

TIPS & ADVICE

INVOICING & GETTING PAID

# Paying Yourself as a Freelancer

# Contents

- 01 Intro
- 02 Understanding your Real Income
- 04 Sole Trader vs Limited Company for Freelancers
- 07 Separating your Business and Personal Money
- 09 Planning for Business Costs
- 10 Deciding How Much you Need to Live
- 11 Using Accounting Software
- 12 Hiring an Accountant
- 13 Final Tips

# Intro

Finance can feel intimidating when you're a freelancer. If you're great at design, writing, or development, you might not feel confident managing money.

But here's the truth: even a successful freelancer can struggle if their finances aren't organised.

The good news? With a few simple systems, managing freelance money becomes much easier.

This guide covers the essentials every freelancer should know about paying themselves.



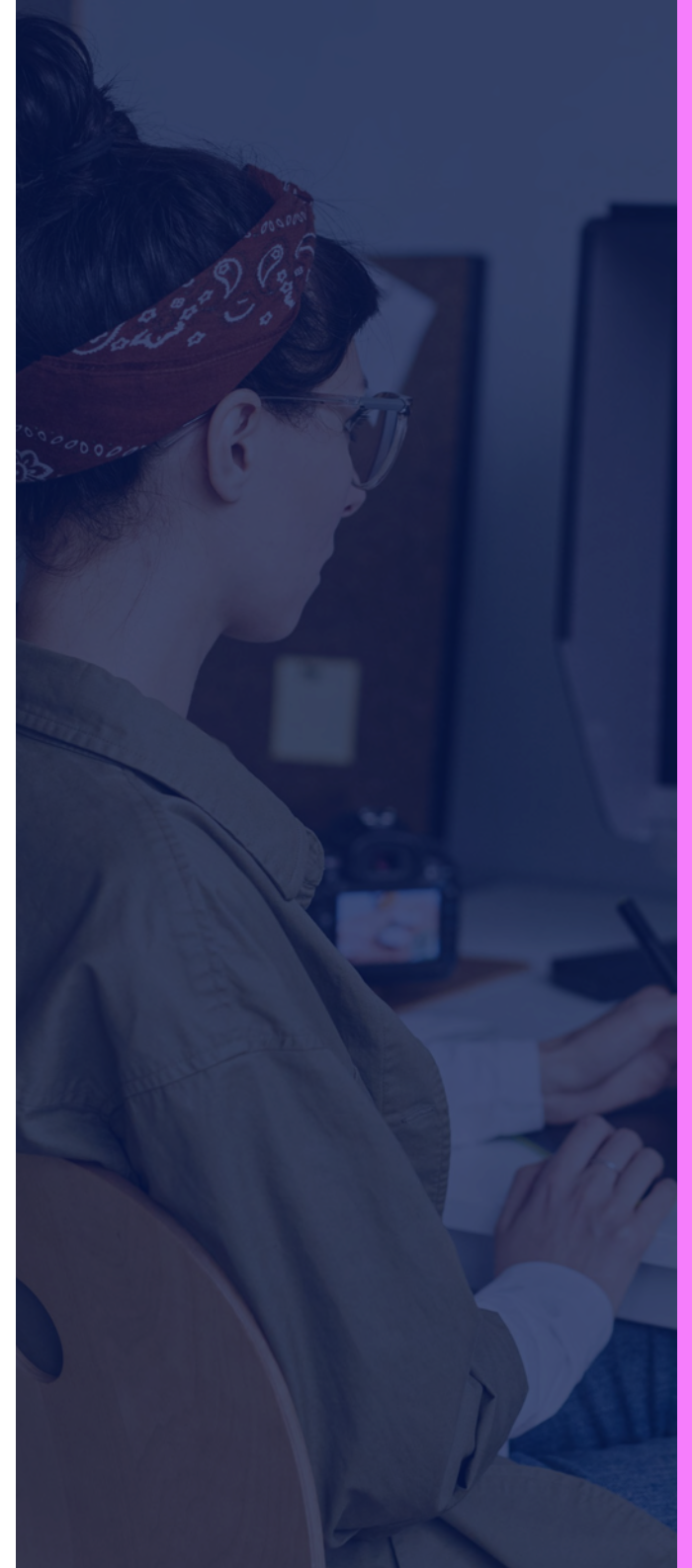
# Understanding your Real Income

Let's say you finish a project and a client pays you £500.

It might feel like you just earned £500 to spend - but as a freelancer, that's not your actual take-home pay.

