TAXING MATTERS

The second of three articles designed to help the driver understand what is required when entering into the world of self employment, this month we are looking at the requirements of keeping records, paying tax and reminding that Tax Credits need to be adjusted.

Once registered with HMRC as a self employed taxi driver, you will receive various communications, the first being a request to set up a direct debit to pay class 2 National Insurance contributions. HMRC also advise you in writing that you will have to complete a self assessment return. It is suggested that whenever you start in self employment, that you chose the 5 April as your accounts year end. This sits nicely with the income tax year. You will have to do your return after the 5 April each year so it is simpler to adopt this year end. So if you commenced, say, on 4 July 2010, then for the 2011 return, you will detail your income received under self employment, as that between 4 July 2010 to 5 April 2011. For the next return which is due after 6 April 2012, the basis period for showing income on that return will be 6 April 2011 to 5 April 2012. It continues in the same way for each subsequent year.

If you have other schedules of income such as employment income under PAYE, a pension whether private or state, other self employment income (shown as a separate trade) etc, these should all be included on the self assessment return.

WHY YOU NEED TO KEEP ADEQUATE RECORDS

So here we are, now a driver, self employed and responsible for keeping adequate records to support your self assessment. Self assessment is exactly what it says, you self assess or advise what your income less expenses known as profit actually is. HMRC take this reported profit at face value but may check your return at some stage. We will cover this aspect next month.

HMRC state 'If you have to fill in and send us a tax return, the law says that you should keep all the records and documents you need to enter the correct figures. If we need to check your return, we may ask to see the records you used to complete it.'

HMRC can charge penalties for merely failing to keep adequate records; this penalty can be up to £3000. If you do not keep adequate records or you do not keep your records for the required period of time, you may have to pay a penalty.

Penalties can also be charged for inaccurate returns, again this is covered next month. However HMRC recognise that sometimes mistakes are made and it helps if you can demonstrate that you took reasonable care to get your return right. By this, they are looking for you to regularly update your records of income and expenses and save them securely. HMRC are very approachable and do expect if there is something you do not understand, that you either contact them for advice, which is free, or you use the services of an accountant. This way again a degree of reasonable care in trying to do things right is demonstrated

There are several ways you can record your entries. There is the traditional note or cash book and now it is acceptable to record your details electronically. This can be on a spreadsheet, or on a computer. Such a web based application allows the user to record entries on a server, which can be edited at any time. This is another more modern way of recording your entries.

HMRC always ask if there are any prime records; these can be anything underlying to summary figures posted in a cash book or in an electronic format, so be prepared to keep these additional jottings.

RECEIPTS AND EXPENSES

Ensure you keep all receipts connected with the business. Obviously the normal ones are fuel, radio tracking fees, motor running expenses, licence renewals. From time to time receipts do get lost. Don't worry, HMRC will still allow the expenditure if it can be theoretically supported. By this we mean that if a batch of fuel receipts goes astray and income is shown over that period, an estimate is used pro rata to the amount of fuel which would have been purchased to cover the income shown.

BUSINESS EXPENSES WHICH HAVE A PRIVATE ELEMENT

The Taxes Act quite categorically states that any business expenditure that has a private use element is not an allowable deduction in the computation of business profits. Don't be too worried by this, but be aware that it is the letter of the law. So for example any private use of the vehicle does need to be reflected at the end of the year, which means you need to disallow a percentage of the expense deemed to be that covering private needs. Many drivers and accountants do not do this, however it can potentially open up an enquiry and has wider implications to the accuracy of the self assessment return. We will discuss these implications next month.

So what you need to do is restrict for private use purpose a percentage of all motor expenses; don't forget loan interest used to buy the vehicle, the associated capital allowances, along with a percentage of any mobile/landline telephone costs. Again these percentage adjustments vary for each driver.

If you use the internet for checking on airport arrivals/departure information, or record your income and expenses on a pc, you can claim the cost of this, but decide what you think is reasonable to cover the private use aspect. It is suggested that a cost of £260 per annum would be acceptable to cover such costs of landline/broadband, use of home as office.

SEPARATE BANK ACCOUNT

It is recommended that a separate bank account is used by the business. There are plenty of free business bank accounts out there to choose from. This keeps your records separate to that of your personal account, and can simplfy things should there ever be an enquiry.

CASH ONLY ACCOUNTING

Many still operate this way. There is no problem with this, as many drivers generate all of their income in cash (they have no contract work), so again it is all about recording your entries in pretty much the same way, either in a book or again electronically.

So hopefully you are now in a position to add up your total income, deduct the expense, make private use adjustments, calculate capital allowances on your vehicle(s) and have a figure for yourself assessment return.

PAYING TAX

Using the same tax year as mentined earlier, if someone who started self employment on 4 July 2010 reported a net profit of, say, £11500, there will be an entitlement to personal allowances of £6475 leaving £5025 being charged to tax. The rate of tax is 20%, the tax payable is £1025. However we mentioned before that a self employed person has to pay class 2 National Insurance contributions; that is currently set at £2.40 per week. Because the profits of the business are above £5712, a further charge to class 4 national insurance is payable which is 8% of the profits between £5712 - £11500 = £463.04.

This makes a total tax bill of £1025 + £463.04 = £1488.04

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