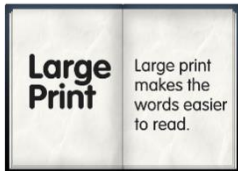


Part 1

Becoming a creative freelancer



What is this document about?



This document is Part 1 of a 2 part guide to freelancing and to the working rights of freelancers in creative jobs.

The original document is also available in print, large print, audio and plain text.

Please ask for these if you need them.

With this information you will be able to:

- avoid some of the difficult things about freelancing
- understand what your rights are
- live a happy, well-balanced and well-paid life as a creative freelancer



Part 1 explains:

- What is a freelancer?
- Setting up as a sole trader
- Setting up your accounts
- Taxes
- Expenses
- Payments on account
- National Insurance
- Take some time out for yourself



What is a freelancer?



A freelancer is someone who:

- works the hours that suit them and manages their own time
- works on contracts or projects for many different people and organisations

A freelancer can also be called a contractor or an independent worker.



A sole trader:

- is a person who works for themselves

They do not have a boss or work for a company or organisation.



- works on their own
- works under their own name

They do not get paid by a company.

- sends in a **self-assessment** tax return at the end of each tax year.

A freelancer is very often also a sole trader.





A Self-Assessment tax return form is a report of how much you have earned in a year and where it has come from.

You can [file your tax return online](#) or send a [paper form](#).

You send this information to **HMRC**.

HMRC are the part of government that collects taxes and pays benefits.

HMRC stands for 'Her Majesty's Revenue and Customs.'

It is called self-assessment because you have to work out how much tax you have to pay.



When you sign up for self-assessment this registers you as a sole trader with HMRC.

Setting up as a sole trader



A sole trader is also known as someone who is self-employed.

If you are just starting freelance work, you need to register as a sole trader.

You do this by letting HMRC know on a their [website](#) or app.



If you earn less than £1000 from freelance work in a year you should still register and tell HMRC you do not meet the **threshold**.

In this example a **threshold** is the level of money you need to make before you pay tax - £1000.



If you are a sole trader you have to keep accounts.

Accounts means writing down a list of everything you earn and spend.



You must send in a self-assessment tax return each year.

You will then have to pay tax on what you have earned.

You will have to pay Class 2 and Class 4 National Insurance contributions.



National Insurance is the fund that pays out:

- sick pay
- maternity pay
- benefits
- and state pensions



It is important to keep up to date with your National Insurance payments

Getting these benefits (especially state pension) may depend on how much you have paid to National Insurance over the years you have worked.

Setting up your accounts



When you are a sole trader you must:

- keep a record of all money paid to you for your creative work or products.

This is called your income.



- keep a record of all money that you pay out as part of your business activities

This is called your expenses.

Income also includes any money you make from:

- investments



An investment is something you buy because you hope it will make you money in the future.



It can be things like shares in a company, or a property that you hope will go up in price.



- things like putting a room in your flat up on Airbnb.

This happens a lot in Edinburgh in the festival season.



It also includes any grants from the Self Employment Income Support Scheme that was run during the Covid-19 pandemic.



It is a good idea to get 2 separate bank accounts:

- one for your business
- one to hold money you will owe in tax



Put at least 20 per cent of everything you earn into your 'tax' account so you should always have enough money in there to cover your tax bill.

There are apps and software designed for freelancers to manage their accounts like:

- Quickbooks
- Xero
- FreshBooks

Many of these apps cost money.

It can be worth the price if it stops you from needing to pay an **accountant** later.

An **accountant** is someone who keeps your financial information and works out your tax information for you.

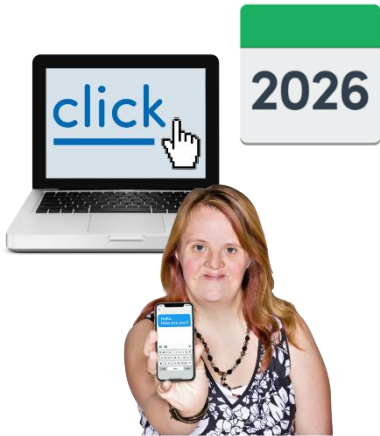
New freelancers may not have that money to spend.

If you keep a good spreadsheet it can be all you need to keep your accounts up to date.

Keep all your receipts in a tin or box.

You should keep receipts for 7 years.





In 2026 the UK government plans to bring in a Making Tax Digital scheme for freelancers earning over £50 thousand.

In 2027 this scheme will be for freelancers earning over £30 thousand.

3 big changes in this scheme are:

1. You will have to keep accounts using software that the government approve of.

There is information about this online at: [gov.uk](https://www.gov.uk)



2. You will have to send in updates through the year and then send in a final declaration.

You will still have until 31 January to pay your bill.