Unlike traditional employees, freelancers must cover things that employers normally handle, such as:

- Income tax
- National Insurance contributions
- Pension contributions
- Student loan repayments





You also need to account for business expenses.

Examples include:

- Software subscriptions (Adobe, Figma, etc.)
- Stock assets or fonts
- Website hosting
- Office supplies
- Electricity and internet costs relating to your workspace

These expenses come out of your income before it becomes your actual pay.

There is good news though, because they are allowable business expenses which means they'll reduce your taxable income.

**Freelancer Tax Experts**

From only £24.50 per month

[Learn more](#)

# Sole Trader vs Limited Company for Freelancers

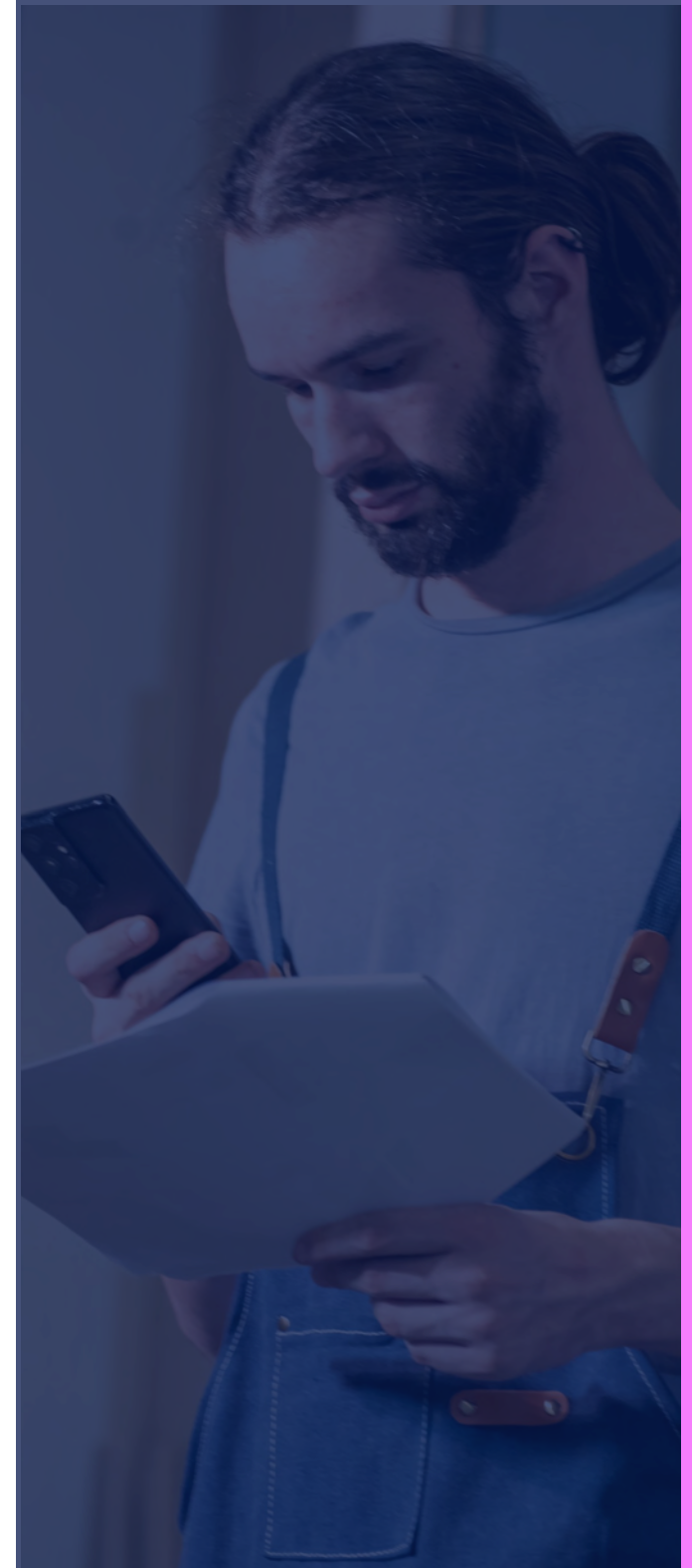
Not all freelancers pay themselves in the same way. How you take money from your business depends on whether you're operating as a sole trader or through a limited company.

## Paying Yourself as a Sole Trader

If you're a sole trader, HMRC sees you and your business as one legal entity.

That means:

- All business income belongs to you
- You simply transfer money from your business account to your personal account (or keep it, if you don't have a business bank account)
- You pay tax later through Self Assessment (or MTD Income Tax depending on how much you earn)



A blue-tinted image of a calculator and financial documents. The calculator is a standard desktop model with a digital display showing '885.14'. It is placed on top of several documents, including what appears to be a tax form with columns for 'Income', 'Adjusted Gross Income', and 'Third Party Amount'. A pen is also visible in the lower left corner of the image.

