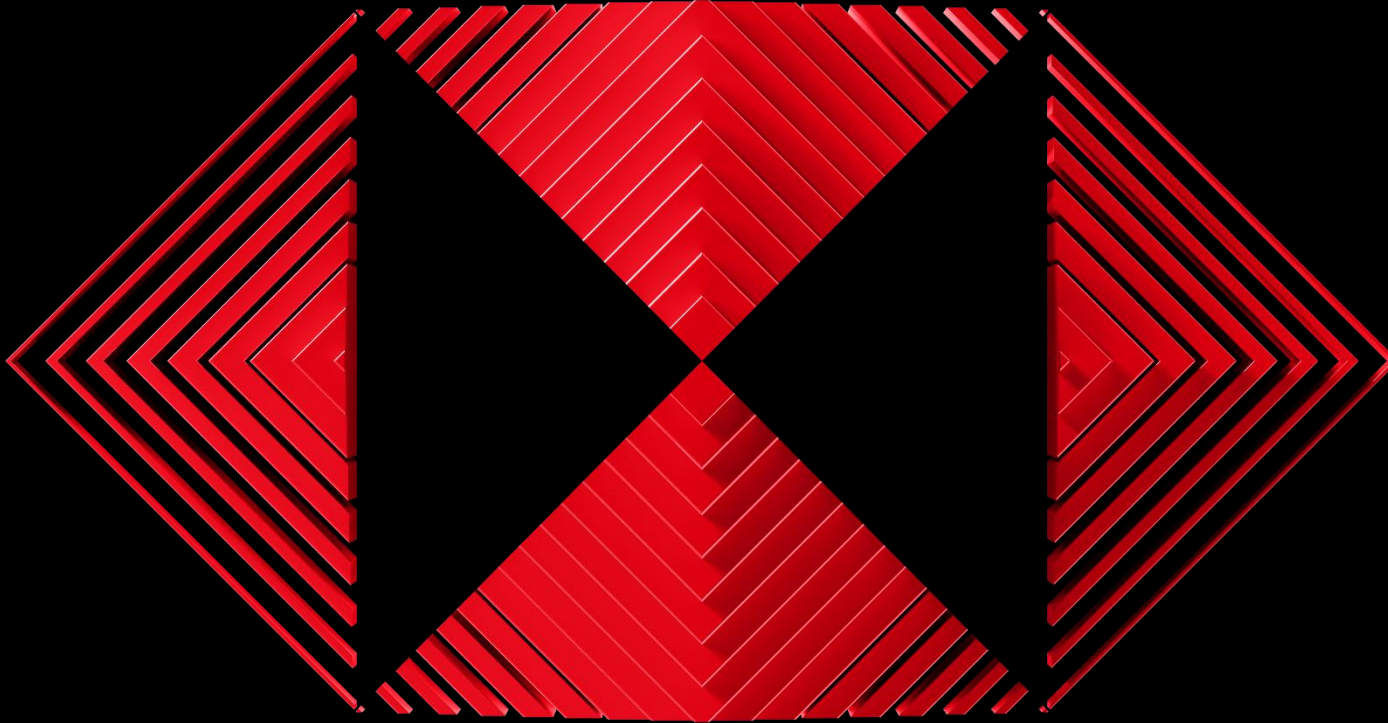


# HSBC UK Useful Guide



## Self-Employed



Types of self-employment

Self-employed income

Companies House

Niche Scenarios:

- ♦ Businesses that have traded at a loss for either the last or previous full accounting year
- ♦ New business trading less than 2 years (sole trader / partnerships / LLP's / Limited company)
- ♦ Change in Business Entity
- ♦ Shareholding changes from previous year
- ♦ Change from an employed position to a partner or director within the SAME business within the last two years -Partnerships, LLPs with less than 50 partners and limited company directors
- ♦ Employee to Partner
- ♦ Employee to Director
- ♦ Change from an employed position to a partner or director within a DIFFERENT business within the last two years -Partnerships, LLPs with less than 50 partners and limited company directors
- ♦ Change from employed to partner with LLP (50 or more partners)

Holding companies

USP summary

Further information



- ♦ Sole traders:
  - ♦ A business owned by one person
  - ♦ Most common form of business ownership in the UK
  - ♦ Owner is personally liable for business debts
  - ♦ Drawings taken by the owner to cover personal expenditure.
- ♦ Partnerships:
  - ♦ Owned by two or more people
  - ♦ Profit and losses are shared proportionally
  - ♦ Joint & Several Liability – may have to repay partnership debts
  - ♦ Capital can be lost if debts are incurred
  - ♦ A partner's taxable income is the share of the profits.
- ♦ Limited Liability Partnership – LLP:
  - ♦ Some or all the partners have limited liability
  - ♦ Liability is equal to the individual's capital input. It is an idea set-up for types of professions such as solicitors, accountancy firms and dental practices.
- ♦ Limited company:
  - ♦ Ownership of a limited company is divided up into equal parts (shares) who ever owns one of more of these shares are called shareholders
  - ♦ Shareholders have limited liability, which is the major advantage of this type of business legal structure.



### Proof of income – Self-employed

- ♦ Residential – Two-year average or latest year if lower. For customers trading for less than two years or do not have the first two years trading accounts we will average the one year's income over a two-year period.
- ♦ BTL – Latest years income
- ♦ **Sole Trader / Partnerships / LLP's – with less than 50 partners**
  - ♦ Tax calculations and Tax Year Overviews required
    - ♦ Profit from Self-employment – Sole Trader
    - ♦ Profit form partnerships – Partnerships / LLP
- ♦ Tax Year Overviews corresponding to the last and previous year's tax calculations must be held
- ♦ The net profit amount is shown on the tax calculations as 'Profit from self-employment / Profit from partnerships'
- ♦ Ensure the tax calculation shows as being 100% completed as per the following example.

Unique Taxpayer Reference (UTR): 4594377891

Your tax return is 100% complete

### View your calculation

This section provides you with a breakdown of your full calculation. If it says that your tax return is 100% complete then you have submitted your return and this is a copy of the information held on your official online Self Assessment tax account with HM Revenue and Customs.

|                                                           |                   |
|-----------------------------------------------------------|-------------------|
| Profit from self-employment                               | £26,916.00        |
| Interest from UK banks, building societies and securities | £1,741.00         |
| <b>Total income received</b>                              | <b>£26,657.00</b> |
| <i>minus</i> Personal Allowance                           | £11,500.00        |
| <b>Total income on which tax is due</b>                   | <b>£17,157.00</b> |

### How we have worked out your income tax

Your basic rate limit has been increased by £450.00 to £33,950.00 for Gift Aid payments.  
This reduces the amount of income charged to higher rates of tax.

|                                                                                     | Amount     | Percentage | Total             |
|-------------------------------------------------------------------------------------|------------|------------|-------------------|
| <b>Pay, pensions, profit etc. (UK rate for England, Wales and Northern Ireland)</b> |            |            |                   |
| Basic rate                                                                          | £15,416.00 | x 20%      | £3,083.20         |
| <b>Savings interest from banks or building societies, securities etc.</b>           |            |            |                   |
| Starting rate                                                                       | £0.00      | x 0%       | £0.00             |
| Nil rate                                                                            | £1,0000.00 | x 0%       | £0.00             |
| Basic rate                                                                          | £741.00    | x 20%      | £148.20           |
| <b>Total income on which tax has been charged</b>                                   |            |            | <b>£17,157.00</b> |
| <b>Income Tax due</b>                                                               |            |            |                   |
| <i>plus</i> Class 4 National Insurance contributions                                | £18,752.00 | x 9%       | £1,687.68         |
| <i>plus</i> Class 2 National Insurance contributions                                | £148.20    |            |                   |
| Total Class 2 and Class 4 National Insurance contributions due                      |            |            | £1,835.88         |
| <b>Income Tax, Class 2 and Class 4 National Insurance contributions due</b>         |            |            | <b>£5,067.28</b>  |

### Estimated payment due by 31 January 2024

You must pay the total of any tax and class 4 NIC due for 2022-23 plus first payment in account due for 2023-24

(Note: 2nd payment of £2,459.54 due 31 July 2024)

This amount does not take into account any 2022-23 payments on account you may have already made

|                                                        |                  |
|--------------------------------------------------------|------------------|
| 2022-23 balancing payment                              | £5,067.28        |
| 1st payment on account for 2023-24 due 31 January 2024 | £2,459.54        |
| <b>Total due by 31 January 2024</b>                    | <b>£7,526.82</b> |



## Tax years

### Tax year overview

Please select the appropriate tax year you wish to view a summary for from the drop-down menu and click 'Go'.

