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How to pay yourself as a sole trader

It's easier to understand how to pay yourself as a sole trader, than if you're working as the director of a limited company. But while it may be more simple, you'll still need to keep on top of your admin and accounts. Here's how!

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A little regular attention will ensure you can benefit from the fruits of your labour, and avoid any issues with unplanned expenses, [tax](#) or other financial obligations. Being a sole trader doesn't mean you have to manage everything yourself, as your business can still benefit from specialist advice or the services of [an accountant](#).

You'll need to register as self-employed when your earnings amount to more than £1,000, and if your turnover is above £90,000, you'll also need to register for VAT.



How sole traders pay themselves

As a sole trader, you're not financially separated from your business. So, you can simply pay yourself money at any point from your business profits, which is called a 'drawing'. The profit is the surplus from the income generated after allowable expenses.

It's important to keep a record of the money paid to yourself for your [Self Assessment tax return](#), income tax and national insurance. And as these aren't wages, they're not deductible when you're working out annual business profits.

When deciding how much to pay yourself, it's important to keep enough money in the business to cover costs and expenses, and to retain enough funds to cover the tax on profits payable each year.

While it's possible to dip into your business account whenever you want as a sole trader, there are benefits to setting a regular date for paying yourself. This makes it easier to see how your business is performing, and you can set dates to ensure you cover outgoings like rent or larger direct debits. This is particularly helpful to avoid the risk of accidentally spending on other things earlier in the month, and finding yourself short on the day the mortgage or council tax is due.

Allowable expenses for sole traders

It's worth regularly checking that you're claiming all of the allowable expenses for your business. There's no benefit to you in paying unnecessary tax on costs which should have been excluded from your profit.

Expenses must be for business purposes and include stock, goods and materials, business premises, travel (including [mileage allowance](#)), legal and financial costs, marketing, office expenses and more.

As a sole trader, you're legally required by HMRC to keep your receipts, paperwork and records for five years after the January 31st filing deadline for that tax year. If anything has been lost or destroyed, you need to do your best to recreate those records by making a note of what was purchased and the date. And then add that you've included estimated figures where relevant in the "Additional Information" section of your tax return.

Do you need a separate business bank account?

You're not legally required to have separate business or tax bank accounts when you're self-employed as a sole trader. But it's definitely a good idea, as it makes it easier to manage your finances, and many individual banks may have rules to prevent you from using your personal account for work purposes.

Having a separate business account allows you to budget more effectively. And it also avoids confusion over personal and business withdrawals and expenses, so you're not going to have to try and remember whether you were buying something for work or yourself 11 months ago.

Many business bank accounts also offer additional benefits, such as free accounting software, or access to business support. And real-time apps can make sure you know about any outgoings, which can prevent fraud or other issues from harming your business.

How much tax and National Insurance do sole traders pay?

As a sole trader, you're liable for a sliding scale of tax based on the profits made by your business each year. Like anyone else, you're entitled to a Personal Allowance of up to £12,570 which is rated at 0%. And you'll then pay the same rates above that amount as employees. You don't retain the Personal Allowance on taxable income over £125,140.

Income tax

The Income Tax rates are: (as of 6 April 2026)

- £12,571 to £50,270 – 20%
- £50,271 to £125,140 – 40%
- Over £125,140 – 45%

You can check the current amounts on the [UK Government website](#).

National Insurance Contributions

The self-employed were previously required to pay **Class 2 National Insurance** contributions. However, these contributions became **voluntary** as of April 2024, and if your self-employed profits are £6,725 a year or more, they are treated as having been 'paid' to protect your National Insurance record.

If your profits are lower than £6,725 a year, you do not have to pay but may choose to make voluntary Class 2 contributions to protect your record. The current rate is £3.50 a week.

If you're self-employed and your profits are more than £12,570 a year, you will usually pay **Class 4 National Insurance** rates unless you're in a job which is specifically exempt.

The Class 4 rates for the 2026-27 tax year are:

- Profits between £12,570 and £50,270 - 6%
- Profits over £50,270 - 2%

Most self-employed professionals will pay their National Insurance through Self Assessment.

If you have income from other sources, whether it's alternative work, dividends, or rental income, then this will also need to be included in your figures unless it's specifically excluded (e.g. the first £1,000 of property rental income).

It's worth saving slightly more than your predicted tax and National Insurance costs, to ensure that you aren't caught short by a mistake or miscalculation. So, it's typically recommended to save 25% to 30% if you're in the lower rate of tax, and 45% at the higher rate.



How to budget for your wages as a sole trader

There's a reason [budgeting is so important when you're self-employed](#). Life can be unpredictable, especially when you rely on clients for your income. And even a basic budget plan will help you cope more easily with issues, and lower the stress and worry of working for yourself.

As a sole trader, once your expenses and tax costs are covered, you may be tempted to take the rest of the business profits as earnings. But it's always a good idea to retain some money as a buffer, both for yourself and the business. Budgeting to save an emergency fund can cover leaner times, with recommendations of between 3-6 months of income as a starting point. But even small amounts can make a huge difference in an emergency.

And the earlier you plan for the future, the better your situation is likely to be. That's particularly important for pensions, as the self-employed miss out on employer pension contributions and automatic enrolment. So, using some of your business profits to invest in a personal pension will pay off in the future.

Working out your personal budget and expenses will also help you know how much income your business needs to provide each week or month. And what level of clients or customers you require to meet or exceed that amount.

How much should you pay yourself?

There's no right answer to suggesting what any sole trader should be paying themselves. It will vary a lot depending on your business, profits, and personal needs.

One option is to just pay yourself what the business can afford, particularly if you're just starting out and investing your time in a venture that's likely to pay off in the future. But it's important not to put yourself into financial problems which can impact your wellbeing and future. If you're struggling with personal debt when you're self-employed, there's [a range of support and help available](#).

Another option is to take the exact amount that you need to cover your personal costs and commitments, but leave any additional money in your business. This is a good idea if you're building up an emergency fund or want to plan for future business investment.

But while limited company directors can avoid paying personal tax on money left in the business, this won't apply if you're a sole trader.

An alternative option is to pay yourself the typical wage for a similar employed role. If your business is earning enough to fund this approach, it means you can be confident you're being remunerated at the typical market rate. And any additional money can be reinvested into your business without impacting on your personal finances.

Is it better to pay yourself as a sole trader or limited company director?

The best method for paying yourself, and running your business, will depend on a number of individual factors.

Paying yourself as a sole trader is quicker and more simple as long as your business is earning money. And for many people it's also easier to manage your expenses and taxes, depending on the size of your business and client base. For example, sole traders are allowed to use [simplified expenses](#) for some costs when calculating income tax.

As a limited company director, you'll have more complicated business responsibilities. These include managing any wages or dividends that you choose to take, along with your personal tax return. But there are various tax benefits which aren't available to sole traders, whether that's leaving money in the business to avoid paying personal tax on it, or setting up a company pension scheme rather than a personal one. If it's something you're considering, it's worth reading our guides covering [how to pay yourself as a limited company director](#), and [how to take dividends from a limited company](#).

Whether you'll benefit more from one option will depend on both you and your business, and it's always best to seek individual advice if you're trying to decide the right route. [IPSE members](#) can use dedicated tax and legal helplines, along with receiving discounted advice and support from our trusted partners.



More support and resources for Limited Company Directors

- [How to take dividends from a limited company](#)
- [How to pay yourself as a sole trader](#)
- [Self-employed tax advice](#)
- [Making Tax Digital Guide for the self-employed](#)

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