### Example:

You receive £2,000 from clients in a month

From that money you should set aside amounts for:

- Income tax
- National Insurance
- Business expenses
- Savings

What remains is effectively your pay.

Many freelancers put aside 20-30% of income for taxes to avoid surprises when their tax bill arrives.

### One thing to remember:

As a sole trader, you're not paying yourself a salary - you're taking drawings from your business profits.

# Paying Yourself Through a Limited Company

If you run your freelance business as a limited company, things work differently because your company is a separate legal entity to you as the freelancer who owns it.

This means you usually have two options for how you pay yourself:

## 1. Salary

You can pay yourself a regular salary through PAYE, similar to an employee.

## 2. Dividends

You can also take additional money from company profits as dividends.

Dividends often have lower tax rates than a salary, which is why many limited company freelancers combine both.

It's important to note there has to be profits in your business to take dividends out.

### **You can use a combination of these**

For example:

- Small monthly salary
- Additional dividends taken quarterly or annually



# Separating your Business and Personal Money

One of the most important habits you can build is using two bank accounts. For sole traders this isn't a legal requirement (but good to do in practice). If you operate as a limited company on the other hand, it's mandatory because you and your business are two separate entities.

## 1. Business Account

Use this for:

- Client payments
- Software subscriptions
- Equipment purchases
- Work-related travel
- Business expenses



## 2. Personal Account

Use this for:

- Rent
- Food
- Personal spending
- Everyday life

### Why this matters:

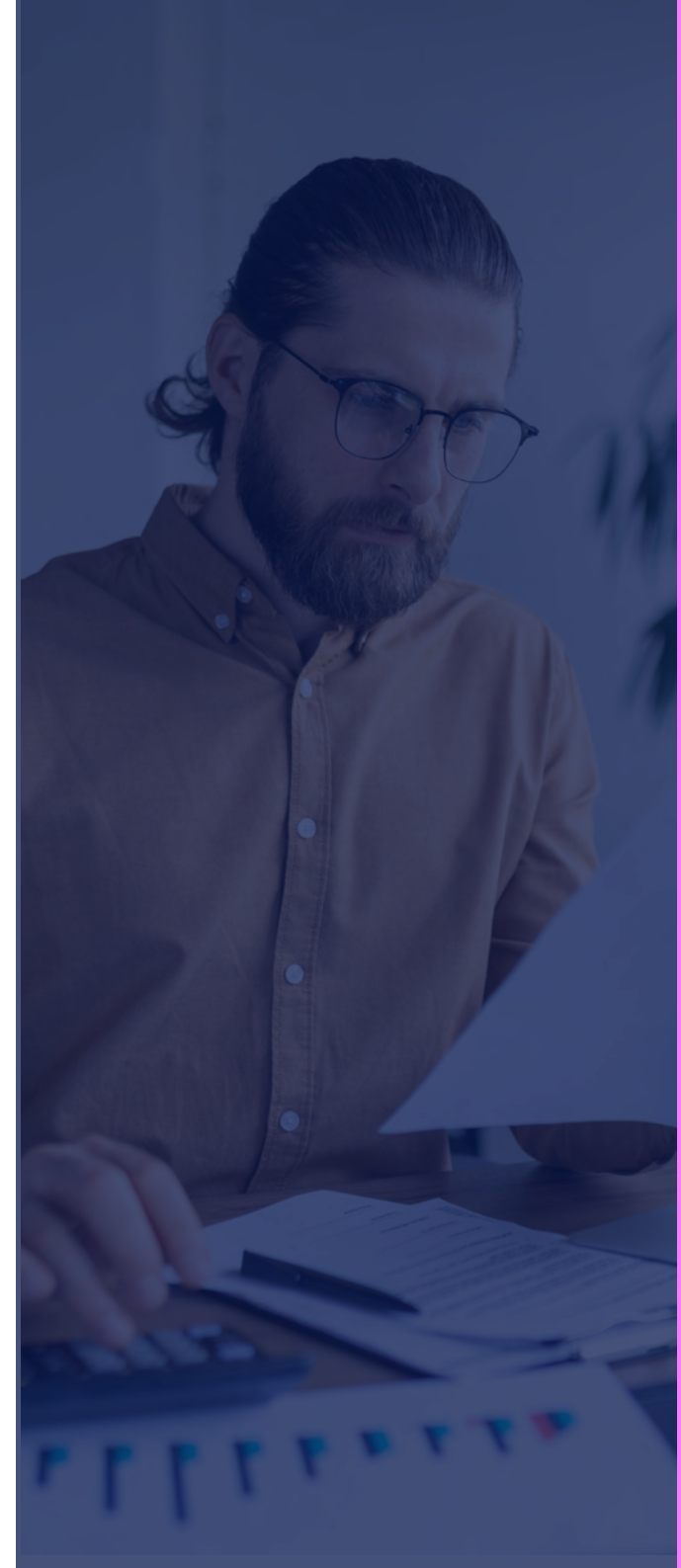
- Makes tax filing much easier
- Helps track profit accurately
- Prevents messy bookkeeping
- Protects you if HMRC ever audits your business

