

## How to Manage Your Money

A general introduction & factsheet for the freelancer on managing your finances

By Tim Tubbs

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### Think ‘Business’

No freelancer will succeed without thinking in a business-like way and getting organised. To complement those essential creative skills (“the service”, “the product”), a self-employed freelancer needs to function with reasonable efficiency as a business – which means getting to grips with some basic financial realities. A freelance creative who disdains this, will struggle to make ends meet, and is likely to suffer additional anxiety and hassle, in a career that is stressful and insecure enough already!

So freelancers are well advised to think of themselves as businesses, and manage their lives accordingly, using a few basic financial skills. Managing your money is just another tool you need in a career that demands multi-skilling and multi-tasking.

### Some Useful Terms

**HMRC** – Her Majesty’s Revenue & Customs (single body for all tax, national insurance and VAT issues, incorporating the former Inland Revenue and HM Customs & Excise)

**PAYE** – Pay As You Earn (the tax deducted at source by an Employer and paid to HMRC from every Employee’s salary – which does NOT apply to the Self-Employed)

**UTR** – Unique Tax Reference (a ten-digit number, formerly known as a “Schedule D” number, for Self-Employed people)

**NIC** – National Insurance Contributions: Class 1 (a percentage deducted from an Employee’s regular wage packet, and a further percentage contributed by the Employer); Class 2 (a fixed sum, currently about £195 a year, payable by Self-Employed); ignore Class 3; Class 4 (a further NIC payable by Self-Employed, calculated on their declared income at the end of the year).

**FEU** – Foreign Entertainers’ Unit (also known as Withholding) tax on overseas artists’ earnings in the UK. Watch out, if working abroad, especially outside the EU!

**E101 & E111** – forms issued by EU countries for their nationals working in other EU countries, confirming their status as payers of tax and NIC (usually called “social security” in other countries). You’ll need these, issued well ahead, if working abroad.

## **Employed vs Self-Employed**

Once upon a time, in a world long gone, people got a job and stayed in it for most of their lives, maybe climbing steadily through promotion, or changing employers, but following a clear, career path of full-time employment until retiring with a pension, golden handshake and mantelpiece clock.

The arts were never much like that. Very few arts practitioners ever enjoyed that kind of secure employment, dancers have always expected to move on to second or third careers in middle age, and nowadays, fewer and fewer people will remain in a single job or career, without several changes of employer or career. More and more people now work as freelancers, outside the secure world of formal employment.

### **Employment**

The individual is employed (regularly, all year round, part-time or full-time) with a job description, a manager and a salary paid weekly or monthly through the payroll. The employee has income tax and national insurance deducted at source, with the employer paying a contribution (currently 12%) of the employee’s salary to HMRC.

The employee enjoys a whole raft of legislation and protection, regarding working hours and conditions, Health and Safety, union rights, disciplinary and grievance procedures, paid holiday, sick pay, maternity leave, training, redundancy, pensions. In many cases there will be pay reviews or increases, promotion, overtime, bonuses.

This gives the employee minimum responsibility and maximum security.

### **Self-employment**

Self-employment is the precise opposite, with maximum responsibility and minimum security. Forget all those comforting security blankets: paid holiday, sick pay, maternity leave etc, and someone else sorting out everything for you, beyond the work you do. You will be registered with HMRC as self-employed, entirely responsible for managing your own money and tax affairs, paying your own national insurance contributions.

But you are your own boss. You’re on a high wire with no safety net, but you’re free to get on with it in your own way.

## Both at once

It's quite common for individuals to be both self-employed and employed at the same time. You might have a part-time teaching job, for example, where you are employed, on a payroll with a regular salary, paying tax and national insurance as "employed" while continuing to work freelance, earning other income as "self-employed" paying your own tax and national insurance. No problem.

## Pros and Cons of Self-Employment

Assess the pros and cons before going Self-Employed.

