

Self-employed Guidance

Introduction

This self-employed guidance section has been created in order help self-employed residents wishing to claim Housing Benefit or Council Tax Support, better understand the following:

- Who is considered to be self employed
- How self-employed income is calculated for benefit purposes
- How to complete a forecast
- What information and evidence we require to process your claim

How to tell if you are self-employed?

A self-employed person is someone who works for themselves rather than an employer. They do not work under a contract and are not paid a salary or wage. A self-employed person will try to earn money and make a profit by carrying out tasks or providing services directly.

If you are self-employed, you may be working by yourself as a sole trader (a person who is the exclusive owner of a business) or in a partnership (joint owners of a business) with others.

If you are a director of a company, for Housing Benefit purposes we treat you as an employee rather than self-employed because you are receiving a salary, wages or drawings from the business.

If you are a sub-contractor, you are working under a contract to carry out a specific job for a fixed time only. This *generally* applies to builders who are registered with The Construction Industry Scheme. Even though you may receive payslips with Tax and National Insurance Contributions being deducted from your pay, you are still considered as Self Employed.

Some examples of self-employment can include cleaners, minicab or taxi drivers, caterers, builders, tutors, child minders, painters and decorators, or photographers.

An employee is anyone who performs services for an organisation or company that controls the running of the business.

Difference between employed and self-employed

| Employed Person | Self-Employed Person |
|--|---|
| The business they work for is responsible for deducting Tax and National Insurance Contributions from their wages | They're responsible for paying their own Tax and National Insurance Contributions |
| They're required to do a minimum number of hours per week and expect to be paid for the time worked | They can decide how many hours they work, what work they do, and when, where or how to do it. |
| A manager or supervisor is responsible for their workload, saying when a piece of work should be finished and how it should be done | They are not under direct supervision when working. They're in business for themselves, are responsible for the success or failure of their business and can make a loss or a profit. |
| They're required to work regularly unless they're on leave, e.g. holiday, sick leave or maternity leave. They are also entitled to pay whilst on leave | They don't get holiday or sick pay when they're not working |
| They work at the business's premises or at an address specified by the business | They may travel to different locations often for work purposes. They can work for more than one client, give quotes to get work, and submit invoices for the work they've done. |
| The business provides the materials, tools and equipment for their work | They use their own money to buy business assets, cover running costs, and provide tools and equipment for their work |

What is treated as income?

The total amount of money payable to your business will be your gross income. This can include any of the following:-

- Payments for goods or services you provide.
- Insurance pay outs you receive to repair or replace any equipment needed to run your business
- Interest you receive from your business bank accounts
- Refunds on items that you've returned back to the supplier.
- Income you receive for renting out your business premise
- Royalties
- Tips
- VAT refunds

You could receive income at each point of sale or some weeks afterwards depending on how you invoice your customers and collect your money. You could also receive one off payments depending on what it is actually for. Some businesses may not have a particular pattern of income and some may experience peak and non-peak periods where they are very busy some times and completely inactive at other times.

The money you receive can be paid by cash, cheque or straight into your bank account whether it's a personal or business one. Once we know your gross income, we then take off any allowable expenses that you have to spend to run your business.

What are allowable expenses?

Money that is spent only on running your business can be an allowable expense.

Some examples of these include:-

- Rent, rates or mortgage payments on the business premises
- Staff costs
- Stock and supplies
- Legal and accountancy fees
- Hire and leasing charges
- Business telephone and cleaning
- Bank charges and insurance costs
- Office expenses

- Advertising
- Work clothing
- Fuel, transport & delivery costs
- Repairs for equipment

A list of all the various types of expense is available [here with explanations about each type](#) and whether it is allowable or not.

Expenses could be incurred weekly, monthly or yearly, but they could also be just one off costs depending on what your business actually is and what the payment is for. Some expenses may reflect both business and personal use. For example, fuel costs could include work related activity as well as some personal journeys, or telephone bills could include business calls as well as personal calls for private matters. In these cases, you are expected to inform us of the expenses only made for business use. For any personal use, you will have to work out how much you have spent and then deduct this amount from your expenses as its not allowable.

What are non-allowable expenses?

For Housing Benefit purposes, some expenses are not allowed to be taken from your gross income, even if they are allowed by Her Majesty's Revenue & Customs (HMRC) for Tax purposes.

Some examples of these include:-

- Money spent on new items
- Money used to set up or expand your business
- Loss of value of your existing equipment
- Money spent on business entertainment or private use
- Losses incurred for other businesses you have
- Amounts you take from your business as a wage or salary
- Any amount of money spent for personal use

A list of all the various types of expense is available [here with explanations about each type](#) and whether it is allowable or not.