Whilst we're on audits – ensure you save every business receipt. If you use bookkeeping software, you can see whether they have a receipt upload feature where you can scan and store instantly.

**Make Tax Time Easy**

From only £24.50 per month

[Learn more](#)



# Planning for Business Costs

Most freelancers don't have huge business costs, but you may still need to pay for things like:

- New equipment
- Software
- Marketing
- Website costs
- Courses or training

Create a simple plan so you can decide what debts need paying off, whilst setting aside money each month.

Having savings helps when work slows down, equipment breaks, and unexpected business costs appear.

# Deciding How Much you Need to Live

Before freelancing full-time, calculate your minimum living costs.

At a basic level, this includes:

- Rent or mortgage
- Food
- Bills
- Transport

If freelancing is currently a side hustle, try to save as much as possible to build a financial cushion.

Once freelancing becomes your main income, financial advisors often suggest that housing and utilities should not exceed about 45% of your income.

**Knowing your minimum monthly cost helps you determine:**

- How much you need to earn
- What your rates should be
- When it's safe to go full-time



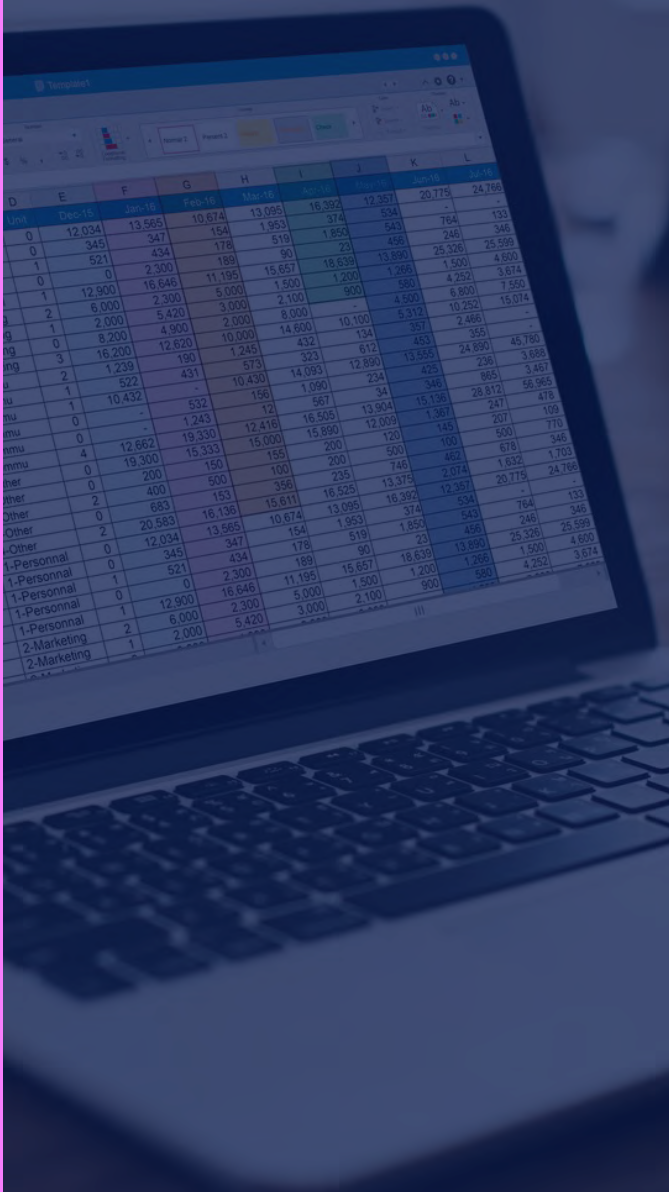
# Using Accounting Software

Tracking finances manually can be overwhelming, but accounting tools make it much easier.

