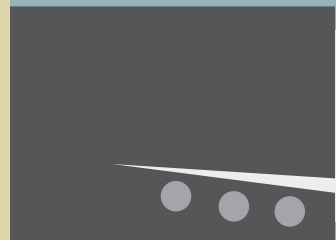
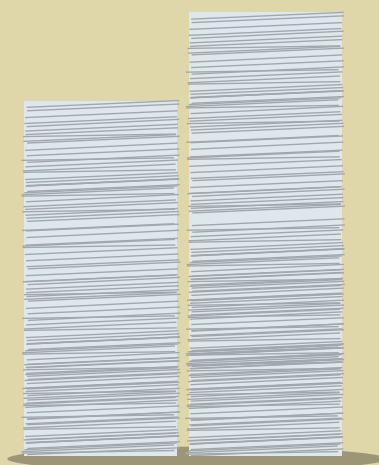


A guide to being self-employed



Planning on joining the growing number of people setting up on their own? Then read our tips on getting your finances in order

BY KARA GAMMELL

WHEN FORMER professional footballer Danny Spiller started using a new brand of nutritional products, he had no idea he would one day make his living from selling them.

Spiller, who played for Gillingham FC and Millwall FC, says: "After I got injured, I started thinking about what I could do in retirement. I needed to find something that would replace a substantial income at the end of football and what started as a hobby soon became my full-time job after just two years."

Now a director of his own limited company that distributes Herbalife nutrition products, the 32-year-

old says that while setting up a business can have its challenges, hard work pays off.

"As a result, I now have the financial freedom to work my own hours and that is worth all the time and effort I have put in," he says.

Spiller is far from alone in making the leap into self-employment. The number of workers 'going it on their own' has grown to 4.5 million, or one in seven UK workers – that's an increase of 650,000 since the financial crisis.

There are many reasons why being self-employed appeals. Many are attracted to the idea of reaping the rewards of their own efforts, with the potential to earn more in the long term. For others, like Spiller, the biggest attraction is being able to set their own hours and enjoy a better work/life balance.

However, the news of the rising number of flexible freelancers is not as positive as it first appears.

"An important consideration is how many of those people who have become self-employed would prefer to be in paid employment," says Howard



2007 but typical self-employed pay has tumbled by 20% in the same time. This means that the average freelancer now earns 40% less than an employee. But worryingly, it is those aged 35 to 50 – who you would expect to be at their peak earnings power – who have experienced the biggest fall in earnings.

So it may come as no surprise that figures from Citizens Advice suggest that self-employed workers are as likely to have debt problems as those who are out of work.

But annual income is not the only financial challenge experienced by non-staffers. Some obstacles can have more long-term impacts.

The Resolution Foundation's research suggests that a fifth of those who are self-employed who tried to get a mortgage said they were prevented from doing so due to their employment status, while 15% reported they had been unable to obtain personal credit or loans.

If high levels of self-employment are set to be a permanent feature, it is crucial the self-employed are able to access basics such as housing and credit and have sufficient pensions and savings, says Laura Gardiner, senior research and policy analyst at the think tank.

"Our analysis suggests that for too many self-employed people, these essentials are proving difficult to access with many looking to be poorly positioned to cope with unexpected financial demands and retirement," she says.

But while self-employment can have its downsides, thousands of people are still finding it a viable alternative despite the current economic conditions. So how can you make it work for you?

Even if you have a breadth of experience, or a clever idea, getting the finances right from the beginning could be the difference between your

“I now have the financial freedom to work my own hours and that is worth all the time and effort I have put in ”

Left: Ex-footballer Danny Spiller, who now has his own company, thrives on hard work

Archer, chief European and UK economist at IHS Global Insight.

A study by the think tank Resolution Foundation suggests that a quarter of those who started out as self-employed in the past five years would prefer to be employees.

What's more, weekly wages for employees have fallen 6% since

business being a success or failure. Here are seven ways to do it.

1. SET YOURSELF UP

If you decide to go self-employed, there are three ways you can structure your business. Registering as a sole trader is the simplest way to become self-employed because it does not involve registration fees and the accounting is reasonably straightforward. The downside is that the tax position may not be as advantageous as in other forms of self-employment, and you will be personally liable for any costs that your business runs up.



Or you could set up a limited company, keeping your business separate from your personal affairs but accounting is more complicated and you need to comply with HM Revenue & Customs (HMRC) requirements.

However, as you have the ability to pay yourself a low salary and the rest of the money in dividends, it can be the most advantageous in terms of tax. This will also ensure that you do not lose your entitlement to the state pension and if you have children, you may also be able to participate in money-saving government schemes such as childcare vouchers.

Alternatively, you can choose a partnership, where two or more people own a business together. However, it is important to remember that with this option, you become jointly liable for any debts.

2. TELL THE TAXMAN

If you start to work for yourself, you must register with the HMRC Helpline for the Newly Self-Employed on 0300 200 3504 by the end of the third calendar month after you started, or you face an automatic £100 penalty. For more information, visit hmrc.gov.uk/selfemployed.

