

# A gift from Gordon?

If you are on the cusp of turning professional or even if you are pro already but are earning less than the threshold for automatic VAT registration, there are tax implications to consider which could benefit your business

WORDS Duncan Grove

Do you consider yourself to be a professional photographer? For some that's a difficult question to answer accurately since these days particularly there are degrees of involvement which blur the line between amateur and professional somewhat. Perhaps easier to answer is whether you make some of your income through involvement in photography, maybe through selling prints, stock images, illustrated features or by tackling the occasional wedding. If you're paying tax on that income then you might well be qualified to claim professional status, in which case there are tax and VAT implications to consider which could ultimately make a huge difference to the price you end up paying for the gear that helps you to run your business.

The long and short of it is that if you are regularly generating an income from your photography, you are deemed to be a business and really should give some thought as to how best comply with (and legitimately exploit!) the tax regulations. If your photographic activities are essentially a hobby, or involve the occasional isolated transaction, you cannot claim to be a business. You must be able to demonstrate that you are actively trying to trade but you do not have to be a limited company, have a massive turnover nor, initially at least, even show a profit.

Consider this example. There has been much debate on the forums recently about the high £5,500 price of Nikon's new D3X but did you know that there is someone who will give you a 48% discount on that rather desirable piece of kit? His name is Alistair Darling and I'm about to explain how, for once, the tax system he oversees might actually be of benefit to your finances.

## Income Tax

There are two types of tax to consider - Income Tax and VAT. Let's look at Income Tax first. You must declare and pay tax on your income but if you are trading as a photographer you will have expenses that you can off-set against this income. You need not be a full-time photographer - you can still have other employment but you do need to register with HMRC (HM Revenue & Customs). All this involves is completing a simple form (Ref CWF1), which is downloadable from the HMRC web site at [www.hmrc.gov.uk/forms/cwf1.pdf](http://www.hmrc.gov.uk/forms/cwf1.pdf).

Thereafter, when completing your annual tax return you must declare self-employed income but can also off-set expenses legitimately incurred in generating it. For instance, if you were to photograph a christening and sell prints of it via an events gallery, you can claim the cost of travelling to the christening, the cost of subscribing to the events gallery website and the business-use proportion of the cost of the broadband service you use to upload the images. Hopefully you will have made a profit from the exercise - this should certainly have been your objective

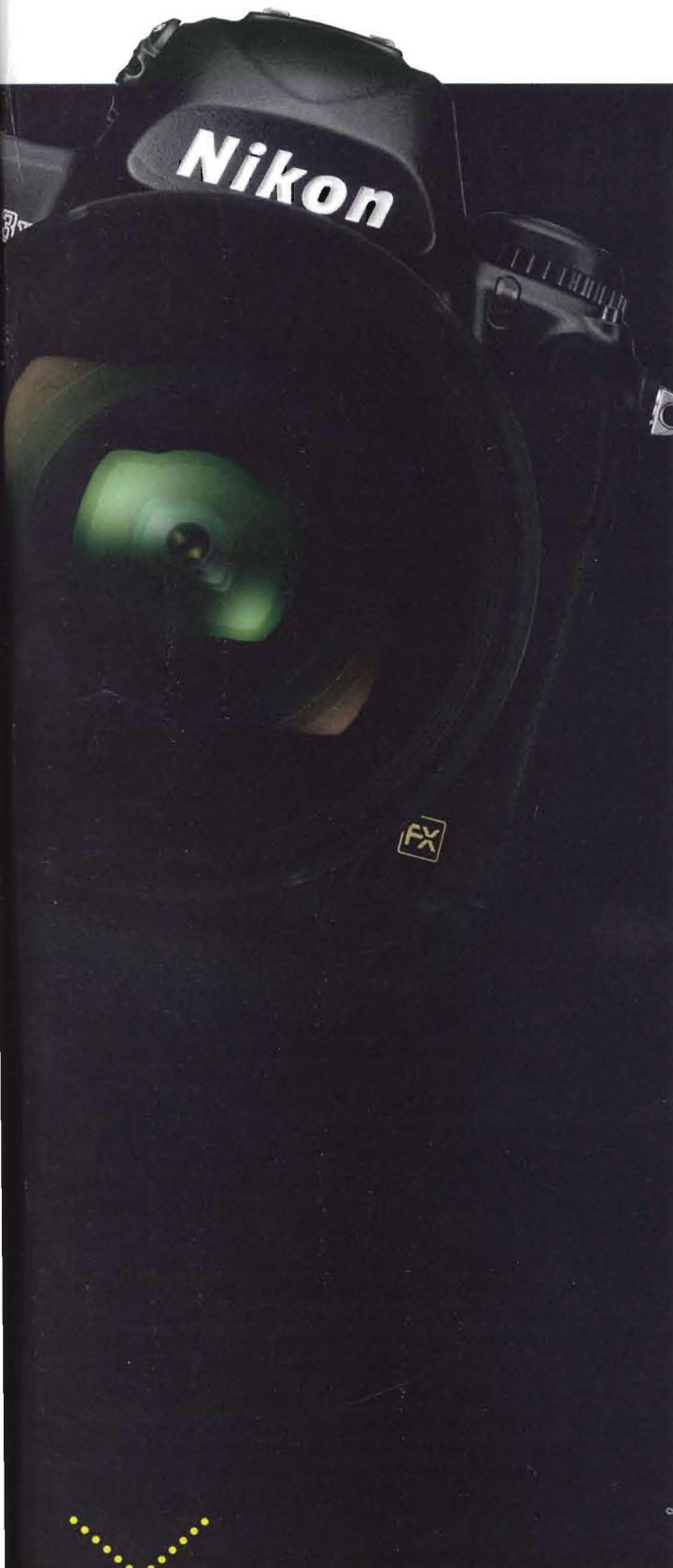
- but initially at least it is not a requirement.

