# SOLE TRADER TAX GUIDE

2026/27 Edition | Reviewed 19 September 2026

A practical handbook for self-employed individuals: what you can claim, what to avoid, and how to plan ahead.

**THE SBX FIVE PILLARS**

1. Keep clean records: separate spending, save receipts and log mileage.
2. Use the right claims and remuneration mix; review annually.
3. Plan tax early using an up-to-date profit estimate.
4. Protect cashflow: budget VAT, tax and payments on account.
5. Speak to SBX before major purchases or structural changes.

| Tax year | Online Self Assessment | VAT threshold |
|---|---|---|
| 6 Apr 2026–5 Apr 2027 | 31 January 2028* | £90,000; two tests |

*Where a personal return is required. General UK guidance; personal tax examples use England, Wales and Northern Ireland rates unless stated. Scottish non-dividend rates differ. Read the relevant qualifications before acting.

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# 01 THE FUNDAMENTALS

The foundation of good sole trader tax planning is simple: understand where tax applies, claim the right costs and set money aside throughout the year.

## The wholly and exclusively rule

An expense must be incurred for your trade. A separately identifiable business part can qualify; an inseparable business and personal purpose may prevent a claim.

**CAN I CLAIM THIS EXPENSE?**

Clear business purpose? **No:** do not claim.
**Yes:** check for private use and specific restrictions.
Business-only cost: usually allowable. Mixed use: claim only the identifiable business part. If the purposes cannot be separated, ask SBX before claiming.

## Income Tax rates 2026/27

| Band | Income before allowances* | Rate |
|---|---|---|
| Personal Allowance | Up to £12,570 | 0% |
| Basic rate | £12,571–£50,270 | 20% |
| Higher rate | £50,271–£125,140 | 40% |
| Additional rate | Over £125,140 | 45% |

**England, Wales and Northern Ireland; assumes the standard allowance, with tapering as below. Scottish trading-income rates differ. Other income can use your allowance and bands.*

**THE £100,000 PERSONAL ALLOWANCE TRAP**

Your allowance falls by £1 for every £2 of **adjusted net income** above £100,000 and disappears at £125,140. In England, Wales and Northern Ireland this can create a 60% Income Tax marginal rate; Class 4 NI may apply as well.

## Why expenses can save Income Tax and NI

Class 4 NI is 6% on profits between £12,570 and £50,270, then 2% above. A £100 deduction wholly within the relevant bands can save **£26 at 20% tax + 6% NI**, or **£42 at 40% + 2%**. Actual savings depend on your income and NI position.

Class 2 is normally treated as paid at profits of £7,105 or more. Below that, eligible people can pay voluntarily at £3.65 a week to protect their record.

**SBX TAX PROVISION RULE**

Move a percentage of **profit, not turnover**, into tax savings each month. As a starting estimate: 25–30% at basic rate or 35–45% at higher rates. Allow for payments on account and ask us to adjust for other income, student loans and allowance tapering.

Official sources: Income Tax rates · Scottish Income Tax · NI rates and thresholds · Self-employed expenses

# 02 MILEAGE & TRAVEL

Mileage can be a valuable deduction, but only qualifying business journeys count. Choose a method that suits the vehicle and keep a reliable record.

**WHERE TO FOCUS**

**High-mileage businesses:** compare simplified mileage with actual vehicle costs.
**Other travel:** save train, hotel, parking and toll receipts.
**Records:** separate business journeys from private travel and commuting.

## Simplified mileage rates 2026/27

| Vehicle | First 10,000 business miles | Above 10,000 |
|---|---|---|
| Car or goods vehicle | 55p per mile | 25p per mile |
| Motorcycle | 24p per mile | 24p per mile |

**RATE INCREASE FROM 6 APRIL 2026**

The first 10,000-mile car/van rate increased from 45p to **55p**. The 25p higher-mileage rate is unchanged. These are the sole-trader simplified-expense rates.