How will my self-employed income be calculated for Housing Benefit purposes

In order for us to work out what your average weekly income is, we will look at all income and expenses for your business over a fixed period of time. We always use a 12 month period, which will usually be the past 12 months or the previous trading year. If you have been trading for less than one year then you will need to estimate how much you think you will earn in your first year. Depending on how long you have been trading, your business will fall into one of the following three categories:

- [New business](#)
- [Existing business running less than 1 year](#)
- [Existing business running more than 1 year](#)

Please click the link on whichever of the above three sections applies to your business

My self-employed business is new

If you have just started your business, we need to know how much money you are expecting to make and what expenses you think you will have in your first year. This is known as a forecast or projection. When completing your forecast, you should consider the following:-

- **Hours you'll work**
 - How much time you will spend on providing services or selling goods
 - How much time you will spend on purchasing items or services that are necessary to run your business
 - How much time you will spend advertising your business and providing quotes to potential customers
 - How much time you will spend on Administration or Book keeping
- **Amount of sales**
 - How many items you think you'll be able to sell
 - How often you think you'll be providing services to customers
 - How many customers you will have
- **Amount of money you'll make**
 - How much you will charge for each item you sell or each service you provide

- How much money you will receive in total for all of the goods or services you've sold
- **Your purchases/expenses**
 - The things you need to run your business
 - How much money you will pay for each of these purchases
 - How often you will need to buy these items or services
- **Peak and non-peak periods**
 - If your income is going to go up during the year because you'll have more customers or plan to take on new contracts
 - If your income is going to go down during the year because you'll have less customers or any contracts you've got are due to expire
 - If your expenses are going to increase or decrease throughout the year
 - If there are going to be times where your business will be very busy and other times where it'll be completely inactive

The self-employed part of our online benefit form has a forecasting section that you will need to complete, which will help us understand how you have calculated your annual forecast. However, if you would like some help in forecasting your business income and expenditure before completing our online benefit form, we do have a forecasting calculator along with guidance on how to use it. Please see the [Business Forecasting Tool section](#) for more information

I have had my self-employed business for less than a year

If you have been trading for less than one year, we need information on what you think you will make and the expenses you expect to have from the start date of your business to the end of your first year. This is known as a forecast or projection. As you have already started trading, you should use the actual income and expenses you've had so far for the period you have been trading and do a forecast for the rest of the year.

It could be that you think the rest of the year will be similar to your actual trading so far, or you may be expecting future months to be different. It doesn't matter which of these approaches you take, as long as it is the approach you think most likely.

In any case, when completing your forecast you should consider the following:-

- **Hours you'll work**

- How much time you will spend on providing services or selling goods
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 - If your income is going to go down during the year because you'll have less customers or any contracts you've got are due to expire
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along with guidance on how to use it. Please see the [Business Forecasting Tool section](#) for more information

I have had my self-employed business for more than a year

If you have been trading for more than one year, we will use the income you've received and the expenses you've made in the past year to calculate your Housing Benefit. The 'past year' period could be the last 12 months or the past trading year, but it should be whichever you think is most likely to reflect your business over the next 12 months.

If you did not make any money, or the amount spent on your business is more than the income you received, you will need to provide a detailed explanation of how you are meeting your day to day living costs and possibly evidence to confirm this. We may also ask you to show how you intend on making your business profitable in the future.

If you think there are going to be significant changes to the income or expenses of your business over the next 12 months, compared with what you received last year, you will be asked provide an explanation of what has caused the change and what impact that it's likely to have on the income or expenses of your business. Examples of this include increases or decreases in the amount of goods or services you provide, or increases or decreases in the amount of expenses you'll have.

How will you use this information to work out my Housing Benefit?



Firstly, we add together all of the money (income) received for your business. This is known as your gross income. We then deduct any allowable expenses from your gross income, which gives us your 'net profit'. From this, we will then take off an amount for Tax and National Insurance Contributions using the [standard rates that are applied by HMRC](#). Although this is a standard amount based how much you earn, it could be different to how much you are eventually required pay to HMRC. If you pay money towards a pension, half of this will also be reduced from your net profit. The final figure will be used as your average weekly income.

What if I did not receive any money for my business?

