HSBC UK Useful Guide

Self-Employed

HSBC | Opening up a world of opportunity

Agenda

Types of self-employment

Self-employed income

Companies House

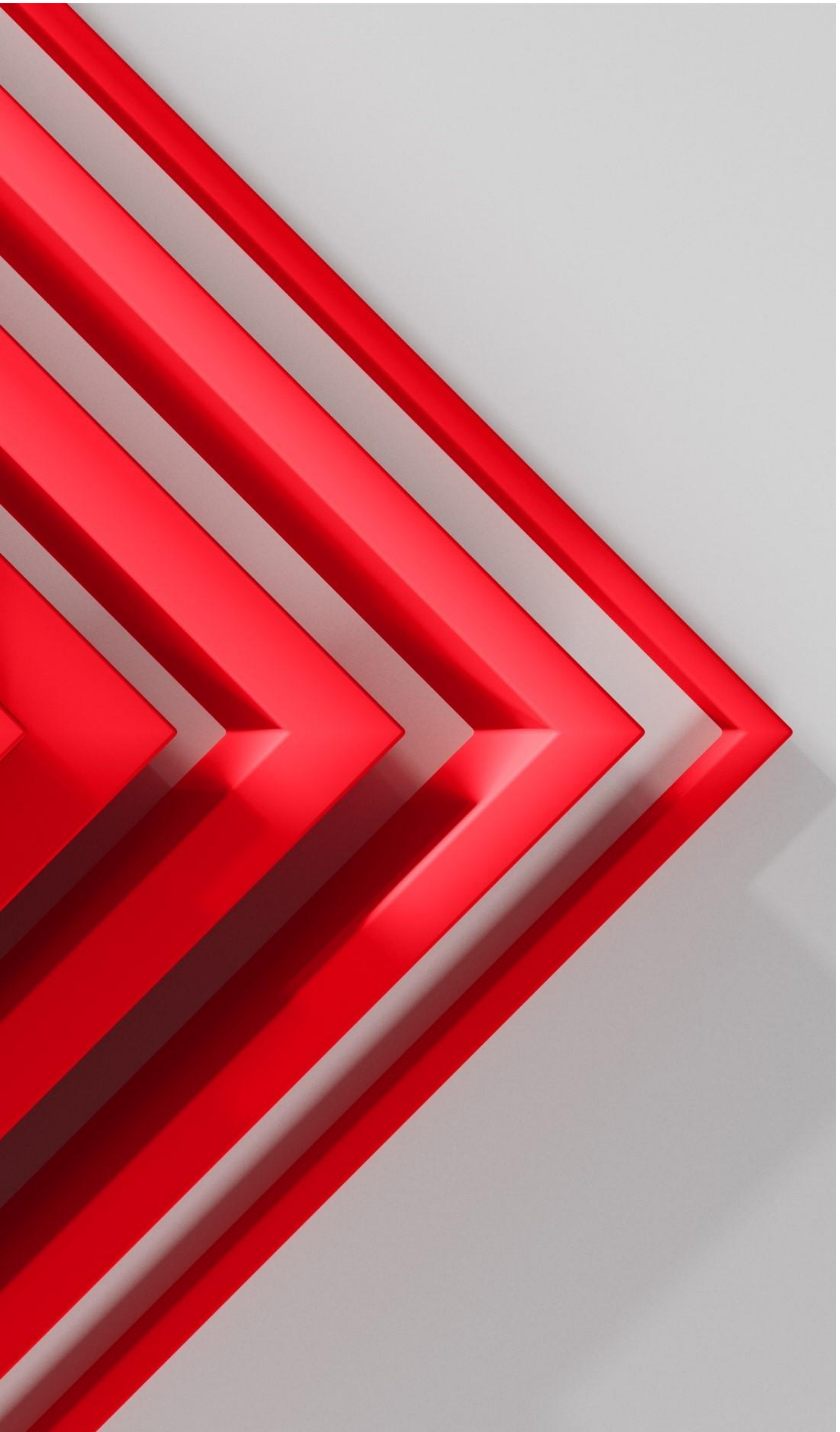
Niche Scenarios:

- 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

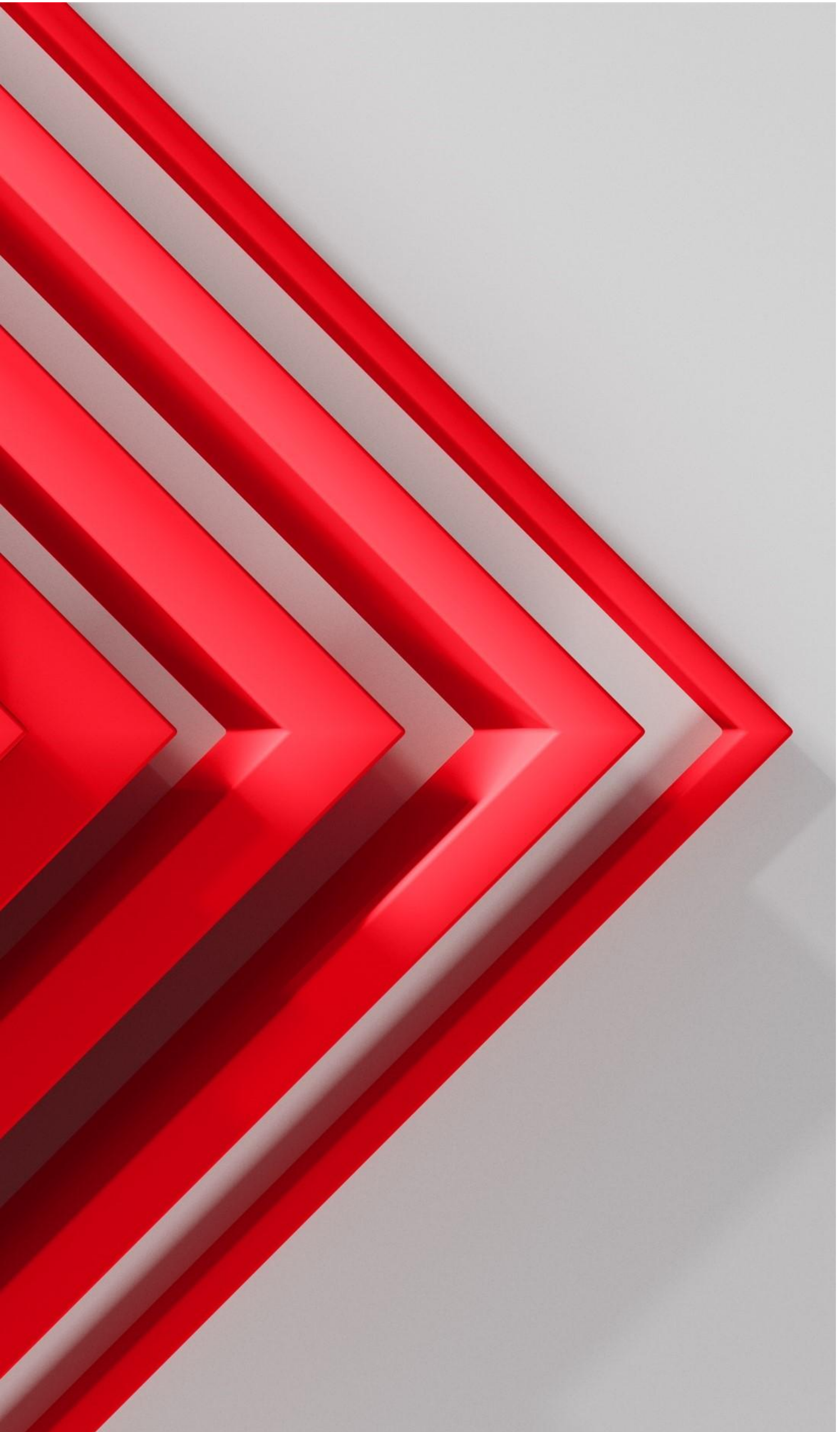
USP summary

Further information



Types of Self-employment

- 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.

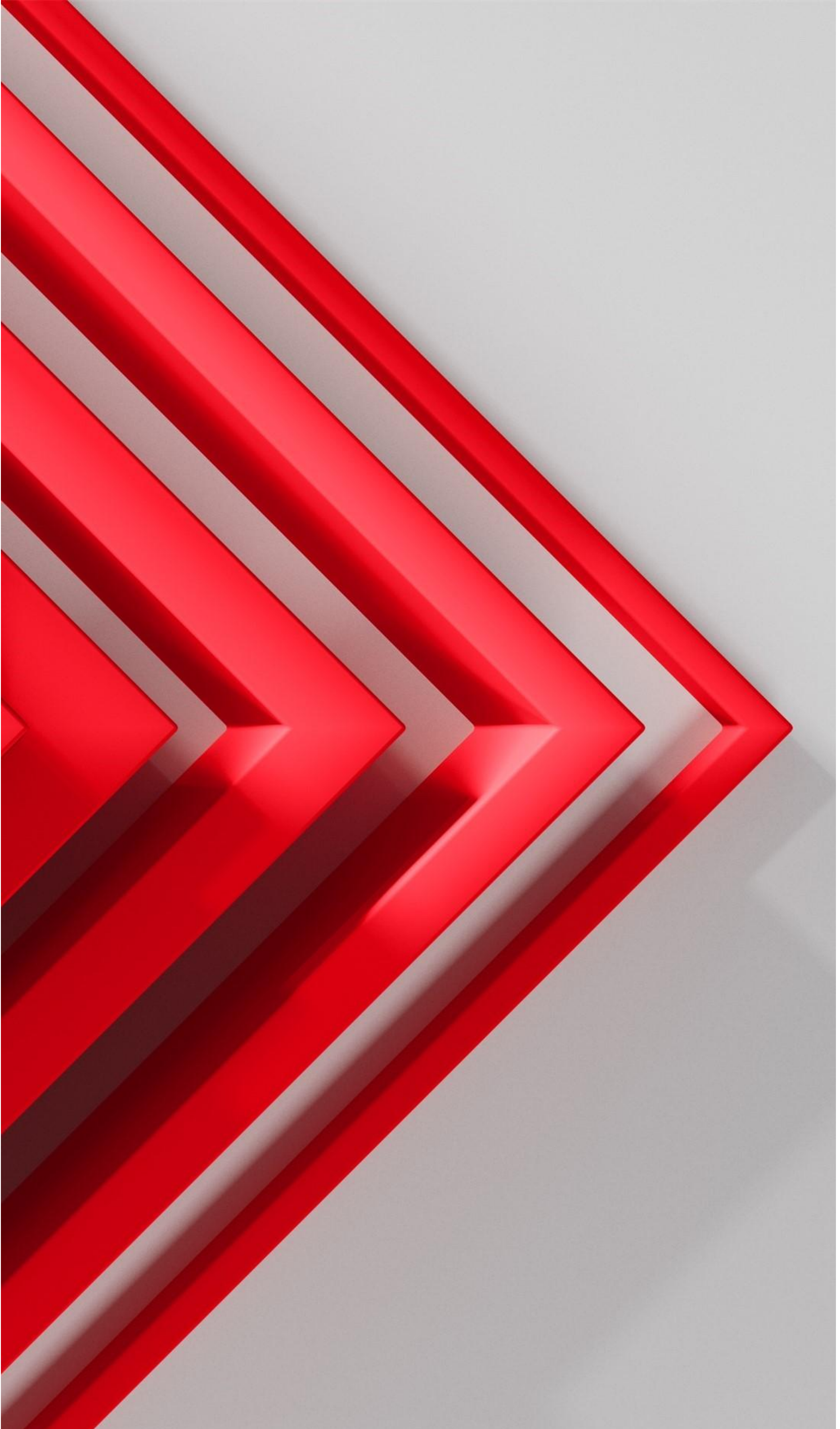


Proof of income – Self-employed

- 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, when requested
        - 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.



