



How to go self-employed in the UK

by Simply Business Editorial Team

About Simply Business

We're one of the UK's largest business insurance providers. Since we started life in 2005, we've helped three million small businesses and self-employed people find the protection that's right for them, from builders to bakers and personal trainers (we cover landlords, too).

How does it work?

Answer a few questions about your business and we'll show you quotes from a range of insurers. After you buy, our Northampton-based team will be with you through every step of your cover, whether you have questions about your policy or you need to make a claim.

How to go self-employed in the UK

Wondering how to become self-employed? We've got some tips for getting started – from weighing up the pros and cons of self-employment, to understanding tax and benefits when you're self-employed.

There are over four million self-employed people in the UK right now. In 2021, the self-employed workforce contributed £303 billion to the national economy. Everyone knows someone who's done it, but how do you get started? Read our guide to going self-employed.



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Should I go self-employed?

There are plenty of reasons to go self-employed. You get to 'be your own boss' and work more flexibly. And depending on your industry, you may be able to command a much higher rate than the salary you'd be able to achieve as an employee.

But there are downsides to self-employment – and when you're thinking through being self-employed there's lots to take into account.

Deciding if self-employment is right for you

There are pros and cons to being self-employed, and when you're weighing up self-employment against employment there are a number of things that you need to consider, including:

- are you clear about how you'd get clients or customers?
- do you have some money to set yourself up?
- would you be able to cope with periods of little or no income?
- do you feel confident about managing your own business, for example managing [cashflow](#), keeping thorough records and completing tax returns?
- have you thought through the impact of losing employee benefits, for example holiday pay, sick pay, and employer pension contributions?

You'll also need to think about personal things such as whether you'd miss working with colleagues, if you have the space you need, and any upcoming life-changing events like moving home or having a baby.

What are the benefits of being self-employed?

There are plenty of perks of being self-employed, and this list isn't exhaustive:

- you have more **flexibility and control**, so it may be easier to fit your work around other commitments and responsibilities, including childcare
- your work can be **more varied**, as you may be working on several different projects for different clients at any one time
- you can explore your **creative and entrepreneurial** side as you build your own business
- you're more likely to **work from home**, or from your own business premises

There are also many financial benefits if you're self-employed. You can deduct costs such as travel and some utilities bills from your income when calculating your tax liability.

Meanwhile, day rates for self-employed consultants and freelancers tend to be much higher than salaries, so there's potential to earn more money.

What are the disadvantages of being self-employed?

It's important to take into account the disadvantages of being self-employed too. There are some challenges, such as:

- finding clients or a route to market
- start-up costs
- administration such as [bookkeeping](#)
- complying with industry regulations

You'll also need to consider some of the risks of being self-employed:

- **your income isn't guaranteed**, which can make it hard to keep up with rent or mortgage payments, loan payments, and living expenses
- **you bear the responsibility for the failure or success of the business**, so you don't have much back-up if things go wrong
- **you won't get paid if you take a holiday or can't work** because you're unwell
- **it can be more difficult to get approved** for things like renting a property, getting a mortgage, or getting a loan
- **it can be difficult to separate your home life from your work life**, and to get a good work-life balance
- **being self-employed can be isolating** if you're working on your own a lot



How much tax do self-employed pay?

How much tax you'll pay as a self-employed person will depend on how much money you've made and the '[allowable expenses](#)' you've incurred in the course of your business. Certain business-related expenses can be subtracted from your income when you're calculating your taxable profit.

The tax-free personal allowance and the tax bands are the same for self-employed and employed people, so for 2021-22 you can make up to £12,500 before you need to pay tax.

You'll then pay the basic rate of income tax (20 per cent) on income up to £50,000. The higher rate of 40 per cent applies to income over £50,000, and on income over £150,000 you pay the additional rate of 45 per cent.

How to pay National Insurance when self-employed

Most self-employed people will need to pay [Class 2 and 4 National Insurance contributions](#).

You'll pay this as part of the [Self Assessment](#) process, which needs to be completed by **31 January** every year.

Going self-employed for the first time

When you're going self-employed there are several things you need to do, including thinking about your business structure (which has an impact on the paperwork you'll need to complete), and sorting out insurance.

Going self-employed checklist

When you go self-employed, you're effectively [setting up a business](#), even though you might not see it that way. This means that you need to decide on a business structure.

We've taken an in-depth look at setting up as a sole trader – usually the simplest business structure to choose when you go self-employed. However, you may also decide to incorporate as a limited company.

Starting a limited company

If you're [setting up a limited company](#), there are certain things you need to do, including registering with Companies House, drawing up a [memorandum of association](#), and paying [corporation tax](#). Take a look at our article on [sole traders versus limited companies](#) if you're not sure about the differences between these business structures.