<i>Pros - advantages</i>	<i>Cons - disadvantages</i>
You get your earnings Gross, and pay your tax later – great for cash flow.	You need to be very disciplined, setting aside about 25% of your Gross earnings to meet your tax and NIC later.
You are your own boss, in sole charge of your own destiny.	There's no-one to nanny you. You're on your own.
You pay a far lower rate of NIC.	You don't benefit from Employer's NIC contributions - reduced unemployment benefits and state pension.
You can claim expenses against your tax liability, paying less tax.	You have to maintain records, keep receipts and complete an annual tax return – or pay an accountant to do it.
	Goodbye to a regular salary, company pension, overtime, bonuses, paid holiday maternity leave, sick pay, etc etc

## Sort Out Your Tax Status

So you don't have a full-time contract with the Royal Ballet, and for part or all of your work, you're going to be "freelance".

Step One is to establish Self-Employed tax status. Until that is done, you cannot start. Register as Self-Employed with HMRC, either online or by phone. Contacts below.

Be aware that some HMRC advisers have been known to make difficulties or discourage people from registering as Self-Employed. One occasionally hears of people being fobbed off or discouraged from registering as Self-Employed – i.e. being asked to attend appointments at local DSS offices, or await letters to such appointments, or produce all kinds of documents etc etc. That's all nonsense. In some cases, one must be firm, polite and persistent. You can check online whether or not you meet HMRC's basic eligibility criteria for Self-Employment, in which case it's your right to be so.

The crucial website [www.hmrc.gov.uk](http://www.hmrc.gov.uk) gives you excellent info on:

- deciding whether you are Employed or Self-Employed (IR56)
- registering as Self-Employed (download their CF1 form)
- Self-Assessment – how to do your own tax returns (online)
- Starting Up as a Business, VAT, National Insurance etc

HMRC Newly Self-Employed Helpline: 08459-154515

What you crucially need from HMRC is a ten-digit **Unique Tax Reference (UTR) number**, once known as a “Schedule D” number. If you do not have a UTR and NIC number, it is illegal for anyone to pay you. So you need those two numbers, clearly showing on all your invoices, in order to get paid for your contracts and services.

## **NATIONAL INSURANCE & VAT**

### **National Insurance Contributions**

There are four kinds of NIC, as below. Self-Employed need concern themselves with classes 2 & 4 only.

Class 1: a percentage deducted from an Employee’s regular wage packet, and a further percentage contributed by the Employer

Class 2: a fixed sum, currently about £195 a year, payable by the Self-Employed

Class 3: don’t worry about this – overseas services, armed forces etc

Class 4: a further NIC payable by Self-Employed, calculated on their declared income at the end of the year.

Self-Employed people should register with HMRC to pay NIC contributions, from the moment they start to be Self-Employed. Failure to do so will cause endless headaches and mess up your annual tax return. The easiest way is to set up a monthly direct debit.

Contact: HMRC National Insurance Contributions Office  
Self Employment Services  
Benton Park View, Newcastle-upon-Tyne NE98 1ZZ

Telephone: 08459 154655  
Website: [www.gov.uk/national-insurance](http://www.gov.uk/national-insurance)

### **Value Added Tax**

Few arts freelancers earn sufficient to fall within the VAT “threshold” – the point at which your turnover (total earnings for goods or services supplied) reaches £79,000 in a single year. In the highly unlikely event that you reach this threshold, you are required by law to register for VAT, charging 20% on all goods and services you sell (i.e. your invoices). Once VAT-registered, you can reclaim VAT on everything you purchase against VAT receipts. You then have to make a quarterly VAT return to HMRC, balancing VAT payable (what you’ve charged) and VAT reclaimed (what you’ve paid), so you will end up either paying a quarterly sum in VAT or reclaiming a quarterly sum. It’s an additional administrative and tax burden most individual freelancers are spared.

More information online: [www.hmrc.gov.uk/vat](http://www.hmrc.gov.uk/vat)

## **Tax Returns and Accountancy**

My greatest luxury is paying a top theatre industry accountant to do my annual tax return and accounts, at a cost of about £800. One can certainly find cheaper accountancy support than that, but generally you get what you pay for. One advantage of paying an accountant is that they can often give invaluable tips and advice to save you tax or maximise your tax allowances and deductible expenses.