GOV.UK — Test Customer's tax return 2022-23

Sign out

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
Total income received	£26,657.00
minus Personal Allowance	£11,500.00
Total income on which tax is due	£17,157.00

How we have worked out your income tax

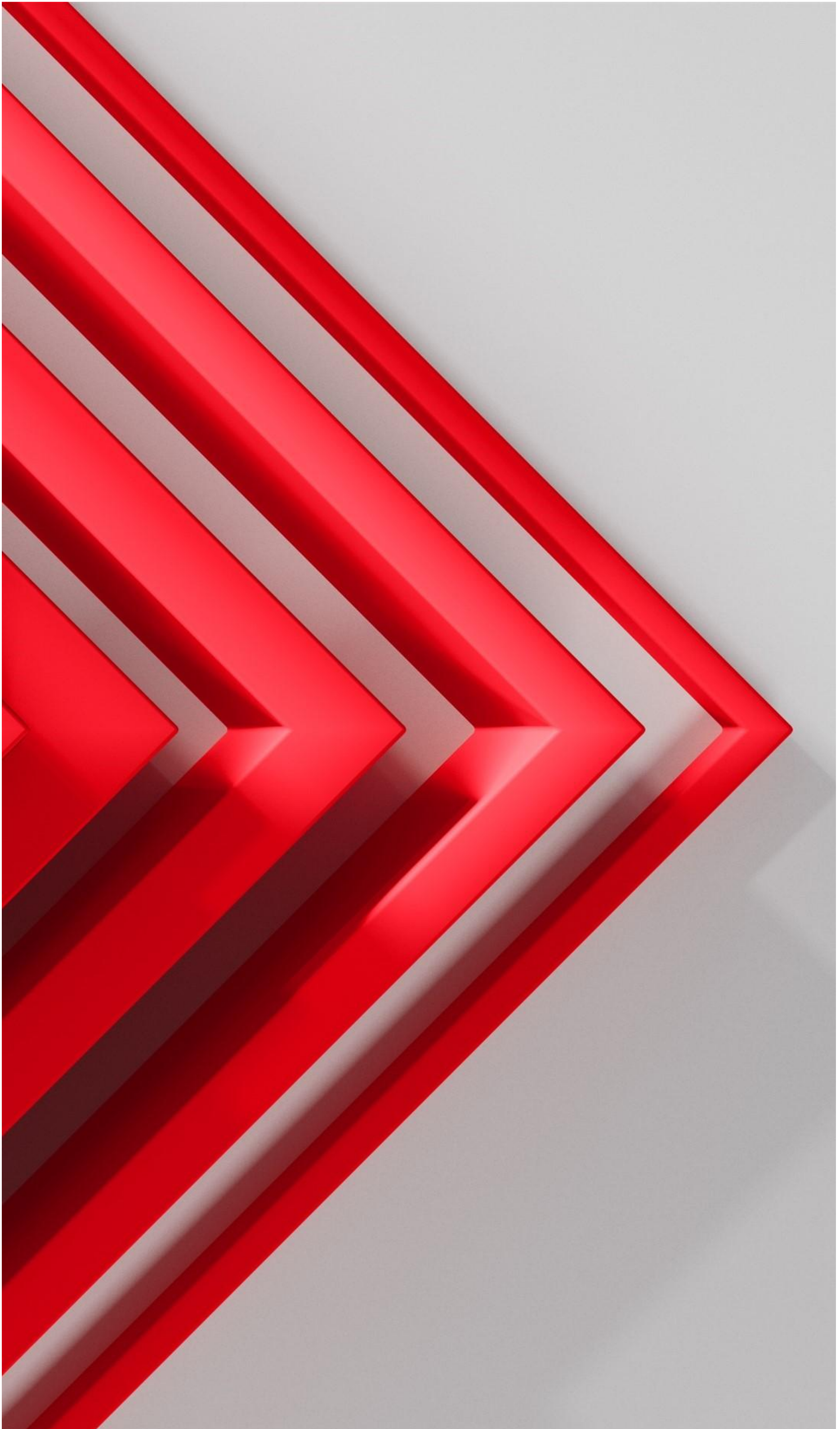
Your basic rate limit has been increased by £450.00 to £33,950.00 for Gift Aid payments.
This reduces the amount of income charged to higher rataes of tax.

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

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
Total due by 31 January 2024	£7,526.82



HM Revenue & Customs Home Cymraeg Contact HMRC Help Sign out

Information as at 20 Jun 2023
MR T CUSTOMER
Unique Taxpayer Reference (UTR): 4594377891

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: 05 Apr 2023 Go

Income Tax Status : **UK**

You can also view tax returns due/received by following Tax return options.

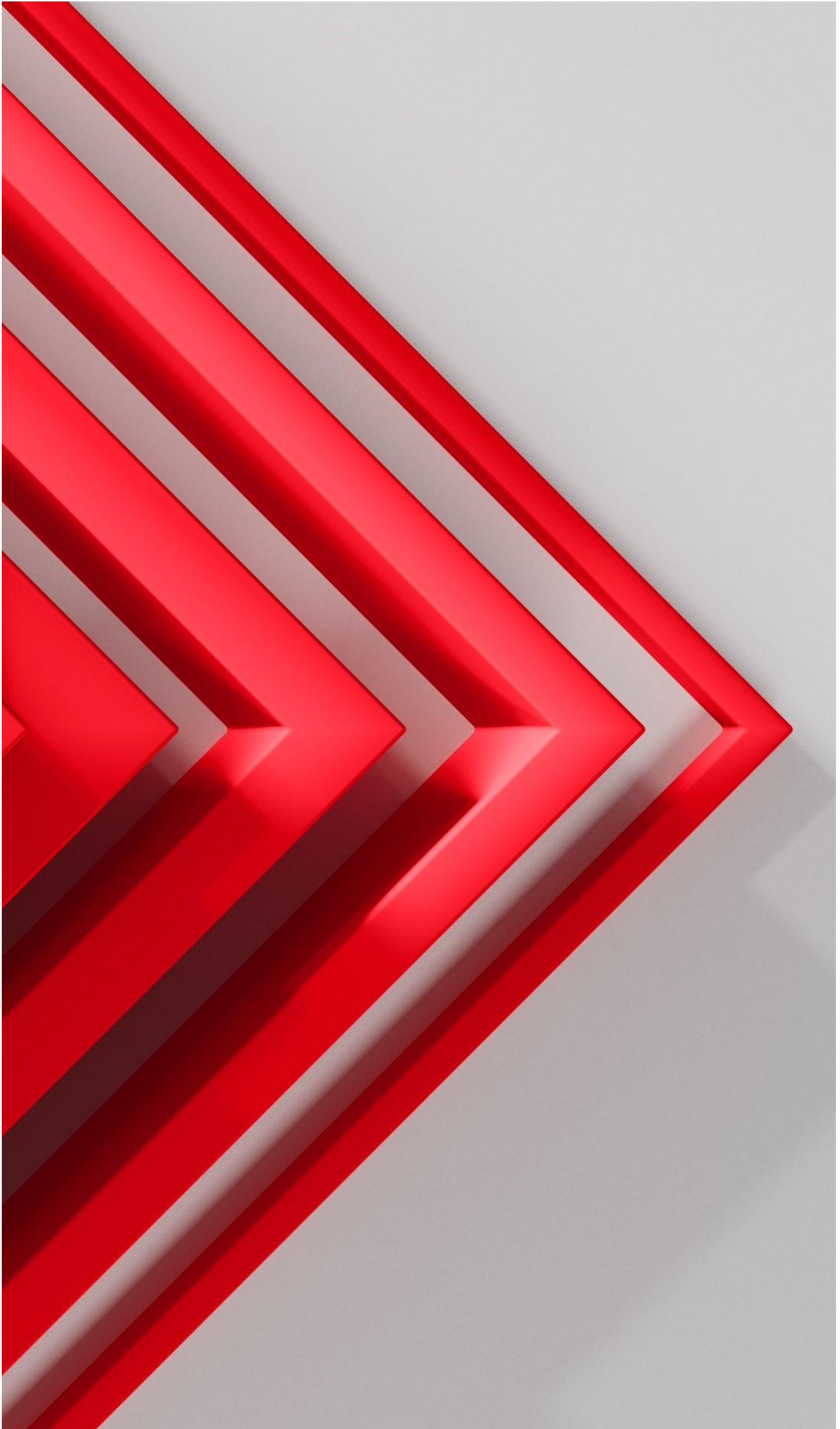
Tax year ending 05 Apr 2023.
This is a copy of the information held on your official online Self Assessment tax account with HM Revenue and Customs.

Print your tax year overview

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

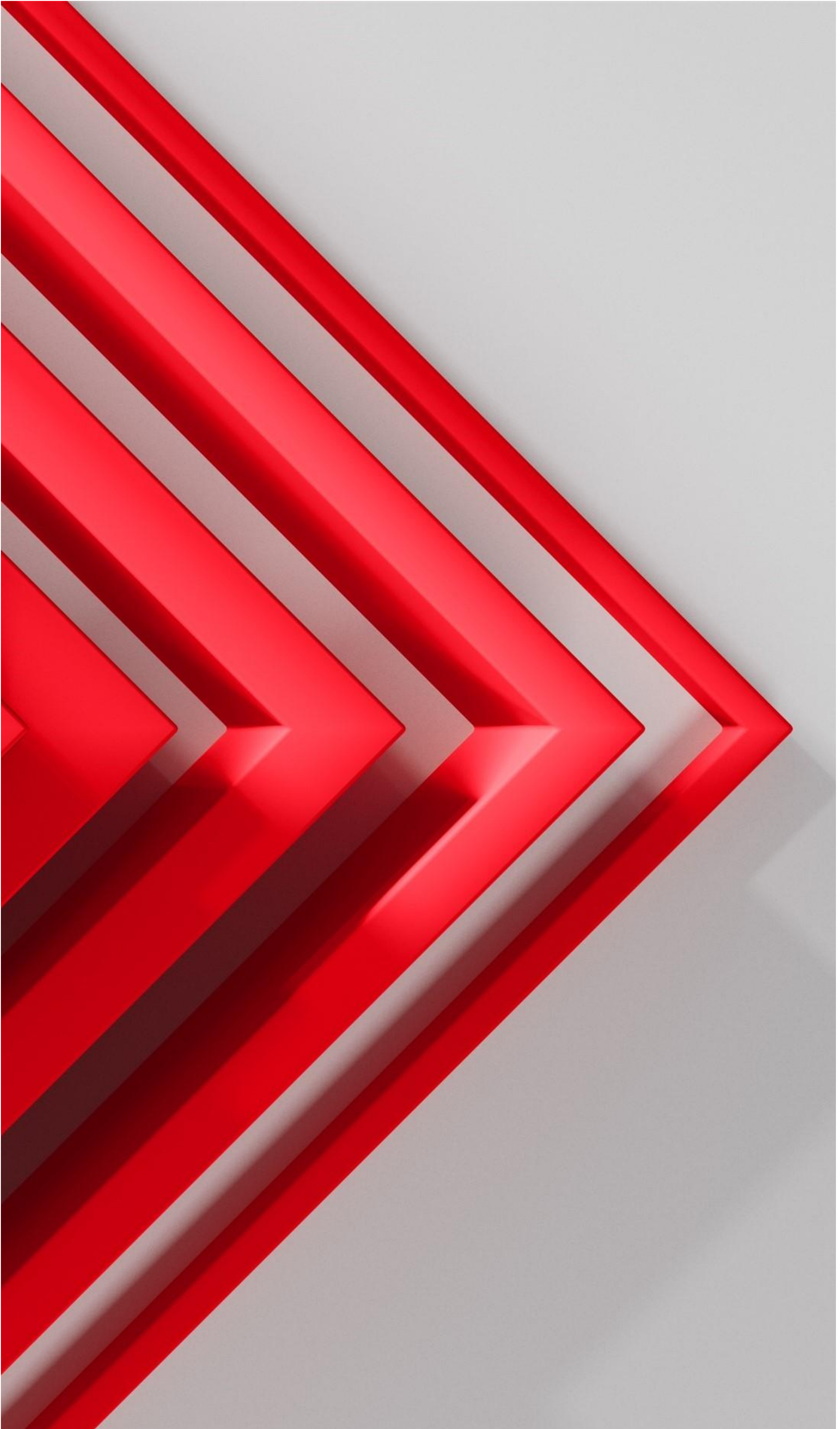
Description	Amount (£)
Tax	5067.28
Surcharges	0.00
Interest	0.00
Penalties	0.00
Sub total	5067.28
Less payments for this year	5067.28
Less other adjustments	0.00
Total	**0.00**

- 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, when requested
  - 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.