Tax year ending:

Income Tax Status : **UK**

You can also view tax returns due/received by following [Tax return options](#).

#### Tax year ending 05 Apr 2023.

This is a copy of the information held on your official online Self Assessment tax account with HM Revenue and Customs.

[Print your tax year overview](#)

**Please note:** To view a breakdown of an amount, follow the appropriate link in the 'Description' column.

| Description                 | Amount (£)  |
|-----------------------------|-------------|
| <a href="#">Tax</a>         | 5067.28     |
| Surcharges                  | 0.00        |
| Interest                    | 0.00        |
| Penalties                   | 0.00        |
| <b>Sub total</b>            | 5067.28     |
| Less payments for this year | 5067.28     |
| Less other adjustments      | 0.00        |
| <b>Total</b>                | <b>0.00</b> |

- ♦ Do not include the income from 'interest from UK banks, building societies and securities etc.'
- ♦ 'Income tax, Class 2 and class 4 National Insurance contributions due' should correspond with the figure stated in the Tax Year Overview
- ♦ 'Profit from self-employment' is the amount to be input into the relevant field. This income is the profit net of expenses / costs etc and is therefore know as 'net profit'.



- ♦ **LLPs with 50 or more Partners:**

- ♦ Letter from the Finance Director, Manager of Partner Affairs / Accounts or company accountant confirming the income. The letter must contain:
  - ♦ Customers earnings over the past two years;
  - ♦ Date joined the business;
  - ♦ Date they were made a partner, along with
  - ♦ Authors job title and any accountancy qualifications.

- ♦ **Limited companies:**

- ♦ Two years' finalised accounts required
- ♦ Where less than 100% ownership, tax calculations and Tax Year Overviews, or P60's are required where the accounts do not confirm the distribution of salary for each director
- ♦ Where less than 25% shareholding, it will be classed as employed. If needed for affordability / LTI, the case can be progressed using both employed income and net profit
- ♦ Submit as two employment categories:
  - ♦ Employed – Current income: Latest payslip required
  - ♦ Limited company, shareholder – Net profit after tax.

EXAMPLE COMPANY LIMITED

DETAILED INCOME STATEMENT

YEAR ENDED 31 MARCH 2023

|                                       | 2023<br>£ | 2022<br>£ |
|---------------------------------------|-----------|-----------|
| TURNOVER                              | 439,825   | 393,931   |
| COST OF SALES                         |           |           |
| Opening stock                         | 2,505     | 2,535     |
| Purchases                             | 135,774   | 93,750    |
|                                       | 138,279   | 96,285    |
| Closing stock                         | 3,000     | 2,505     |
|                                       | 135,279   | 93,780    |
| GROSS PROFIT                          | 304,546   | 300,151   |
| OVERHEADS                             |           |           |
| ADMINISTRATIVE EXPENSES               |           |           |
| Rent                                  | 1,296     | 3,136     |
| Rates and water                       | -         | 627       |
| Light and heat                        | -         | (163)     |
| Insurance                             | 2,259     | 2,057     |
| Repairs and maintenance               | 60        | 2,087     |
| Wages and salaries                    | 14,977    | 48,325    |
| Staff pension contributions           | 321       | 272       |
| Motor expenses                        | 18,665    | 23,030    |
| Travel and subsistence                | 16,085    | 12,688    |
| Hire costs (non-operating leases)     | 6,886     | 13,398    |
| Telephone                             | 2,023     | 3,618     |
| Computer and website                  | 789       | 700       |
| Equipment repairs and renewals        | 1,693     | 2,199     |
| Printing postage and stationery       | 1,572     | 771       |
| Training                              | 1,553     | 541       |
| Sundry expenses                       | 664       | 1,468     |
| Subscriptions                         | 1,086     | 1,989     |
| Advertising                           | -         | 195       |
| Entertaining                          | 43        | -         |
| Bad debts written off                 | 381       | -         |
| Bank charges                          | 460       | 465       |
| Book keeping and payroll fees         | 2,210     | 3,493     |
| Accountancy fees under provision      | 113       | (9)       |
| Accountancy fees                      | 2,899     | 2,815     |
| Director's salaries                   | £24,942   | £24,345   |
|                                       | 107,967   | 153,756   |
| OPERATING PROFIT                      | 195,579   | 146,395   |
| Interest payable and similar expenses | -         | (65)      |
| PROFIT BEFORE TAXATION                | 195,579   | 146,330   |

**EXAMPLE COMPANY LIMITED**

**INCOME STATEMENT  
FOR THE YEAR ENDED 31 MARCH 2023**

|                                                                      | Notes | 2023<br>£ | 2022<br>£ |
|----------------------------------------------------------------------|-------|-----------|-----------|
| <b>TURNOVER</b>                                                      |       | 33,157    | 51,041    |
| Administrative expenses                                              |       | 38,707    | 32,661    |
| <b>OPERATING (LOSS)/PROFIT and<br/>(LOSS)/PROFIT BEFORE TAXATION</b> | 4     | (5,500)   | 18,380    |
| Tax on (loss)/profit                                                 | 5     | (1,132)   | 4,104     |
| <b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>                          |       | (4,418)   | 14,276    |

- ♦ **Turnover** – the amount of money taken by a business in a particular period
- ♦ **Gross profit** – is a company's remaining profit after deducting the costs associated with producing and selling its products or services
- ♦ **Net profit after corporation tax** - what the business earned after all its expenses and taxes
- ♦ Losses will be shown in brackets.

# HM Revenue & Customs

Tax return 2021-22  
Tax year 6 April 2021 to 5 April 2022  
Self Assessment - Tax Calculation (SA302)

Mr TEST CUSTOMER

Unique Tax Reference(UTR): 4594377891

Date: 30/06/2023

## Income received (before tax is taken off)

|                                  |                      |
|----------------------------------|----------------------|
| Pay from all employments         | 10,800.00            |
| Dividends from UK                | 67,007.00            |
| <del>Total income received</del> | <del>97,807.00</del> |
| Minus Personal allowance         | 11,850.00            |
| Total income on which tax is due | 85,957.00            |

## How I have worked out your income tax

### Pay, pensions, profit etc. (UK rate for England, Wales and Northern Ireland)

|              |           |         |           |
|--------------|-----------|---------|-----------|
| Starter rate | 0.00      | @ 19% = | 0.00      |
| Basic rate   | 34,500.00 | @ 20% = | 6,900.00  |
| Higher rate  | 31,457.00 | @ 40% = | 12,582.80 |

### Dividends from companies etc.

|                              |           |           |          |
|------------------------------|-----------|-----------|----------|
| Basic rate                   | 0.00      | @ 7.5% =  | 0.00     |
| Higher rate band at nil rate | 2,000.00  | @ 0% =    | 0.00     |
| Higher rate                  | 18,000.00 | @ 32.5% = | 5,850.00 |

|                                            |           |
|--------------------------------------------|-----------|
| Total income on which tax has been charged | 85,957.00 |
| Income Tax due                             | 25,332.80 |

Your first payment on account for 2022-23 2,000.00

Your total payment due by 31 January 2023 27,332.80

Payments on account for 2022-23 - Due by 31 July 2023 2,000.00



- ◆ Companies House
  - ◆ Search the register:
    - ◆ Company name / number
    - ◆ Individual.