In cases where your business has not received any income at all in the last year, you will need to provide a detailed explanation of how you are meeting your day to day living costs. You may be asked for evidence such as a business plan, details of other income you may be getting, any savings you have, and letters from your friends or family if they are financially supporting you. We may also ask you to show how you intend on making your business profitable in the future.

What if all of the money my business receives is being spent on my expense?

In cases where all of the income you have received for your business has been spent completely on the expenses to run it, this means you are running it at a loss. You will need to provide a detailed explanation of how you are meeting your day to day living costs. You may be asked for evidence such as a business plan, details of other income you may be getting, any savings you have, and letters from your friends or family if they are financially supporting you. We may also ask you to show how you intend on making your business profitable in the future.

What if the money I receive for my business is low?

If the amount of money you are making is less than £55 per week, we will ask you to provide a detailed explanation of how you are meeting your day to day living costs. You may be asked for evidence such as details of other income you may be getting, any savings you have, and letters from your friends or family if they are financially supporting you.

What information and evidence do I have to provide?

Information needed to complete the benefit form

You will need all of the following information in order to complete the self-employed income section of the benefit form:

- The name of your business
- Your Unique Tax Reference Number (or confirmation of why you don't presently have one)

- The amount of people who jointly own the business with you, if any.
- Details of the service you provide
- What your working hours are
- How much time you spend on all of the different types of work related activity associated with running a business
- The date you started your business
- The type of income you receive (or expect to receive if in your first year of trading), how much it is, and how often it is received
- The type of expenses you have (or expect to have if in your first year of trading), as well as how much you will spend on them and how often.

What evidenced will I be asked to provide:

At any time we can ask you for the following information or evidence to confirm your self-employed income and expenses:-

- Invoices or bills given to your customers for the goods or services you've provided them with
- Receipts for items, repairs or services you've had to pay for
- Bank statements for both business and personal accounts
- Evidence of how you keep track of your income
- Proof of hire or leasing charges
- Proof of insurance costs
- Proof of advertising costs
- Proof of legal documents and compulsory licences and certificates required for your business
- Unique Tax Reference obtained from HMRC
- Any other information related to your business.

You can find a full list of the different types of income we can ask you for proof of [here](#)

You can also find a full list of allowable and non-allowable expenses that we can ask for proof of [here](#).

General Advice on Running Your Business

It's important that you keep accurate records of the income you receive and the money you spend as you may be asked for proof of this. You may be able to keep your own books (records) or you can employ a book keeper or accountant to do this for you. In any case, it is

good practice to write down each sale of goods or services you have, how much money you receive from it and the customers details. You should also note down any other [types of income](#) you receive. If paid by cash, it's also a good idea to pay all of the money you receive into your bank account as we can also use this as a means to calculate your income.

With your expenses, its good practice to write down as well as keep your receipts for anything you spend on your business as you could be asked for these at any time. You should also keep track of any amounts you have for personal use as this will not be included as part of your allowable expenses.

More detailed advice about record keeping for self-employed individuals can be found [here on the HMRC website](#) as well as in [this HMRC guidance document](#).

Business Forecasting Tool

In order to confirm your self-employed income, we need to know how much money you expect to receive for your business as well as the amount you think you'll need to spend on the running costs of it. Usually, we use the trading activity of the business for the previous year as a guide. However, if your business has been trading for less than one year then you will need to estimate much money you expect to make. This is known as a forecast. You should complete a forecast if you are in any one of the following situations:-

Your Business is new

If your business is new or you have been running it for less than a year, the forecast should be from the start date of your business to the end of your first year.

You have been running your business for less than a year

If you have been running your business for less than one year, the forecast should be from the start date of your business to the end of your first year. As you have already started trading, you should use the actual income and expenses you've had so far for the period you have been trading and do a forecast for the rest of the year.

It could be that you think the rest of the year will be similar to your actual trading so far, or you may be expecting future months to be different. It doesn't matter which of these approaches you take, as long as it is the approach you think most likely.

Completing a Forecast

When forecasting your income and expenses, you should consider the following:-

- **Hours you'll work**

- How much time you will spend on providing services or selling goods
- How much time you will spend on purchasing items or services that are necessary to run your business
- How much time you will spend advertising your business and providing quotes to potential customers
- How much time you will spend on Administration or Bookkeeping

- **Amount of sales**

- How many items you think you'll be able to sell
- How often you think you'll be providing services to customers
- How many customers you will have

- **Amount of money you'll make**

- How much you will charge for each item you sell or each service you provide
- How much money you will receive in total for all of the goods or services you've sold

- **Your purchases/expenses**

- The things you need to run your business
- How much money you will pay for each of these purchases
- How often you will need to buy these items or services

