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WEALTH MANAGEMENT



KEY GUIDE I OCTOBER 2026

Becoming self-employed

Introduction

Working for yourself offers a whole new world of freedom and challenges. Not surprisingly, more people are considering being their own boss, choosing when and how they work. In the UK, the number of self-employed individuals stood at around 4.39 million in late 2025. The largest segment of self-employed individuals – at just over one million – falls within the 45 to 54 age range. People in this sector of the workforce can build on many years of experience and are more likely to have the confidence and finances to strike out on their own.

Making the decision to become self-employed is just the first step – there's a lot to think about and plan for. In this guide, we take a look at the pros and cons of self-employment, as well as taking you through the practicalities, including your tax obligations and potential financial planning needs.

The way in which the self-employed are taxed continues to evolve, so it is important to be up to date with the relevant tax rules. This guide is based on legislation as it applies for the 2026/27 tax year, including changes announced in the November 2025 Autumn Budget.

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Becoming self-employed

PROS AND CONS

Most people are attracted to the idea of being their own boss, but it's not a route for everyone.

Benefits of self-employment

Self-employment offers a range of benefits, including the creative freedom to explore solutions and see ideas through to completion. It provides independence, allowing you to set your own agenda, including flexible hours and potentially an improved quality of life. The satisfaction of reaping the rewards of your hard work and doing what you love contributes to overall job satisfaction. Also, working from home can eliminate concerns about office politics and stressful commutes.

Financially, self-employment opens the door to higher earning potential, as you can take on more work at various periods and capitalise on demand. The variety of projects and clients allows you to develop new skills and gain experience in different aspects of running a business, such as finances and administration.

Potential drawbacks of self-employment

Self-employment does, however, come with challenges, including a lack of employee benefits such as sick pay, holiday pay and pension provision, as well as the absence of support from experienced human resource and information technology teams. The pressure of making all the decisions and to deliver for the client may lead to long and irregular working hours, impacting personal life and relationships. Being responsible for every aspect of your working life, such as invoice management and pension provision, coupled with the pressure of success or failure resting on the individual, can increase stress levels.

Social isolation during the initial stages of business ownership is common, so finding a network of others with similar experience can be beneficial and boost motivation.

Establishing a business from scratch demands determination and perseverance, even in the face of slow progress. Additionally, finances can be unpredictable, with irregular income and ongoing costs that must be met even during periods of low profitability.

PREPARING FOR SELF-EMPLOYMENT

There's no specific 'right time' to embark on self-employment. However, indicators that you may be ready include having developed specific skills and experience, confidence in marketing yourself and understanding the value of your work.

- Finding a unique selling point and possessing skills, passion and business acumen are crucial for success.
- Excellent organisational skills are vital, requiring a long-term business plan and weekly to-do lists for clarity.
- Resilience is key, as building a business takes time and may involve rejection.
- Establishing a client base is crucial, necessitating motivation, confidence and enthusiasm in seeking opportunities.

A 'side hustle' (building up your own business alongside your main source of employment) offers a practical and less risky pathway to full self-employment, providing a platform for skill development, financial stability and the exploration of entrepreneurial passions.

What's the plan?

However you decide to start your own business, a business plan is essential for success. It should start with a clear vision, provide a strategic roadmap and detail funding sources/ financial planning.

It should encompass market analysis, risk management and relate to customer need. Additionally, it will aid efficient resource allocation, serve as a communication tool for external support and demonstrate professionalism.

A well-thought-out business plan facilitates goal setting, progress monitoring and strategic adaptation, all contributing to the resilience and success of a self-employment venture.

The financial aspect of planning is particularly important. This should include projected cashflow for the first three to five years. Initial figures may be essentially just an educated guess, but one way to deal with this inaccuracy is to prepare best- and worst-case outcomes. Once the business is up and running, the financial plan should be regularly updated. As you fill in actual figures, the plan should become increasingly accurate.