Find and update company information

[Tell us what you think of Companies House](#)

[Companies House does not verify the accuracy of the information filed](#)

[Sign in / Register](#)

**Essential Service Maintenance:** This service will be affected on Saturday 21st October 2023 between 09:00 and 11:00 due to service maintenance. We apologise for any inconvenience.

## Search the register

Enter company name, number or officer name



- ♦ Overview

- ♦ Incorporated date
- ♦ Accounts – date submitted and when due
- ♦ Nature of business.

## EXAMPLE COMPANY LIMITED

Company number | **04091237**

[Follow this company](#)

[File for this company](#)

Overview

[Filing history](#)

[People](#)

[More](#)

Registered office address

**123 Made Up Street, Example Town, England, PR74 8RN**

Company status

**Active**

Company type

**Private limited Company**

Incorporated on

**5 August 2003**

### Accounts

Next accounts made up to **31 January 2023**  
due by **31 October 2023**

Last accounts made up to **31 January 2022**

### Confirmation statement

Next statement date **5 August 2024**  
due by **19 August 2024**

Last statement dated **5 August 2023**

### Nature of business (SIC)

43341 - Painting

- ◆ People

- ◆ List people with significant control

- ◆ Nature of control.

Overview

Filing history

People

More

Officers

Persons with significant control

1 active person with significant control / 0 active statements

Mr Test Customer

ACTIVE

Correspondence address

123 Made Up Street, Example Town, England, PR74

Notified on

Date of birth

Nationality

2 July 2016

March 1975

British

Country of residence

England

Nature of control

Ownership of shares – 75% or more

---

### Statement of Capital (Totals)

---

|          |     |                               |   |
|----------|-----|-------------------------------|---|
| Currency | GBP | Total number of shares        | 2 |
|          |     | Total aggregate nominal value | 2 |

---

### Full Details of Shareholders

The details below relate to individuals / corporate bodies that were shareholders as at 05/08/2015 or that had ceased to be shareholders since the made up date of the previous Annual Return

*A full list of shareholders for the company are shown below*

Shareholding 1 : 1 ORDINARY shares held as at the date of this return  
Name: TEST CUSTOMER

Shareholding 2 : 1 ORDINARY shares held as at the date of this return  
Name: OTHER CUSTOMER

PUBLIC

- ♦ Filing history
  - ♦ Confirmation statements
    - ♦ Breakdown of shareholding
    - ♦ Differing share types.

| Overview                                                                                                                                                                                                                                                                                                       | Filing history                                                                                      | People | More                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------|----------------------------------------------------------------------|
| Filter by category<br><input type="checkbox"/> Show filing type <input type="checkbox"/> Accounts <input type="checkbox"/> Confirmation statements / Annual returns <input type="checkbox"/> Capital <input type="checkbox"/> Incorporation <input type="checkbox"/> Charges <input type="checkbox"/> Officers |                                                                                                     |        |                                                                      |
| Date                                                                                                                                                                                                                                                                                                           | Description                                                                                         |        | View / Download                                                      |
| 10 Aug 2023                                                                                                                                                                                                                                                                                                    | <b>Change</b> of details for Mr Test Customer as a person with significant control on 4 August 2023 |        | <a href="#">View PDF</a> (2 pages)                                   |
| 10 Aug 2023                                                                                                                                                                                                                                                                                                    | <b>Confirmation statement</b> made on 5 August 2023 with updates                                    |        | <a href="#">View PDF</a> (4 pages)                                   |
| 10 Aug 2023                                                                                                                                                                                                                                                                                                    | <b>Cessation</b> of Mr Other Customer as a person with significant control on 4 August 2023         |        | <a href="#">View PDF</a> (1 page)                                    |
| 10 Aug 2023                                                                                                                                                                                                                                                                                                    | <b>Termination of appointment</b> of Mr Other Customer as a director on 4 August 2023               |        | <a href="#">View PDF</a> (1 page)                                    |
| 28 Oct 2022                                                                                                                                                                                                                                                                                                    | <b>Micro company accounts</b> made up to 31 January 2022                                            |        | <a href="#">View PDF</a> (4 pages)<br><a href="#">Download iXBRL</a> |
| 11 Aug 2022                                                                                                                                                                                                                                                                                                    | <b>Confirmation statement</b> made on 5 August 2022 with no updates                                 |        | <a href="#">View PDF</a> (3 pages)                                   |
| 11 Aug 2022                                                                                                                                                                                                                                                                                                    | <b>Change</b> of details for Mr Test Customer as a person with significant control on 1 August 2022 |        | <a href="#">View PDF</a> (2 pages)                                   |
| 29 Oct 2021                                                                                                                                                                                                                                                                                                    | <b>Micro company accounts</b> made up to 31 January 2021                                            |        | <a href="#">View PDF</a> (4 pages)<br><a href="#">Download iXBRL</a> |
| 10 Aug 2021                                                                                                                                                                                                                                                                                                    | <b>Confirmation statement</b> made on 5 August 2021 with no updates                                 |        | <a href="#">View PDF</a> (3 pages)                                   |
| 10 Aug 2021                                                                                                                                                                                                                                                                                                    | <b>Director's details changed</b> for Mr Test Customer on 3 August 2021                             |        | <a href="#">View PDF</a> (2 pages)                                   |
| 10 Aug 2021                                                                                                                                                                                                                                                                                                    | <b>Secretary's details changed</b> for Mr Other Customer on 3 August 2021                           |        | <a href="#">View PDF</a> (1 page)                                    |

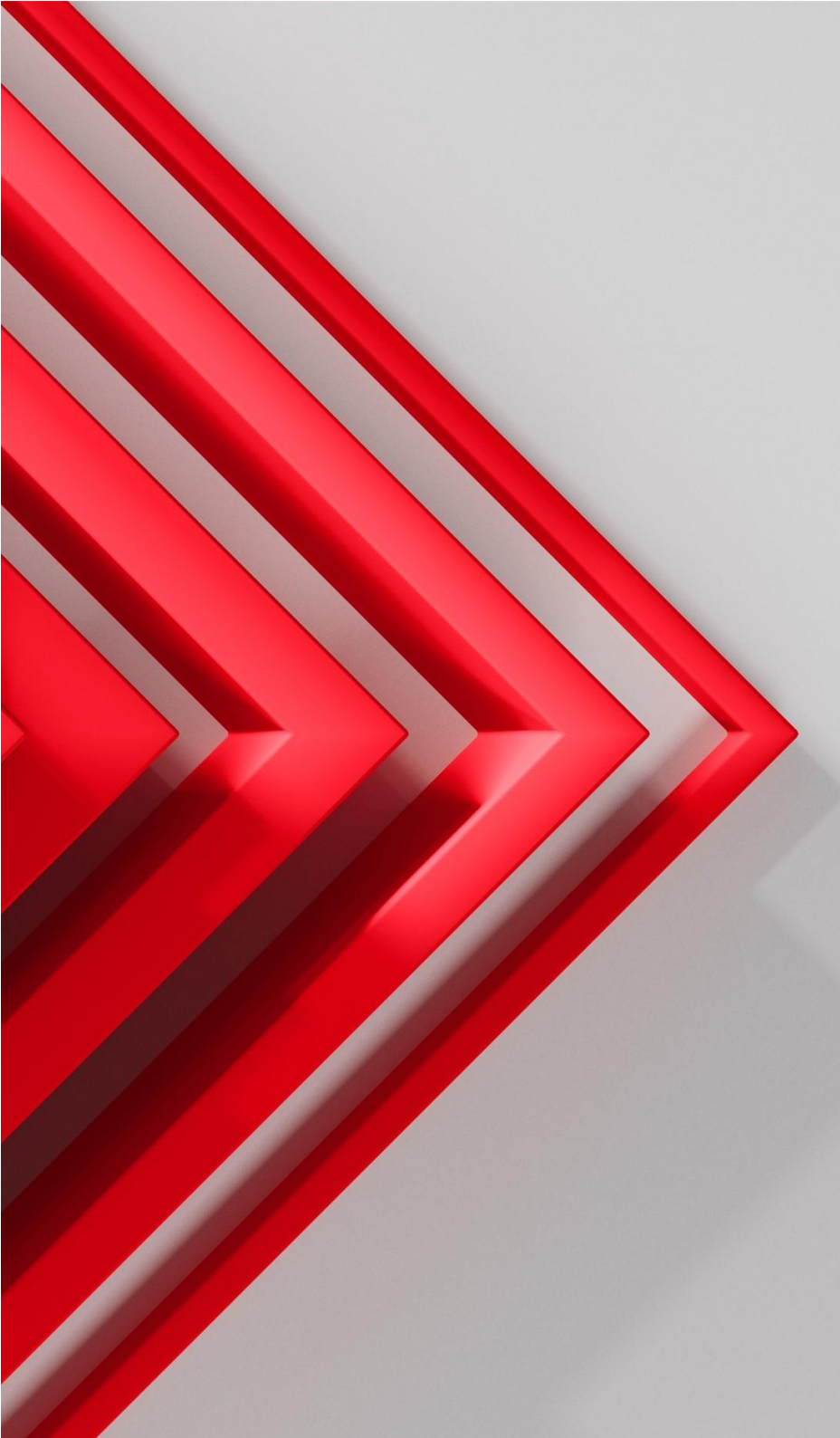
**Businesses that have traded at a loss for either the last or previous full accounting year:**

