

UNDERSTANDING SELF EMPLOYED TAX (2021 tax year data)

Self Employed people pay tax at the same rate as employed people but have to pay extra national insurance. Self employed national insurance is not widely discussed or advertised when the media, government departments or political parties talk tax. To get votes they often cloud over national insurance. So when you speak to an accountant or you get your final tax calculation, the tax bill stated often seems higher and this is normally due to a chunk of national insurance.

The normal response is "but I have already paid my National Insurance, I pay this monthly, that's the MONTHLY PAYMENT that goes out my bank by Direct Debit" or what used to. So It's clear that most self employed are shocked at the extra NI charged on the final tax bill. I wanted to clear that up immediately.

Class 2 National Insurance (NI)

If you earn over around £6240 for the year 20-21, that's £120.00 per week, you must pay class 2 NI of £3.05 a week, £13.21 a month and that's £158 a year. It's used to be collected as you go with options of quarterly collection, weekly or monthly, but now included in your final tax bill calculated by HMRC or an accountant or software you may use.

This is called class 2 NI and mandatory if you are self employed.

You can get a low earnings exemption or if you are employed and carry out a part time self employed work then the exemption will apply due to enough NI will be paid via your employed position.

There is a form to complete and once issued lasts for three years. Cool for new starters as every penny counts.

Class 4 National Insurance (NI)

After a self employed person has earned above £9500.00 the Class 4 rate is 9% and after £50,000 its 2%.

So I would rather say from the beginning the tax man gets any basic rate tax plus this 9 % NI.

The basic rate at present, 2020-21 tax year, is 20%, so that makes someone earning an average wage of say £ 30,000 is on a tax rate of 29% including national insurance for average calculation purposes. Then add 158 to the total tax and NI calculated. To get an accurate figure, although still estimated, deduct 9500 then multiply by 9% the remainder, add that to 20% of the amount remaining after deducting the personal allowance of £12500 in tax year 2020-21 from original figure.

As a rule of thumb the best estimated roundsum calculation of tax for a self employed is after your profits equal an amount above £30,000 deduct the personal allowance for that particular tax year and multiply that remaining figure by 30%. That will include both all your NI and basic rate tax.

So that means in a nutshell, self employed people pay more Tax and NI than employed people at its rawest stage by about 10%.

The question is, are you missing out on a tax break?

Yes you are, once you get to £30,000 profits there are tax arrangements that will save your liability to pay tax. Take a look at another guide about opportunities and choices.

The accuracy cannot be guaranteed and so far as any error made is necessary for the reader to check against HMRC in the following link or self search on HMRC websites. I take no responsibility for any suggestion as this is not advice and is simply a description of reading the regulation concerned to make things understandable [HMRC link tax](#) [HMRC link NI](#)