With the current economic situation increasing the level of risk and volatility faced by a business, financial forecasts are unlikely to be anywhere near 100% accurate. Adopting a 'what if' approach can help. Scenarios such as 'what if I cannot increase prices in line with inflation?', or 'what if staffing costs are 10% more than expected?', can be built into the planning.

Planning point

Deciding to become self-employed is a significant step, and asking yourself the right questions can help you assess your readiness and plan for success. Harvard Business School has some key questions for you to consider: online.hbs.edu/blog/post/questions-to-ask-when-starting-a-business

SETTING UP

Unlike setting up a limited company, there are no particular legal requirements when it comes to starting self-employment as a sole trader. The main legal requirements will come from dealing with HM Revenue & Customs (HMRC):

- Sole traders must register for self assessment no later than 5 October in their second tax year of trading. They could be fined by HMRC if they do not.
- If a sole trader has any employees, they must register for PAYE with HMRC, and will then be responsible for paying any income tax and national insurance contributions (NICs) due in relation to their employees' earnings (it will be necessary to run payroll software that reports real-time PAYE information to HMRC every pay day). It may also be necessary to make workplace pension provision for employees.

Other important employee issues include training and improving staff performance, and the National Living Wage (the National Minimum Wage applies to employees aged under 21 and apprentices). From April 2026, the National Living Wage for age 21+ is £12.71 per hour, with significant increases for younger age bands and apprentices.

EXAMPLE

Since the tax year runs from 6 April to 5 April, if you started trading in May 2026, your first tax year will be 2026/27 and your second tax year will be 2027/28. You'll need to make sure you register for self assessment with HMRC before 5 October 2027.


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Trading structures and accountability
It is important to appreciate that setting up as self-employed will have advantages and disadvantages compared to a limited company structure. Many new businesses initially opt for sole trader status due to its straightforward setup process. However, neither structure is inherently superior and their effectiveness relative to each other can shift with changes in tax legislation. For example, since April 2026, incorporation relief no longer applies automatically – individuals must actively claim it when transferring a business to a company.

One key point to bear in mind, however, is that self-employment comes with unlimited liability, meaning the sole trader will be personally responsible for all the business' debts. With a limited company, the business finances are separate from the owner's finances and the owner is generally not personally responsible for unpaid debts if the business fails.

Planning point
Simply Business has a useful article outlining the pros and cons of each structure, as well as guides and resources for small businesses: www.simplybusiness.co.uk/knowledge/articles/sole-trader-vs-limited-company/

Business current accounts
Sole traders have the choice of using either a personal or business bank account for the income and expenses of their business.

Business accounts often charge transaction fees on top of monthly fees, so it's important to shop around. However, you may well get access to business finance, specialist business banking managers, the ability to take payments from customers as well as online tools and software to help you run your business.

Property
If you run your business from home, you may need to talk to your mortgage lender or landlord to ensure you do not breach your mortgage terms or tenancy agreement; revisions may be required. You may also need to talk to your insurance provider, especially if you store stock at home or have customers visiting your residence. If you need to lease or buy business premises, you will need to carefully consider the costs involved and how they impact on your profitability.

Business rates apply to most business premises, including home-based businesses. If you run your business from home, you'll generally not need to pay business rates if you only use a room occasionally for work or if the space still has a clear domestic purpose. However, business rates may apply if a room is used exclusively or primarily for business activities, or if part of your home operates as a distinct business area (for example, a dedicated studio, workshop or shop space). Eligibility for reliefs such as Small Business Rate Relief depends on the property's rateable value, so it's important to check with your local council or the Valuation Office Agency (VOA).

Planning point
Finding a mortgage that's right for you can be trickier when you're self-employed, given that high street lenders tend to view the unpredictable nature of income from self-employment as a greater than average risk. A financial adviser will have knowledge of more specialist lenders who will be able to offer you a competitive rate that reflects your specific circumstances.

Marketing and data
Finding clients and customers for your products and services is the basis for your success. Depending on the nature of your business, you may have to spend both time and money on physical and/or online marketing. An informative website, regular social media and building client lists can make a significant difference. Whether you can fulfil these requirements yourself or need help, you should work out how you will manage and fund them. Understanding data protection requirements around customer data is also an important consideration, so building best practice in from the beginning is advisable.

