

Keeping Tax Records and Bookkeeping When You Are Self-Employed

If you are self-employed keeping tax records are a legal requirement. Bookkeeping is how you can make this easier on yourself.

This guide will help anyone who is setting up a business or is already self-employed and wants to get their ducks in a row.

It will list out the tax records you need to keep for your business, how to store them and how to set up a bookkeeping system.

What Tax Records Should Your Keep When You Are Self-Employed?

Your tax records are all the different pieces of documentation that you need to complete a tax return for HMRC.

That includes information you will need on your business, that's why it makes sense to put them away as you do your bookkeeping.

Here are some of the typical tax and accounting records that self-employed business owners need to keep:

- Bank statements
- Sales invoices
- Purchases invoices and receipts
- Cash receipts
- Till rolls
- VAT records (if you are VAT registered)
- P60s or P45s if you are employed
- Mileage claim forms
- Records about any other income such as dividends or capital gains
- Copies of previous tax returns and tax calculations you have submitted

How Long Should the Self Employed Keep Tax Records?

Every time you send in a tax return, HMRC reserves the right to ask questions about the numbers and request that you show evidence of how you reached that number and check you've paid the right amount of tax.

You are legally required to keep your tax records, including copies of tax returns, for HMRC **for at least 5 years** after the 31 January you submit your tax return. For example: You must keep all your tax records for your 2019/2020 tax return, which is due by 31 January 2021 until the 31 January 2026 at least.

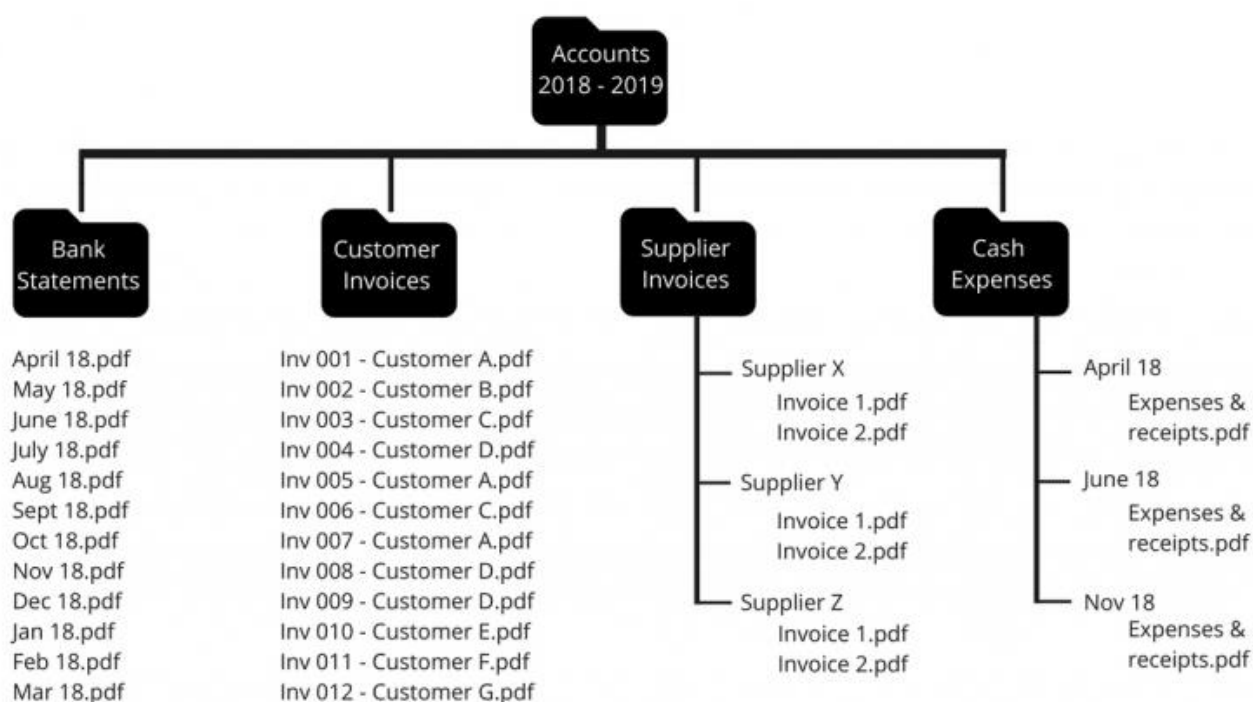
Keeping Tax Records

There are no set rules in place telling you how to keep your tax records.