It gets even better. It would have been impossible for you to have shot the images without your expensive camera and lens, so the cost of these (a capital investment) is also allowable against tax. If you use your camera exclusively for your business, you can claim the entire cost but if for instance half the time you use the camera for personal use, only half the cost is allowable, but it's still worth claiming.

Equipment used to be treated as a depreciating asset with just a percentage of its value being allowed to be claimed against tax each year. In April 2008 the Annual Investment Allowance (AIA) was introduced, and this allows you to claim 100% of the first £50,000 of spend. (No!! Please finish reading the article before turning to the ads in the back pages to work out your full £50,000 equipment shopping list!)

If we assume for this exercise that you are a 40% tax payer, VAT registered and use your camera solely for your profession, the table below illustrates how a £5,500 Nikon D3X could actually end up costing you only £2,870:-

Item	Amount	Tax recovered
Nikon D3X	£5,500.00	
Less reclaimed VAT (Rate 15%)		£717.39
Net cost	£4,782.61	
Amount subject to Annual Investment Allowance (100% up to £50,000 expenditure)	£4,782.61	
Tax recovered from Annual Investment Allowance (eg 40% of £4,782.61)		£1,913.04
Total tax recovered		£2,630.43
Tax recovered as a % of original purchase price		48%
Net sum spent to buy a Nikon D3X		£2,869.57



"If you can prove you earn income from photography you could pay just £2870 for a brand new Nikon D3x"

## SHOULD I REGISTER FOR VAT?

This illustration assumes VAT registration. This is slightly more involved than income tax and has implications that need considering but it is still far easier than people imagine. Many professional photographers think it inappropriate for them to register for VAT because their turnover is below the £67,000 threshold. However, they have a choice: they could elect to register for VAT even if their turnover is very small; in certain circumstances, there are compelling reasons for doing so.

Let's start with the really good bit - upon registration you can back-claim the VAT on many items of business expenditure incurred during the previous three years. (When I did it, I had to spend three months searching for receipts that I had spent the past three years trying to hide from my wife!)

To be specific, you can go back three years to claim VAT spent on the purchase of goods but only six months on the purchase of services. In other words, you can claim back the VAT from a camera you bought up to three years ago but the VAT on your broadband service is only claimable for invoices dated during the six month period prior to registration. The caveat is that all these expenses must have been business-related. If you purchased your camera three years ago for hobby purposes and started to use it for business a year later, it will probably be possible to apportion the VAT appropriately but you should really take advice on this.

The downside (there always is one!) is that VAT registration requires you to charge VAT on all of your sales. How big a downside this is depends on your type of client base: if you regularly shoot for private clients, your prices are immediately

going to be 15% more expensive than any competitor who is not VAT registered. However, if your clients are themselves VAT registered entities it really does not matter since they can claim back the VAT that you charge them.

Some may consider another downside of VAT registration to be the need to record the VAT element of all purchases and the quarterly submission of a VAT return. As long as your turnover is below £150,000, however, you can avoid these requirements by opting for the Flat Rate Scheme. Simplistically, this involves you accepting HMRC's averages, which indicate that for every 15% of turnover that a typical photographer charges in VAT and then pays to HMRC, he or she recovers on average 5.5% of turnover by reclaiming VAT. Consequently, the Flat Rate Scheme requires you to charge (currently) 15% VAT on all sales but you make just the one annual return and hand over to HMRC just 9.5% of your VATable turnover, thus keeping the 5.5% balance to reflect the VAT that you would (based on averages) have reclaimed had you been part of the standard scheme. (Bizarrely, HMRC offers a special rate of just 8.5% for your first year - they'll be giving air miles next!)

Perhaps you are thinking that this sounds good apart from dipping out of the hefty 15% VAT reclaim when you come to buy that expensive new D3X. The flat rate scheme takes such instances into account: for any single purchase of capital goods in excess of £2000 you are allowed to make a specific VAT reclaim. The Flat Rate option has its attractions but personally I would want to make darn sure that I couldn't get more back under the standard scheme before opting for the 'lazy man's way' of registering for VAT.

## HOW EASY IT IS?

Can you do all this registering and form-filing yourself or do you need to pay an accountant to do it for you? For sure, you can do it yourself - the forms themselves are really not that challenging and the people on the other end of the HMRC helpline are indeed very helpful. However, everyone's circumstances are different and the explanations above are just a very broad-brush picture of a quite complicated subject.

When you come to calculating the numbers you will inevitably come up against questions - "Am I allowed to do this?", "Is it reasonable for me to claim that?" etc. My advice is that paying an accountant's fees will probably save you money in the long-run and let you sleep more easily at night! However, if you want to go the DIY route all the details and forms can be found at [www.hmrc.gov.uk/vat/reg-vat.htm](http://www.hmrc.gov.uk/vat/reg-vat.htm). Good luck!