Information technology (IT)
Virtually all businesses require some IT infrastructure, from computers to good wifi connections. Without the support of an IT department, you will be responsible for all of this. Decisions around whether to go with Windows or Apple, for example, will influence which accessories you subsequently buy and even what type of phone you will use. Don't forget the cost of software and make sure to have a good back-up system in place. Essential data should ideally be backed up daily.

Tax relief

Tax relief for buying equipment is provided through a system of capital allowances. These either give full tax relief (effectively expensing the cost of equipment) in the year of purchase or spread it over several years. Consider leasing the equipment you need rather than buying it outright. Leasing can be more tax-efficient and leasing high-value items, such as cars, will be much healthier for your cash flow during the first few years of trading.

ACCOUNTING FOR SMALL BUSINESSES

Accounting software makes handling your money easier. There are many affordable or even free accounting software options made just for people who work for themselves.

This kind of software helps with tasks like keeping track of money, sending invoices, handling orders, managing accounts, keeping track of what you have and sorting out payroll. It also comes with tools to show you how money is coming in and going out.

Making Tax Digital (MTD) for income tax self assessment (ITSA) came into effect from 6 April 2026, when businesses with income above £50,000 must have HMRC-compatible accounting software for record keeping and filing requirements. MTD is already a requirement for businesses that are registered for value added tax (VAT). Such businesses must keep digital records and use MTD-compliant software to directly submit VAT returns to HMRC. You must register for VAT if your taxable turnover for 12 months exceeds the current threshold of £90,000.

Planning point

The first phase of MTD for income tax self assessment came into effect from 6 April 2026 for sole traders with qualifying income above £50,000. Those with income above £30,000 will be brought into MTD from 6 April 2027, with those above £20,000 are expected to follow from April 2028, subject to legislation.

Basis of accounting

Since 6 April 2024, the default basis of accounting is the cash basis.

You only record income or expenses when you receive money or pay a bill. This means you will not need to pay income tax on money you have not yet received in your accounting period.

Your accounting date is the last day of the period that you prepare your accounts for. You choose your accounting date and will normally make your accounts up to that date every year.

Any business that starts now will be taxed on the profits arising in the tax year regardless of the business' accounting date.



- For the first year, profits will be taxed from the date of commencement to the following 5 April.
- In subsequent years, the business will be taxed on the profits made from 6 April to 5 April.

Given this basis of assessment, it will be much more straightforward for a business to have 5 April (or 31 March, given the odd five days are ignored) as its accounting date. This will avoid the need to apportion profits on your tax return every year.

YOUR TAX OBLIGATIONS

A self-employed individual is likely to have the following tax obligations:

Income tax	The self-employed must register for self assessment with HMRC. They need to file a self-assessment tax return each year, reporting income and expenses. The deadline for filing an online tax return is usually 31 January following the end of the tax year. After a tax-free personal allowance of £12,570, the next £37,700 of income is taxed at the basic rate of 20%. The higher rate of 40% then applies until income reaches £125,140, although the personal allowance starts to be withdrawn once income reaches £100,000 (Scottish tax rates and thresholds differ). The personal allowance, basic rate band and higher/additional rate thresholds will now remain frozen until 6 April 2031. As a result of these freezes, more individuals may pay higher effective rates of tax over time as profits increase. Payments on account are advance payments towards the next year's tax bill. These are due on 31 January of the current tax year and 31 July following the end of the tax year.

NICs

Class 4 NICs are paid by the self-employed aged 16 to State pension age.

The rate is 6% and is charged on profits between £12,570 and £50,270, with 2% payable on all profits over £50,270.

Class 4 NICs are paid with and at the same time as the income tax liability.

Class 2 NICs are no longer required from the self-employed (they are deemed to be paid). However, this deemed payment does not apply to those with profits below £6,845. They can retain access to contributory benefits (e.g. the State pension) by paying class 2 NICs (at a fixed amount per week) on a voluntary basis.

