Sheet D: Sole traders and small businesses

For the 2025/26 tax year (6 April 2025 to 5 April 2026). Checked October 2026.

Please note: this is general information, not tax advice.
Everyone's situation is different. If you're not sure what applies to you, check GOV.UK or talk to a qualified professional.

For anyone whose main living comes from working for themselves: a trade, a shop, a craft business or a service. If it's a sideline alongside a regular job, Sheet B may suit you better. Not sure which sheets in this series apply to you? Start with Sheet A.

1. Is this you?

You're a **sole trader** if you work for yourself, keep the profits, and haven't set up a limited company. In law, you and your business are the same, so its profits are your income and its debts are your debts.

- **To start:** register for **Self Assessment** with HMRC *(see link 1 at the end of this document)*. Sheet A explains how. You don't need to register a business name.
- **Each year:** send one **tax return** and pay your Income Tax and National Insurance through it.
- **Got a job too?** You still need to do a tax return. Your wages and your business profit are added together.

2. How your tax bill is worked out

Your bill is **Income Tax** plus **Class 4 National Insurance**, both worked out on your **profit** (your takings minus your allowable costs) for the tax year *(see links 2 & 3 at the end of this document)*.

Profit for the year	Income Tax	Class 4 National Insurance
Up to £12,570	0%	0%
£12,571 to £50,270	20%	6%
Over £50,270	40% (45% over £125,140)	2%

These are the rates for England, Wales and Northern Ireland. Scotland has different Income Tax rates. Any wages from a job use up your £12,570 **personal allowance** first. The personal allowance also gets smaller once your total income goes over £100,000.

Example: £25,000 profit and no other income. Income Tax is 20% of £12,430 = £2,486. Class 4 National Insurance is 6% of £12,430 = £745.80. Total: about £3,232.

Your State Pension. If your profit is over £6,845, the year counts towards your State Pension automatically, with nothing extra to pay. If it's lower, you can choose to pay voluntary **Class 2 National Insurance** of £3.50 a week to protect your record. This is usually worth thinking about *(link 3)*.

3. Records and what you can claim

You can claim costs that are **wholly and exclusively** for the business. If something is used privately too, only claim the business share *(link 4)*.

Usually allowable	Usually not allowable
Materials, stock and tools	Your own wages or drawings
Van or vehicle running costs (business share)	Travel from home to a fixed place of work
Business insurance, phone and software	Fines and penalties
Advertising, website, bank charges	Clothing, unless it's a uniform or protective wear
Accountant or bookkeeper fees	Entertaining clients

Simplified expenses can save paperwork. Instead of working out your actual costs, you can use HMRC's flat rates *(link 5)*:

- **Mileage for cars and vans:** for 2025/26, 45p a mile for the first 10,000 business miles, then 25p (motorbikes 24p). **From 6 April 2026 this goes up to 55p** for the first 10,000 miles. Once you choose this for a vehicle, you must stick with it for that vehicle.
- **Working from home:** £10 a month for 25 to 50 hours, £18 for 51 to 100 hours, £26 for 101 hours or more. Phone and broadband are claimed separately.

Keep records as you go, not created in January. Record every sale and cost, keep receipts and a mileage log, and use a separate bank account for the business. Keep your records for at least 5 years after the filing deadline.

4. Key dates, and paying your bill

Send your 2025/26 tax return online and pay by **31 January 2027** *(link 6)*.

Date	What's due
31 Jan 2027	Your 2025/26 tax return online, any tax you owe, and your first payment on account for 2026/27.
31 Jul 2027	Your second payment on account for 2026/27.

Payments on account catch people out *(link 7)*. If your tax bill is over £1,000, HMRC asks for two advance payments towards next year's bill, each half of this year's bill. So in your first full year, January can bring about one and a half times what you expected. If your income has fallen, you can ask HMRC to reduce them.

Set money aside every time you're paid. Putting 20% to 25% of your profit into a separate savings account covers most basic-rate taxpayers. Can't pay in full? Contact HMRC before the deadline. You can often set up a payment plan online *(link 8)*.

