

TIPS & ADVICE

INVOICING & GETTING PAID

Paying Yourself as a Freelancer

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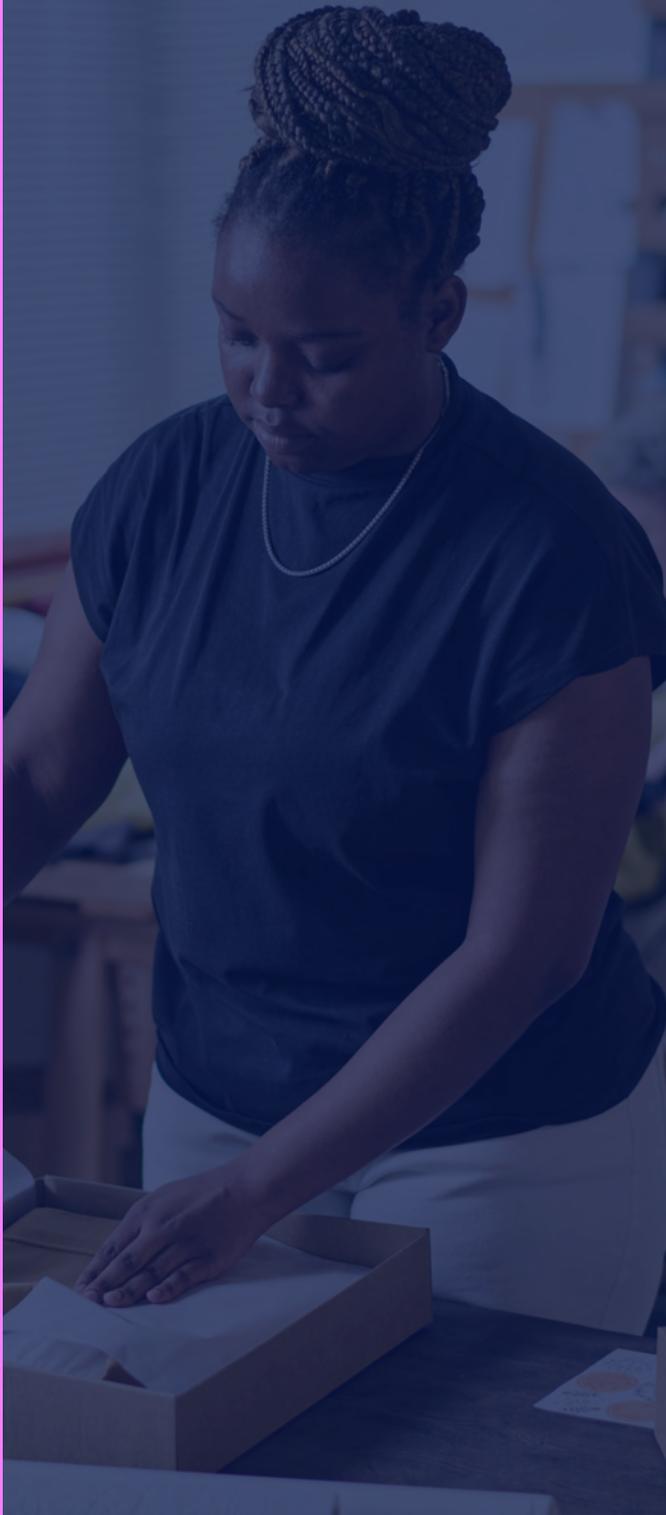
Intro

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.