NIC thresholds for the self-employed (and their employees) will now remain frozen until April 2031.

VAT

If a self-employed person's taxable turnover exceeds the VAT threshold of £90,000, they must register for VAT. They can also choose to register on a voluntary basis if their turnover is less than £90,000. This might be tax efficient and, in any case, some customers may prefer to deal with a VAT-registered business.

VAT is a tax added to most products and services sold by VAT-registered businesses.

The VAT payable is usually the difference between any VAT paid to other businesses and the VAT charged to customers.

VAT-registered businesses must:

- Include VAT in the price of all goods and services at the correct rate;
- Keep a record of how much VAT they pay on purchases and VAT charged on sales;
- Submit regular VAT returns to HMRC, typically every quarter, detailing the VAT they have charged and paid; and
- Pay any VAT owed to HMRC based on the return submitted.

Stricter late-filing and late-payment penalties will apply from April 2027, and all VAT-registered businesses will be required to issue VAT invoices in a specified electronic format from April 2029.

PROTECTING YOU AND YOUR BUSINESS

The nature of your business and whether you employ others will determine your protection needs.

Planning point

It's essential to set aside the funds needed to pay your accumulated income tax and NICs liability on the July and January dates each year. This can be a particular problem for a new business. For example, a business commences on 6 April 2026 and prepares its first accounts to 5 April 2027. The income tax and NICs for the whole year will be due on 31 January 2028, plus possibly another 50% payment on account for the following year.

A simple way to do this is to deduct a percentage from each amount of income you receive and save it in an account that you have earmarked for your tax bill.

Alternatively, you can use HMRC's ready reckoner. Simply input your estimated weekly or monthly profit and it will give you a breakdown of how much income tax and NICs you will be paying.

www.gov.uk/self-assessment-ready-reckoner



Income protection

Making sure you have income protection insurance is likely to be your top priority. A rainy-day fund can help in the short term here, but it's not a complete solution.

Income protection will cover lost earnings if you cannot work due to illness or injury. You can opt for either short-term or long-term coverage. Short-term coverage provides payments for a fixed period, while long-term coverage continues until you can return to work or reach retirement age.

Health cover

Supplementing this with critical illness cover adds financial protection for specific serious illnesses, offering a tax-free lump sum that can be used for various needs, such as paying off a mortgage or covering medical expenses.

Private medical insurance is beneficial for quicker access to healthcare and treatment. This is especially useful for the self-employed, as dealing with a health issue sooner rather than later can mean a shorter recovery time and an earlier return to work.

Business insurance

In addition to financial protection for yourself, your business may have insurance needs of its own. For example:

Public liability	Covers legal fees and compensation pay-outs if you're accused of causing injury to a member of the public or property damage. Product liability insurance is typically also included as standard if you sell products to the public.
Professional indemnity	Covers legal fees and compensation pay-outs if a client claims you have made a mistake. Especially beneficial to those who provide services or give advice.
Employers' liability	If you employ others, employers' liability insurance is likely to be compulsory. It covers the costs of employee claims for illness or injury at work due to employer negligence.
Portable equipment	Covers the costs of repairing or replacing laptops, phones and other portable technology in the event of theft, loss or damage.
Cyber and data	Covers legal fees and compensation pay-outs in relation to data breach complaints or hacking.
Legal protection	Can help to negotiate your rights in disputes with contractors, customers and staff.

Planning point

Given the considerable number of insurance products available, you may like to seek help from a specialist broker who can ensure you take out the right products for the right amount as determined by the needs of your particular business. Business insurance is usually sold as a package, combining a number of different policies under the one premium.

PLANNING FOR RETIREMENT

Making provision for your future retirement is a crucial element of your personal and business planning when you become self-employed. A report by the Institute for Fiscal Studies revealed that only 14% of long-term self-employed workers participated in a private pension scheme. In addition, women face a growing pension gender gap.

