

Income Tax and National Insurance for Sole Traders Guide



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Choosing your financial year

The tax year in the UK runs from 6th April to 5th April, though your financial year might be different depending on when you began trading.

You might choose for the end of your financial year (known as 'year-end') to be one year on from the date you began trading.

We normally recommend setting your year end as 5th April so that it falls in line with the tax year.

It just makes everything a little easier when it comes to working out tax!





How much income tax and National Insurance will I pay?

Sole traders pay tax and National Insurance (NI) based on the profits that they make.

The rate of tax and NI that you pay on the amount left over depends on how much you earn.

You can calculate your profits by **deducting any allowable expenses** from your self-employed income.

Personal Allowance and income tax

The Personal Allowance is the amount of money that you can earn before you start paying income tax on it.

The Personal Allowance for 2023/24 is **£12,570**.

It applies to all of your income, not just to your sole trader earnings.

So, if you work for an employer as well as working for yourself, all of your income is taken into consideration.

Let's say in the 2023/24 tax year, you earn **£14,000** from your employer.

Then, in the same year, your sole trader business makes a profit of **£4,000**, so your total earnings are **£18,000**.

You'll only pay tax on anything above the personal allowance threshold of **£12,570**.

$$\text{£18,000} - \text{£12,570} = \text{£5,430}.$$

Meaning the taxable element of your income would be **£5,430**.

The allowance normally changes every year, and we publish this information in our [tax rates and allowances article](#).



Once your earnings pass the Personal Allowance threshold, you'll be charged tax on your income according to how much you earn in each tax band. It's a bit confusing, so we've explained how tax bands and thresholds work in the table below.

Tax Band Name	Thresholds
Personal allowance - how much income you can earn before you start to pay income tax. No tax on this income.	£0 – £12,570
Basic rate income tax - you'll pay 20% tax on any income you earn in this tax bracket.	£12,571 – £50,270
Higher rate income tax - the part of your income in this tax band is taxed at 40%	£50,271 – £125,140
Additional rate income tax - the highest rate. The income you earn above this threshold is subject to tax at 45%	£125,140 upwards

National Insurance

The amount of National Insurance that you pay as a sole trader also depends on your yearly profits.

Sole traders pay NI depending on how much they earn, and where from.

The National Insurance thresholds normally change every tax year.

You can view the most recent rates and thresholds in [our yearly tax article](#).



Looking for more advice on Income Tax and National Insurance?

If you have any further questions simply call us on
020 3355 4047 and one of our friendly
accountancy advisors will be happy to help.



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