For Self-Employed applicants the income used in the LTI calculation would be the average profit over the last two years for sole traders, partnerships, or LLPs.

For Limited Company directors, it would be the average of the director's salary and the applicant's share of net profit after Corporation Tax over the last two years. In all cases, if the latest year's total income is lower than the average then the latest year's figure should be used

Please see the following examples to illustrate which income is to be used when manually calculating LTI:

| Self-employed income from latest full accounting year | Self-employed income from previous full accounting year | Average income to be used for Loan to Income Multiple | Outcome                                                                                                                                                                                                                                |
|-------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>-£15,312</b>                                       | <b>£9,856</b>                                           | <b>N/A</b>                                            | As the business has made a loss in the latest year, the customer would be unable to progress a DIP as this would reject for affordability based on the less made.                                                                      |
| <b>-£2,228</b>                                        | <b>-£21,007</b>                                         | <b>N/A</b>                                            | As the business has made a loss in both years, the customer would be unable to progress a DIP as this would reject for affordability based on the less made.                                                                           |
| <b>£13,785</b>                                        | <b>-£3,682</b>                                          | <b>£5,051.50</b>                                      | The business has earned a profit of £10,103 over the last two years – this averages at £5,051.50 per year. The LTI would be based on an income of £5,051.50.                                                                           |
| <b>£24,918</b>                                        | <b>-£30,647</b>                                         | <b>N/A</b>                                            | Although the business has made a profit in the latest accounting year, overall, it has made a loss of £5,729 over a two-year period. Therefore, the customer would be unable to progress a DIP as this would reject for affordability. |



## **New business trading less than 2 years (sole trader / partnerships / LLP's / Limited company)**

We will consider applications for new business entities (i.e. trading for less than two years), on an individual basis. Careful consideration should be given to:

- ♦ The applicant's employment record prior to becoming self-employed
- ♦ The applicant's future work prospects, should the business venture fail

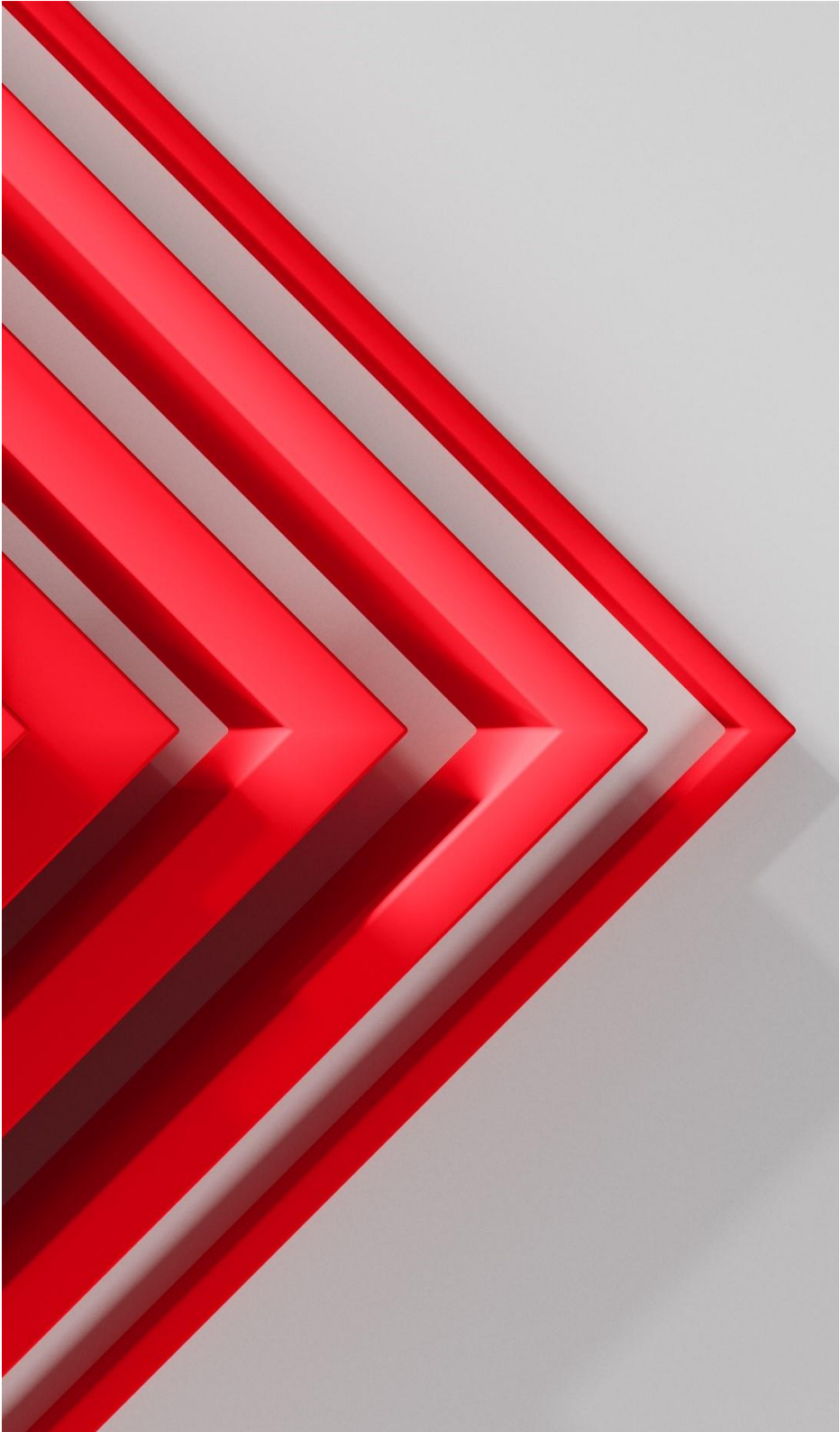
### **Evidence required**

**Limited company** - a minimum of one year's finalised financial accounts & last three months' worth of business bank statements

**Sole trader / Partnership / LLP less than 50 partners** - a minimum of one year's HMRC documentation (Tax Calculation and corresponding Tax Year Overview) & last three months' worth of business bank statements

**LLP 50 or more partners** – Letter from the Finance Director, Manager of Partner Affairs / Accounts or Company Accountant confirming the income. The letter must contain:

- ♦ Customers earnings over the past two years;
- ♦ Date joined the business;
- ♦ Date they were made a partner; along with
- ♦ Authors job title and any accountancy qualifications.



## How to calculate / input income

If a full two years' net profit cannot be evidenced, you will need to input £0 in the 'share of profit after tax for the previous full accounting year' field.