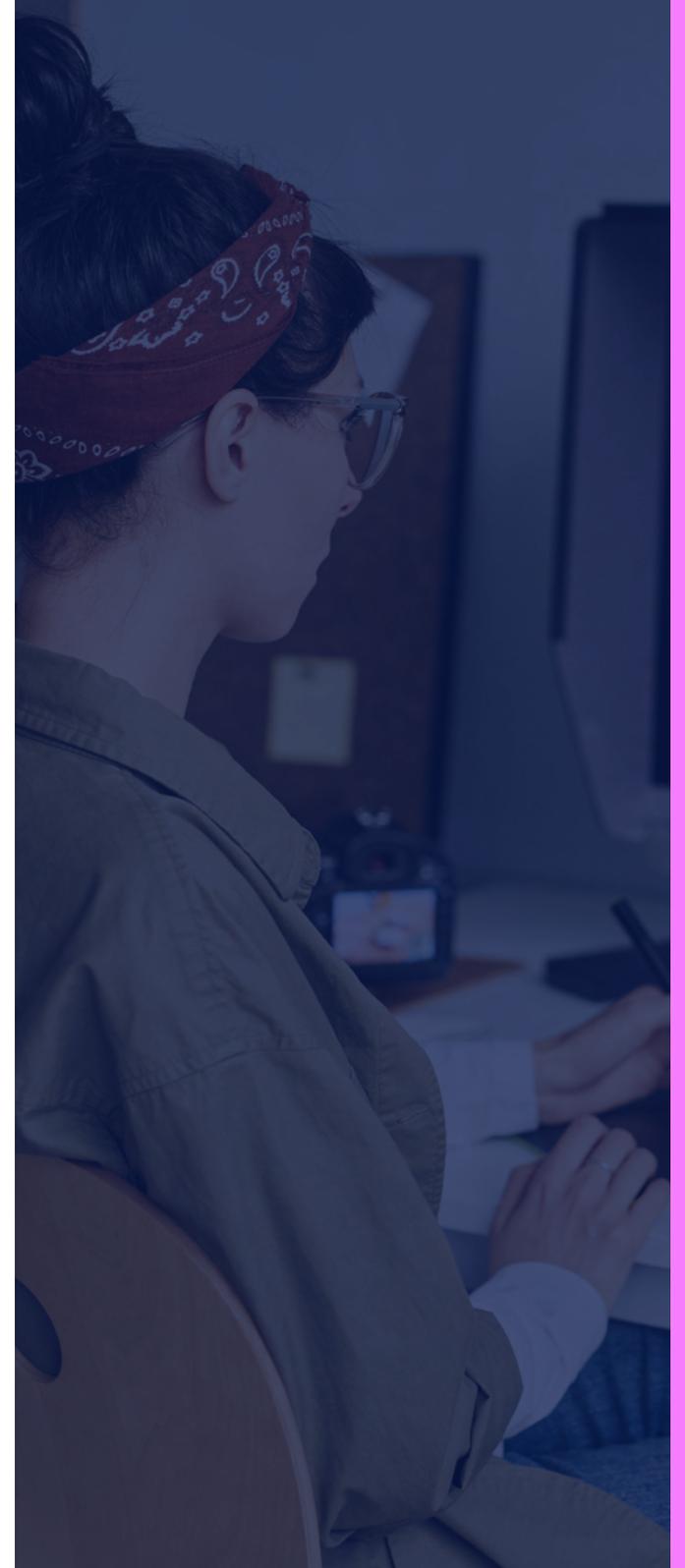
Understanding your Real Income

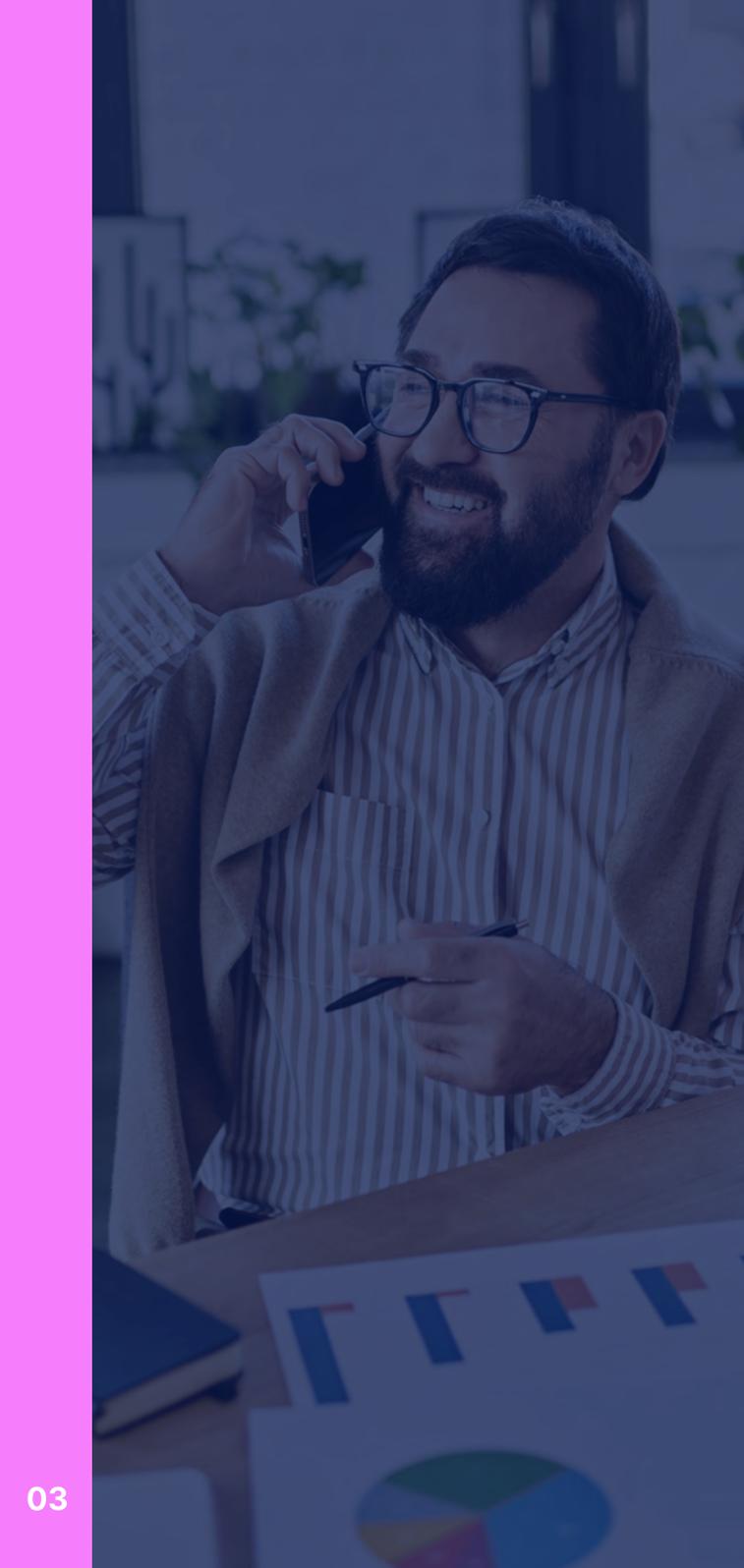
Let's say you finish a project and a client pays you £500.

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

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Sole Trader vs Limited Company for Freelancers