3. PAY FOR A NUMBER-CRUNCHER

While in the early days, hiring an accountant may seem like an unnecessary expense, getting professional advice is often money well spent – ensuring you run your business in the most tax-efficient way could save you thousands in the long run.

And the value of good advice is not to be underestimated, as HMRC figures show that more than 730,000 business owners submitted their tax returns late in 2013, incurring £73 million in late payment penalties.

Hiring an accountant means you can be reassured that the right forms will be completed, at the right time, in the right way. Use the find-an-accountant service at icaew.com to source one in your local area. But don't leave it to the last minute, as many firms will prioritise existing clients at busy times of the year.

Good book-keeping is crucial for making your business profitable and there are many high-tech



options available. For instance, for around £80 a month, online accountants such as Boox.co.uk will provide you with software that allows you to keep track of your spending, invoices and tax liabilities as part of its paid-for service.

4. GET YOURSELF OUT OF THE HOUSE

Another obstacle many newly self-employed businesses face is finding a place to work, as working from home can create challenges. You can go to a coffee shop but do you really want to spend an entire day sitting in Costa?

If you don't need a fixed workspace, for as little as £20 a month, [Regus](http://Regus.co.uk) (regus.co.uk) offers everything from short-term hot desks and meeting rooms to more long-term fully furnished offices at locations across the UK.

5. REMEMBER TO PLAN FOR THE FUTURE

When it comes to financial planning, the self-employed are often left to their own devices, says Patrick Connolly, certified financial planner at Chase de Vere.



“They don’t have access to a company pension scheme or an employer that provides life assurance, income protection or other benefits,” he says.

According to the Foundation, the growing number of self-employed workers could mean fewer people save into a pension scheme – figures suggest that just a third of the self-employed contribute to a pension, compared to just over half of employees.

Irregular earning patterns can mean it is difficult to commit to saving on a regular basis.

“It may suit some self-employed individuals to make ad hoc contributions rather than commit to a regular savings amount, and a financial adviser would be able to offer assistance,” suggests Vince Smith-Hughes, a retirement expert at Prudential.

The amount people should be saving will depend on their age, earnings and circumstances, says Connolly.

He advises that the self-employed should be saving up to 20% of their earnings, especially as they won’t benefit from any employer contributions.

employed, particularly those who are sole traders with no one else to rely on,” she explains.

“However, self-employed clients need to be very mindful that it’s only their taxable income that’s assessed in the event of claim,” warns Thomson.

Critical illness cover, serious illness cover and life cover are also sensible options to look at. If you have set up your business as a partnership, taking out life assurance to ensure that in the event of one partner passing away, the remaining partner has funds to buy the rest of the partnership is often recommended.

If you are unsure about levels of life insurance you require, which will vary depending on personal circumstances, check getliferight.co.uk. This site offers advice on a range of protection issues and gives information about what type of policy might be most suitable for your circumstances and will quote for income protection, critical illness and life insurance policies.

7. BE PREPARED IF YOU WANT A MORTGAGE

Working for yourself can affect your ability to get a mortgage. Industry experts are divided on whether April’s Mortgage Market Review, which sets more stringent conditions on lending, is likely to exacerbate the struggles faced by the self-employed.

However, mortgage broker Anderson Harris is hopeful. “Being self-employed does not have any real negative effect on mortgaging or remortgaging either way, as long as you have a track record of income,” explains associate Chris Duder.

“Saving for the future is important but it is also crucial to make sure your day-to-day expenses are covered in an emergency”

“Although this isn’t always possible, it is better to save something rather than nothing – especially if contribution levels are regularly reviewed and increased in the future,” he warns.

When selecting a pension, the starting point could be a personal pension. Annual charges including both fund and wrapper costs should be less than 1% a year, advises Connolly.

6. PREPARE FOR EMERGENCIES

But while saving for the future is important, it is also crucial to make sure your day-to-day expenses are covered in the event of an emergency.

When it comes to covering yourself, income protection should be your first port of call, says Emma Thomson, spokesperson at Lifesearch.

Income protection insurance is designed to provide a tax-free income should you be unable to work because of an accident or illness.

“Not being able to work due to illness or injury will have a significant impact on those who are self-

If you are thinking of making a mortgage application, it is advisable to have at least three years of accounts that you can show the bank. It will further help if you have a rising income within that time.

“If you don’t have three years of accounts, some banks will work with one year, provided your business is profitable,” says Duder. “It also helps if the work is in a similar industry to the one you previously worked in.”

This is where an independent mortgage broker can help as it can determine which lenders will look most favourably on your situation.

If you are operating as a sole trader, it is sensible to keep the business banking separate from the personal one. For instance, if there was a lot of entertaining through your personal bank accounts a lender may take a dim view, whereas if it were through a business account it would be apparent it was for work purposes. ●

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