### Limited Company

- ♦ Most recent year –Input director's salary and net profits from the financial accounts
- ♦ Previous year –Input £0 for both director's salary and net profits

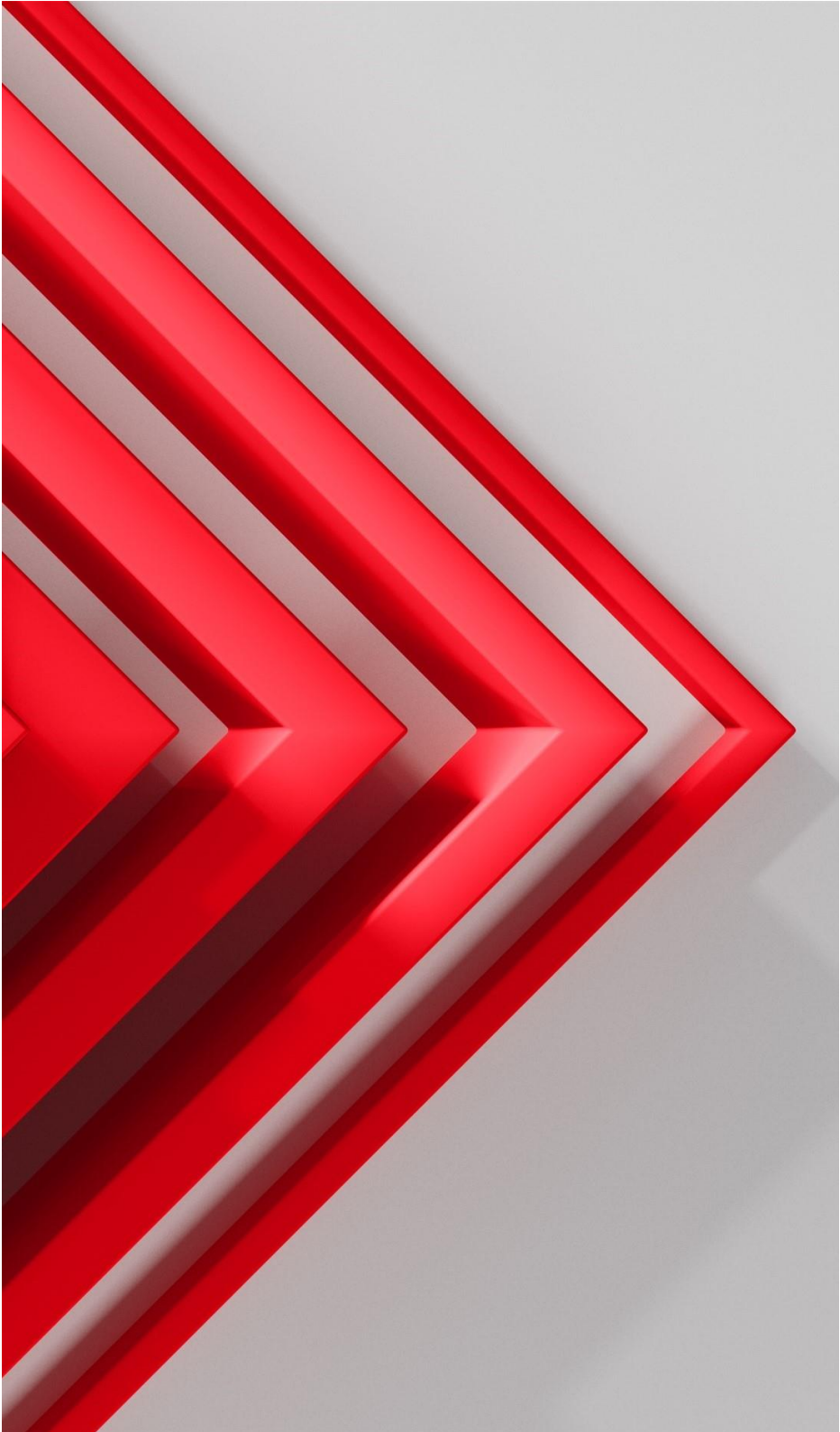
### Sole trader / partnership / LLP with less than 50 partners

- ♦ Most recent year –Input profit from self-employment from the Tax Calculation
- ♦ Previous year –Input £0 for profits

### LLP 50 or more partners

- ♦ Most recent year –Input client's earnings as stated in the letter from finance director for the latest year
- ♦ Previous year –input £0 in the 'share of profit after tax for the previous full accounting year' field.

Only input the share your client is entitled to.



## Change in Business Entity

- ♦ The new business entity must be a continuation of the old business i.e. the only change is the trading name
- ♦ Where the ownership of an existing business changes e.g. 100% per cent sole trader converts to a Limited Company with two directors with 50 per cent each – we will treat this as a new business entity.

### Sole Trader/ Partnership converting to a Limited Company

Where the first year's finalised financial accounts HAVE NOT been provided:

- ♦ Last two years Tax Calculation\* and corresponding Tax Year Overviews

Where the first year's finalised financial accounts HAVE been provided:

- ♦ Latest year's finalised financial accounts which must be dated within the last 18 months

### How to calculate / input income - Residential

**Example 1** - Sole trader converts to Limited Company and we have been provided with the first year's financial accounts for the Limited Company and previous year's sole trader HMRC documentation as a sole trader:

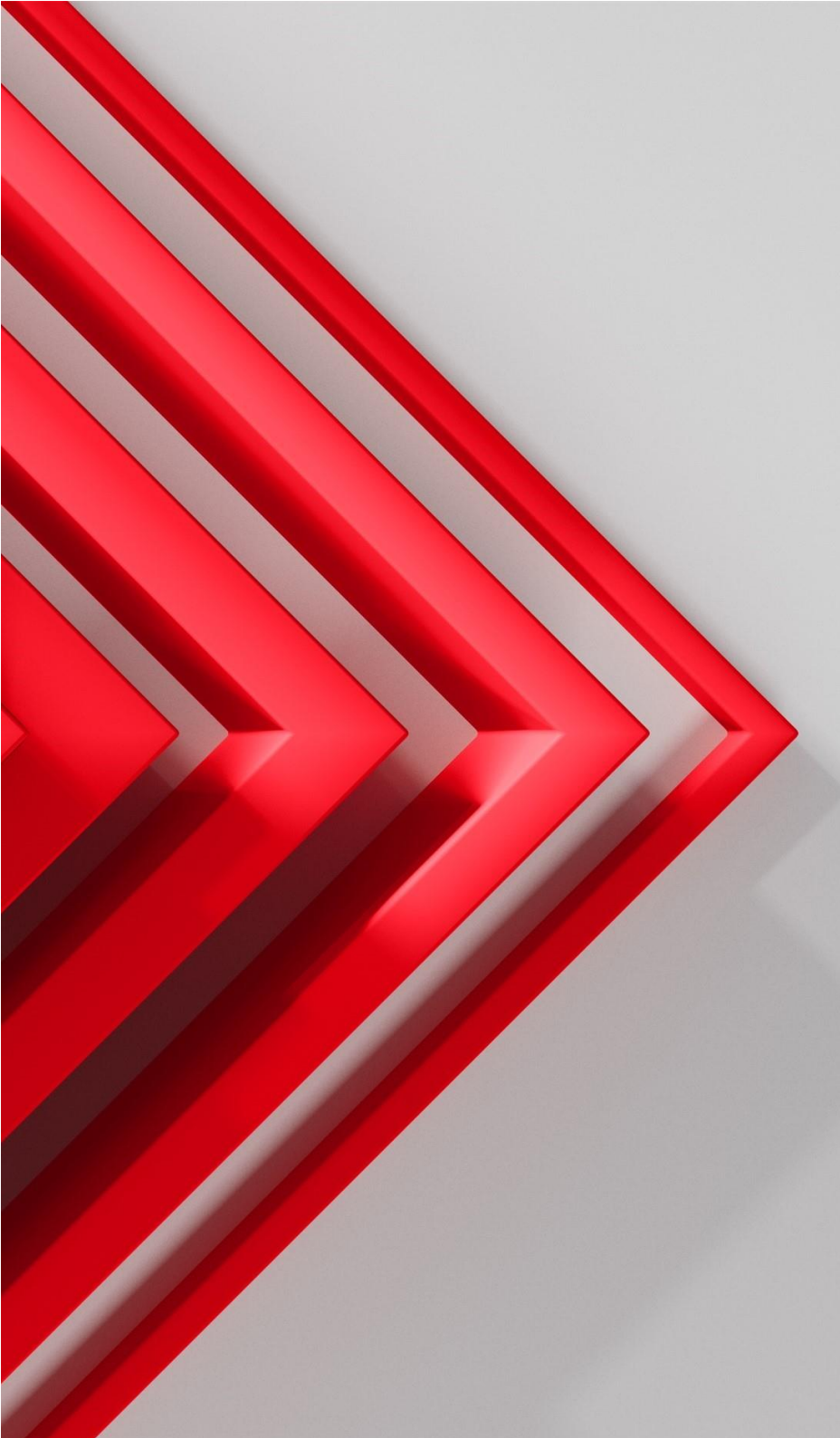
**Most recent year**–Input director's salary and net profits from the financial accounts