Fortunately, you no longer need to keep paper copies of your HMRC tax records. That means keeping your records digitally is probably the easiest way to hold onto them for the right number of years.

Of course, you can still choose to keep paper copies, just make sure you print and file all the correct information.

Here is an example of how to organise your digital records filed by tax year, with sub-folders for bank statements, invoices, supplier invoices etc.



What Happens if You Lose Tax Records?

If you have misplaced tax and accounting records, then try to get copies. For example, by calling your supplier or banks and checking through old emails.

It is a legal requirement to have your tax records so it is really important.

You may have to pay penalties or interest if you cannot support figures on your tax return and it turns out you have not paid enough tax.

If you are completing your tax return and are missing information you can still submit it, but you must let HMRC know if you are using provisional or estimated numbers.

Provisional means you will be getting the lost records replaced and will confirm the correct figures later

Estimated means you have lost the relevant tax records, are making a best guess, and will not be changing the figures.

What Is Bookkeeping?

Put simply, bookkeeping is a way of tracking all your business income and expenses during a set period of time.

Being self-employed or a sole trader means that you are legally required by HMRC to submit a tax return which summarises all your income and expenses, as well as calculating your own taxes.

Your bookkeeping system will provide you with the numbers you will need to complete your tax return, saving you from tax hell.

A good bookkeeping system will add up your income and expenses. But a great bookkeeping system will:

- help you to analyse your costs to stop you from wasting money
- estimate how much tax you owe, so you can tuck it away
- tell you where you are making the most money so you can make more of it
- automate some of the boring bookkeeping tasks you can't get away from
- give you the numbers you will need to complete your tax return.

How to Set Up a Bookkeeping System?

The first thing to do is to open a business bank account. Keeping all the financial transactions of your business separate from your personal payments is a sure-fire way to make your bookkeeping easy.

It is also recommended by HMRC for the self-employed and sole traders. If you have a Limited Company then you are legally required to open a separate bank account.

Imagine if you had to sift through all your personal costs to find your business ones? It could take forever, and you might miss out on some of those precious expenses that will reduce your tax bill.

Once you have a business bank account set up, the one piece of advice we would give you is to never dip into it. Instead, set yourself a regular salary.

The most successful business owners we have come across have always treated themselves just like an employee of their business.

Next, you need some kind of bookkeeping system, even if you are just starting out and only have a few transactions somewhere it'll help you keep a record of anything you paid for personally.

If you have a simple business and not too many transactions, then you can choose to use a bookkeeping spreadsheet. Or you can invest in using an automated online system, like Sage, which you'll pay monthly for.

How Often Should You Do Your Bookkeeping?

The key to making your bookkeeping easy is staying on top of it.

But it can't take up too much of your precious time. After all, being a business owner is much more than just bank statements, receipts and number crunching!

Here are the likely bookkeeping tasks you'll need to do on a daily/weekly and monthly checklist to help you stay organised. It may help you to put them into your diary.

Daily/Weekly Bookkeeping Tasks

- Check your bank account and review money in and money out
- Invoice your clients for any work completed
- Record your business mileage and cash expenses
- Check which invoiced clients have exceeded the credit terms offered and chase for payments where necessary
- File receipts and invoices safely, either as a scan or paper copy in a folder.

Monthly Bookkeeping Tasks

- Transfer money into a deposit account for your tax bill due 31 January and 31 July each year
- Scan in your business paperwork and file securely online

How Can SBS Accountancy Help?

Here at SBS we can help you as much or as little as you like, below are just a few of the things we can do:

- free initial consultation
- set-up a bookkeeping spreadsheet or software system for you
- provide training on how to do bookkeeping yourself
- perform your monthly bookkeeping for you
- complete your self-assessment tax return for you

Our fees are extremely competitive and we guarantee to save you 10% on your current accountancy fees.

We can either charge on a fixed monthly basis or by one-off annual invoice; what matters is that we tailor our service to your individual requirements.

If you have any questions about what you have read, please don't hesitate to contact us for your free no obligation consultation.