There is no equivalent sole-trader 20p bicycle rate or 5p passenger supplement. Those employee mileage rules are different. For a business bicycle, consider allowable actual costs instead.

**KEEP THE SAME METHOD**

Once you use simplified mileage for a vehicle, continue while you use it in the business. Do not also claim its purchase cost, capital allowances, fuel, repairs or insurance. Business parking, tolls and congestion charges can be claimed separately.

## Business journeys: what counts?

| Journey | Treatment | What to check |
|---|---|---|
| Visiting a client away from your business base | Usually allowable | Genuine business journey; not travel to your normal base |
| Travelling between work sites | Usually allowable | Journey undertaken for your trade |
| Home to a regular office / business base | Not allowable | Ordinary commuting |
| Home to changing client sites | Check with SBX | Depends on where the trade is based and whether it is itinerant |

**SOLE TRADER ≠ EMPLOYEE**

The employee **24-month temporary-workplace rule is not a sole-trader safe harbour**. The location and pattern of your business activities matter.

Official sources: Sole-trader mileage · 2026 mileage / NI change · Self-employed travel · Self-employed expenses

# Mileage records & worked example

| Journey | Treatment | What to check |
|---|---|---|
| Travel to relevant training | Usually allowable | Training and travel must qualify for your existing business |
| School run combined with a client visit | Business part only | Exclude the private journey or extra detour; do not claim it all |

## Your mileage log

Keep a record as you go: **date, start point, destination, business purpose, miles and a running total**. Name the client or job so the purpose is clear.

**COMMON MISTAKES**

No reliable evidence of the miles travelled; vague descriptions; including regular commuting; and claiming fuel or capital allowances on top of simplified mileage.

**SBX RECOMMENDS**

Use a mileage app or spreadsheet. A complete journey record is more useful than trying to recreate a whole year from memory. If records are missing, tell us: other evidence may help, but unsupported amounts may be disallowed.

## Example: James's mileage claim

James is a freelance IT consultant. His log shows 14,500 qualifying business miles in his car during 2026/27.

| Calculation | Deduction |
|---|---|
| First 10,000 miles × 55p | £5,500.00 |
| Remaining 4,500 miles × 25p | £1,125.00 |
| Total simplified mileage deduction | £6,625.00 |

**TAX + NI SAVING**

If the full deduction saves 20% Income Tax and 6% Class 4 NI:
**£6,625 × 26% = £1,722.50 saved.**
This is a deduction from taxable profit, not £6,625 paid back by HMRC.

No fuel receipts are needed to calculate this mileage deduction. You do still need the journey record and evidence for separate costs such as parking.

**MOST IMPORTANT THING TO REMEMBER**

A reliable mileage log supports the claim. Missing evidence can lead HMRC to reduce or reject it.

Official sources: Sole-trader mileage · Self-employed travel · Self-employed records

# 03 SUBSISTENCE & ENTERTAINMENT

The rule is not “I was working when I ate it.” Your own meals normally have a personal purpose. Relief is available for reasonable costs in specific business-travel situations.

## When meals and accommodation can qualify

| Scenario / expense | Status | Note |
|---|---|---|
| Lunch on an occasional client trip to another city | Can qualify | Allowable travel outside your normal work pattern |
| Hotel and dinner on a necessary overnight business trip | Usually allowable | Reasonable business cost; exclude private extras |
| Coffee during business travel | Can qualify | Same qualifying subsistence conditions; not every train trip |
| Meals at home or your usual workplace | Not allowable | Ordinary personal meals |
| Coffee on your usual commute | Not allowable | Ordinary commuting |
| Restaurant meal provided to a client | Normally disallowed | Free client hospitality / entertainment |

**THE KEY TEST**

Qualifying subsistence includes necessary overnight business trips and certain occasional/non-routine journeys or itinerant trades. The travel itself must qualify. Do not claim ordinary daily food merely because you are away from home.

## Client entertainment: the normal rule

Free client lunches, hospitality tickets and golf days are normally disallowed for Income Tax, even with a genuine business aim. Keep genuine business hospitality in the records, but identify it so we can exclude it from the tax deduction.

