

Self-employment

Age range: 16+



Barclays LifeSkills have partnered with Spectra First to support those leaving care to build their employability skills and financial capability. As a signatory of the **Care Leaver Covenant**, alongside other organisations, Barclays has committed to offer a different type of support and expertise from that statutorily provided by local authorities. For more information visit mycovenant.org.uk.

Pages 1-2 of this pack are delivery notes for the facilitator, and pages 3-6 are worksheets for young people. Page 7 has a list of links for further support.

Considering self-employment

5 mins

- Discuss with the group/individual that they may, at some point in their working life, want to be selfemployed or work for an organisation as a freelancer or as a sub-contractor. Use the definitions below to ensure they understand what the terms mean

Self-employed: working for yourself by offering a service or product and being responsible for your own tax and insurance affairs.

Freelance worker: declared to tax office as 'self-employed', working for organisations on an 'as needed' basis.

Sub-contractor: a person or organisation hired to provide a service or deliver a project on behalf of another organisation.

Source: gov.uk/employment-status

- Discuss with the group/individual what they think the key differences are between being employed by a company, being self-employed and working as a freelancer. They can refer to the summary on **Worksheet 1**
- Now ask the group/individual to think about what the considerations of self-employment or working freelance might be when it comes to finance. Offer them one or two suggestions to get them started, e.g. needing capital, having enough income to live whilst you set your business up

Self-employment

Rules of self-employment

10 mins

- Explain to the group/individual that if they wanted to take on freelance work or set up their own enterprise, they would have to take responsibility for their own tax and National Insurance contributions (NICs). Explain that the amount they would be taxed would work in the same way as if they were employed but, rather than the employer deducting their tax each time they're paid, they would need to declare their self-employed earnings and fill in a tax return itemising what they've earned over a year
- Ask the group/individual how they could ensure they had enough money to cover their tax bill. The response should be to save the right percentage of their earnings each month in a savings account (preferably one that will pay some interest) so that it's available when the bill comes in
- Explain to the group/individual that currently if you save at least 20% of everything you earn in a savings account each month you would have sufficient to pay your tax bill at the end of the financial year at the basic rate of earnings and tax. Explain too that if your earnings go over a certain amount, you pay a higher proportion of tax. Information on current levels of tax can be found on the [HMRC website](#)

Self-employment in action

15 mins

- Emphasise the importance of registering for self-employment with HMRC and keeping good accounts. It is straightforward once you've got the hang of it and if managed properly
- Highlight that not declaring your earnings for tax purposes or failing to provide an honest account of your income is an offence that can lead to heavy fines and, in extreme cases, prison (for tax evasion)
- Ask the group/individual to read the information on **Worksheet 2** about someone who is self-employed. Explain that the principles of being self-employed and keeping accounts apply to any business, e.g. plumber, mechanic or mobile hairdresser
- Use **Worksheet 3** explain how the tax and NI calculations work for being self-employed. Explain that student loan repayments also apply to people who are self-employed

Note: If you are self-employed and your annual earnings are less than £6,365 then you do not pay National Insurance.

On earnings above this, there are two classes of National Insurance contribution:

Class 2: If your profits are more than £6,365, but less than £8,632 then you pay £3.00 a week

Class 4: 9% on profits over £8,632 up to £50,000, 2% on profits over £50,000

Class 2 NICs are payable in addition to Class 4 NICs.

Profits are calculated by deducting your expenses from your self-employed income.

- Ask the group/individual to suggest some top tips they could give to anyone considering self-employment to help them manage their finances successfully. Show Worksheet 4 to summarise. Talk through any items on the list that haven't already been discussed

Extension

- For more on starting a business and developing the enterprise skills needed to become self-employed, take a look at [Steps to starting a business](#).