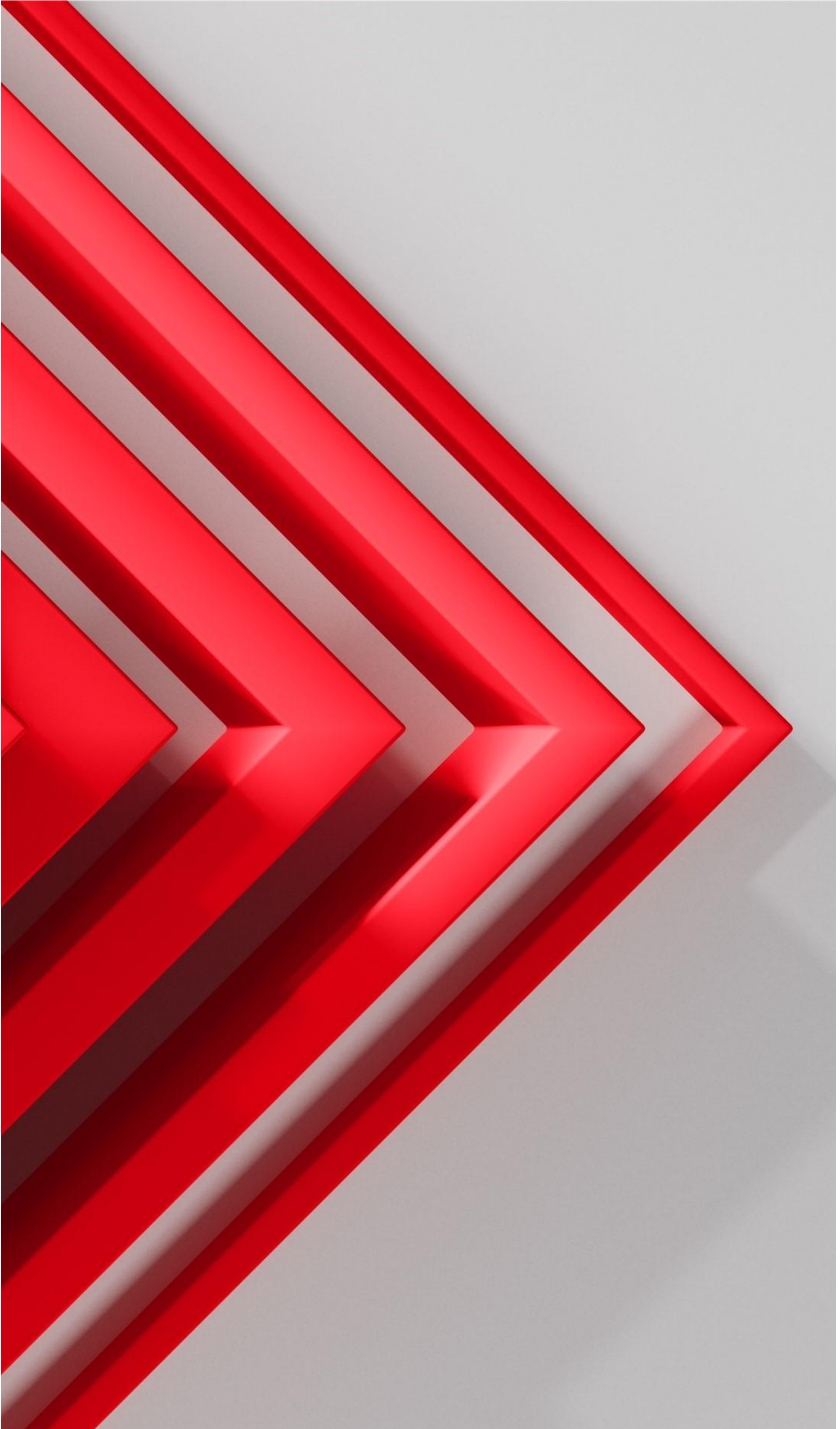


EXAMPLE COMPANY LIMITED

DETAILED INCOME STATEMENT
YEAR ENDED 31 MARCH 2023

	2023	2022
	£	£
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

PUBLIC

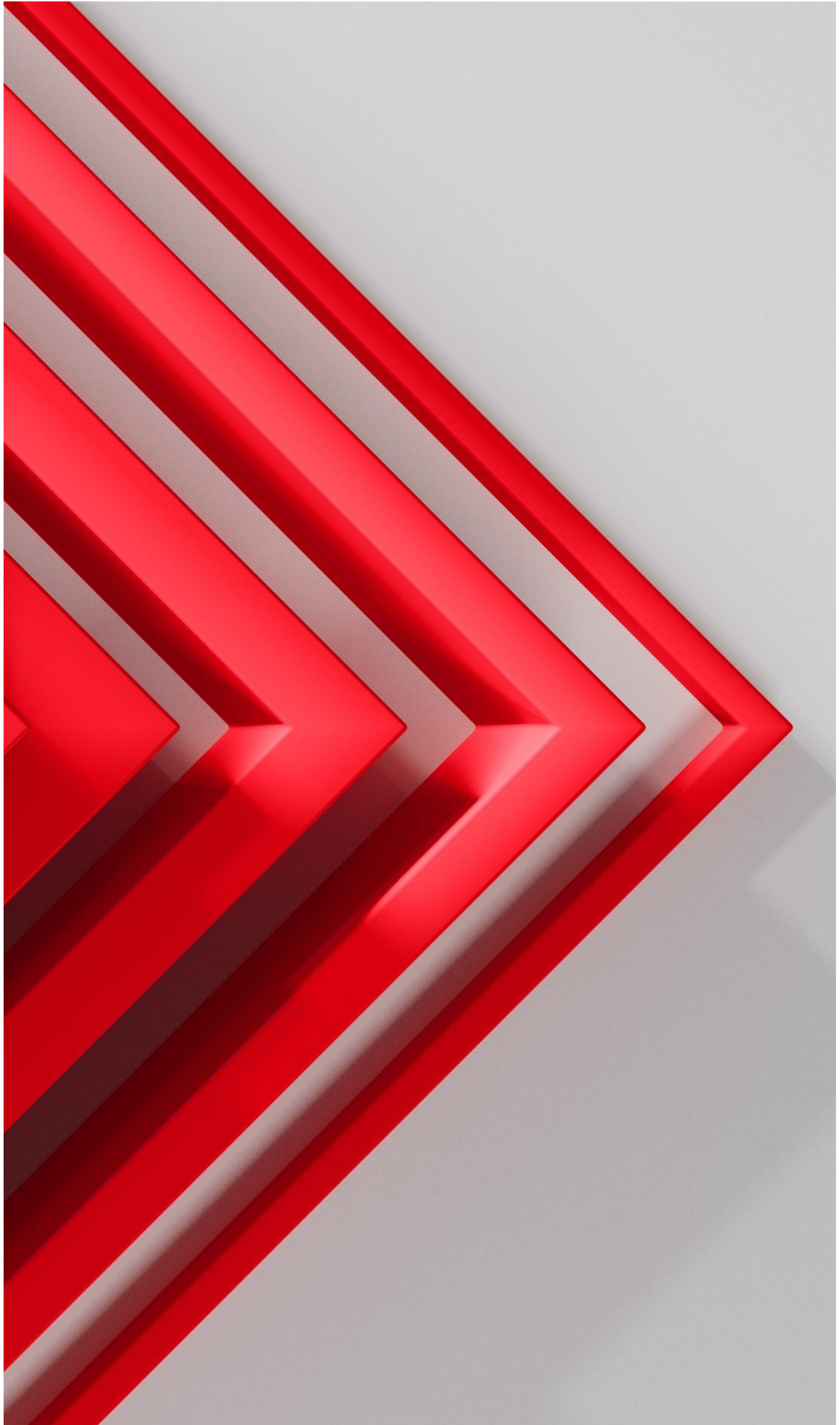


EXAMPLE COMPANY LIMITED

INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2023

	Notes	2023	2022
		£	£
TURNOVER		33,157	51,041
Administrative expenses		38,707	32,661
OPERATING (LOSS)/PROFIT and (LOSS)/PROFIT BEFORE TAXATION	4	(5,500)	18,380
Tax on (loss)/profit	5	(1,132)	4,104
(LOSS)/PROFIT FOR THE FINANCIAL YEAR		(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	
		67,007.00	
Dividends from UK		£20,000	
Total income received			97,807.00
Minus Personal allowance			11,850.00
Total income on which tax is due			85,957.00