If you were formerly employed and enrolled in a workplace pension, those contributions will cease when you become self-employed. While the state provides a basic pension in retirement, most people will need to save money on top of this to enjoy the same standard of living in retirement as they had while they were working. So, it is essential to plan for retirement even if you are young and have only just started self-employment.

While you're working hard to set up your business and start earning a living, it may feel difficult to set money aside for a distant future. However, if you feel you cannot afford to save into a pension now while you are earning, how will you be able to pay your bills once you have retired? To put it another way, will you be able to afford to retire? The discipline of saving regularly for your retirement helps where there are competing pressures over income. Personal pensions usually allow ad hoc lump sum contributions to be made, meaning that having an irregular pattern of income need not be a barrier to saving for your future – and you may save yourself some tax too.

You can set up a personal pension directly with a provider, or you could seek the assistance of a financial adviser.



Planning point

Many people prefer to retain control over their savings, so saving for retirement by purchasing rental properties or by regular saving into ISAs are possible alternatives to making pension contributions. However, pension contributions make sense if you pay tax at the higher rate of 40% or at an even higher rate; the tax saving will be 60% if pension contributions result in the personal allowance not being withdrawn.

If you already have a sizeable pension fund, you may now need to protect your beneficiaries from a large inheritance tax (IHT) bill as pension pots are expected to become liable for IHT from 6 April 2027. This change may prompt you to think about using your pension funds to improve your retirement lifestyle, making use of the £3,000 annual gift allowance, giving regular gifts from surplus income (which are IHT-exempt), and/or taking out a whole-of-life insurance policy in trust to cover potential IHT liabilities.

BUILDING ON SUCCESS

Creating a business plan is particularly useful when you start working for yourself, but you will get even more out of it if you review and update it regularly. Your original plan is like a roadmap, giving you a direction, ways to track how you are doing and ideas for overcoming problems.

By laying out your financial goals, marketing plans and budgets, you can easily see if you're making good progress every month, week or day. Having this knowledge at your fingertips gives you the opportunity to identify and fix things that aren't going well.

Once your business is up and running, and you're making money from what you do, you might start thinking about growing. Growing your business could involve:

- selling more to the people who already buy from you;
- improving your products or services based on what your customers like;
- developing new offerings for new or current customers;
- hiring more people or training your current team;
- finding extra money from new investors;
- expanding online; or
- getting advice from a business mentor or coach who can help you achieve all these things.

It might also mean taking on a partner, or even incorporating the business. Taking on a partner or bringing in a shareholder can be an effective way of obtaining complementary skills – for example, you may be good at developing the business but lack sales, marketing or financial skills.

Planning point

Networking for the self-employed brings numerous benefits, serving as a valuable avenue for building professional connections, acquiring clients and fostering collaboration opportunities. IPSE is a not-for-profit association dedicated to the self-employed. Its mission is to empower, protect and connect its members for success. To find out more, you can visit: www.ipse.co.uk/

The Financial Conduct Authority does not regulate tax advice. Tax treatment varies according to individual circumstances and is subject to change.

Investments do not offer the same level of capital security as deposit accounts. The value of pensions and investments and the income from them can fall as well as rise. You may get back less than you invested.

Past performance is not a reliable indicator of future performance.



HOW WE CAN HELP

As this guide shows, there is a lot to consider when deciding when and how to become self-employed. We can assist you in reviewing your options with objective and expert guidance and keep you up to date with additional changes that may affect your plans. In particular, we can help you with:

- **Tax management:** Assisting you in navigating and managing your tax responsibilities.
- **Financial protection:** Ensuring a financial safety net is in place for you and your loved ones if you pass away or suffer an illness that leaves you unable to work for some time.
- **Retirement planning:** Helping you set aside funds for your future and make the most of the available tax reliefs.
- **Reviewing your needs:** Recognising that your requirements change; we conduct regular reviews to keep your financial plans on track.

In short, we're here to simplify the complexities of self-employment, helping you manage taxes, protect your income, plan for retirement and adjust your strategies as needed.



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WEALTH MANAGEMENT

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