

Searching for relief

Mac Kotecha explores the tax rules concerning the self employed.



Self employed people can find it easier to get tax relief on their expenses.

It is a truth universally acknowledged that self employed people find it easier to get tax relief on their business expenses. For example, let's assume you go on a course to update your skills or knowledge. Those who are self employed can claim 100 per cent tax relief, for the employed it is a bit more tricky.

You can only have tax relief if that course was necessary, for the rules state that if you are employed you can have tax relief if the expenditure is wholly and exclusively for business purposes. If you are employed, it must be necessary as well as wholly and exclusively for business purposes. Arguing that something is necessary is always tricky. It is quite clearly going to apply for things like professional indemnity or a professional

subscription – but anything else and you start getting into murky water.

Does it make any difference to the person or entity employing your services, perhaps a practice? Yes. If you are employed, they must deduct tax and employees national insurance from your pay which means that they must operate a PAYE system. They also have to pay employers national insurance, which, at 13.8 per cent isn't exactly cheap.

Dental associates and dental specialists such as periodontists have long been able to claim self employed status quite happily without question. However, HMRC is now looking into the self employed status of individuals. It is expected that this will initially be targeted at IT contractors but it is likely not to be long before HMRC starts delving into the world of dentistry.

It is important to remember that you do not have a choice of whether you are self employed or employed – it is a fact. See how many of the following statements apply to you. If most of them do then you are likely to be employed:

- Do you have to do the work yourself?
- Can someone tell you at any time what to do, where to carry out the work or when and how to do it?
- Do you work a set amount of hours?
- Can you be moved from task to task?
- Are you paid by the hour, week, or month?
- Can you get overtime pay or bonus?



Mac Kotecha

is a chartered accountant at Mac Kotecha and Company.

Payment?

- What about these? Answer yes to one or more of these questions and it is likely that you are self employed:
- Can you hire someone to do the work or engage helpers at your own expense?
- Do you risk your own money?
- Do you provide the main items of equipment you need to do their job, not just the small tools that many employees provide for themselves?
- Do you agree to do a job for a fixed price regardless of how long the job may take?
- Can you decide what work to do, how and when to do the work and where to provide the services?
- Do you regularly work for a number of different people?
- Do you have to correct unsatisfactory work in your own time and at your own expense?

In spite of these widely acceptable criteria, HMRC is launching a test kit to help individuals judge their risk of being caught by the rules. It has stressed that this test kit should not be used to determine your employed/self employed status, but to assist with risk assessment.

Take the test for yourself is you work as a specialist or an associate in someone else's practice:

1. Does your business own or rent business premises which are separate from your home and from the end client's premises?
2. Do you need professional indemnity insurance?
3. Has your business had the opportunity in the last 24 months to increase your business income by working more efficiently?
4. Does your business engage any workers who bring in at least 25 per cent of your yearly turnover?
5. Has your business spent over £1,200 on advertising in the last 12 months?
6. Has the practice you work at engaged you on PAYE employment terms within the 12 months which ended on the last March 31, with no major changes to your working arrangements?
7. Does your business have a business bank account, identified as such by the bank, which is separate from your personal account?
8. Would you have to bear the cost of having to put right any mistakes?
9. Has your business been unable to recover payment for work done in the last 24 months of more than 10 per cent of yearly turnover?
10. Do you invoice for work carried out before being paid and negotiate payment terms?
11. Does your business have the right to send a substitute?
12. Have you hired anyone in the last 24 months to do the work you have taken on? You can still pass this test if you had to tell your end client the name of the person who would be doing the work you took on.

How did you score?

Q1. 10, Q2. 2, Q3. 10, Q4. 35, Q5. 2, Q6. (-15), Q7. 1, Q8. 4, Q9. 10, Q10. 2, Q11. 2, Q12. 20

Your total score:

Less than 10 – high risk 10-20 – Medium risk More than 20 – Low risk