



BUSINESS & PERSONAL TAX SUPPORT

Considering self-employment?

Tax and NIC considerations – 2024/25

If you are self-employed and operate as a sole trader or run an unincorporated business – for example a business partnership - you (and if applicable your business partners) will need to register as self-employed with HMRC.

Unlike a company (which is a separate legal entity), if you are self-employed, you do not benefit from limited liability (unless you are operating a limited liability partnership).

Further, you are taxed personally on any profits that you make from running your business. These taxable profits may be higher or lower than the amount of cash you withdraw from the business to meet personal costs.

Taxation of profits

If you make a profit, you will pay income tax if your total income for the tax year (from all sources) exceeds your personal allowance. The exception to this is if your income from self-employment is £1,000 or less for the tax year, in which case it is covered by the trading allowance, and you do not need to report it to HMRC or pay tax on it.

Where income from self-employment is more than £1,000, you must work out your profit for the tax year.

Once your business is established, your profits for the tax year are those profits actually earned in the tax year.

So, if you prepare your accounts to 31 March each year, for 2024/25, you will be taxed on your profits for the year to 31 March 2025.

In certain circumstances, self-employed traders making the change to being taxed on profits earned in a tax year (for 2023-24) may give rise to inflated tax bills. Anticipating this, HMRC has conceded that they will help spread any increase over a 5-year period.

You can also choose to work out your profits by reference to money received less money paid out.

This is known as the cash basis; however, if you want to use this basis you must elect to do so. Otherwise, you must use the traditional accruals basis.

In working out your profit you can deduct expenses wholly and exclusively incurred for the purposes of the business. If expenses are less than £1,000, you can deduct the £1,000 trading allowance instead.

It is important to note that you are taxed on the profit made by your business, not on the drawings that you take for your own personal use.

Your tax liability for the year is worked out on your total income for that year from all sources, not just on any profits from your self-employment. You will pay tax to the extent that your income exceeds your personal allowance, set at £12,570 for 2024/25.

Self-assessment tax return

Each year you must file a self-assessment tax return. You will need to complete the self-employment pages to tell HMRC about the income and expenses from your business. You must file your self-assessment tax return online by 31 January after the end of the tax year. Your 2024/25 tax returns must be filed online by 31 January 2026. You can file a paper return instead but must do this by the earlier deadline of 31 October after the tax year end.

Paying tax and payments on account

If your total income tax and Class 1 National Insurance liability for a tax year is £1,000 or more, you will need to make payments on account for the following tax year. Payments on account for 2024/25, where your 2023/24 liability is at least £1,000, are due as follow:

- 31 January 2025: First instalment for 2024-25 based on 50% of 2023/24 tax and Class 4 National Insurance liability.
- 31 July 2025: Second instalment for 2024-25 based on 50% of 2023/24 tax and Class 4 National Insurance liability.

We have used reasonable care and skill in assembling the information in this update. However, the information presented cannot be tailored to personal circumstances or particular situations. There may also be factors relevant to you which fall outside the scope of this publication. Accordingly, the material presented does not constitute personal or business advice. You should not rely solely on this update to make (or refrain from making) any decision or take (or refrain from taking) any action.

- 31 January 2026: any balance due for 2024/25 (plus first payment on account for 2025/26).

If your tax and Class 4 National Insurance liability is less than £1,000, you do not need to make payments on account. Instead, you must pay any tax due for 2024/25 by 31 January 2026.

National Insurance Contributions

If your profits are above certain levels, you must also pay National Insurance contributions. The self-employed pay a Class 4 NIC contribution.

Voluntary Class 2 contributions are payable at the rate of £3.45 per week for 2024/25 but if your profits exceed £12,570 you will no longer be required to pay Class 2 NIC.

You will also pay Class 4 National Insurance contributions if your profits exceed £12,570. You will pay Class 4 National Insurance at the rate of 6% on profits between £12,570 and £50,270 and at 2% on profits in excess of £50,270.

VAT

If you are registered for VAT, you will need to comply with the filing requirements of Making Tax Digital for VAT.

There are also a number of schemes that may be beneficial for smaller self-employed firms to adopt. For example, cash or annual accounting.

We can help you select the best option.

Making Tax Digital

Making Tax Digital (MTD) is changing the way that taxpayers communicate with HMRC. If you are VAT-registered and have turnover above the VAT registration threshold, you will already be complying with MTD for VAT.

MTD for income tax has been deferred and will now be introduced from 6 April 2026.

Under MTD for income tax, you will need to keep digital records and provide quarterly updates to HMRC instead of filing a self-assessment tax return.

Although April 2026 may seem to be some time ahead, landlords and self-employed persons who are not using accounting software that is compatible with MTD filing obligations – would be advised to consider their options.

We can help you choose appropriate software and provide installation and training support if required.

Self-employed v incorporated

As personal tax affairs are unique, planning for the best type of business structure can be tricky.

Please call if you would like to discuss your options.

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