

N O V E M B E R 2 0 2 5

SPOTLIGHT ON:

Financial security for
the self-employed



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WWW.YOURVALUED.CO.UK
WECARE@YOURVALUED.CO.UK
01207 502145



BUILDING A RESILIENT SAVINGS PLAN

regular income, no employer sick pay and responsibility for your own tax bills make cash planning more important when you work for yourself. Yet many people have little to fall back on. The Financial Conduct Authority (FCA) reports that one in 10 UK adults has no cash savings, and a further 21% have less than £1,000 available for emergencies. In its 2024 Financial Lives survey, the FCA also found that 24% of adults (around 13.1 million people) had low financial resilience.

This guide sets out a practical framework for building, protecting and optimising a savings plan.



SET A CLEAR CASH RESERVE TARGET

HOW MUCH TO HOLD

A common rule of thumb is three to six months of essential personal spending. For the self-employed, aim higher: six to 12 months is sensible, especially if your income is seasonal or you have dependants or fixed business overheads. Use two reserves.

- **Personal emergency fund:** Rent or mortgage, utilities, food, transport, childcare, debt repayments, insurance premiums.
- **Business buffer:** A separate pot to cover tax, national insurance (NI) and essential business costs (software, equipment leases, insurance, freelance support).

HOW TO CALCULATE IT

1. List the **essentials**, both personal and business.
2. Work out the **average irregular costs** by looking back 12 to 18 months.
3. Do a **stress test** by modelling a lean quarter with 20-40% lower income and checking the reserve can absorb it.
4. **Ring-fence** the reserve in instant-access or notice accounts. Avoid mixing with day-to-day funds.

WHERE TO KEEP IT

- **Easy-access cash** for the first three months of needs.
- **Notice accounts** for the next three to nine months if you want a higher rate and can tolerate waiting, for example, 30-90 days, to withdraw.
- **Premium Bonds** can complement cash for near-instant access, though returns are not guaranteed. Hold core emergency cash in interest-bearing accounts first.

PRICE IN YOUR 2025/26 TAX AND NI FROM DAY ONE

Budgeting for tax stops savings from being raided. Transfer a fixed percentage of every invoice into a separate “tax pot” so the money is there when payments fall due.

KEY INCOME TAX BANDS (ENGLAND, WALES, NORTHERN IRELAND)

- **Personal allowance:** £12,570.
- **Basic rate 20%:** Income above the personal allowance up to £37,700 (so higher-rate threshold above £50,270).
- **Higher rate 40%:** £37,701 to £125,140.
- **Additional rate 45%:** Over £125,140.

The personal allowance tapers away by £1 for every £2 of income above £100,000 and is lost completely at £125,140. Thresholds remain frozen in 2025/26.

Why it matters: Frozen thresholds and wage growth have pushed more people into higher bands. HMRC expects more than 7m higher-rate taxpayers this year due to “fiscal drag”.

SELF-EMPLOYED NATIONAL INSURANCE (2025/26)

- **Class 4 NI:** 6% on profits between £12,570 and £50,270, then 2% above £50,270.
- **Class 2 NI:** Treated as paid for entitlement purposes if profits are at or above the small profits threshold (you do not pay it in cash).

PAYMENTS ON ACCOUNT AND DEADLINES

If your last self assessment bill was over £1,000 (and less than 80% of your tax was collected at source), HMRC usually requires payments on account. Both the January and July payment are each 50% of the prior year self-assessment tax payable amount.

- **31 January:** First payment on account for the current tax year, plus any balancing payment for the previous year.
- **31 July:** Second payment on account.

Build these dates into your cashflow so your emergency fund is not used for taxes.

INTEREST AND PENALTIES

Late or under-payments attract interest and possible penalties. With more savers exceeding allowances, the Financial Times notes HMRC is writing to taxpayers about untaxed interest; if you think you owe tax, contact HMRC to avoid penalties and interest (reported at 8.5% in that coverage).

MAKE FULL USE OF YOUR TAX-FREE SAVINGS ALLOWANCES

ISA ALLOWANCES (2025/26)

- **Overall ISA allowance:** £20,000 across cash, stocks & shares, and innovative finance ISAs.
- **Lifetime ISA (LISA):** £4,000 annual limit within the £20,000 cap, with a 25% government bonus (conditions and withdrawal rules apply). HMRC confirms the £20,000 limit for 2025/26.