**Previous year**–Input net profits from the Tax Calculation. Input £0 for the director's salary

**Example 2** -Sole trader converts to Limited Company and we have been provided with the sole trader HMRC documentation for the most recent and previous year as a sole trader:

**Most recent year**–Input net profits from the Tax Calculation. Input £0 for the director's salary

**Previous year** -As above



## Shareholding changes from previous year

Where the customer has changed shareholding part way through a financial year, they are entitled to that percentage of net profits for the full financial year. Where there has been a reduction, as this will be the percentage going forward the lower amount should be used for both years.

### Examples

Customer submits accounts for 31/03/23 and 31/03/24. Their shareholding increased from 50% to 75% in December 2023

- ♦ 50% of net profit can be used for 2023 and 75% of net profit for 2024. If they also receive a director's salary, please include the correct amount as evidenced by p60 or tax returns.

Customer submits their accounts for 30/09/23 and 30/09/24. Their shareholding reduced from 50% to 20% in August 24

- ♦ 20% of the income should be used for the application for both latest and previous years, as they would only be entitled to the lower amount going forward.

### How to input income

Income keyed should reflect the current ownership and the Net Profit figure should reflect the current shareholding.



**Change from an employed position to a partner or director within the SAME business within the last two years -Partnerships, LLPs with less than 50 partners and limited company directors**

Where an applicant's employment status has changed from being an employee of a company to a partner or director of the same business and they do not have two years' financial accounts/HMRC documentation as a partner or director.

The most common of these scenarios is where an employed doctor, solicitor, accountant or architect, has recently been invited to become a partner in the firm they work for.

**Where the employee has become a partner/director:**

Where the first year's HMRC documents for the partnership HAVE NOT been provided:

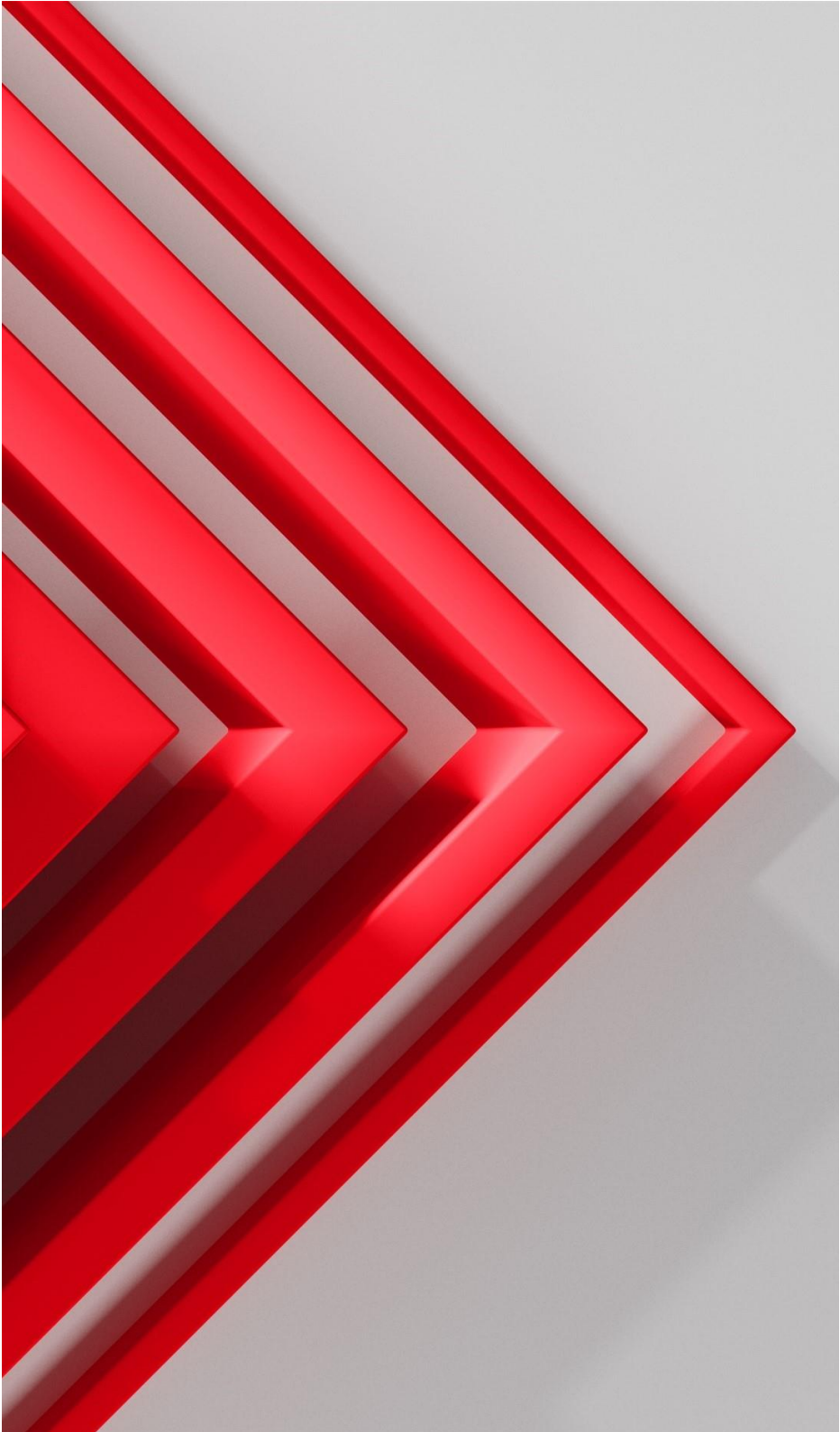
- ♦ Average of last two year's HMRC documents as an employee or the last two years P60's as an employee or a combination of both

**How to input income**

Employee to a partner / director and the first years HMRC documentation as a partner is not available. We have been provided with the last two years P60s as an employee:

**Most recent year**–Input earned income from the P60

**Previous year**–As above



## Employee to Partner

Where the first year's HMRC documents for the partnership HAVE been provided:

- ♦ Previous year's HMRC documents or P60 as an employee
- ♦ Latest year's Tax Calculation\* and corresponding Tax Year Overview

### How to input income

Employee to a partner and we have been provided with the first years HMRC documentation as a partner and previous years HMRC documentation or P60 as an employee:

**Most recent year**–Input net profits from the Tax Calculation

**Previous year**–Input net profits from the Tax Calculation or earned income from the P60

## Employee to Director

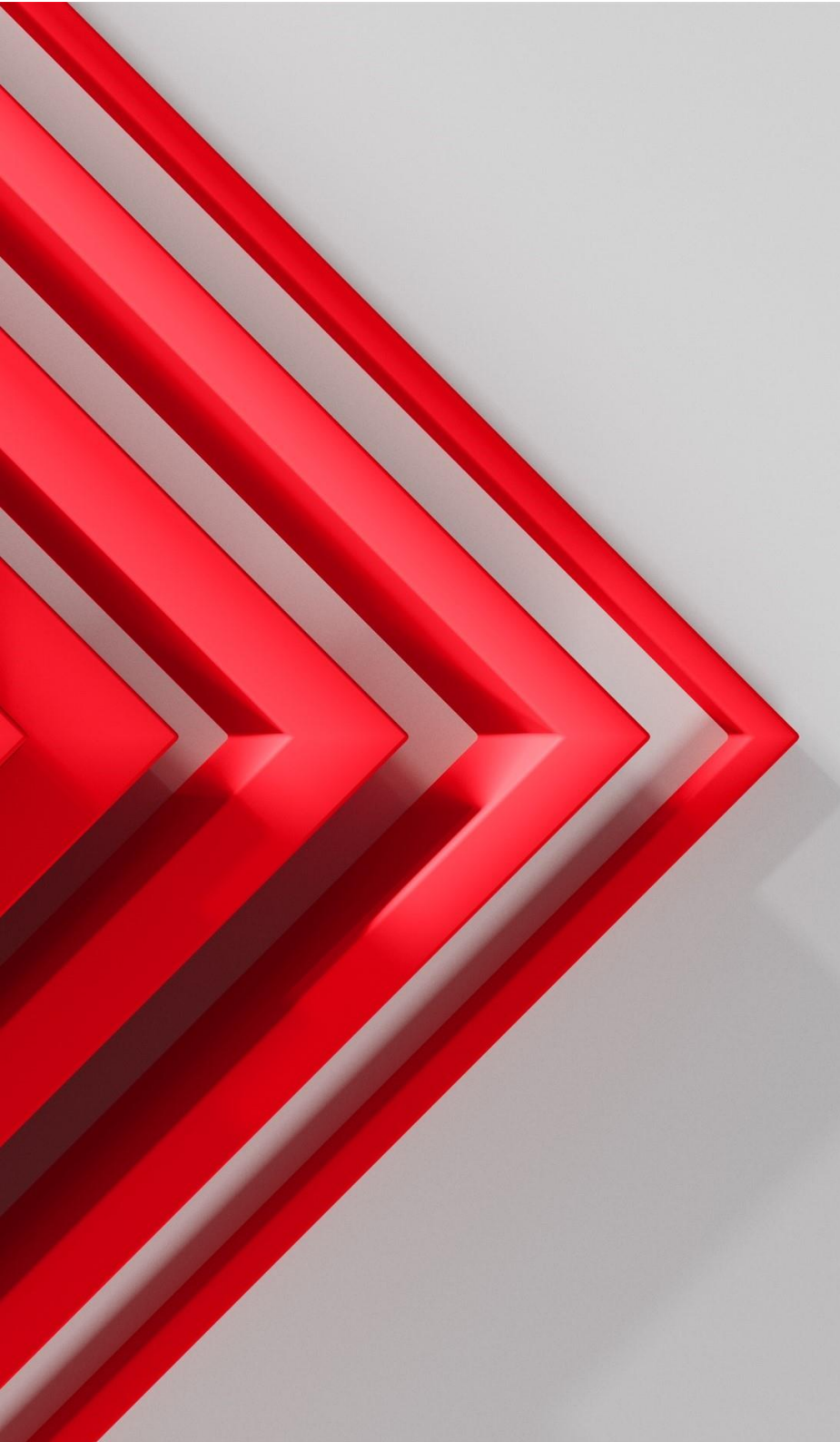
Where the first year's finalised financial accounts for the Limited Company HAVE been provided:

- ♦ Latest year's finalised financial accounts
- ♦ Previous year's HMRC documents or P60 as an employee

### How to input income

Employee to a director and we have been provided with the first year's financial accounts as a director and previous years HMRC documentation or P60 as an employee:

- ♦ **Most recent year**–Input director's salary and net profits from the financial accounts.
- ♦ **Previous year**–Input net profits from the Tax Calculation or earned income from the P60. Input £0 for the director's salary



Please note, a Companies House search must be completed in all instances when we use finalised financial accounts as part of the income assessment, irrespective of whether the financial accounts have been signed or not. These must match to confirm the accounts received are finalised.

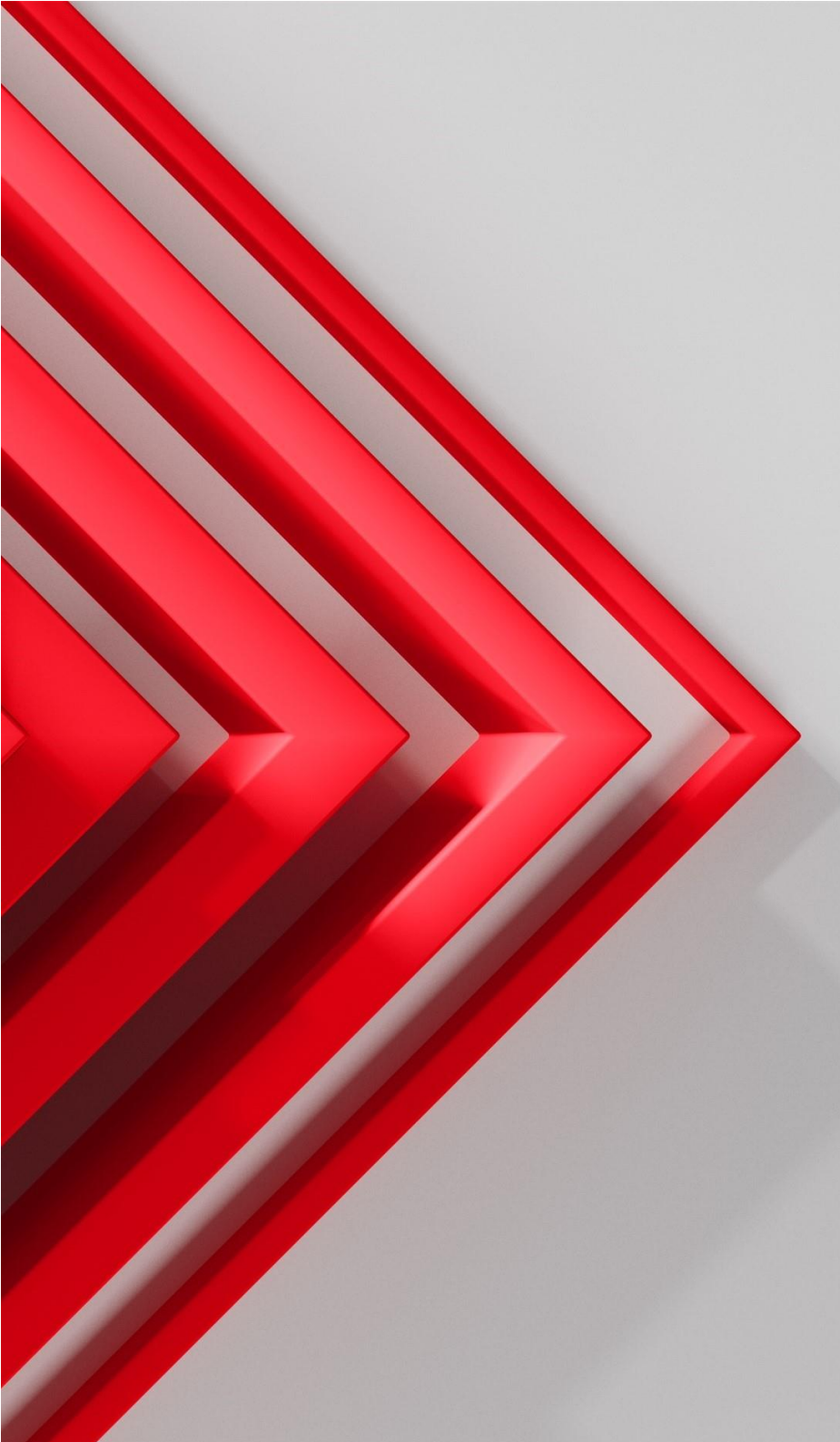
If there are multiple directors within the business, and the financial accounts do not confirm the distribution of salary to each director, then evidence will be required from either the latest two year's P60 or latest two year's Tax Calculation and corresponding Tax Year Overviews.