3. You will be able to get updates through the year from the government to explain how much tax you owe.



Taxes



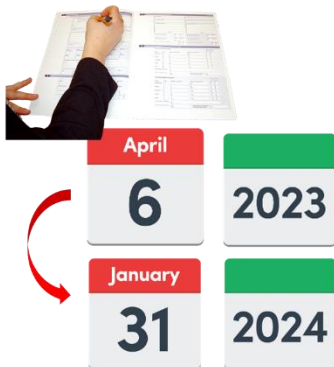
Income Tax is the tax that workers must pay on everything they earn over a certain amount.

This must be paid to HMRC.

The 'tax year' is also known as the financial year.

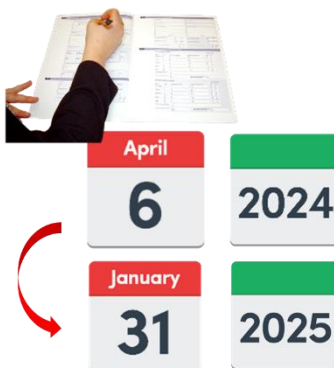
It is usually from the 6th of April to the 5th of April the following year.

The tax year 2023-2024 started on 6 April 2023 and ends on 5 April 2024.



This year you can send in your self-assessment tax return on the HMRC website or app from the 6 of April.

You have until the end of January the following year to do it.



In 2024 you can send in your tax return from 6 April 2024 to 31 January 2025.



The rate of tax you pay depends on how much you earn.

Tax bands change every year.



For 2023/2024 in Scotland if you earn less than £12750 you pay no tax.

This is called the **Standard Personal Allowance**.

There are 5 other tax bands:

Starter Rate

If you earn between £12,571 - £14,732
You pay 19 per cent tax

Basic Rate

If you earn between £14,733 - £25,688
you pay 20 per cent tax

Intermediate Rate

If you earn between £25,689 - £43,662
you pay 21 per cent tax

Higher Rate

If you earn between £43,663 – 125,140
you pay 42 per cent tax

Top Rate

If you earn £125,141 or more you pay
47 per cent tax.



Expenses



Expenses are what it costs to run your creative business.

The rules about expenses change a lot.



Good accounting software like the ones mentioned on page 6, will show you how much of each type of expense you are allowed to claim for.

For example you can claim for costs of your home office and for travel.



Find out more on the [Government website](#).

The things you can claim for will be different depending what creative industry you work in.



When it is time to send in your tax return you could have a 'tax party' with other creative freelancers so you can help each other.

Payments on account



The biggest shock for any freelancer is the first time they find out about Payments on Account.

If the amount of tax you owe is more than £1000, HMRC will expect you to:

- pay the full amount you owe by 31 January
- pay an extra 50 per cent or half as much again



This is because they split your tax bill into two payments.

The 50 per cent covers your first payment for the following year.



You will be expected to pay the second 50 per cent by 31 July.

You will then be on this pay-in-advance schedule from then on.

We know it is confusing!

Do your best to work out how much you think you will earn in the next year.

If you know that you are going to earn less you can 'Reduce payments on account' on the [government's online site](#).





If you know you are going to earn more, you can apply to make your payments more.

There is a section on the self-assessment tax return that allows you to do this.



If you pay too much on account, HMRC will pay the extra back to you.

If you do not pay enough they will charge you interest on the difference.



It is scary to suddenly have to pay 150% of what you thought you owed, especially if you do not have that money.

Plan ahead and start putting that extra money away if you can.

This can be dull to do, but it is important.

Using the Making Tax Digital scheme should make this easier.



If you have not put extra money away and you do not have enough to pay your tax bill speak to HMRC or check [this part of the Government website](#).

They should help you to set up a monthly payment scheme.

National insurance



As well as tax you will have to pay National Insurance Contributions at the end of the tax year.

These are called NICS for short.



These are worked out with your self-assessment tax return.

There are 3 types of NICS.

They are worked out differently depending on how much **profit** you made that year.



Your **profit** is your income less your expenses.



The NICS will be added to your tax bill automatically.



If your income is under £6,725 you can choose to pay Class 2 NICs so that you can get benefits like Maternity Allowance and state pension.

Take some time out for yourself



You are not a robot so do not expect yourself to act like one.

Creative work needs time for:

- thinking about your work
- research – getting information
- inspiration – finding new ideas

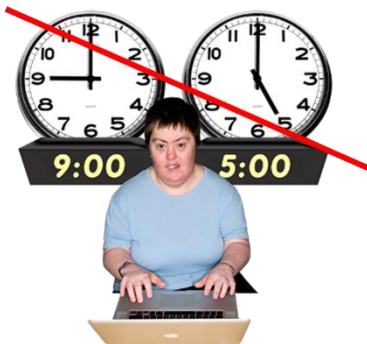


Think about ignoring your emails and only looking at them one afternoon a week to deal with them all.



Perhaps take one morning a week for a trip to somewhere that can give you ideas like a museum or gallery.

Or go for a walk and spend some time in nature.



If you are the sort of person who gets on a creative kick and works all night, give yourself the rest of the day off.

Creative work does not have to be from 9am in the morning until 5pm at night.