**SBX VIEW**

Do not turn a client lunch into “subsistence” simply by calling it a meeting. Limited exceptions exist, for example hospitality supplied as part of what you sell; ask us about those rather than assuming every client meal qualifies.

## What can qualify for small client gifts?

An advertising gift costing **no more than £50 in total per recipient per tax year** can qualify if it carries a conspicuous advertisement for your business and is not food, drink, tobacco or a voucher/token exchangeable for goods. Branded stationery can fit these rules. VAT has separate rules.

**MOST IMPORTANT THING TO REMEMBER**

Your own qualifying travel meal and hospitality provided to a client are different types of expense.

Official sources: Travel and subsistence · Business entertainment · Small advertising gifts

# 04 HOME OFFICE & EQUIPMENT

For working from home, compare simplified expenses with a reasonable share of actual household costs. You can review the homeworking method each year.

## Choose a homeworking method

| Business use at home | Monthly simplified amount |
|---|---|
| 25–50 hours a month | £10 |
| 51–100 hours a month | £18 |
| 101 hours or more a month | £26 |

Below 25 hours, consider actual allowable costs. Keep an hours record for the flat rate; you do not need household bills to calculate that rate. Business phone and internet costs are claimed separately without double counting.

> **EXAMPLE: ACTUAL HOUSEHOLD COSTS**
>
> Eligible annual bills: £14,400. Assume 1 of 5 comparable rooms is used 50% for business.
> **£14,400 × 20% × 50% = £1,440 a year.**
> Compare with up to £312 flat rate. Use a reasonable allocation for each cost; mortgage capital repayments are not deductible.

Rent, qualifying mortgage interest, utilities and other eligible costs may be apportioned. Claiming expenses does not itself remove home-sale tax relief, but **exclusive business use of part of your home** can restrict it. Discuss this before dedicating a room solely to business.

## Equipment & capital allowances

**Cash basis** is the default for eligible sole traders. Most business tools, computers and equipment are deducted when paid; cars are different. Under **traditional accounting**, equipment purchases normally go through capital allowances.

| Asset / allowance | 2026/27 treatment |
|---|---|
| Annual Investment Allowance | Up to £1m for qualifying equipment; cars excluded |
| New and unused zero-emission car | 100% first-year allowance for qualifying expenditure by 5 April 2027 |
| Used zero-emission car or car up to 50g/km | Main-rate writing-down allowance: 14% |
| Car above 50g/km | Special-rate writing-down allowance: 6% |

Capital allowances are subject to eligibility, tax-period rules and any private-use restriction. The 14% main rate applies from 6 April 2026 for Income Tax.

> **SBX TIP**
>
> Using simplified mileage? Do not also claim capital allowances or the purchase cost of that same vehicle. Ask before buying, not after.

Official sources: Sole-trader homeworking · Home office and CGT · Cash-basis equipment · Capital-allowance rates · Electric-car first-year relief · Annual Investment Allowance

# 05 PROFESSIONAL FEES, CLOTHING & TRAINING

The business purpose and the type of cost matter. A business connection alone does not make every payment deductible.

## Professional fees

| Scenario / expense | Status | Note |
|---|---|---|
| Business accountancy fees | Allowable | Business part; separate personal tax-advice costs |
| Legal fees for routine business contracts | Usually allowable | Capital transactions need separate treatment |
| Legal costs for personal matters | Not allowable | Not a trade cost |
| Trade / professional memberships | Usually allowable | Must relate to your business; employee approved-list rules differ |
| Business networking fees | Usually allowable | Separate any disallowed hospitality |
| General news subscriptions | Usually not | A specific business-only use may qualify |

## Clothing: stricter than people assume

Ordinary clothing has a personal purpose even when bought only for work. The *Mallalieu v Drummond* principle still matters: wearing something to work is not enough.

| Scenario / expense | Status | Note |
|---|---|---|
| Suit, smart shoes or everyday clothes | Not allowable | Ordinary clothing has a private purpose |
| Hard hat, hi-vis or protective boots | Allowable | Genuine protective clothing for the trade |
| Genuine identifiable uniform | Allowable | A logo alone does not make all clothing qualify |
| Chef’s whites or specialist overalls | Allowable | Specialist workwear, not ordinary clothing |

**COMMON MISTAKES**

Claiming an ordinary suit “only worn for work”; treating every branded garment as a uniform; or applying employee eye-test / screen-glasses exemptions to your own sole trade. Ordinary glasses are generally personal.