Using ISAs protects interest, dividends and gains from tax, which reduces admin and preserves your personal savings allowance for any cash held outside wrappers.

PERSONAL SAVINGS ALLOWANCE (PSA) AND STARTING RATE FOR SAVINGS OUTSIDE ISAS

- **IPSA:** £1,000 of savings interest tax-free for basic-rate taxpayers, £500 for higher-rate, £0 for additional-rate.
- **Starting rate for savings:** Up to £5,000 of interest at 0%, but only if your non-savings income is below £17,570 (2025/26). Every £1 of other income above the personal allowance reduces this band by £1.

Practical tip: If one partner has lower non-savings income, holding more of the family's taxable cash in that person's name can preserve the 0% starting rate and PSA. (Transfers must be genuine ownership changes.)

DIVIDENDS OUTSIDE ISAS

- **Dividend allowance:** £500 for 2025/26. Above that, dividend tax rates apply according to your band.



PENSIONS: LONG-TERM SAVINGS WITH TAX RELIEF

Pension contributions can play two roles for the self-employed: long-term investing and tax-efficient smoothing of your taxable income.

2025/26 PENSION LIMITS AND ALLOWANCES

- **Annual allowance** is £60,000 (subject to tapering for very high incomes).
- **The lifetime allowance** is abolished. Instead, two lump-sum caps apply when taking benefits.
- **Lump Sum Allowance (LSA):** £268,275.
- **Lump Sum and Death Benefit Allowance (LSDBA):** £1,073,100.

Personal contributions normally receive tax relief at your marginal rate. For higher earners, a well-timed contribution can reduce exposure to the 40% band or help restore some personal allowance where income is just over £100,000.

Carry forward rules may let you use unused annual allowance from the previous three tax years if you had pension membership then. This can be valuable after a strong trading year.

Liquidity warning: Pensions are for the long term. Keep your emergency fund outside your pension so you can access cash when needed.

PROTECT YOUR INCOME AGAINST SHOCKS

Self-employed people do not qualify for statutory sick pay (SSP). If illness or injury stops you working, there is no employer safety net. Government guidance confirms self-employed workers are not eligible for SSP.



INSURANCE OPTIONS TO CONSIDER

- **Income-protection insurance** can replace a portion of earnings if you cannot work due to illness or injury, after a chosen waiting period.
- **Critical-illness cover** pays a lump sum on diagnosis of specified conditions.
- **Life insurance** provides for dependents if you die.
- **Business interruption/overheads cover** can help with fixed costs.

These policies are not savings products, but they protect your savings plan by reducing the chance that you will need to drain your reserves during a long absence from work.

PARENTAL LEAVE AND MATERNITY ALLOWANCE

Self-employed parents are not entitled to statutory maternity pay, but maternity allowance (up to £187.18), may be available for up to 39 weeks if eligibility criteria are met (including self-employment in at least 26 of the 66 weeks before the due date and minimum earnings). Paying or being treated as having paid Class 2 NI for at least 13 weeks can affect entitlement levels.

BUILD YOUR PLAN: STEP-BY-STEP CHECKLIST

1. Open separate accounts: One for day-to-day spending, one “tax pot” and one “emergency fund”. Automate transfers on every client payment (for example, 25-35% into the tax pot depending on your band and NI, and a fixed amount into the emergency fund).



- 2. Target a reserve:** Set a six to 12-month goal and break it into monthly milestones. Treat it like a bill.
- 3. Use wrappers:** Fill the £20,000 ISA allowance if possible; prioritise cash ISA for emergency funds and stocks & shares ISA for long-term goals. Consider a LISA if you meet the age and property criteria.
- 4. Optimise taxable interest:** Place any non-ISA cash where it fits PSA and the 0% starting rate, especially for the lower-income partner. Review after each tax-year change.
- 5. Plan pension contributions:** Aim for regular monthly payments, with top-ups near year-end if profits are stronger than expected. Use carry forward where appropriate.

- 6. Review insurance:** Price income protection and critical illness cover. Balance premiums with your reserve size and risk tolerance. Note that without SSP, you rely on savings, benefits subject to eligibility or insurance.
- 7. Prepare for payments on account:** If relevant, add the 31 January and 31 July amounts to your cash forecast.
- 8. Track interest and dividends:** With rates still elevated for many accounts, more people breach the PSA; keep records, and if you think you owe tax, contact HMRC to avoid penalties and interest.
- 9. Rebalance quarterly:** Check progress, refill the emergency fund after any use and adjust transfers if income changes.
- 10. Document everything:** Keep a simple spreadsheet or cashflow tool listing invoices, due dates, reserves, ISA and pension contributions, and tax forecasts.

