

ADVICE FOR INDEPENDENT DIRECT SELLERS

Tax & Accounting

Business records

Everyone who takes up a self-employed earnings opportunity with a direct selling company is starting their own small business. For this reason they should maintain proper records of their business because, at some stage, they may become liable for income tax, and this is their personal responsibility, not that of the direct selling company. For those whose first involvement is as a 'preferred customer', then these records should commence from the time they begin to make money from either making retail sales or from helping and encouraging others to become involved in the business and purchasing goods from the company. This is the start-up date of the direct seller's business.

Registration with Inland Revenue

Tax regulations stipulate self-employed registration by everyone who starts their own business. This should be done by the 5th October following the tax year in which they startedin other words start between April 2014 and March 2015, register by October 2015.

The appropriate forms for a sole trader are known as CWF1 and CF10, the former is the actual registration form whereas CF10 is an application to claim exemption from paying self-employed NI contributions if first year profits fall below the threshold of £5965, as is most likely.

For partnerships there is form SA 400 for the partnership itself, and then the individual partners must each file a SA 401 and a CF10.

If a new Direct Seller is already registered as self-employed in another business then it is not necessary to register again, and this also applies to partnerships for those partners previously registered.

Accounts

There is no prescribed form for keeping records and preparing accounts as long as they record all income and expenditure for the business, but it is very important to keep all the bills and receipts for each and every expenses claimed just in case they might later on have to be justified. If no records are kept at all the Inland Revenue have the right to impose quite severe penalties.

It is advisable, as soon as practicable, to open up a separate bank account just to be used for the business, and similarly if credit cards are to be used it's far better not to mix business and personal items within the same account.

Expense Claims

Being self-employed and working from home, a whole lot of opportunities arise to claim legitimate costs in running a business. Specific advice must be sought, but the main categories of allowable expenses are:

- Products purchased to retail, demonstrate and to be used as samples.
- Advertising, including purchasing company information packs, CD's and other promotional material

- Motor and travel costs for business journeys including an allowance for owning a vehicle, or a business mileage claim.
- Business telephone, fax and internet costs
- Stationery, printing and postage
- A proportion of home expenses including council tax and heat and light
- Bank interest and other finance charges in connection with the business
- Purchase of computers and other office equipment or furniture
- Any costs incurred in attending corporate or direct seller meetings or trainings, both home and overseas
- Professional fees for the business including accountancy
- Commission or wages paid to help in running the business

In other words, there are many allowable costs to claim against business income and in the first year or so as a customer base is being established and recruiting is underway, these expenses can often lead to a refund of tax paid in other areas, PAYE on a full time job for example, providing money to reinvest in the business. Keeping bills and receipts for all costs is therefore so important!

Tax Returns

Once registered, a tax return will automatically be sent to each direct seller or partnership covering the year in which the business started and thereafter. Assuming a 31 March closing date for the initial period and each year subsequently, there is then a 10 month window to the following 31 January to file the return online, but 3 months earlier, 31st October, if using the Inland Revenue's own form. This should provide ample time for direct sellers or their accountants to finalise accounts, prepare tax returns and submit them to the relevant tax office.

VAT

As the current threshold for obligatory VAT registration is a combined annual income from personal sales and commission of £82,000, few direct sellers need be concerned with VAT for the first few years, although voluntary registration is always an option. Voluntary registration enables VAT to be reclaimed from certain expenses and added to commission income from the direct selling company but always take advice from an accountant before going ahead. Ask about the advantages of using the "Flat Rate" Scheme.

Further Advice & Assistance

This guide has been prepared by **DSL Accounting Ltd**, a DSA Supplier Member and a past winner of the DSA Partnership Award. DSL specialises in direct sellers' tax and accounting affairs and runs a practice dedicated to preparing direct sellers' accounts and tax returns from their bills and receipts. In addition to software written specially for the industry, the DSL Accounting Starter Kit and Robert Sherwood's book "Tax Without Tears" are both invaluable source of information for new direct sellers, and more information is available on their website www.dslaccounting.co.uk.