlement on the LITRG website.

If you do not agree with a decision of HMRC, find out what action you can take by visiting the [Tax appeals](#) page of this website.

If you are unhappy with the way in which you have been treated by HMRC, you may be able to [make a complaint](#).

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