What about my own income and taxes?

When you are employed, you pay your taxes through your employer and barely notice. When you are self employed, it all gets a bit more complex and you need to know what taxes you'll pay and when you'll have to pay them.

The Hospitality Business specialists

Your tax

Most business owners will need to pay tax through a self assessment. This is a tax return where you tell HMRC about your income from paid work, your own business and any other income (from property for example).

This process is slightly different for sole traders/partnerships to that of those running limited companies.

Select your trading identity to go straight to the right section of the guide:

I want to know about sole trader/partnerships

I want to know about limited companies

Take a look at our guide on choosing to trade as a sole trader/partnership or a limited company

Sole traders/partnerships

Unless you have an exceptionally low income, a sole trader will need to pay tax through a self assessment. For the purposes of this guide, when we talk about a sole trader, we are also talking about anyone in a partnership. As with most things, Roslyns can set you up as self employed and submit self assessment returns on your behalf.
It is still important to know about these things though.

Your tax year

The tax year for everyone runs from 6th April.

E.G. Tax year 2020/2021 is 6th April 2020 to 5th April 2021.

The deadline for online submission is the 31st of January after the tax year end.

Clear yet? Let's look at an example.

Sam Sampleson started being self employed on 15th June 2020.
This means that she will need to submit a return for the 2020/2021 year.
That tax year would end on 5th April 2021,
so her first return deadline would be by 31st January 2022

As you see in this example, there could be quite a period of time when you are earning money before you need to pay a tax bill. This can come as a financial shock to some so it is important you are putting a little away for future personal tax bills.

TIP If you put around 30% of your self employed income to one side, you'll roughly be covering any expected tax bills.
It's a rough guide but better than 'hoping for the best'.

When (and how often) do I pay?

Your self assessment tax return is expected to be submitted online

and paid by 31st January.

This then pays your bill from the previous year.

After this first return, if your return exceeds £1,000, you will then have to pay half of the estimated bill from the next tax year. The second half of this would be due by 31st July.

This is called 'Payment on Account".

The downside is that your first tax bill will be 50% more than you currently owe.

The upside is that from then you are paying every 6 months so there is no need to save a huge amount for a massive lump sum.

What is my tax bill based on?

Your tax bill is based on all of your income.

At some point in your tax year you could have income from working for yourself but also from any property you rent, share income etc. This would all be reported as income and you would pay income tax and national insurance contributions based on that income.

You may also have done some paid work that was taxed at source through another employer's PAYE system. The tax on this income has already been paid, but this information would also go on your self assessment tax return.

All of that income is then added together, the tax you owe is worked out and then anything you've already paid is deducted (payments on account, or tax paid on PAYE employment for example).

Limited companies

When you are a director of a limited company, you don't always receive income (it may be a charity for example).

If this is the case then you don't need to submit a self assessment. That said, if HMRC notify you to complete a tax return, you must do one even if it's a nil return or ask them to withdraw the notice.

The majority of limited company directors *do* receive some income from their company.

This could be from **dividends** for example.

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What is my tax bill based on?

Your tax bill is based on all of your income.

This includes dividends taken from the company as well as any salary but could also include property you rent, share income etc. This would all be reported as income and you would pay income tax and national insurance contributions based on that income.

You may also have done some paid work outside of your own company that was taxed at source through another employer's PAYE system. The tax on this income has already been paid, but this information would also go onto your self assessment tax return.

Over the page we'll look at the various ways a director might get income from their limited company...

Director’s income?

PAYROLL : You’re also an employee, we recommend that you pay yourself through your payroll a basic amount of £169 per week. This keeps you under the threshold to pay any PAYE or NI on your earnings keeping your monthly PAYE bill down a little. This may have drawbacks should you require any personal finance, though.

DIVIDENDS : These are your share of the profits your limited company has made in a year. You can take this during the year or, more usually, at the end. It is important to make sure that you don’t take more than the business can afford to pay you. In this coming tax year, you can take £2,000 as dividends before paying tax on top of your normal allowance. Dividends are taxed at a lower rate than regular income.

DRAWINGS : There aren’t many directors who can live off of just this £169 per week. You will usually need to top that up. You can either transfer this from your business to personal account, in this case we will see this in your bank statements. Or, you can take some cash before you bank, in this case you would tell us about this on your cash sheet as a ‘cash expense’.

We put drawings to the directors loan account (explained below).

DIRECTOR’S LOAN ACCOUNT : This account is basically the balance of moneys introduced into the company offset against any monies you’ve taken out of it. If you’ve introduced more than you’ve taken, you’ll be able to keep taking more, without tax implications, until the company has repaid it’s debt to you.

If you’ve taken out more than you’ve introduced, you can declare a dividend at the year end to offset this balance.

Be warned: If you take out more than the company can afford, you will not be able to declare a dividend and unless you pay the loan back, the company will be charged additional tax.

Further support …

As specialists in business services to the hospitality sector, Roslyns can help every step of the way.
Just click or prod your way to knowledge!

What taxes will my hospitality business pay?

How can I pay less tax?

What about my own income and taxes?

What do I need to do when employing staff?

Is stocktaking important in a hospitality business?

I've another question about hospitality business?

Links to the official government advice

Setting up as a sole trader
Setting up a limited company
Business taxes
Personal Taxes
Employer taxes

Please note: These guides are based on the 2020/21 tax year and are intended to outline the basic aspects of the topics addressed. Please take advice based on your specific situation and business. Contact us on support@roslyns.co.uk