**Change from an employed position to a partner or director within a DIFFERENT business within the last two years -Partnerships, LLPs with less than 50 partners and limited company directors**

The customer will be considered to be newly self employed

- ♦ Only income from the new partnership/business should be considered

**Do not include any income from the previous employment.**



## Change from employed to partner with LLP (50 or more partners)

### Evidence required

Letter issued from the Finance Director, Manager of Partner Affairs / Accounts or Company Accountant confirming the income for the last two years (Please note income can be split between time as an employee and time as a partner and this should be detailed in the letter). The letter must be dated within the last three months. Where an individual changes employment status within the latest year: Letter from the Finance Director, Manager of Partner Affairs / Accounts or Company Accountant confirming the income. The letter must contain:

- ♦ Customers earnings over the past two years;
- ♦ Date joined the business;
- ♦ Date they were made a partner; along with
- ♦ Authors job title and any accountancy qualifications.

A minimum of one month's payment must be evidenced in the applicant's personal bank account. The bank statement should be used to validate the drawings stated on the letter from director/ accountant.

**Please note: the share of future profits cannot be included in the income calculation until they have been received**

### How to input income

**Example 1** -Employee to a partner and we have been provided with a letter from the finance director or accountant confirming the first year's share of profit as a partner and the previous year's P60 as an employee:

- ♦ **Most recent year**–Input the share of profit for the latest year
- ♦ **Previous year**–Input the earned income from the P60

**Example 2** -Employee to a partner and we have been provided with a letter from the finance director or accountant confirming the monthly drawings as a partner and previous earnings as an employee:

- ♦ **Most recent year**–Input the annualised monthly drawings as a partner
- ♦ **Previous year**–Input the previous years earned income as an employee



### **What is a Holding Company?**

A Holding Company is a business entity — usually a Private or Public Limited Company.

A Holding Company is also sometimes called an "umbrella" or parent company. Typically, a Holding Company doesn't manufacture anything, sell any products or services, or conduct any other business operations. Rather, Holding Companies hold the controlling stock in other companies.

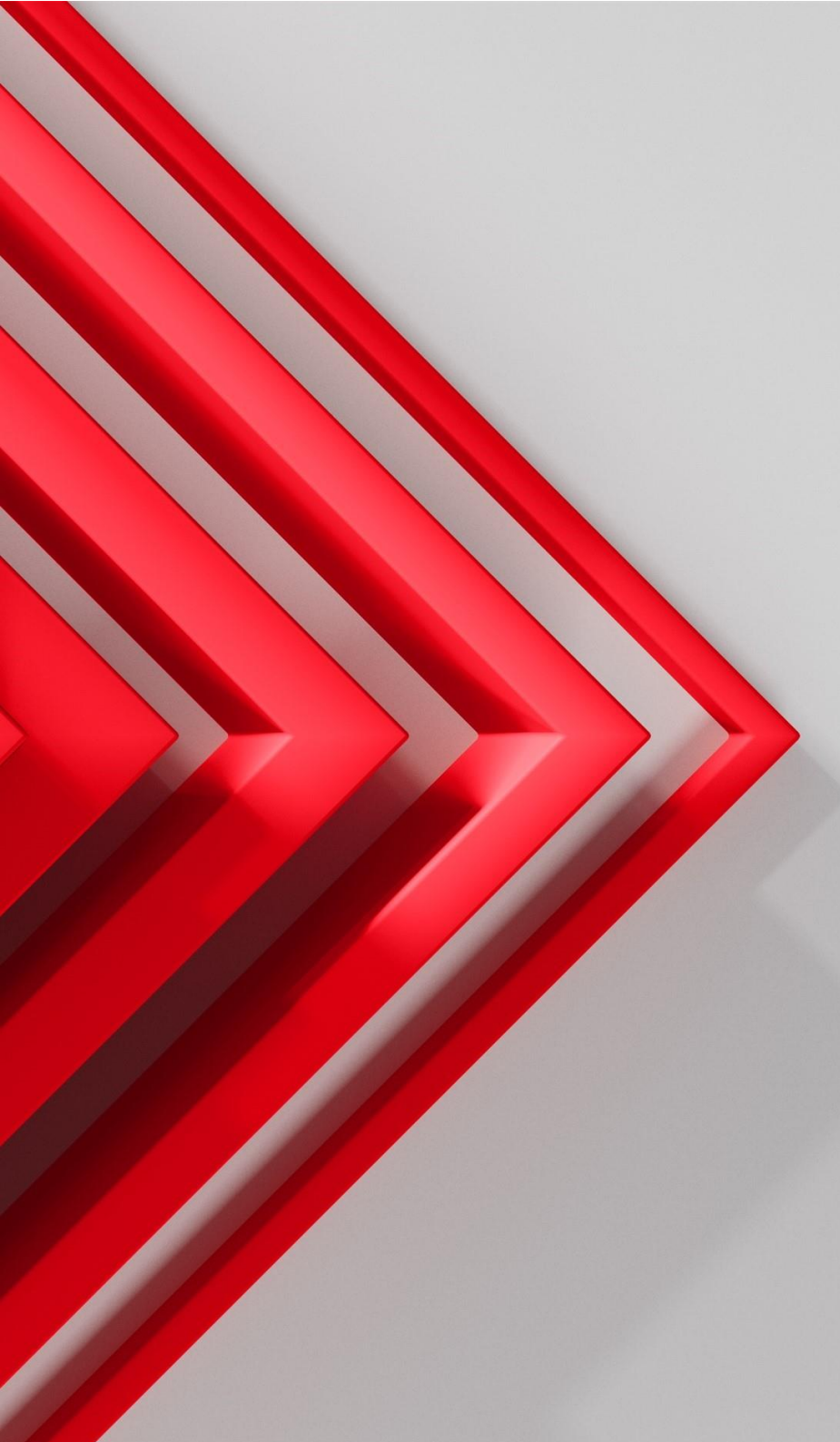
Although a Holding Company owns the assets of other companies, it often maintains only oversight capacities. So, while it may oversee the company's management decisions, it does not actively participate in running a business's day-to-day operations of these subsidiaries.

### **How should the income be assessed?**

Ordinarily, income for a >25% shareholder in a Limited Company would be based on the net profit after tax (NPAT) of the company that the shares are held in. However, where a Holding Company arrangement is in place, the customer will often not own shares in the subsidiary company(s) but instead will own shares in the Holding Company.

The NPAT of the holding company will often be determined by whether the subsidiary company has paid dividends to the holding company.

Larger groups of holding / subsidiary companies may produce consolidated financial statements which provide a view of a group of companies' profitability across all divisions and subsidiaries. They are usually required when one company owns more than 50% of the outstanding common voting stock of another company.



Where consolidated accounts are produced and a customer owns >25% of the parent company's shares, their income can be based on their share of the net profit after tax as per the consolidated accounts.

The 'Ultimate Controlling Party' and 'Related Party Transactions' sections of the accounts may provide further insight into how companies feed into each other.

#### **Evidence required**

Where the applicant owns shares in the holding company and consolidated financial statements are not produced, we would require the documents as per self-employed policy for the holding company and each of its subsidiaries.

Where consolidated financial statements are produced only these are required.

If the applicant owns no shares in the holding or parent company just the subsidiaries, we need the documents for all subsidiaries in which the applicant holds shares



#### **Summary of USP's**

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- ♦ Self-employed customers are subject to the same LTI and LTV limits as all other types of income
- ♦ International lending – including overseas self-employment
- ♦ Net profit used rather than dividends.



#### **Further information**

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[Chat with us](#), call our Broker Support Team on 0345 600 5847 (Monday to Friday 9am to 5pm) or contact your local [BDM](#).