**Most software allows you to:**

- Track income and expenses
- Connect your bank account
- Import transactions automatically
- Generate reports
- Prepare tax information

You can log transactions daily, weekly, or monthly, but the more frequently you update it, the easier it becomes.



# Hiring an Accountant

An accountant can save you time and stress.

## They can:

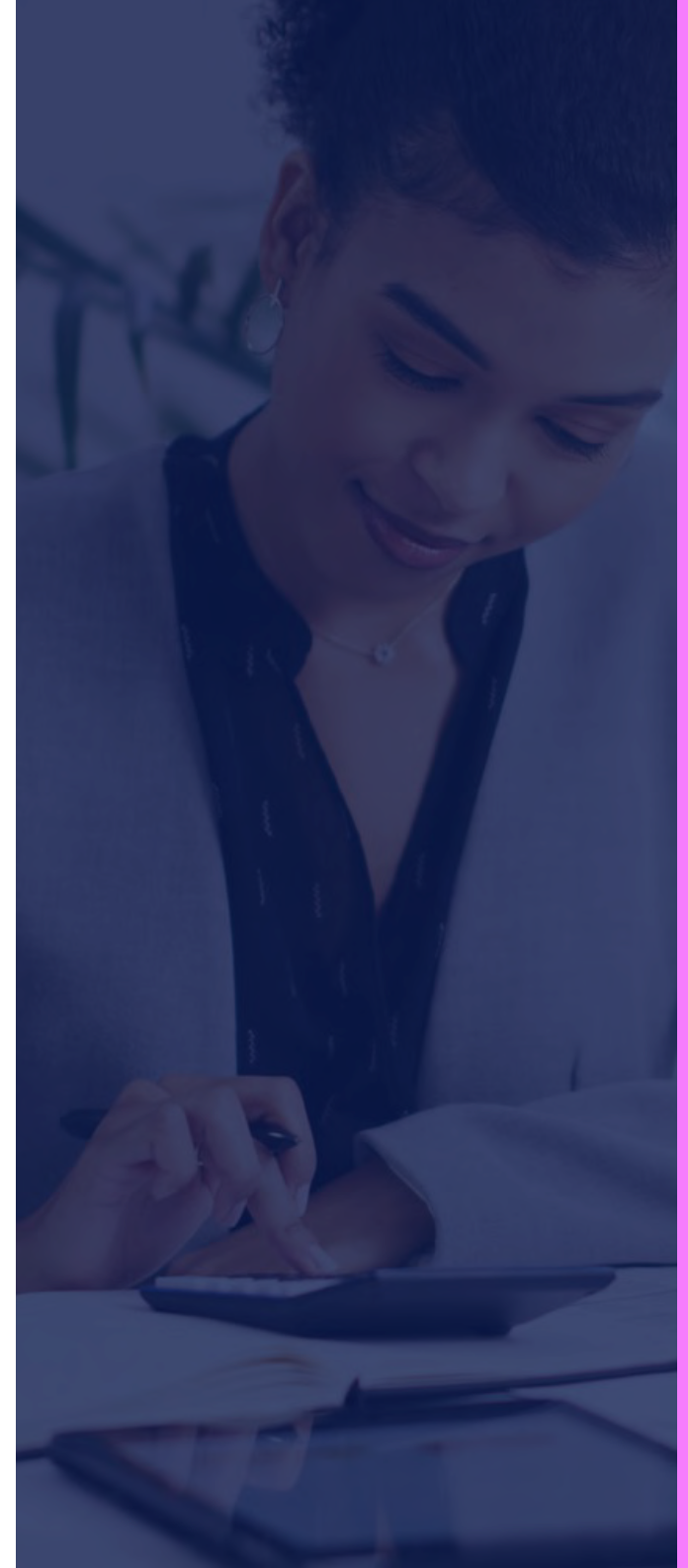
- Review your finances
- Manage tax filings
- Handle compliance with HMRC
- Help optimise your tax payments

Many accountants simply use the data from your accounting software, meaning you still stay in control of your finances.

## Freelancer Accounting

From only £24.50 per month

[Learn more](#)



# Final Tips

Freelance finance doesn't need to be complicated.

Focus on these key habits:

- Separate business and personal money
- Track expenses and keep receipts
- Plan for taxes and savings
- Know your minimum income needs
- Use accounting software
- Get professional help when needed

Once your finances are organised, you can focus on what really matters; doing great work and growing your freelance business.



# Got a Question?

Need clarity on paying yourself as a freelancer? [Drop us a line](#) - your question could feature in the next edition of this guide.

Contact us