Official sources: Professional fees · Self-employed expenses · Clothing costs

# Training for your existing business

Training can qualify when it updates skills **or develops new skills relevant to the business you already run**. It is not restricted to compulsory refresher training.

| Scenario / expense | Status | Note |
|---|---|---|
| Skills course relevant to your current business | Usually allowable | Includes adapting to new technology or methods |
| Required professional CPD | Allowable | Supports your existing trade |
| Bookkeeping, marketing or digital training | Can qualify | Ancillary skills needed to run the existing business |
| Qualification to start an unrelated new trade | Not allowable | Not a cost of the current trade |
| Personal life coaching unrelated to the business | Not allowable | Private purpose; genuine business coaching needs its own review |

**EXAMPLE**

A self-employed designer takes a course in new design software to expand the work offered by the existing design business: this can qualify. A designer training to become a dentist is preparing for a different trade.

**SBX TIP**

Trade workshops and conferences can be allowable, including qualifying travel and subsistence. Save the agenda and explain how the content relates to your existing business. Exclude any private holiday element.

Official sources: Training in an existing trade · Travel and subsistence · Self-employed expenses

# 06 WHAT YOU CANNOT CLAIM, PENSIONS & STRUCTURE

Knowing what you cannot claim is as important as knowing what you can. Pension relief works separately from deductions against trading profit.

## Key disallowed expenses

| Item | Why |
|---|---|
| Your own drawings | Taking money out does not reduce your taxable profit |
| Income Tax and your own National Insurance | Personal taxes, not trading expenses |
| Ordinary client entertainment | Business hospitality is normally disallowed for tax |
| Everyday clothing | Inseparable personal purpose |
| Commute to your regular business base | Ordinary commuting |
| Normal meals at home / usual workplace | Personal living costs |
| Your personal pension contributions | Personal tax relief, not an expense of the trade |
| Training for an unrelated new trade | Not for the current business |

## Pensions: a valuable planning tool

Personal pension contributions can attract Income Tax relief, subject to your earnings, age and pension allowances. They do **not** reduce Class 4 NI on your trading profit.

**EXAMPLE: EMMA'S £10,000 PENSION CONTRIBUTION**

Emma has £65,000 trading profit and no other income. She pays **£8,000** into a relief-at-source SIPP.
The provider adds **£2,000**, so the pension receives **£10,000 gross**.
Assuming the full contribution qualifies for 40% relief, Emma claims a further **£2,000** through Self Assessment.
**Net cost: £6,000. Pension receives: £10,000.**

This example uses England, Wales and Northern Ireland rates. The standard annual allowance is £60,000 across all pension saving, but tapering or flexible access can reduce it. Personal relief is also limited by relevant UK earnings (or the eligible £3,600 gross minimum).

**MOST IMPORTANT THING TO REMEMBER**

Pensions can reduce your overall Income Tax bill, but the money is normally locked away until pension-access age. Check your cash needs and available relief before paying.

Official sources: Personal pension tax relief · Pension annual allowance · Flexible-access allowance · Pension access age

# When should you consider incorporating?

A limited company can be worth reviewing, but there is no single profit level at which everyone pays less tax. Compare the whole position, not just the Corporation Tax rate.

