Saving Tax If You Work For Yourself - UK Self-Employed Tax Guide

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Figures released by HMRC, show for the last tax year there were 5 million individuals with self-employed income.

Although 238,000 people have returned to employment during the pandemic, there are significant tax savings for remaining self-employed.

Claim expenses

One of the main tax advantages of working for yourself versus being employed is being able to claim expenses against your income.

These expenses include:

Travel costs - fuel, parking, train, bus, Uber and taxis

Office costs - stationery, printing

Financial costs - interest on loans used for business purposes, bank charges

Advertising and marketing - website costs, Google ads, social media ads

Training - courses to refresh your knowledge

Staff costs - salaries for employees, subcontractor costs

Phone costs - phone bills for a dedicated work phone, a proportion of the phone costs if you use the phone personally and for business

Equipment - you can claim tax allowances for up to £1 million of equipment purchases

Working from home tax allowance

If you work from home, or your home is your office or used for storage, you may be able to claim a proportion of your costs.

Mortgage interest or rent

Gas, electricity and water

Council tax

Internet and phone costs

To find the use of home tax allowance you can use the number of rooms in the property or the area of the property.

If you have 5 rooms in the property and you use one as your office, you can claim 1/5 (20%) of all the home costs.

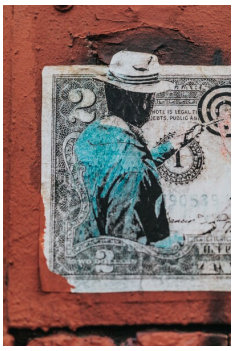
Expenses for bikes, motorcycles, cars and vans

Bikes - 20p per mile

Motorcycles - 24p per mile

Cars and vans - 45p per mile up to 10,000 miles, then 25p per mile

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You can either claim the expenses above or the actual running costs of the vehicle (but not both).

Consider alternative business structure

Partnership - if you are working as a group you may be a partnership already. Alternatively, if you involve your partner in the business, you can then share your tax allowances by forming a partnership. It will also allow you to share tax bands to further minimize the tax bill for the year.

Company - once your profits are at a suitable level, you can consider incorporating the business and taking advantage of the lower corporation tax rates (19%) and reduced National Insurance costs.

Pension tax relief and contributions from the government

You can contribute to a private pension, up to 100% of your profit, and claim tax relief through the tax return.

The government will add 25% of your contributions direct to your pension - if you contribute £400, the government will add £100.

If you're a higher rate taxpayer (40%) you can claim an additional 20% tax relief through the return.

If you're an additional rate taxpayer (45%) you can claim an additional 25% tax relief through the return.

Marriage allowance

If your profits are under £50,000 and you are married, or in a civil partnership, and your partner's income is £12,500 or less, you can claim the marriage allowance.

The marriage allowance lets you claim £1,250 of your husband's, wife's or civil partner's personal allowance.

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