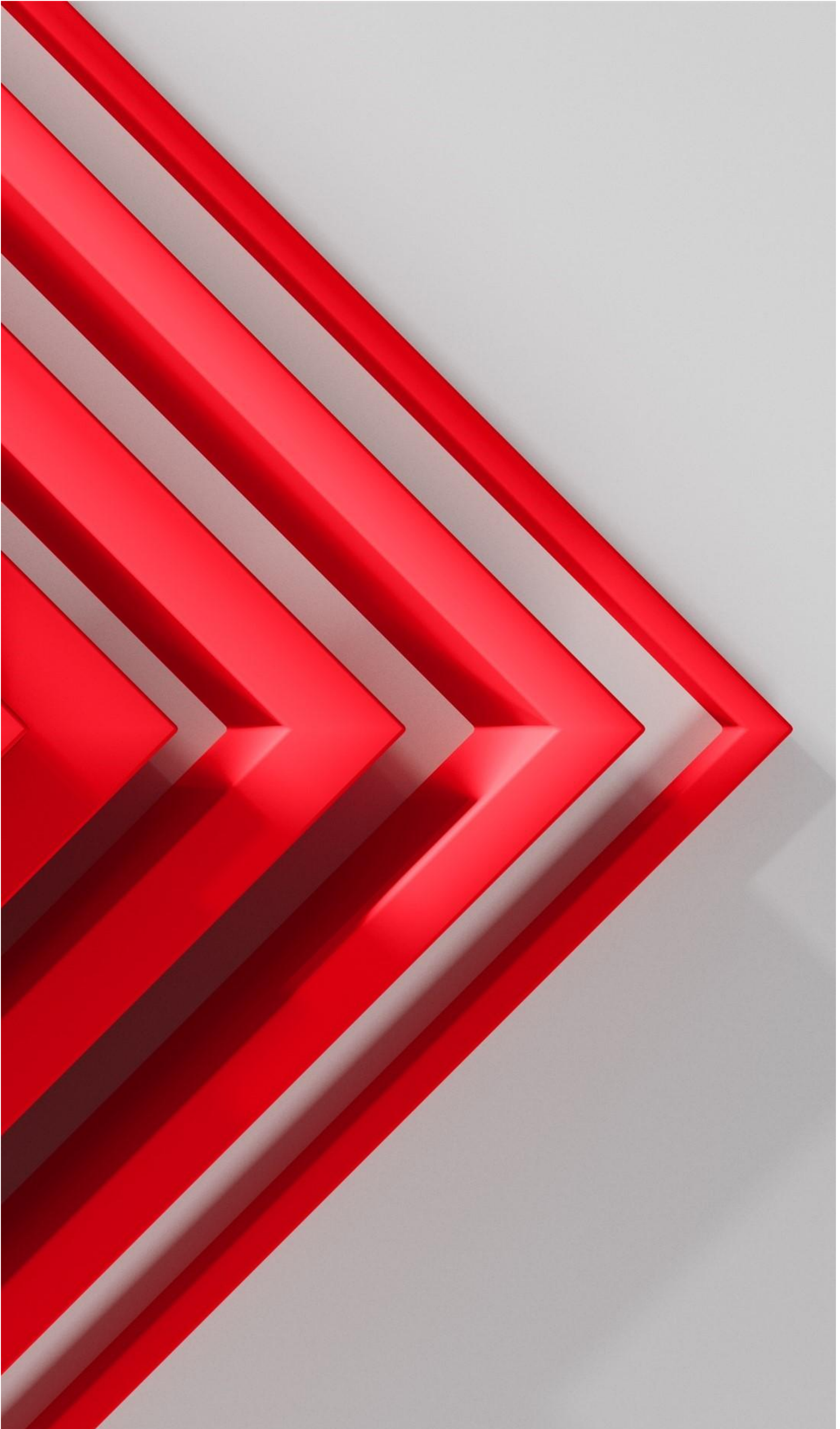
How I have worked out your income tax

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

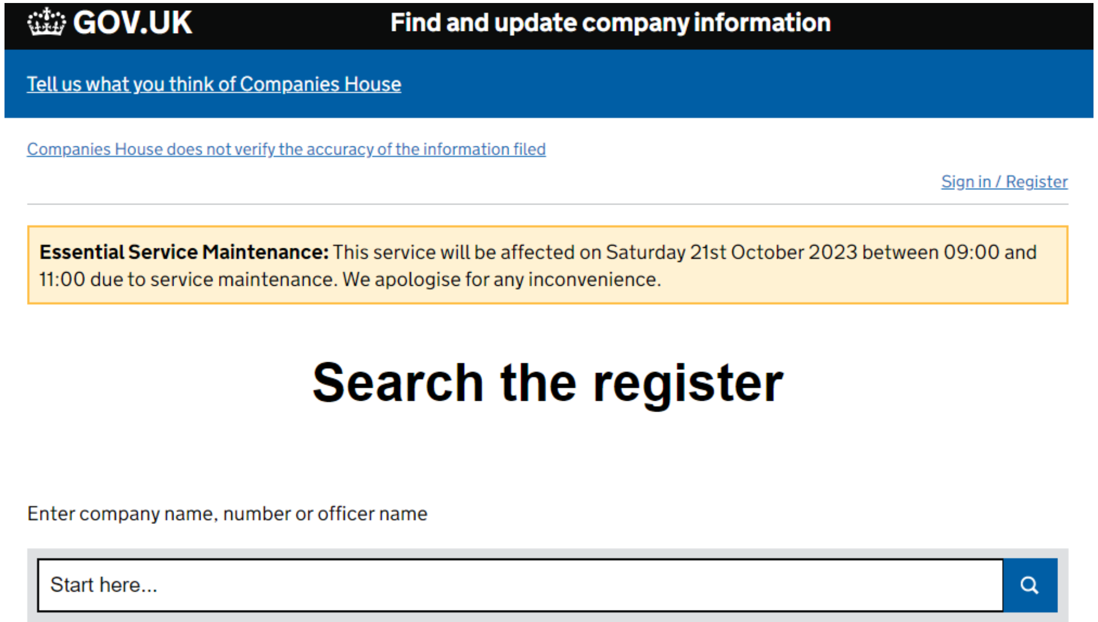
Dividends from companies etc.

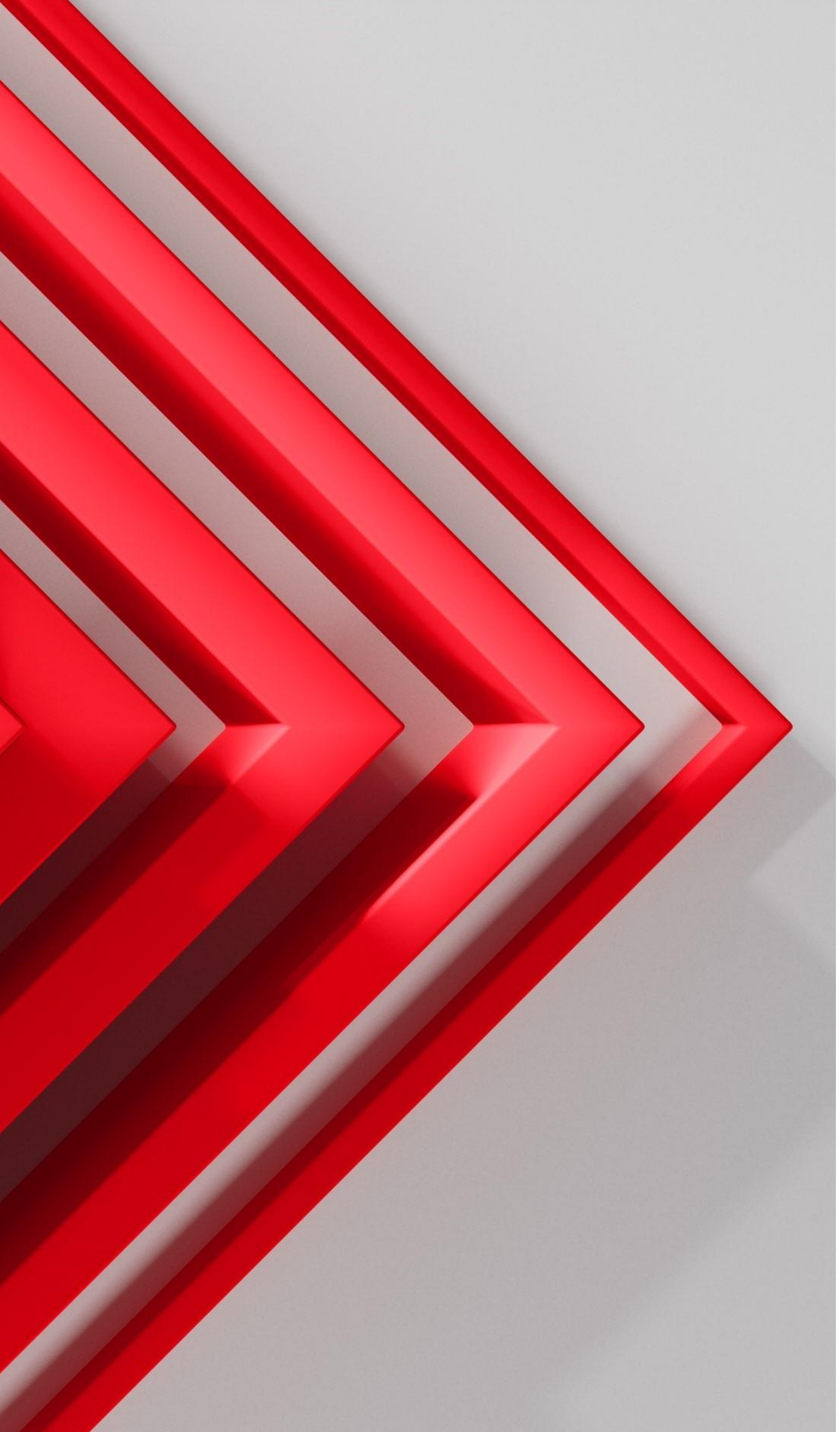
Basic rate	0.00	@ 7.5% =	0.00
Higher rate band at nil rate	2,000.00	@ 0% =	0.00
Higher rate	18,000.00	@ 32.5% =	5,850.00
Total income on which tax has been charged	85,957.00		
Income Tax due			25,332.80
Your first payment on account for 2022-23			2,000.00
Your total payment due by 31 January 2023			**27,332.80**
Payments on account for 2022-23 - Due by 31 July 2023			2,000.00