Self-employment

Worksheet 1: Comparing types of employment

Employed by someone else	Self-employed	Freelance
Receive holiday and sick pay	More likely to have flexible working hours	More likely to have flexible working hours
Employer is required to contribute to your pension	Responsible for calculating your own tax and National insurance	Could work for multiple organisations and different projects at once
Receive a regular income as an annual salary	Able to set your own salary based on your profits	Able to agree your own daily or hourly rate
Opportunities for bonuses or salary increases	Able to claim tax relief if you set up a personal pension	Able to claim tax relief if you set up a personal pension
Not responsible for calculating your own tax and National Insurance – but you should always check your payslips	Need an accountant and/or financial advisor to support your finances	Need an accountant and/or financial advisor to support your finances

Self-employment

Worksheet 2: Working for yourself – scenario

Lorna



Lorna is self-employed. She runs a business selling shop display stands. Her work is mostly done at the clients' premises so she has to travel but she likes the flexibility of working on a range of different projects.

Lorna has been very careful to keep her accounts as she goes along, recording all expenditure and income on a spreadsheet. She's coming to the end of her first year of self-employment and wants to work out roughly how much tax she will need to pay on what she's earned over the year.

Lorna is registered as self-employed with the Tax Office (HMRC) so she will need to complete a self-assessment tax return each year. She will also need to pay National Insurance which, for self-employment, is charged at 9% on any profits over £8,632 (these are called NI Class 4 contributions).

Self-employment

Worksheet 3: National Insurance contributions



If you are self-employed you will still need to make National Insurance contributions.

Check your government's website for up to date tax codes and rates.

Example

If National Insurance contributions are set at 9% of any earnings over £8,632, then for a taxable income of £20,000:

$$£20,000 - £8,632 = £11,368$$

$$\text{NI paid on } £11,368 @ 9\% = £1,023.12$$

(paid with your tax at the end of your financial year)

Taxable income

If you are self-employed your taxable income is any income you have received in one tax year minus your personal tax allowance. Check online to find the current year's taxable allowance.

Example

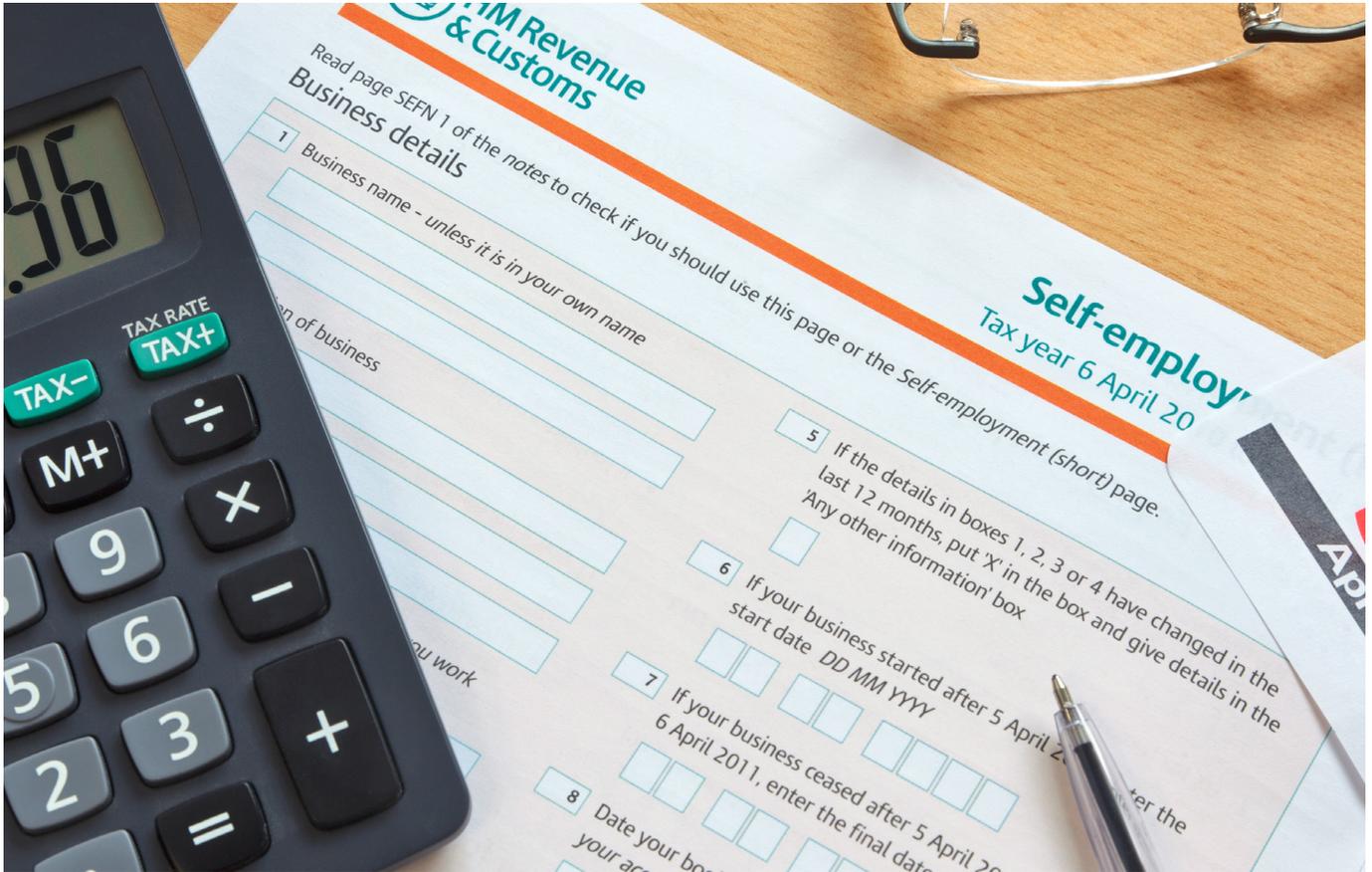
If your personal tax allowance is £12,570, and you have an income of £20,000 and have £2,500 of expenses:

$$\text{Taxable income is } £20,000 - £2,500 - £12,500 = £5,000$$

$$\text{Tax payable @ } 20\% = £1,000$$

Self-employment

Worksheet 4: Top tips for self employment



- Record all income and expenditure carefully as you go along
- Keep all receipts so you have a record of expenditure
- Put money aside every month in a separate account to cover tax and National Insurance
- Plan your budget based on average monthly income
- Put money aside to cover quieter months and holiday periods
- Declare your self-employment to the tax office and complete tax returns on time

Further support

The following links can be explored to get further advice on a number of topics around managing finances and living independently:

The Childrens Commissioner (general advice for those up to 25)

childrenscommissioner.gov.uk

The Rees foundation (general support for Care Leavers of any age)

reesfoundation.org

Care Leaver Covenant (help finding job opportunities)

mycovenant.org.uk

The Association of British Credit Unions (help finding the right credit unions and general information about these)

findyourcreditunion.co.uk

Propel (support for those going to university, including financial advice)

propel.org.uk/UK

Citizens Advice Bureau (general legal and financial advice)

citizensadvice.org.uk

Step Change (debt management advice)

stepchange.org

Money Helper (general financial advice)

moneyhelper.org.uk

Debt Advice Foundation (free, confidential debt advice charity)

debtadvicefoundation.org

Benefit calculator (free tool to help find estimates for benefits entitlements)

entitledto.co.uk/help/better-off-calculation

Experian (free tool for credit score checks)

experian.co.uk

If you are a young person and want to know more about money and work, register at

<https://barclayslifeskills.com/help-myself/>

If you are working with young people who have experienced care, explore more adapted content at

barclayslifeskills.com/help-others/lessons and select 'Care leavers'.

Many other LifeSkills lessons are also suitable for use with care leavers to support them on their employability journey. To find out more, go to barclayslifeskills.com/help-others/lessons and select the 'Building key skills to do well at work' category.