Few arts freelancers feel they can afford this luxury, and submit their own annual tax return, an annual chore many freelancers put off until the submission deadline is imminent and the stress level of completing the return in time becomes too much to bear. The best advice is to maintain records as you go along, avoid a last minute rush and submit the return in good time. The deadline for online annual return submission is 31 January for the year ending the previous March. There are penalties for being late.

The easiest way to complete and submit annual returns is online at the HMRC website: [www.hmrc.gov.uk/sa](http://www.hmrc.gov.uk/sa) (Self Assessment). There are clear guidelines on how to complete the return, and there is an excellent telephone helpline. HMRC are at great pains to make it easy for the self-employed to submit our tax returns and pay our taxes!

As part of completing your annual tax return, you can claim legitimate tax-deductible expenses and must also calculate, on the basis of your annual earnings, the balance of NIC that is due for the tax year.

The first £9,440 a Self-Employed individual earns (in 2013-14) is not taxable, and is called the "personal allowance". One starts to pay tax on everything above that. The personal allowance is reviewed each year. (In 2012-13 it was £8,103).

Wise Self-Employed individuals save 25% of every pound earned, and set it aside in a separate account. I don't know anyone who manages to do that: I never have! If one did, however, that 25% would more than meet the next tax and NIC bill, and one would avoid that nasty financial crunch when the twice yearly tax bill falls due on 31 January and 31 July.

## Claiming Expenses

One big advantage of Self-Employment is that you can claim reasonable expenses against your annual tax liability. This is where an accountant can often give invaluable advice. As a rule of thumb, the taxman will accept legitimate expenses up to about 33% of your annual gross income. Above that, the taxman might start to wonder.

Keep all your receipts. It helps to keep them in separate envelopes or headings, so that totaling them all up at the end of the year is an easier job. A chaotic shoebox of miscellaneous receipts shoved under the bed is a daunting task to tackle, when your annual tax return is due in a fortnight's time!

Here are some typical items a dance freelancer might legitimately claim:

- daily class, training, body maintenance, health, treatments
- travel to and from work, engagements, research trips
- per diems & accommodation when working away from home
- trade journals, subscriptions, memberships
- photos, advertising, publicity, website
- fees to other artists, suppliers, collaborators, assistants, agents or management
- clothes, make-up, hair, shoes
- theatre & cinema tickets, DVDs, books, CDs, music (research)
- equipment, stationery, phone, mobile, printer, laptop, postage

If you work from home, you might also be able to claim a proportion of such costs as: domestic bills, rent, heating & lighting, TV licence.

Alas, you cannot claim “entertainment” as legitimate expenses.

## Keeping Records

Always keep records of all receipts and invoices, and file them carefully for easy reference. It's a legal requirement to maintain records going back **seven years**, and HMRC is entitled to inspect the past records of companies, businesses and self-employed individuals at any time. HMRC random spot-checks, and if your name comes up... (I know: it happened to me once, and I was embarrassed to have thrown out some old travel receipts! I would have been fined, if it had not been for my accountant, vouchsafing to HMRC that he had signed off those receipts when he prepared my annual accounts and tax return, I would have been in trouble.)

## Invoices – Getting Paid

Sad to say, most people are slow to part with their money or pay their bills. Recognise this and be aware, too, that generally speaking, the larger the organisation, the longer and harder it is to get money out of them! An experienced freelancer will know that, as a general rule of thumb, the slowest payers, in offending order, are: larger theatres, venues or promoters; schools, colleges or universities; local authorities and government departments. You are effectively a small business, and one of the greatest threats faced by small businesses is going under because others fail to pay, or pay too slowly.