Companies House

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





- 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**

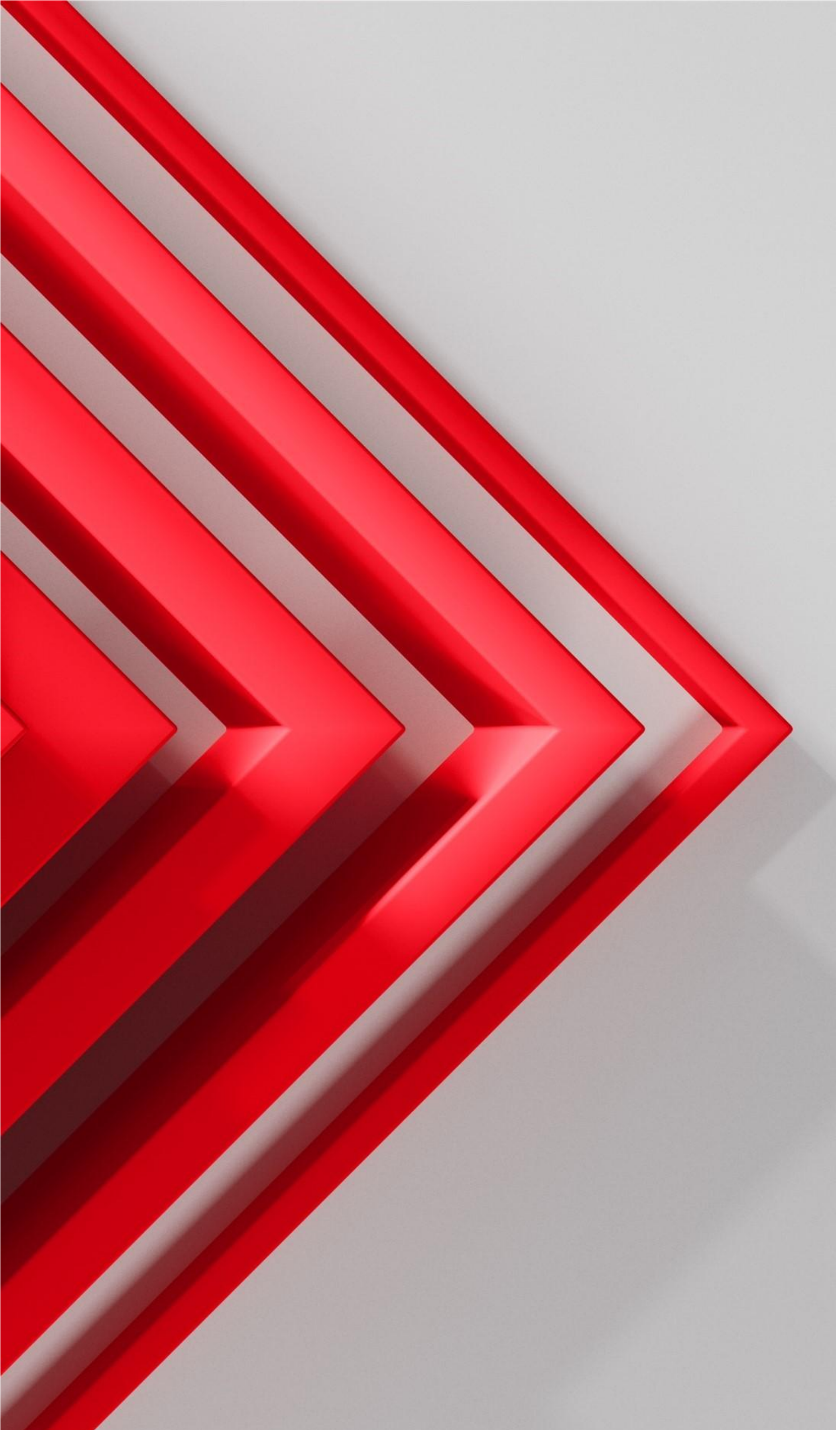
Confirmation statement

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

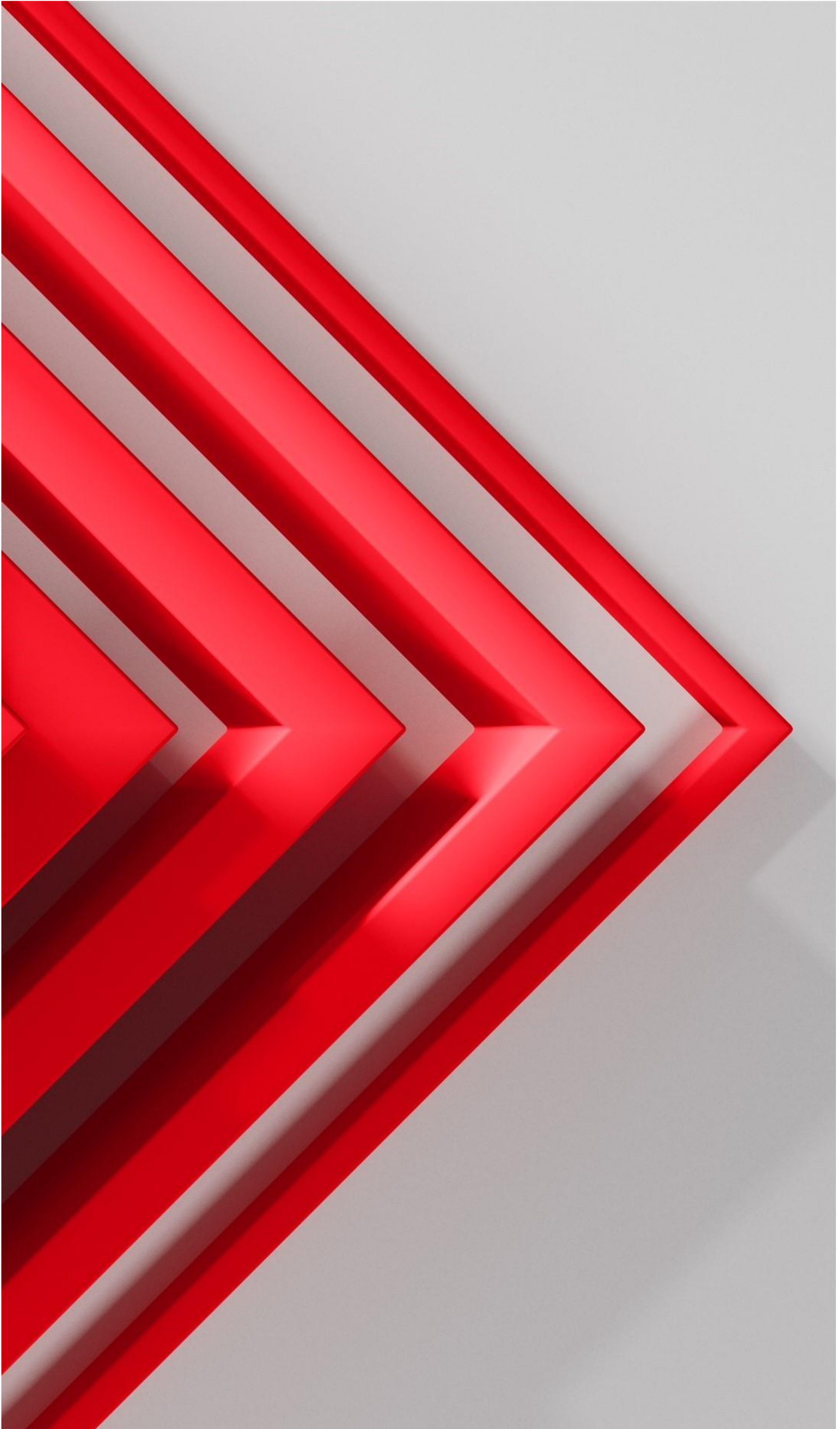
Full Details of Shareholders

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**



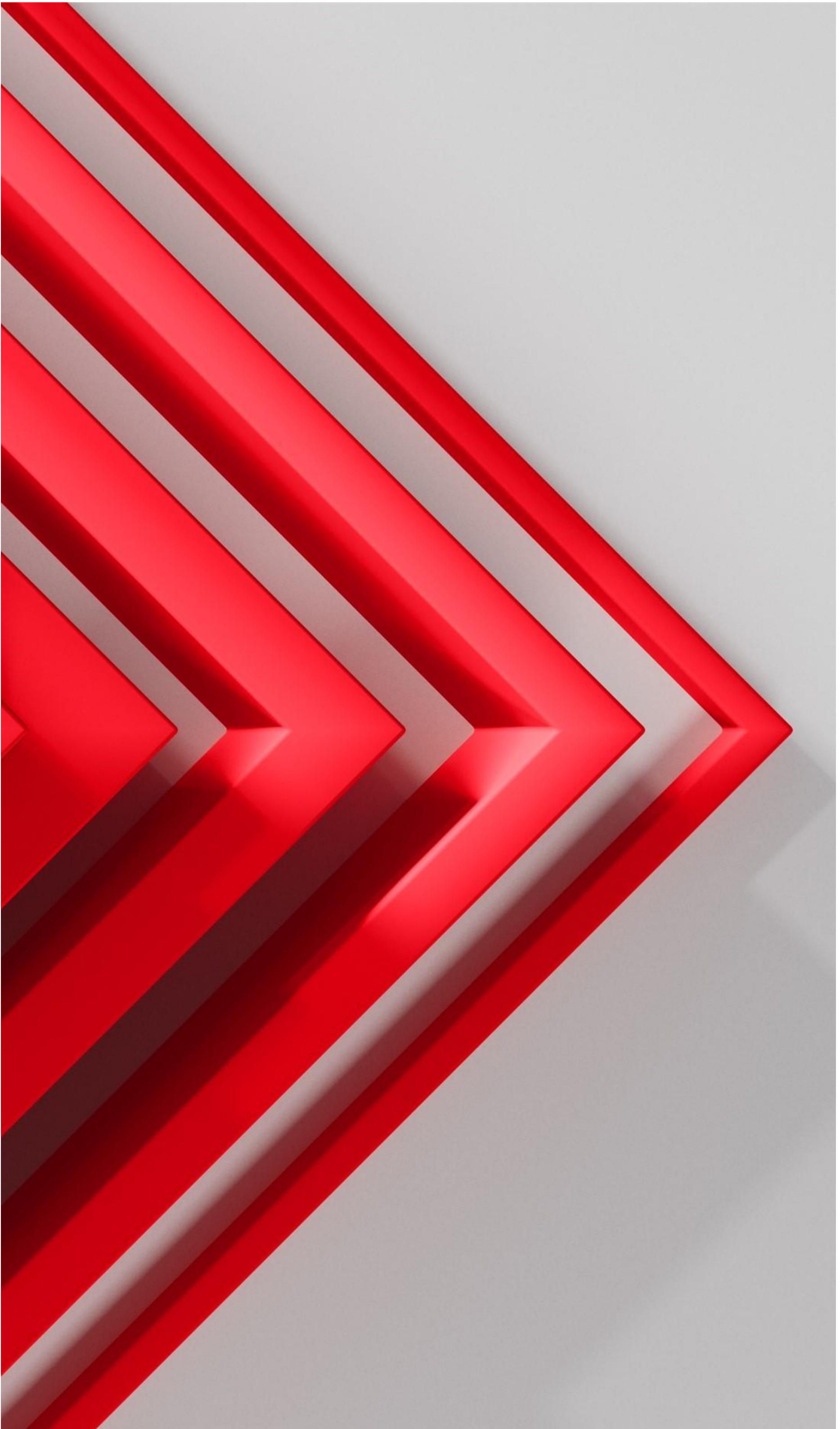
- Filing history
    - Confirmation statements
        - Breakdown of shareholding
        - Differing share types.

Overview | Filing history | People | More

Filing by category

- [ ] **Show filing type**
- [ ] Accounts
- [ ] Capital
- [ ] Charges
- [ ] Confirmation statements / Annual returns
- [ ] Incorporation
- [ ] Officers

Date	Description	View / Download
10 Aug 2023	**Change** of details for Mr Test Customer as a person with significant control on 4 August 2023	View PDF (2 pages)
10 Aug 2023	**Confirmation statement** made on 5 August 2023 with updates	View PDF (4 pages)
10 Aug 2023	**Cessation** of Mr Other Customer as a person with significant control on 4 August 2023	View PDF (1 page)
10 Aug 2023	**Termination of appointment** of Mr Other Customer as a director on 4 August 2023	View PDF (1 page)
28 Oct 2022	**Micro company accounts** made up to 31 January 2022	View PDF (4 pages) Download iXBRL
11 Aug 2022	**Confirmation statement** made on 5 August 2022 with no updates	View PDF (3 pages)
11 Aug 2022	**Change** of details for Mr Test Customer as a person with significant control on 1 August 2022	View PDF (2 pages)
29 Oct 2021	**Micro company accounts** made up to 31 January 2021	View PDF (4 pages) Download iXBRL
10 Aug 2021	**Confirmation statement** made on 5 August 2021 with no updates	View PDF (3 pages)
10 Aug 2021	**Director's details changed** for Mr Test Customer on 3 August 2021	View PDF (2 pages)
10 Aug 2021	**Secretary's details changed** for Mr Other Customer on 3 August 2021	View PDF (1 page)



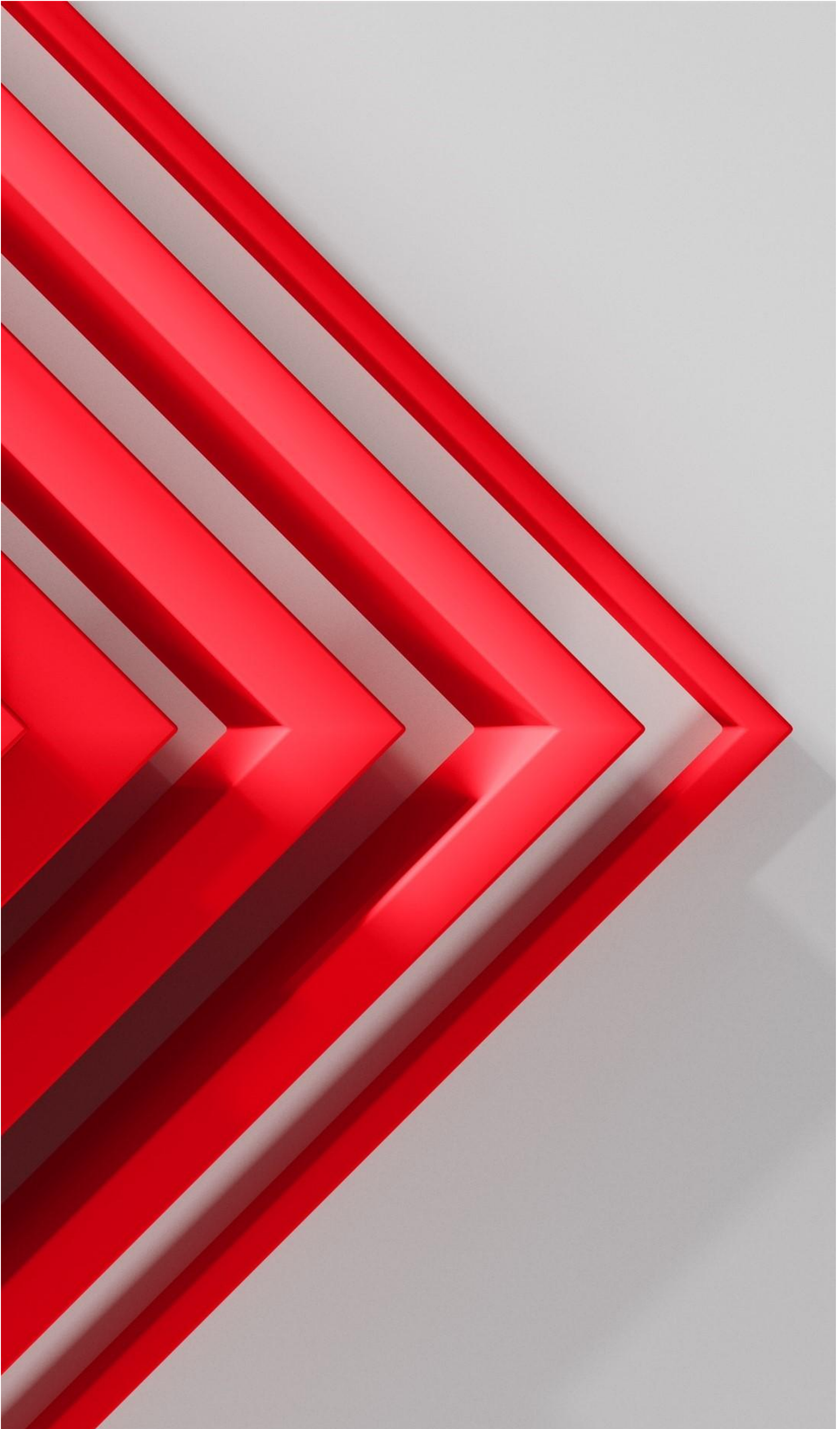
Businesses that have traded at a loss for either the last or previous full accounting year:

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
-£15,312	£9,856	N/A	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.
-£2,228	-£21,007	N/A	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.
£13,785	-£3,682	£5,051.50	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.
£24,918	-£30,647	N/A	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

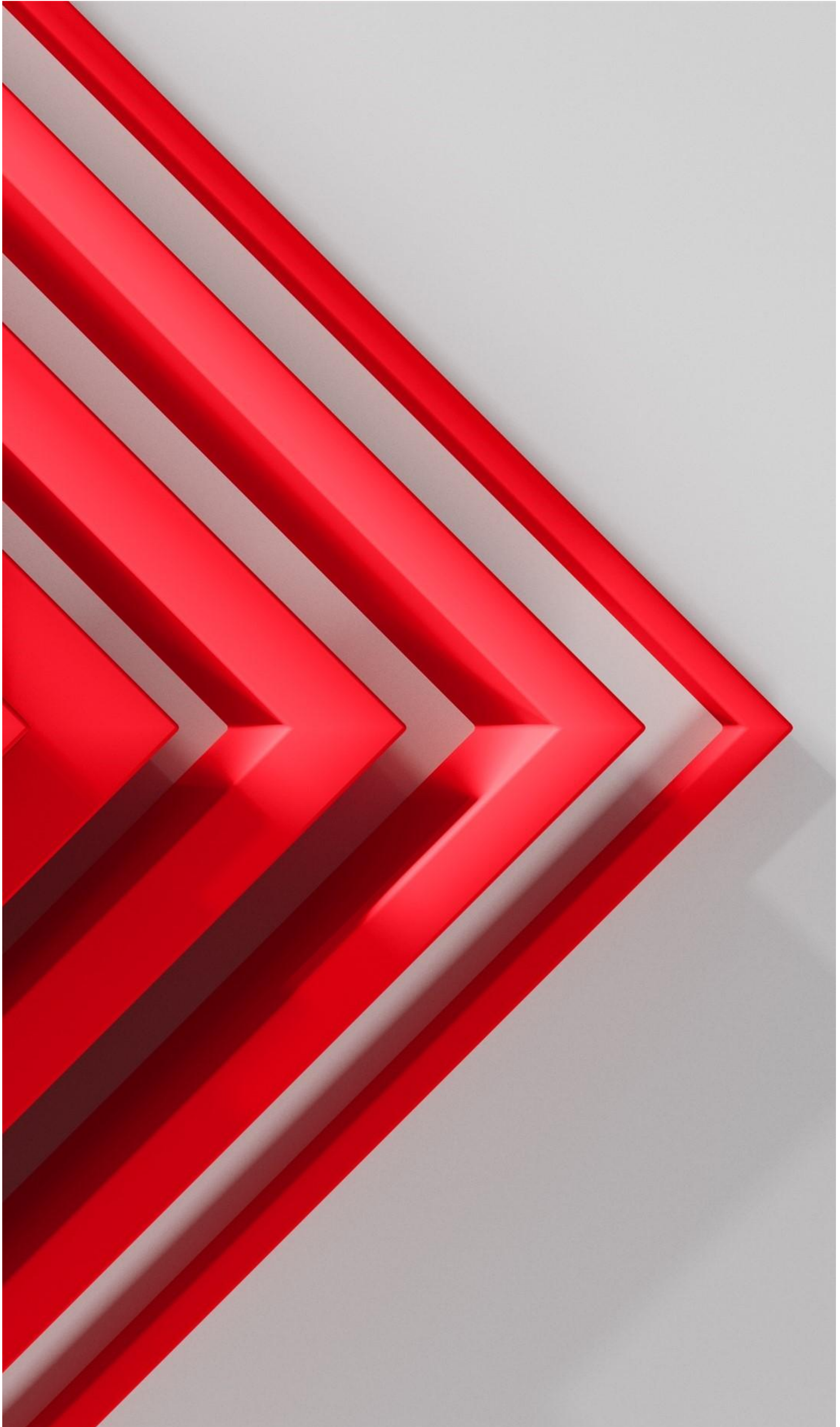
Evidence required (Residential applications and BTL Top Slicing)

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

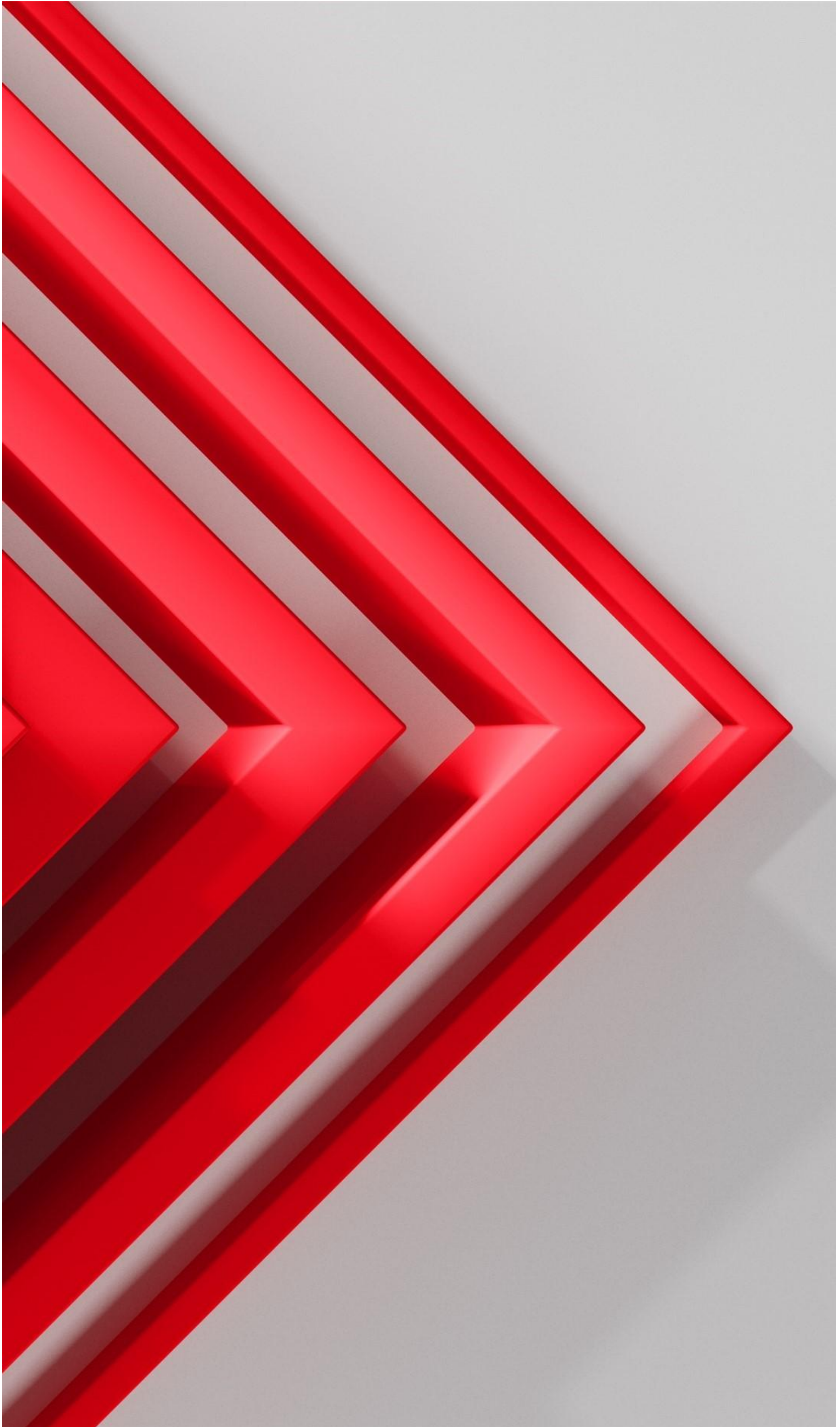
Sole trader / partnership / LLP with less than 50 partners

- 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

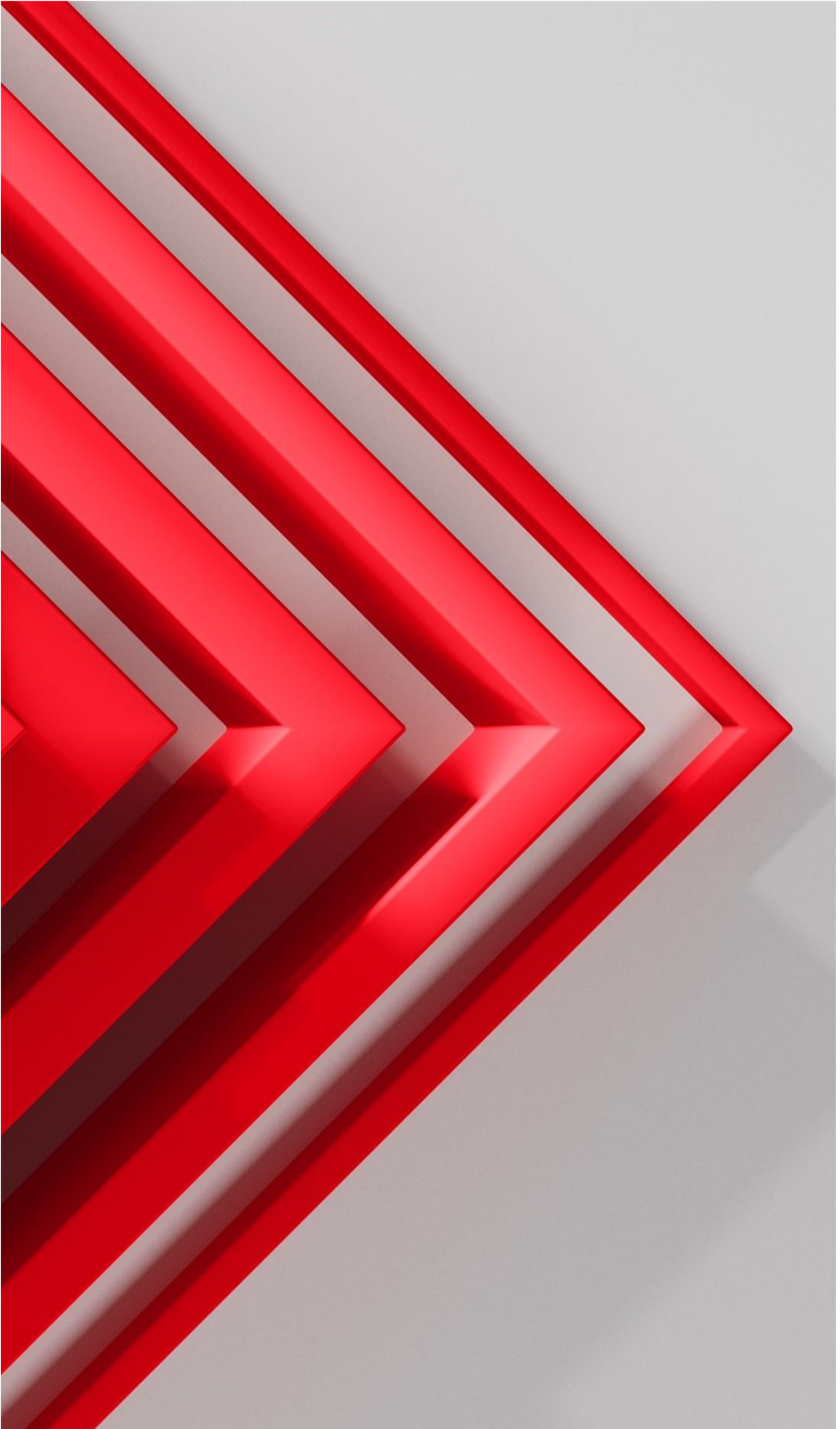
Where the first year's finalised financial accounts HAVE been provided:

- 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

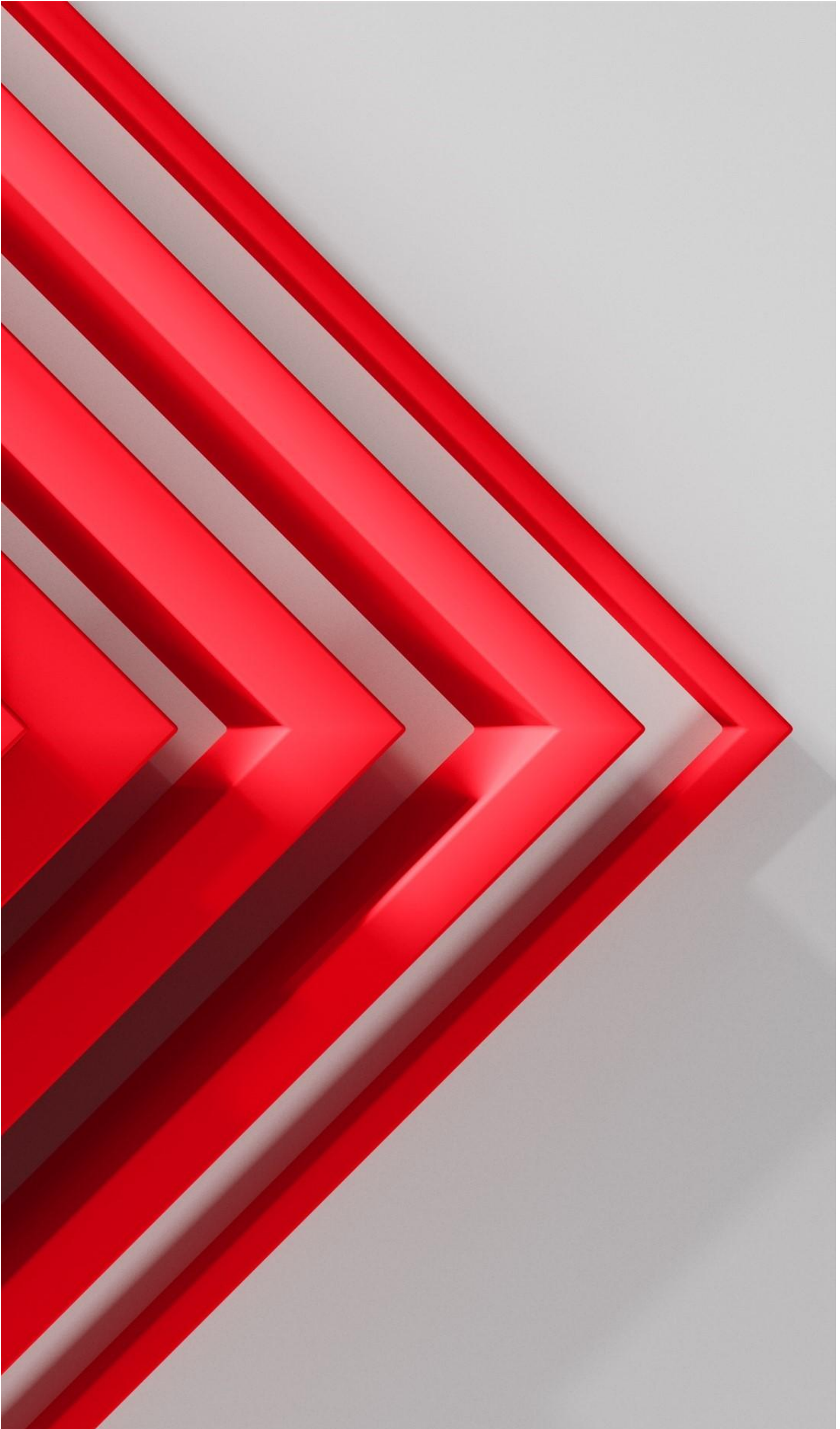
- 50% of net profit can be used for 2023 and 75% of net profit for 2024. If they also receive a director's salary, please include the correct amount as evidenced by p60 or tax returns.

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:

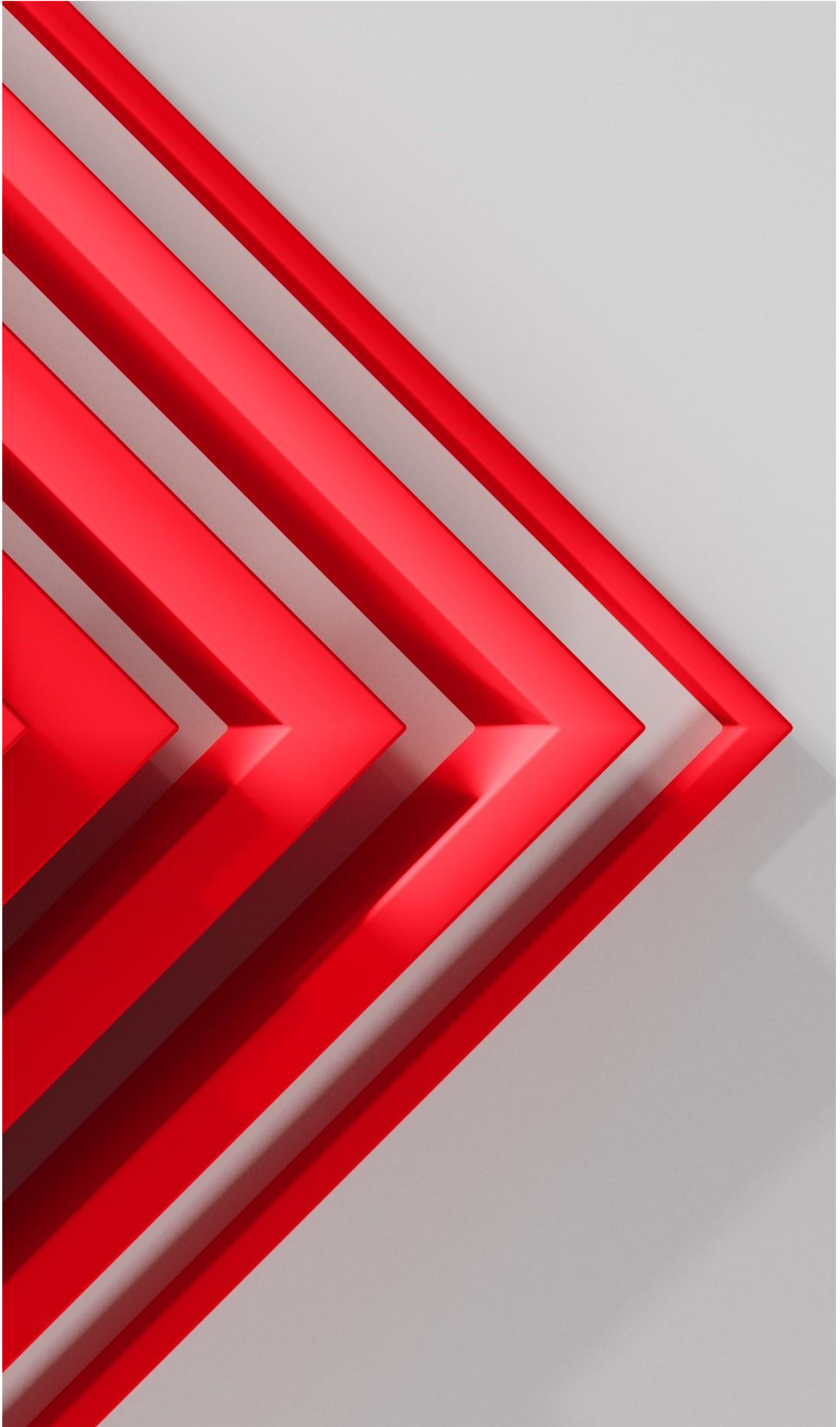
Where the first year's HMRC documents for the partnership HAVE NOT been provided:

- 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

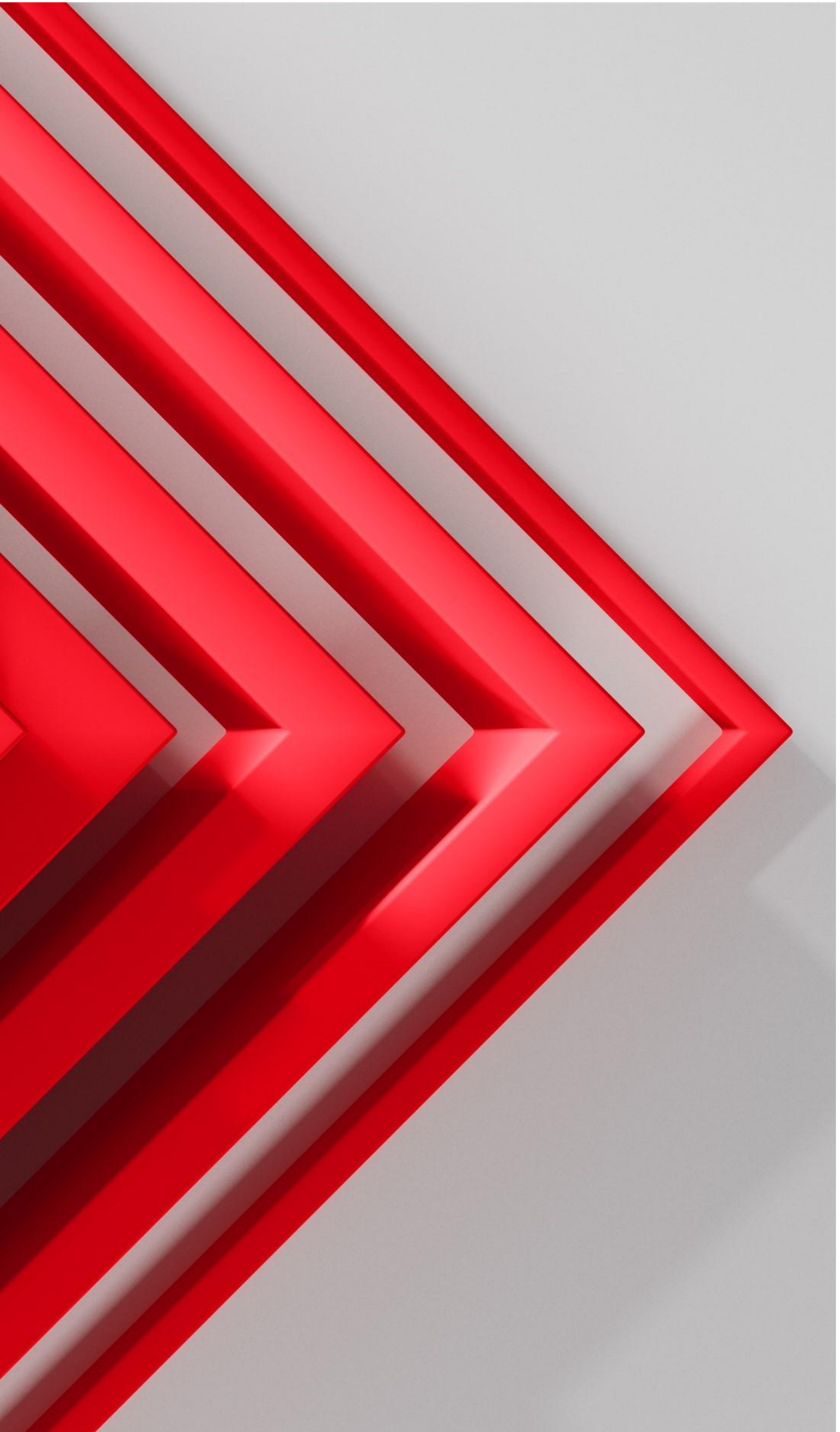
Where the first year's finalised financial accounts for the Limited Company HAVE been provided:

- 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.