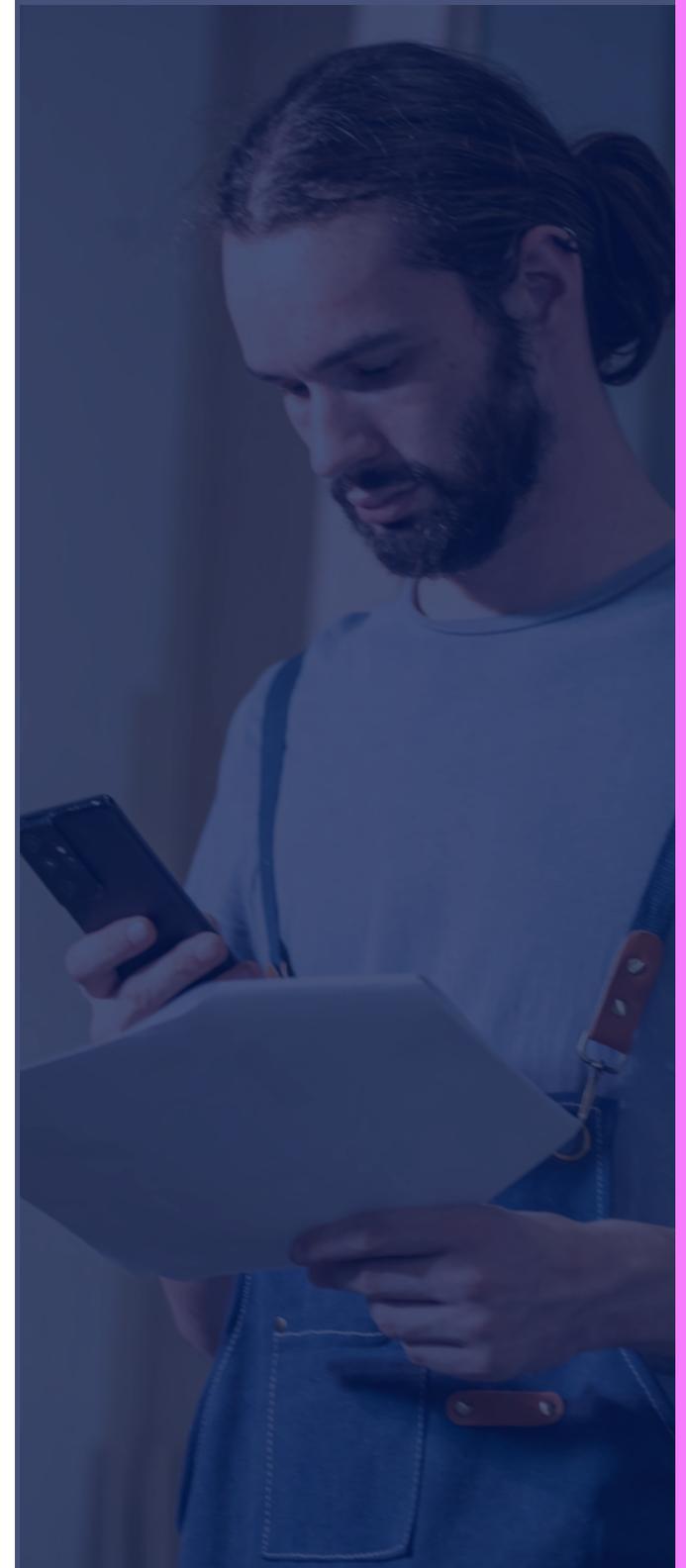
Not all freelancers pay themselves in the same way. How you take money from your business depends on whether you're operating as a sole trader or through a limited company.

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, a pen, and financial documents. The calculator is a standard desktop model with a digital display showing '885.14'. The documents include a table with columns for 'Amount', 'Third', and 'Gross Adjusted Income'. A pen is lying diagonally across the bottom of the documents.

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.