Paying late costs money: an automatic £100 fine for a late tax return, even if you owe nothing, plus interest and extra charges on tax paid late.

5. Common questions

Can I claim for my van? Yes, for the business share. Either claim the running costs (and the cost of buying the van through **capital allowances**), or use the mileage flat rate instead: 45p a mile for 2025/26, 55p from 6 April 2026. Either way, leave out private use. Cars have different rules.

Do I need a separate business bank account? Sole traders don't have to have one by law, but it makes your records far easier, so it's strongly recommended.

My business year doesn't end on 5 April. Does that matter? Since 2024/25 you're taxed on your profits for the tax year itself. Ending your business year on 31 March or 5 April keeps things simplest.

Do I record money when I send an invoice, or when I'm paid? Most sole traders now use the **cash basis** by default: record income and costs when money actually comes in or goes out of your account.

What should I watch as I grow? Three things: **Making Tax Digital** (income before costs over £50,000 now, or over £30,000 from April 2027, based on your 2025/26 tax return), **VAT** (taxable sales over £90,000 in any rolling 12 months, and you must register within 30 days *(link 9)*), and whether a limited company would suit you. Sheet E in this series covers all three.

6. Getting help and staying safe

- **Who can help?** A **bookkeeper** keeps your records straight through the year. An **accountant** suits more complicated affairs. Sheet F in this series explains who does what and how to choose. You can search for licensed accountants and bookkeepers near you in AAT's directory *(link 10)*.
- **Can't afford to pay for help?** TaxAid is a charity that gives free, private tax help to people on low incomes *(link 11)*.
- **Beware of scams.** HMRC never texts or emails you about a refund or asks for your bank details. Never share your HMRC login with anyone.

Words explained

HMRC: HM Revenue and Customs, the government department that collects tax.

Self Assessment: HMRC's system for people to report income that isn't already taxed, such as money from working for yourself.

Tax return: The form you send HMRC each year, usually online, showing what you earned.

Tax year: Runs from 6 April to 5 April the next year. The 2025/26 tax year ended on 5 April 2026.

Sole trader: Someone who works for themselves without a limited company.

Profit: What's left of your takings after taking off your allowable costs. This is what you pay tax on.

Personal allowance: The amount of income you can have each year before paying any Income Tax: £12,570 for most people.

Class 4 National Insurance: National Insurance that sole traders pay on their profit, through their tax return.

Class 2 National Insurance: A small weekly amount you can choose to pay to protect your State Pension if your profit is low.

Wholly and exclusively: Spent only for the business, not for you or your family.

Simplified expenses: HMRC's flat rates you can use instead of working out some actual costs.

Capital allowances: Tax relief on buying equipment or vehicles for your business.

Payments on account: Advance payments towards next year's tax bill, due on 31 January and 31 July.

Cash basis: Recording income and costs when the money actually comes in or goes out.

Making Tax Digital: HMRC's new system of keeping digital records and sending updates every 3 months.

VAT: Value Added Tax, added to the price of most goods and services once a business is registered.

Useful links

1. Set up as a sole trader: https://www.gov.uk/set-up-sole-trader
2. Income Tax rates and allowances: https://www.gov.uk/income-tax-rates
3. Self-employed National Insurance rates: https://www.gov.uk/self-employed-national-insurance-rates
4. Expenses if you're self-employed: https://www.gov.uk/expenses-if-youre-self-employed
5. Simplified expenses: https://www.gov.uk/simpler-income-tax-simplified-expenses
6. Self Assessment deadlines: https://www.gov.uk/self-assessment-tax-returns/deadlines
7. Payments on account: https://www.gov.uk/understand-self-assessment-bill/payments-on-account
8. If you can't pay your tax bill on time: https://www.gov.uk/difficulties-paying-hmrc
9. Register for VAT: https://www.gov.uk/register-for-vat
10. Find an AAT licensed accountant or bookkeeper: https://www.aat.org.uk/businesses-employers/find-accountant-bookkeeper
11. TaxAid: https://taxaid.org.uk/about-us

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