Starting up as a sole trader

If you're going self-employed in the UK as a sole trader, these are some of the things you need to do:

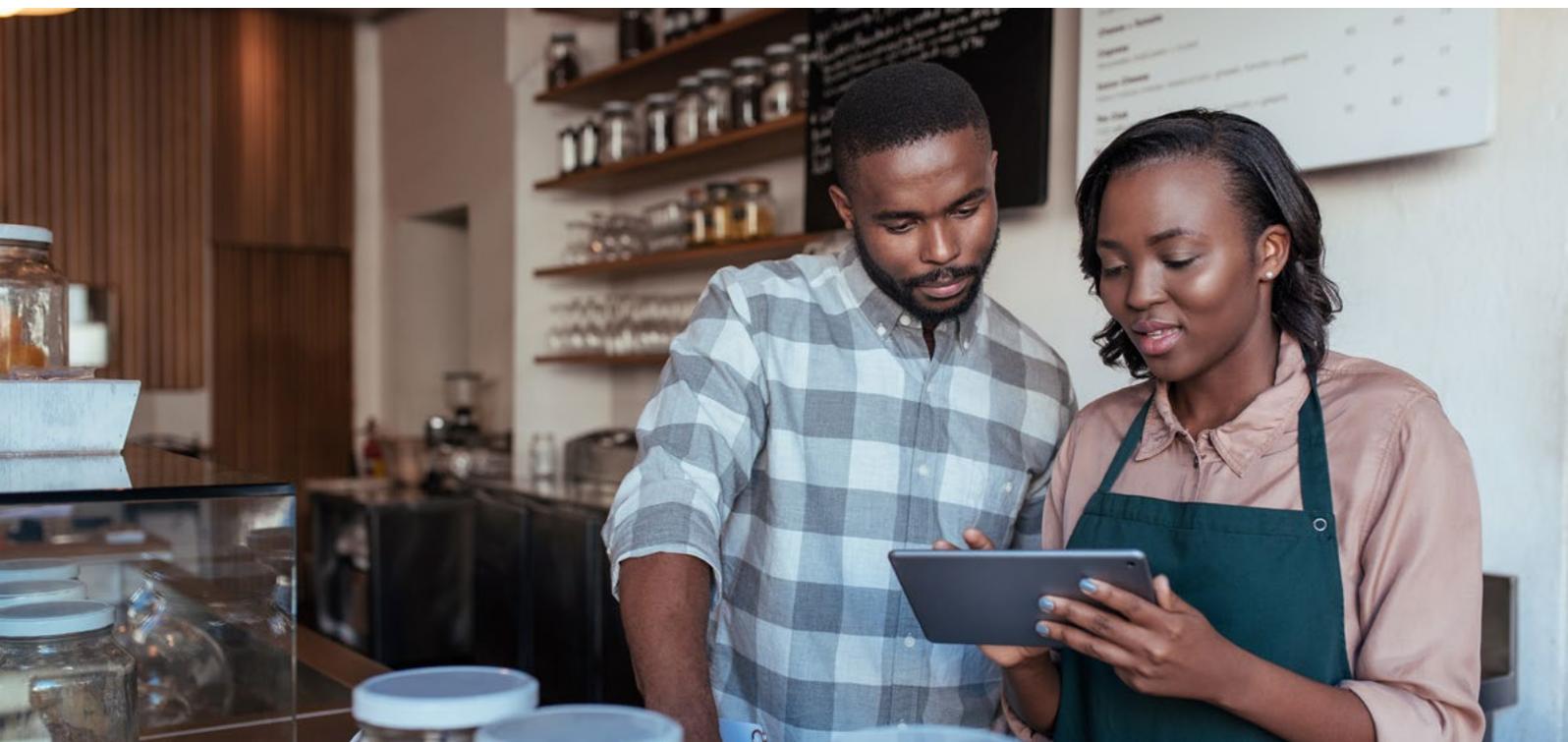
- **tell HMRC that you're self-employed**, so that they know you need to pay tax through [Self Assessment and pay Class 2 and 4 National Insurance contributions](#)
- **set up a [business bank account](#)** – If you're struggling to pick a provider, check out our article for a round-up of some of the [best business bank accounts](#)
- **establish a process for recording your profits and evidence of your business expenses** – this will make it much easier when it comes to completing your HMRC tax return
- **check your tenancy agreement or mortgage agreement** to make sure you're not contravening any terms if you're working from home – you may need to notify your landlord or mortgage lender
- **sort out your insurance** – [professional indemnity insurance](#) and [public liability insurance](#) are the main types of business insurance to consider, but there are plenty of other covers too
- **think about your pension** – since you won't be paying into a workplace pension any more, it may be a good idea to set up a private pension so that you're still putting money aside for retirement

Going self-employed but working for a company

Of course, you may be going self-employed part-time or have a [side hustle](#), but continue working for a company during the rest of the week. This means you're both self-employed and employed, and you'll pay tax through both [PAYE](#) and Self Assessment.