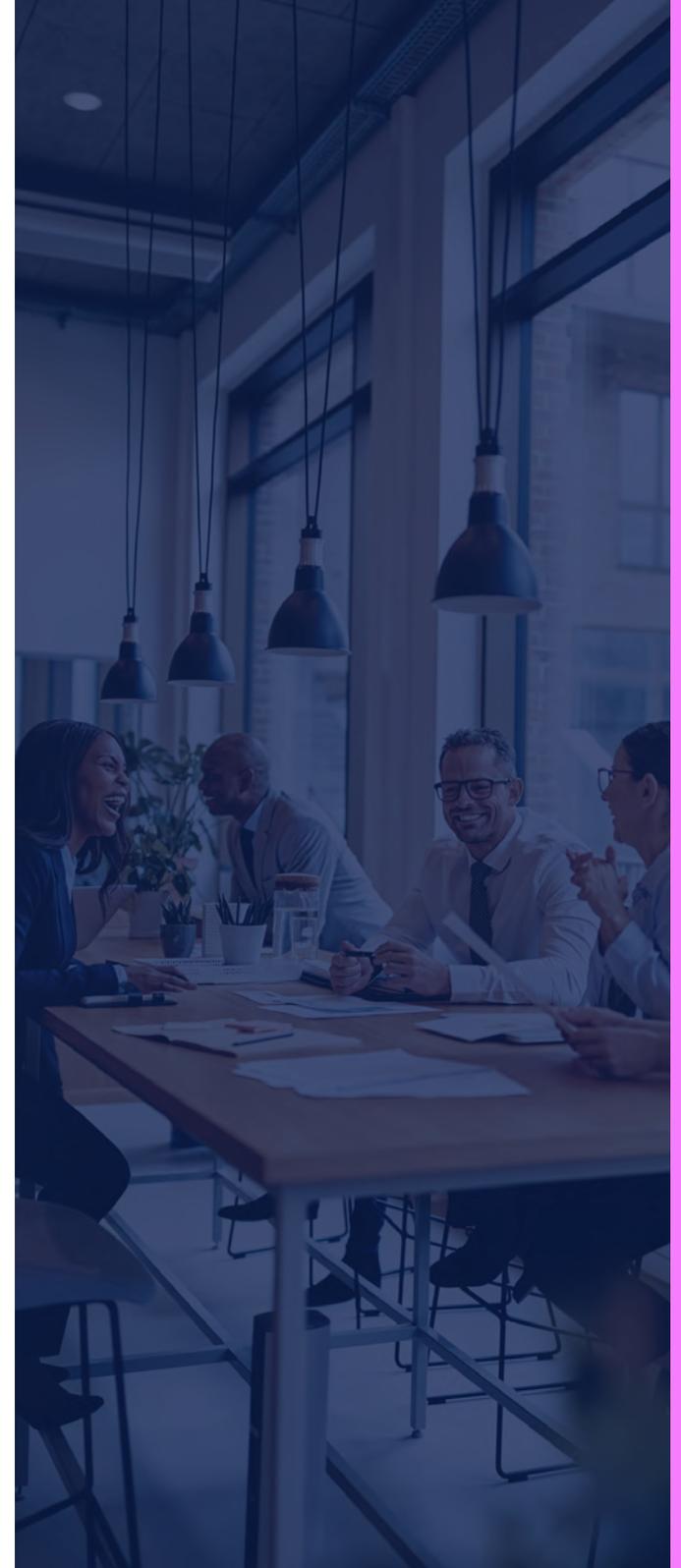
Dividends often have lower tax rates than a salary, which is why many limited company freelancers combine both.

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:

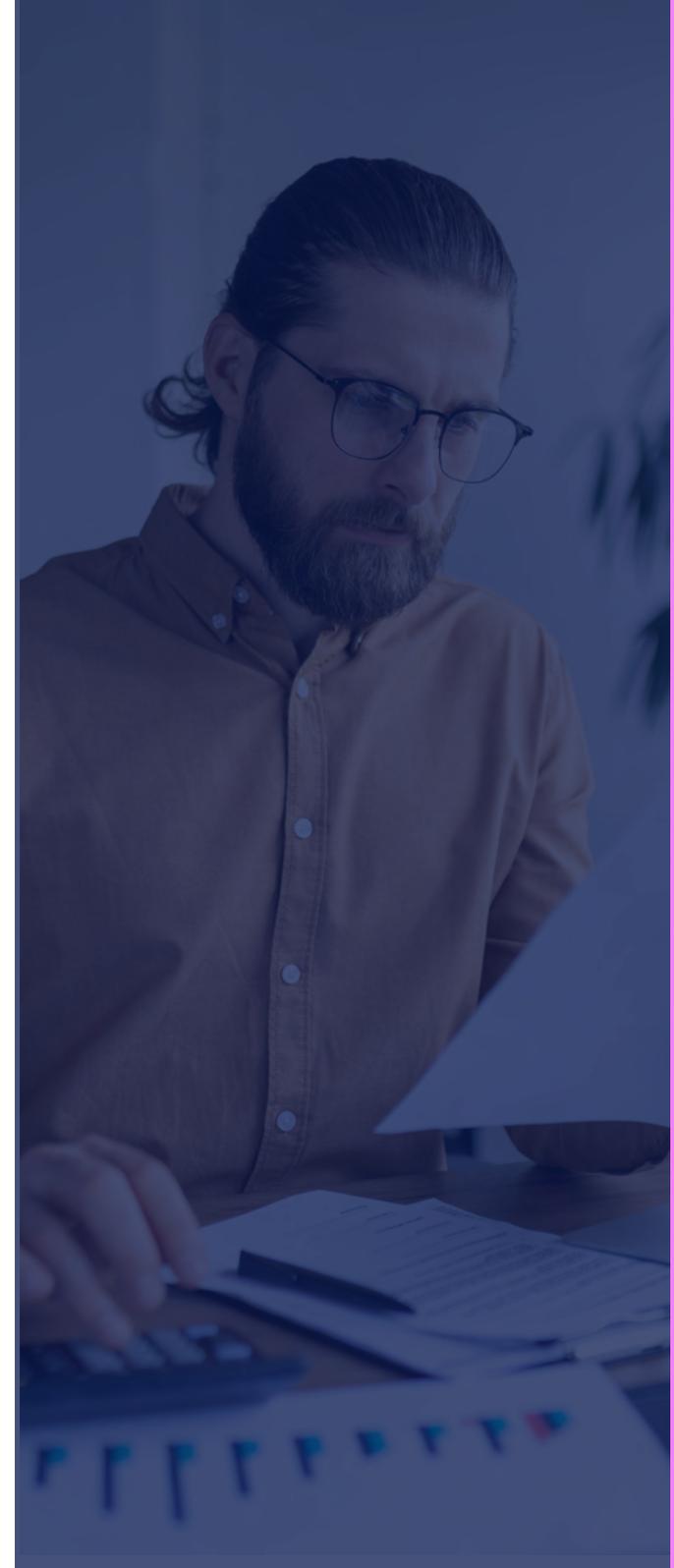
- Makes tax filing much easier
- Helps track profit accurately
- Prevents messy bookkeeping
- Protects you if HMRC ever audits your business

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.

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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:

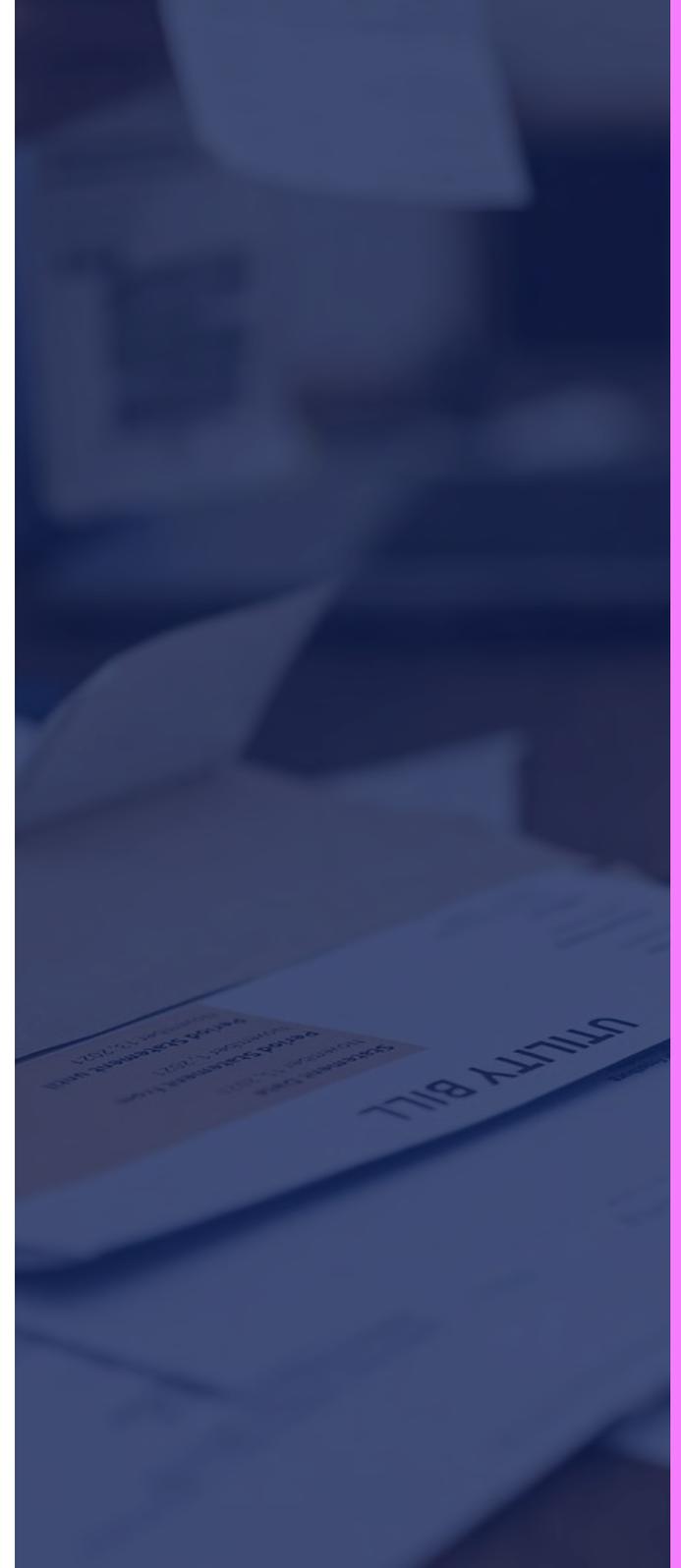
- Rent or mortgage
- Food
- Bills
- Transport