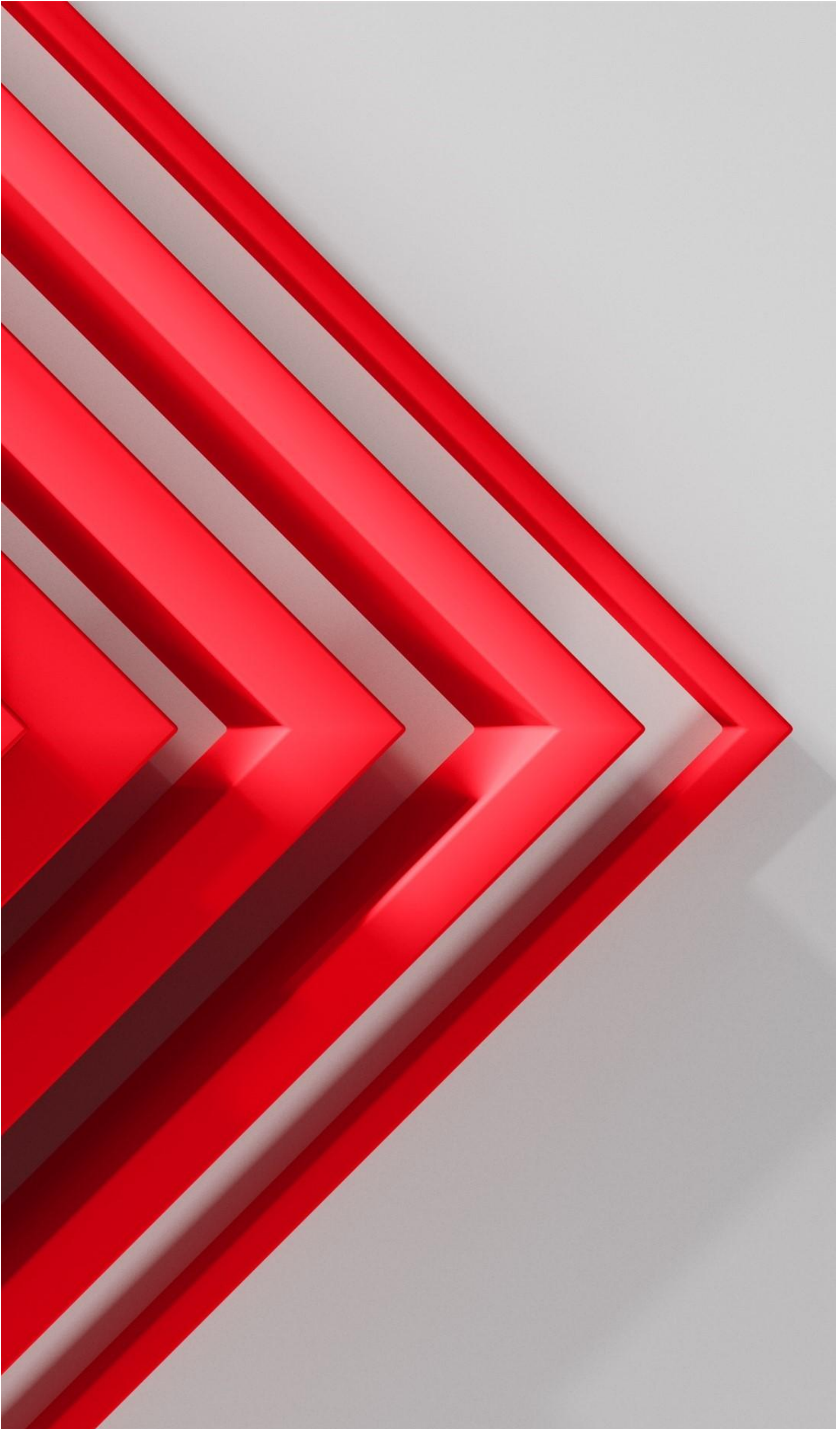
If there are multiple directors within the business, and the financial accounts do not confirm the distribution of salary to each director, then evidence will be required from either the latest two year's P60 or latest two year's Tax Calculation and corresponding Tax Year Overviews.

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

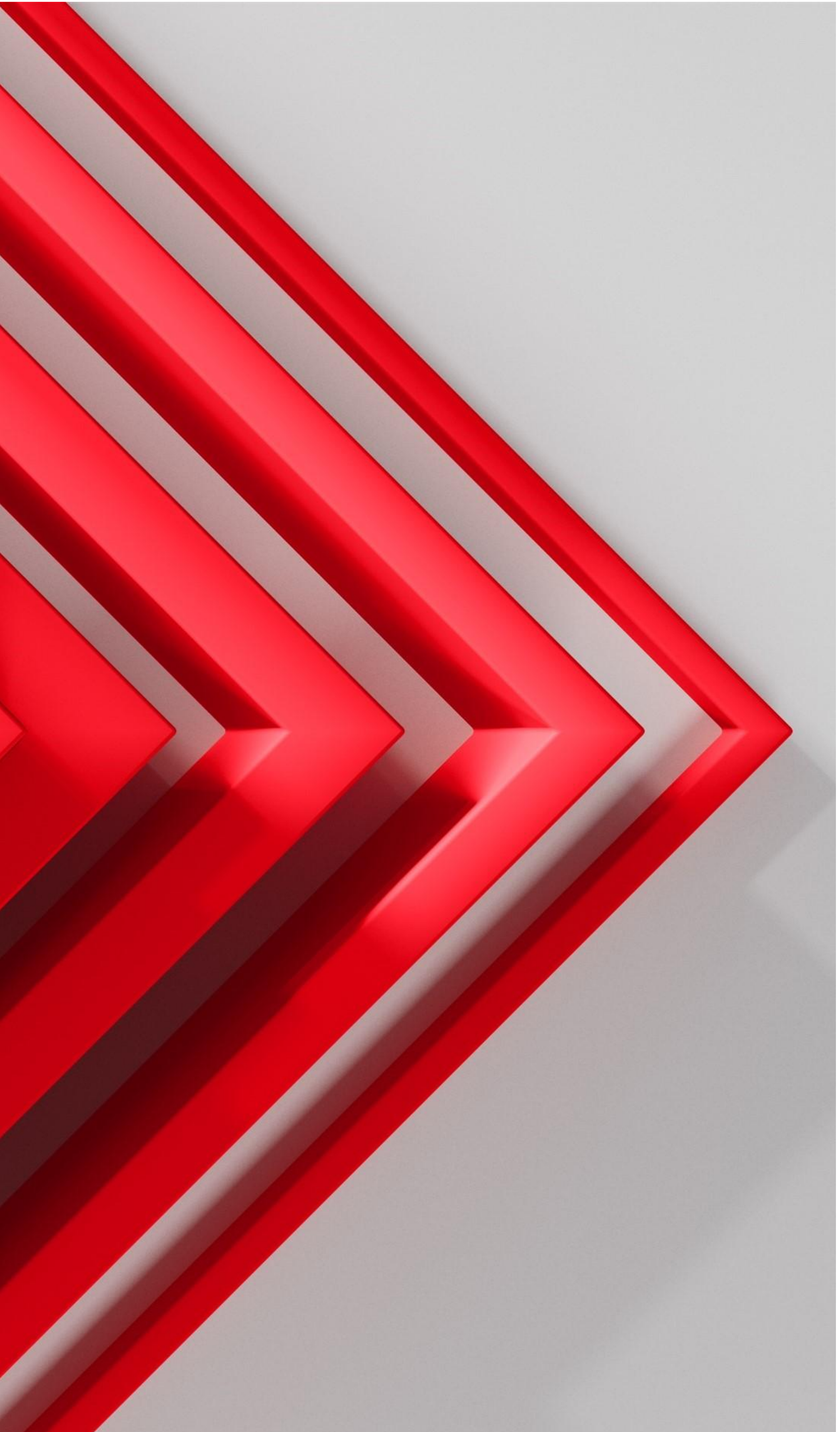
How to input income

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.

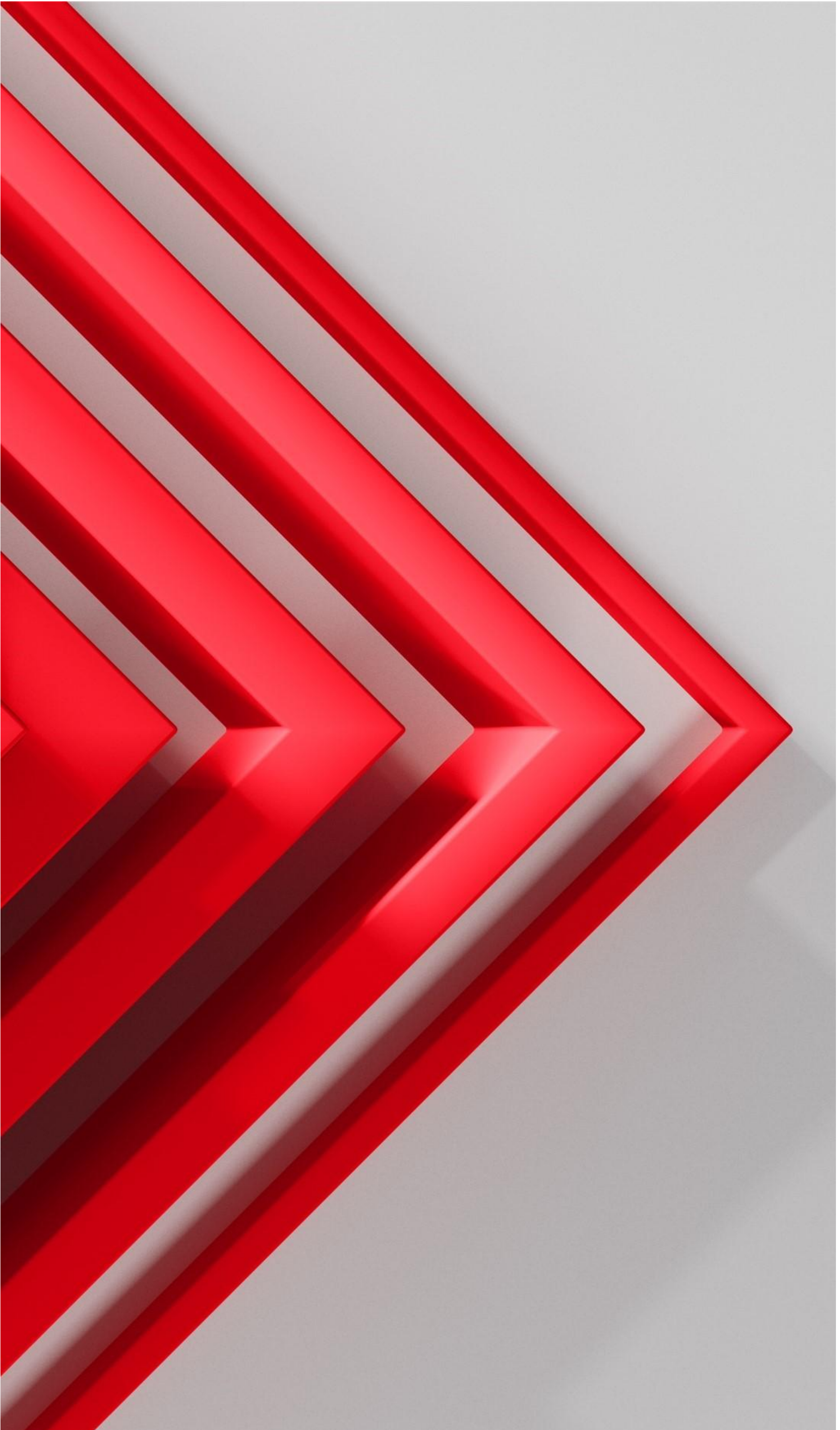
Although a Holding Company owns the assets of other companies, it often maintains only oversight capacities. So, while it may oversee the company's management decisions, it does not actively participate in running a business's day-to-day operations of these subsidiaries.

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

- **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

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