**SHOULD I CONSIDER A LIMITED COMPANY?**

Profits regularly around £50,000–£60,000 or above?
**Review point, not a rule:** do you need all the profit personally?
If not, retaining profit or making employer pension contributions may be useful.
If you do, salary, employer NI, dividend tax and extra administration may reduce or remove the saving.
**Either way: ask SBX to model it before changing structure.**

## Typically worth discussing when...

- You want to retain profits for future business investment.
- Pension funding and the timing of personal withdrawals are becoming important.
- Customers or lenders prefer to contract with a company.
- Liability protection and business ownership need reviewing.

**THE WHOLE PICTURE**

Compare Income Tax and NI as a sole trader with company tax, salary, employer NI and **2026/27 dividend rates**.
Include accountancy costs, available reliefs and any tax/VAT consequences of transferring the business.
Incorporation is not automatically a tax saving.

A company is a separate legal person. Personal guarantees and directors' duties can still create personal exposure. Always speak to SBX before incorporating.

Official sources: Corporation Tax rates · Dividend tax · 2026/27 payroll rates · Employer contributions: relief and timing · VAT registration tests

# 07 RECORDS, DEADLINES & MAKING TAX DIGITAL

Keep evidence supporting the figures in your return. Record-retention rules are not the same as HMRC's enquiry and assessment time limits; do not assume HMRC has a universal five-year enquiry window.

**WHAT TO KEEP**

Sales records; expense invoices/receipts; mileage records; asset purchase and disposal details; bank records; and notes supporting private-use allocations. A dedicated business bank account is **strongly recommended**, not a general legal requirement for every sole trader.

## How long?

Keep self-employed records for at least **five years after the 31 January filing deadline**. For an on-time 2026/27 return, keep them until at least **31 January 2033**. Keep asset purchase records through disposal and the relevant retention period. Longer retention can be needed for late returns or open checks.

## The typical routine: what good looks like

| When | What to do |
|---|---|
| As you go | Record income; save receipts; log business journeys |
| Monthly | Reconcile the bank; review profit; move tax savings; check rolling VAT turnover |
| Quarterly | VAT return if registered; MTD update if required; refresh the tax estimate |
| Annually | Accounts and Self Assessment; pension and structure review; plan before 5 April |

## Key deadlines for 2026/27

| Deadline | Date | What is due |
|---|---|---|
| Notify HMRC if newly required | 5 October 2027 | Register for Self Assessment where needed |
| Online return | 31 January 2028 | 2026/27 return (MTD users use compatible software) |
| Balancing payment | 31 January 2028 | Remaining 2026/27 tax / Class 4 NI |
| 1st payment on account | 31 January 2028 | Normally half the relevant 2026/27 bill towards 2027/28 |
| 2nd payment on account | 31 July 2028 | Normally the other half towards 2027/28 |

**PAYMENTS ON ACCOUNT ARE NOT AN EXTRA TAX**

They are advance payments based on the previous year, not automatically half your forecast. They normally apply unless the relevant bill is under £1,000 or more than 80% was collected outside Self Assessment. A first January payment can include both a full year's balance and the next year's first advance.

Official sources: Self-employed records · Capital-gains records · Self Assessment deadlines · Payments on account

# VAT & Making Tax Digital

## VAT: two registration tests

**LOOK BACK EACH MONTH**

If taxable turnover for the last 12 months exceeds **£90,000 at a month end**, notify HMRC within 30 days of that month end. Registration normally starts on the first day of the second month afterwards.

**ALSO LOOK FORWARD**

If you expect taxable supplies to exceed **£90,000 in the next 30 days alone**, registration starts on the date that expectation arises. Notify HMRC within that 30-day period.

Taxable turnover includes zero-rated sales. Exempt sales are different. VAT is due on taxable supplies from the correct registration date at the applicable rate, even if you failed to collect it. Ask SBX before a large new contract or business transfer.

## Making Tax Digital for Income Tax

| Relevant qualifying income | Mandatory start (unless exempt) |
|---|---|
| Over £50,000 in 2024/25 | 6 April 2026 |
| Over £30,000 in 2025/26 | 6 April 2027 |
| Over £20,000 in 2026/27 | 6 April 2028 |

**Qualifying income means gross self-employment and property income combined, before expenses.** It is not profit and does not include salary or dividends. Exemptions and special cases exist; a fall in income does not automatically end an existing MTD requirement.