PRACTICAL SCENARIOS

A. PROFITS FLUCTUATE THROUGHOUT THE YEAR

Create a baseline monthly transfer to the tax pot and emergency fund from every payment received. In stronger months, add a top-up; in weaker months, keep the baseline. This smooths progress and avoids relying on a year-end lump sum.

B. APPROACHING HIGHER-RATE TAX

If total income exceeds £50,270, consider:

- adding pension contributions to manage your band
- moving interest-bearing cash into ISAs, and
- checking whether your partner's PSA and starting-rate band can be used more efficiently.



C. EARNING NEAR £100,000

Income between £100,000 and £125,140 effectively faces a 60% marginal rate due to the withdrawal of the personal allowance. Pension contributions can help reduce adjusted net income in this range. Media analysis indicates a rising number of people affected by this “tax trap”.

D. SAVING FOR A FIRST HOME OR LATER LIFE

A LISA can be attractive if you qualify (age limits apply), thanks to the 25% bonus on up to £4,000 a year, but withdrawals for non-qualifying reasons incur a charge. Keep emergency cash outside the LISA.

CHOOSING ACCOUNTS AND INVESTMENT MIX

CASH FOR SHORT-TERM NEEDS

For the emergency fund and tax pot, prioritise UK banks and building societies protected by the Financial Services Compensation Scheme (FSCS) up to the relevant limits. Look at:

- instant access for the first three months of needs
- notice accounts for the next tranche if the rate is meaningfully higher
- fixed-term accounts are only for surplus cash you won't need during the term.

INVESTING FOR GOALS FIVE YEARS OR LONGER

- Pensions and stocks & shares ISAs allow investment in diversified funds or portfolios.
- Volatility is normal in markets; match risk to your time horizon and capacity for loss.
- Keeping too much long-term cash may leave returns behind inflation after tax unless held in wrappers.

Tip: Review fees and platform charges annually; costs compound.

MANAGING RISK WITHOUT AN EMPLOYER SAFETY NET HEALTH AND INCOME SHOCKS

Because you cannot claim SSP, think about:

- **income protection** with a waiting period that fits your emergency fund size (for example, 8-26 weeks)
- **critical-illness cover** as a bolt-on if you want a lump sum for treatment, adaptations or clearing debt
- **emergency fund discipline** – If you must use it, pause investing until you rebuild it.

FAMILY CHANGES

If you are planning a family, check maternity allowance eligibility early and how NI records affect it. Voluntary Class 2 NI may increase entitlement in some cases.



STAYING COMPLIANT AND REDUCING ADMIN

- **Keep accurate records** of interest and dividends outside ISAs. With more people crossing PSA limits, HMRC is issuing letters based on bank data, though these don't always match perfectly; get ahead of any underpayment.
- **Reconcile quarterly** and check that your transfers into the tax pot track your profit trend, not just revenue.
- **Use calendar reminders** for 31 January and 31 July, and for VAT and CIS if relevant.
- **Check your NI record** annually to confirm qualifying years for state pension and benefits.



YOUR ACTION PLAN

1. **Set targets:** Decide your emergency fund size (months of spending) and the monthly contribution required.
2. **Automate:** Split every client receipt into spending, tax and savings pots.
3. **Maximise wrappers:** Fill ISAs first, then pensions as affordable, using carry forward if needed.
4. **Optimise interest:** Place non-ISA cash to use the PSA and starting-rate band where available.
5. **Insure wisely:** Review income protection and related cover to backstop the plan.
6. **Budget for tax:** Forecast your 31 January and 31 July payments and keep the pot topped up.
7. **Review quarterly:** Adjust contributions as profits change and refill the emergency fund after any withdrawals.
8. **Ask early:** If you receive an HMRC letter about savings interest or think you may owe tax, penalties, and interest can mount.

FINAL WORD

A resilient savings plan means you can take time off when you are ill, manage tax bills without stress and invest for the future on your terms. Start with the cash reserve, automate transfers, make the most of ISAs and pensions, and review quarterly. If your circumstances change – income rising into a new tax band, a new mortgage or family plans – update your plan to stay on track.



**Self-employed? Talk to us to help
build your financial security.**

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Office 12, Durham Workspace, Abbey Road, Pity Me, Durham, DH1 5JZ