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.

The image shows a laptop screen displaying an accounting software interface. The screen shows a spreadsheet with columns for months (Dec-24, Jan-16, Feb-16, Mar-16, Apr-16, May-16, Jun-16, Jul-16) and rows for various categories (Unit, 0, 1, 2, 3, 4, Other, 1-Other, 1-1, 1-2, 2-1, 2-2). The data is organized into a grid with numerical values. The software interface includes a menu bar at the top with options like 'Home', 'Insert', 'Format', 'Tools', 'Window', and 'Help'. There are also some icons and a search bar visible.

	Dec-24	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Unit	12,034	13,565	10,674	13,095	16,392	12,351	20,775	24,766
0	345	347	154	1,953	374	534	-	133
1	521	434	178	519	1,850	543	764	346
2	0	2,300	189	90	23	458	246	346
3	12,900	16,646	11,195	15,657	18,639	13,890	25,326	25,599
4	6,000	2,300	5,000	1,500	1,200	1,268	1,500	4,600
Other	2,000	5,420	3,000	2,100	900	580	4,252	3,674
1-Other	8,200	4,900	2,000	8,000	-	4,500	6,800	7,500
1-1	16,200	12,620	10,000	14,600	10,100	5,212	10,252	15,074
1-2	1,239	190	1,245	432	134	35	2,466	-
2-1	522	431	573	323	612	453	355	-
2-2	10,432	-	10,430	14,093	12,890	15,535	24,890	45,750
Other	-	532	156	1,090	234	425	230	3,688
1-1	-	1,243	12	567	34	348	851	3,467
1-2	-	-	-	-	-	-	-	-
2-1	12,662	19,330	12,416	16,505	13,904	15,136	28,812	56,965
2-2	19,300	15,333	15,000	15,890	12,009	1,367	247	478
Other	0	150	155	200	120	145	500	770
1-Other	0	200	100	200	500	100	678	346
1-1	0	400	500	356	235	746	462	1,632
1-2	0	683	153	356	235	13,375	2,074	1,703
2-1	0	20,583	16,136	15,611	16,525	16,392	12,351	20,775
2-2	0	12,034	13,565	10,674	13,095	16,392	12,351	24,766
Other	0	345	347	154	1,953	374	534	764
1-Other	0	521	434	178	519	1,850	543	764
1-1	0	2,300	189	90	23	458	246	346
1-2	0	12,900	16,646	11,195	15,657	18,639	13,890	25,326
2-1	0	6,000	2,300	5,000	1,500	1,200	1,268	1,500
2-2	0	2,000	5,420	3,000	2,100	900	580	4,252

Hiring an Accountant

An accountant can save you time and stress.