**WHAT MTD MEANS IN PRACTICE**

Use compatible software and digital records. Send quarterly income/expense summaries and a final annual tax return. Quarterly deadlines are **7 August, 7 November, 7 February and 7 May**. The annual return remains due by **31 January**; MTD does not itself make tax payable quarterly.

For 2026/27, HMRC will not apply penalty points for late quarterly updates, but they still need to be submitted before the annual return. Late annual returns have separate MTD penalty rules.

**MOST IMPORTANT THING TO REMEMBER**

VAT and MTD use different tests. A £60,000-turnover sole trader may need MTD even though VAT registration is not yet required.

Official sources: VAT registration tests · MTD entry dates · MTD updates and penalties

# 08 FAQ, GOLDEN RULES & NEXT STEPS

## 10 questions we are often asked

| Question | Short answer |
|---|---|
| Can I claim my phone? | Usually the identifiable business part. |
| Can I claim meals? | Only qualifying subsistence, not ordinary daily food. See section 03. |
| Can I claim clothing? | Usually only protective clothing or a genuine uniform. |
| Can I claim working from home? | Yes: qualifying simplified amounts or reasonable actual costs. |
| Can I pay into a pension? | Yes, subject to pension and earnings limits; personal tax relief applies. |
| When should I register for VAT? | Check both the rolling 12-month and next-30-days £90,000 tests. |
| Do I need a separate bank account? | Strongly recommended; not a blanket legal requirement for sole traders. |
| What if I have no receipts? | Tell us. Other evidence may support the cost; unsupported claims may fail. |
| When should I use a limited company? | When the commercial and tax comparison justifies it. See section 06. |
| What if I miss the tax-return deadline? | Penalties apply; MTD and ordinary Self Assessment regimes differ. Contact SBX. |

**YOUR FIRST 90 DAYS**

**Month 1:** open a dedicated bank account; set up bookkeeping; save receipts; start tax savings and mileage records.

**Month 2:** review profit, missing expenses and the tax provision; check VAT turnover and whether MTD applies.

**Month 3:** review your tax estimate with SBX; budget payments on account; plan the next quarter.

Official sources: Self-employed expenses · VAT registration tests · Self-employed records · Personal pension tax relief · MTD updates and penalties

# THE SBX GOLDEN RULES

**TEN HABITS TO KEEP**

1. Keep business and personal spending clearly separated.
2. Save receipts as you go, not in January.
3. Set tax money aside every month.
4. Keep reliable mileage records as journeys happen.
5. Review profit regularly, not just at year end.
6. Do not assume a cost is claimable: ask if unsure.
7. Review tax planning annually, not reactively.
8. Cash in the bank is not profit: it may include VAT or future tax.
9. Ask before major decisions, not after.
10. Keep SBX updated when your business changes.

## Need advice specific to your situation?

The most useful tax-planning conversation is often about structure, pensions or timing **before** you make a decision.

- Simplified mileage versus actual vehicle costs
- Personal pension contributions and higher-rate relief
- VAT registration and scheme selection
- Incorporation reviews
- Making Tax Digital setup
- Year-end planning before 5 April

**CONTACT SBX**

**Contact our office or your account manager.**
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sbxaccountants.com

**Scope and review:** 2026/27 edition, checked against official guidance on 19 September 2026. Personal tax examples use England, Wales and Northern Ireland rates unless stated. Scotland has different trading-income rates. This is general information, not an individual tax recommendation.

Tax results depend on your facts, other income, records and the law at the time. HMRC source links appear at the foot of the relevant pages. Ask SBX to check any significant claim or transaction before acting.

Official sources: Self-employed expenses · Income Tax rates · Scottish Income Tax · MTD entry dates · Personal pension tax relief