- **Peak and non-peak periods**

- If your income is going to go up during the year because you'll have more customers or plan to take on new contracts
- If your income is going to go down during the year because you'll have less customers or any contracts you've got are due to expire
- If your expenses are going to increase or decrease throughout the year
- If there are going to be times where your business will be very busy and other times where it'll be completely inactive

Step 1

Tell us about all of the income you think your business will receive over the one year period. The type of income we need to know about are listed below with some examples:-

- **Payments for goods or services you will provide.**
 - Example 1: A new hairdresser predicts she'll have 4 clients per week charging £30 each. This means she'll make £120 in total every week. If she works in this way for the whole year (52 weeks x £120), she will receive a total income of £6240 for her business.
 - Example 2: A new cleaner who charges £8 per hour for her services predicts she'll have 5 clients per week. She thinks she'll spend at least 2 hours cleaning for each client. This means she'll make £80 in total every week. If she works in this way for the whole year (52 weeks x £80), she will receive a total income of £4160 for her business.
 - Example 3: A taxi driver who's been self-employed for 3 months has already been making £1000 per month. He believes he'll continue to make this much for the rest of the year (12 months x £1,000) so in total he'll make £12,000

- **Income you may receive for renting out your business premise.**
 - Example: You have a spare office that you are renting out or subletting to another company. You are charging them £200 per week. This means you will receive a total rental income of £10,400 for the year.

All of the different types of income that apply to your business added together will be your gross income.

You can find a full list of the different types of income [here with some more examples.](#)

Step 2

Tell us about all of the expenses that you think you'll have only on running your business over the one year period. Some of the types of expenses we need to know about are listed below with some examples: - Please do not include any of your personal costs.

- **Rent, rates or mortgage payments on the business premises**

- Example: You are a self-employed mechanic and are renting some garage space from a company to fix your customers cars. You are being charged £150 per week for this. This means you have a total rental expense of £7,800 for the year.
- **Staff costs**
 - Example: You have hired two administrative assistants to help with general office duties. You are paying them a salary of £17,000 each per year. This means you have total staff costs of £34,000
- **Stock and supplies**
 - Example: You are a self-employed photographer. You spend £100 per month on glossy and matt finished paper, albums and ink. This means you spend £1200 on your stocks and supplies per year
- **Legal and accountancy fees**
 - Example: You are a self-employed taxi driver. You legally require a Public Carriage Office (PCO) licence in order to run your business which costs £310. You also pay an Account £150 to prepare your profit and loss accounts. These are both one off costs meaning your total legal and accountancy fees are £460.
- **Hire and leasing charges**
 - Example: You are a self-employed removals company. You've hired a van for £350 for every 2weeks (fortnight) to collect large unwanted items from your customers to dispose of. This means you have hire charges totalling £9,100 per year.
- **Business telephone and cleaning**
 - Example: You are a self-employed window cleaner. You spend £10 on phone credit each week to call your customers beforehand checking that they are at home. You make some personal phone calls to your family also using the same credit. You believe it's about £2 worth therefore you only use £8 of

credit for business use. This means your total telephone expenses are £416 per year

- **Bank charges and insurance costs**

- Example: You are a self-employed builder with expensive tools which you've insured against damage and theft. This has a yearly charge of £450 which is your expense.

- **Office expenses**

- Example: You are a self-employed solicitor. You have office expenses for paper, files and other stationary which costs £200 every 3months (quarter). This means you have total office expenses of £800 each year.

- **Advertising**

- Example: You have just started your business as a hair dresser. You have designed and printed leaflets for £75 showing the services you offer as well as your price list. This is a one off cost so your total advertising cost is £75

- **Work clothing**

- Example: You are a self-employed exterminator and require protective gloves, goggles and overalls. These often get ruined by the harsh chemicals you use so you have to buy them 3 times in the year costing £45 each time. This means you have a yearly cos for work clothes of £135.

- **Fuel, transport & delivery costs**

- Example: You are a self-employed mini cab driver. You spend £125 per week on diesel to drive your customers to their destinations. You also often use your car for personal journeys using the same fuel. You believe this to be £15 worth per week, therefore you only use £110 fuel for business use. This means you have a total fuel cost of £5,720 in the year.

- **Repairs for equipment**

- Example: You are a self-employed caterer. Your cooker and oven have broken down and the cost to have it repaired was £90. This happened twice in the year which means you've had a total repair cost of £180.

You can find a full list of allowable and non-allowable expenses [here](#)