They can:

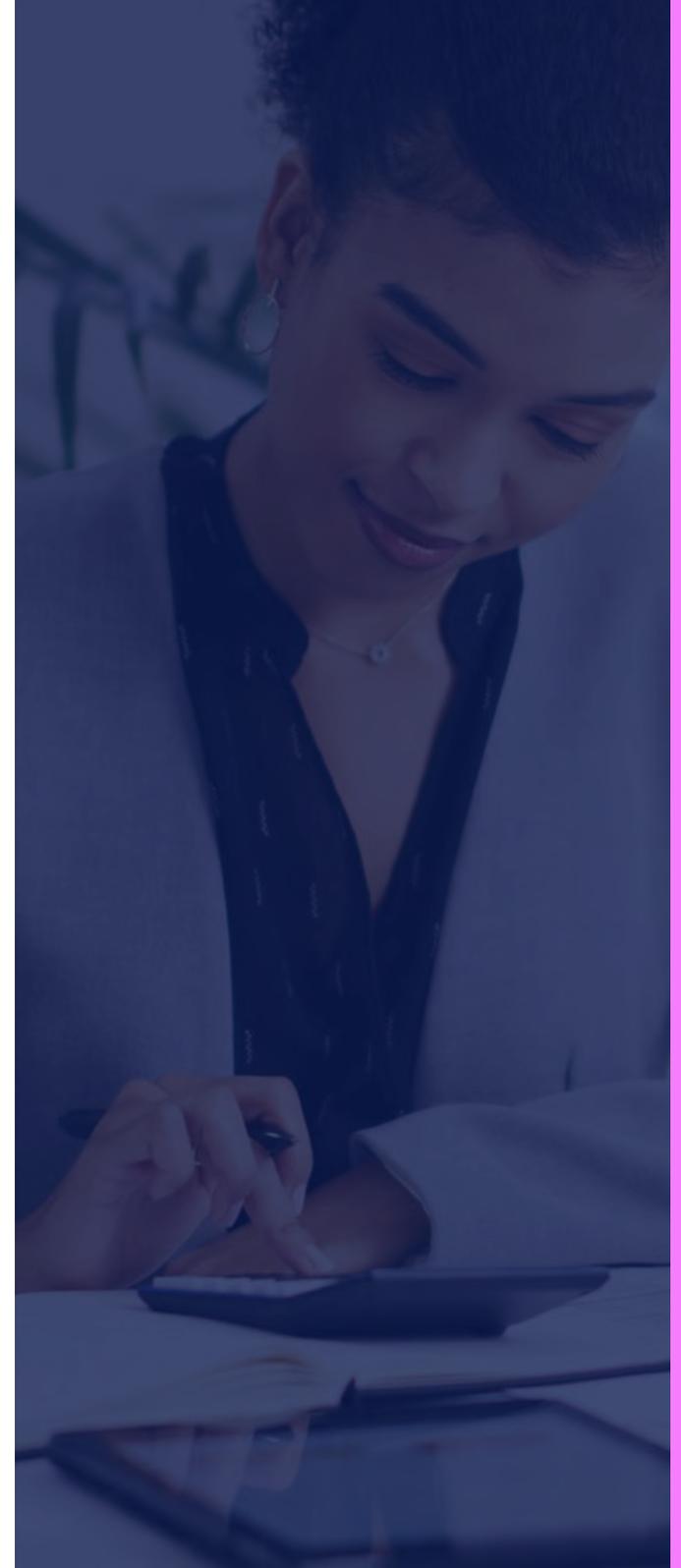
- Review your finances
- Manage tax filings
- Handle compliance with HMRC
- Help optimise your tax payments

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

Freelancer Accounting

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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](#)