Advice for the self-employed on Housing Benefit and Council Tax Reduction
What does self-employed mean?
Someone who is self-employed works for an income but is not employed under a contract and does not work for a wage or a salary (an employee).
If you are self-employed, you may be a sole trader or in a partnership.
If you are a director of a company, we treat you as an employee and not self-employed.
If you are a subcontractor and you have tax and National Insurance contributions taken from your wages, you are not self-employed.

If I am self-employed, can I claim Housing Benefit and Council Tax Reduction?
Yes. If you are on a low income and are legally responsible for paying rent or council tax, you can claim Housing Benefit or Council Tax Reduction.

Information we need
We will normally ask for trading accounts for the last financial year. However, we may look at a shorter or different period if that represents your current trading position.

Do I need to have an accountant?
No, you just need to keep an accurate record of the income and spending for your business. If you do not have audited accounts, we will ask you to fill in our self-employed earners form.
We may ask to see receipts for your expenses and invoices to support your income.

What if I have recently started trading?
If you have just started as self-employed, we will ask you for a forecast of your income and expenses for the first 13 weeks of your business. After 13 weeks, we will ask you for actual income and expenses for this period.
How is self-employed income assessed?

To work out your weekly earnings for benefit, we need to work out the profit you make before tax. We will take off any allowable expenses you have had to spend to run your business.

From this figure we take off an amount for tax and National Insurance. This is known as a notional amount. This may be different from the actual amount you pay. We also take off half of any pension contributions you pay. We use the amount left as income for your Housing Benefit and Council Tax Reduction claim.

We cannot base your claim on the amount you draw from your business. It must be based on your net profit.

We cannot accept your tax return as proof of your self-employed accounts. This is because we do not allow certain expenses that are taken into account for tax purposes when we are working out Housing Benefit or Council Tax Reduction.

If you are employed in a partnership, your net weekly earnings (after tax and National Insurance) will be based on your share of the business profit.

Do you take into account changes that affect my business?

Yes. You should tell us about changes that affect the normal pattern of your business.

For example, you should tell us about:
- a change from full-time to part-time work;
- losing or gaining a major customer; and
- whether your business is affected by seasonal work.

When you receive your yearly accounts, please remember to send them to us, so that we can update your claim.

Which expenses are taken off?

We only allow expenses that are purely for business purposes. Examples of the expenses we allow include:
- staff costs;
- rent, rates and mortgage payments on the business premises;
- stock and supplies;
- advertising, phone and stationery costs;
- legal and accountancy fees;
- bank charges;
- interest on business loans;
- transport costs;
- money used to replace equipment; and
- proven bad debts. (A debt is proven as ‘bad’ if you have made reasonable efforts to recover the money you are owed but there is no realistic prospect of recovering it.)

Certain expenses may relate to both business and private use. For example, this could be petrol costs if you use a car for personal and business use, or gas and electricity costs if you work from home. In these cases, we will decide how much we can take off for allowable expenses based on the information you provide.
If you use part of your home just for the business, we can treat the rent on this as an allowable expense. However, we may take off this amount from your eligible rent when working out your Housing Benefit.

If you are part of a couple and employ your partner, the wages paid are allowable as a business expense. However, you must declare your partner’s wages as income. We will then use your partner’s wages in your claim as earnings.

Which expenses are not taken off?
The benefit rules do not allow certain expenses, even if they are allowed for tax purposes. These include:

• business entertaining;
• depreciation (the loss in value due to wear and tear and so on); and
• capital repayments on a business loan (repayments of the amount you borrowed but not the interest).

The following are also examples of expenses that are not allowed.

• Money used to set up or expand a business.
• Amounts you take from your business as a wage or salary.
• Capital spending. (This is spending on a capital item for expanding the business, for example a new taxi or a property.)
• Money for domestic or private use.
• Debts if they are not proven as bad.

Childminders
If you are a self-employed childminder, instead of looking at your actual expenses, we will work out your self-employed earnings using one-third of your gross income, less any notional income tax, National Insurance contributions and half of any pension contributions that you pay.

More information
You can contact us in the following ways.

Customer Services, Revenues and Benefits Service
Hackney Service Centre, 1 Hillman Street, London E8 1DY

Phone: 020 8356 3399
Textphone: 020 8356 3725
Fax: 020 8356 3655
Email: benefits@hackney.gov.uk
Website: www.hackney.gov.uk
If you would like to find out what this document says please tick the appropriate box, put your name, address and phone number at the bottom of this page and return it to the address below.

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