You could also be self-employed but only work for one company (for example if you have a single major client), but in this case HMRC will be keen to make sure that the company isn't just calling you 'self-employed' to avoid paying National Insurance contributions and giving you employment rights.

To count as self-employed, you usually need to have choice over when and where you work and you'll usually be paid when you issue invoices. Check the government website or speak to an accountant if you're not sure – you can also read our [guide to the off-payroll working rules \(IR35\)](#) for more.



Being self-employed and getting a mortgage

One of the disadvantages of being self-employed is that [it can be more difficult to get a mortgage](#), but it is possible.

When you apply for a mortgage and you're employed, the lender will usually confirm your income by asking for payslips and bank statements. When you're self-employed, you'll usually need to provide business accounts including a copy of your Self Assessment tax return forms.

Lenders often ask for between two and three years of accounts, so you may not be able to get a mortgage if you've only just become self-employed.

Usually, the lender will take an average of your income over the last two or three years to calculate how much they're willing to lend you. They may also ask to see other documents - business plans, for example - to check that they're confident you'll be able to keep up with the mortgage repayments.

How do I register as self-employed with HMRC?

Registering as self-employed with HMRC and setting up as a sole trader are two of the first things you need to do when you start your own business.

Our [step by step guide on how to register as self-employed](#) gives you an overview of everything you need to know from how to register, to your responsibilities once you've registered with HMRC.

You can [register for Self Assessment](#) on the government's website, and read our article on [registering as a sole trader with HMRC](#) for more information.

What can I claim for as self-employed?

Self-employed allowable expenses

In terms of what you can subtract from your income when you're figuring out the self-employed profit that's taxable, the list includes [business insurance](#), part of your utility bills if you work from home, office costs, stock and certain business-related travel.

Check the [self-employed guidance](#) on the government website carefully though, as you could get in trouble with HMRC if you subtract something that's not an allowable expense, or if you don't have evidence of the expense.

For a full breakdown, take a look at our guide to [self-employed tax deductible expenses](#).

Self-employed benefits

Depending on certain factors, you may be able to claim certain benefits. If you're self-employed and not earning very much money, you may be eligible for income support or working tax credit, although the latter has been replaced by Universal Credit for most people.

Check the government website for more details – you can also read our guide to [self-employed benefits entitlement](#).

Self-employed tax credits

You can claim Working Tax Credit when you're self-employed, but in April 2015 the rules were tightened up. Self-employed tax credit claimants must show that they're trading on a commercial basis with the aim of making profits, and that their self-employed work is structured, regular, and ongoing. There's further information on the criteria in [this government briefing document](#).

Self-employed Housing Benefit

Again, this has been replaced by Universal Credit. You may still be eligible for Housing Benefit and council tax reduction if you're self-employed but not earning very much money, and certain other factors apply.

When the council is calculating your eligibility for benefits like housing benefit, they'll probably ask to see your business accounts for the last financial year, or a forecast if you haven't started trading yet.

Self-employed Universal Credit

You may be eligible for Universal Credit if you're self-employed. You will have to declare your earnings at the end of each monthly assessment period, and will have to give details of any payments into or out of your business. Your work coach will also ask to see records of customers and suppliers, and marketing materials.

Your Universal Credit payments may be calculated based on your assumed earnings, which are known as the Minimum Income Floor. However, a different method may be used if you're in your first 12 months of self-employment, during which the Minimum Income Floor may not apply. During this period, you may also be entitled to meetings with a work coach who's specifically trained in self-employment.

Self-employed grants

You may be able to get a grant from the government called a New Enterprise Allowance if you're going self-employed. You may be eligible if you or your partner has been receiving Jobseeker's Allowance or Employment and Support Allowance, or if you've been receiving income support, or if you're a lone parent, sick or disabled.

If your business is approved, you could get a weekly allowance worth up to £1,274 in total, over 26 weeks. You can also apply for a loan to help fund your startup.

There are some other small business grants available too, from the government local councils, the EU, and some organisations. Use the government's [finance finder tool](#) to see if there's a grant that could be suitable for you.

You can also read our guide to [small business grants](#).



Still deciding what self-employed business to start?

Take a look at our range of guides on starting your own business and how to set up as self-employed.

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Article last updated: February 2022

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