Anyone who has experience of working in a large organisation, will be familiar with the difficulties of issuing payments. The signatory only signs cheques once a month, and is on sabbatical, holiday or sick leave. The department ordering the service from you fails to do the necessary internal paperwork, so the accounts department won't produce your payment. A purchase order has to be requested and supplied in writing, before an invoice can be received or processed. The payee has to be registered within the automated accounts system and this takes six weeks. And so on.

You have to anticipate all this nonsense, and do everything possible to give bad payers no excuse to delay payment or tie you up in red tape, while they take lunch! Wise up!

Invoices should be issued well ahead of when payment is due, given that it is standard business practice to pay invoices within 30 days. In practice, that means one rarely gets any invoice paid within a month of submitting it.

Set up an invoice template on your computer, to suit your own needs. This can be copied, cut and pasted, adapted, filed, printed or emailed. Some freelancers prefer the old lined pad with carbon copy, which is technically fine, but it's not very professional, cannot be emailed (unless you scan it) and won't cut much ice with a big organisation's accounts department. Always keep a copy of every invoice issued.

Here is a sample invoice (“Heidi Tidy”):

[ a sample invoice ]

**HEIDI TIDY**  
**Dancer/Choreographer**  
Flat 7 Filing Cabinet House ,413 Sorted Road, London SE10 1AB  
mobile: 07123-123456  
email: heiditidy@hotmail.com

**INVOICE**  
**No: 13 / 05**

To: attention Rebecca Diddlescrub  
TRIPLE-X DANCE COMPANY  
Ground Floor Flat  
19 Mandela Street  
London NW3 2AB

Date: 8 April 2013                      Your purchase order no: [ if applicable ]

For: Dancer, Triple-X Dance Company - “Deadweight”

Two weeks of rehearsals  
8 – 13 & 15 – 20 April 2013  
2 weeks’ fee @ £500, as agreed = £1,000

**Total Fee payable    £1,000**  
(VAT not applicable)

Inland Revenue (self-employed) UTR tax number: 12345 12345  
National Insurance number: AB 12 34 56 C

**Invoice payable by 18 April [ or: on receipt ], please**

Please make cheque payable to “Ms Heidi Tidy” at above address  
or by online transfer to:

A/c name: Ms Heidi Tidy    A/c number: 123145678    Sort code: 12-34-56  
HSBC, Puddleswick Branch, 15 High Street, Puddleswick, Hants. SO4 1AZ

The sample invoice is clearly laid out, with the issuer’s name, title and full contact details at the top. It’s clearly an invoice, and has a sequential number – in this case 13/05 (the 5<sup>th</sup> invoice issued in the 2013-14 tax year), to identify the invoice for your own files and in the event of subsequent query.

Then follows the recipient’s full details, the date of issue, what the invoice relates to, and details of the sum payable. See separate note below on VAT. If you are VAT registered (unlikely, but possible), you must show your VAT number. If you are not VAT registered, it helps to say so on your invoices.

Note the **purchase order**. Many organisations issue all suppliers with a purchase order number for each contract or job, and require that this number appears clearly on the invoice received, for their own records, before they will pay it. Find out if a purchase order number is required, and ensure that it appears, before submitting your invoice. If

it is, and you fail to do so, there will be a frustrating and mysterious wait, before your enquiries eventually establish the reason your invoice hasn't been paid!

At the bottom of the sample invoice are those crucial, obligatory UTR and NIC numbers plus details of when and how to pay the invoice.

Some people also add a warning that late payment will incur interest charges, although freelancers have their work cut out getting invoices paid in the first place, without trying to secure additional 5% interest on late payments, by means of a second invoice.

Good luck. And be ready to re-send the invoice, chase payment, and chase again...

## **Repaying Student Loans**

The rules and regulations on repaying student loans vary a good deal and one should seek individual advice in each case.

If in doubt, contact Student Finance England:

[www.directgov.uk/en/EducationAndLearning/UniversityandHigherEducation/StudentFinance/index.htm](http://www.directgov.uk/en/EducationAndLearning/UniversityandHigherEducation/StudentFinance/index.htm)

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