

**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 of 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 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 them selling on.

There is a useful section on the [HMRC website](#) that may help you.



## 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 2016 for 2015/16) if filed on paper and by 31 January following the end of the tax year (31 January 2017 for 2015/16) 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 £2.80 per week (for 2015/16) 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 2017 for 2015/16). If your earnings in a tax year are less than £5,965, 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. Class 4 NIC is paid at the rate of 9% on profits between £8,060 and £42,385 and at 2% on profits in excess of £42,385 (for 2015/16). 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 2015/16):

On 31 January 2016 – 50% of the liability for the previous tax year

On 31 July 2016 – 50% of the liability for the previous tax year

On 31 January 2017 – 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 National Insurance contributions 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 [student tax website](#).

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

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

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

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

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

**This factsheet is intended to provide general information only and does not constitute advice.** Before taking any action, you should get appropriate immigration, benefit or tax advice, which is based on your particular circumstances, from a professional adviser. We have done our best to ensure that the information in this factsheet is up to date as of April 2015. You can read our full disclaimer on our website: [www.taxguideforstudents.org.uk/about/legal](http://www.taxguideforstudents.org.uk/about/legal).