

Is the subsidy to self employment worth it?

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Business owners earning £40k pay £4,500 less tax than employees, figures show.

With the 31 January self assessment deadline looming, a campaign group has highlighted statistics showing the ongoing unfair tax advantage available to self-employed business owners.

Figures from the Institute for Fiscal Studies (IFS) show that an employee earning £40,000 a year will pay £12,262 in tax. This is £4,556 more than a self-employed person who earns the same but has opted to incorporate as a self-employed company manager/owner. The overall rate of tax paid by self-employed manager/owners can be as low as 19%, far less than the 32% rate likely to be paid by an employee earning the same salary.

Robert Palmer, Executive Director of Tax Justice UK said: “At a time when people will be rushing to file their tax returns ahead of the self-assessment deadline, it seems unfair that a self-employed company owner can pay significantly less overall than someone doing the same job for the same wage, but as an employee of a company.”

In recent years the difference in tax between the employed and self-employed [has regularly been highlighted](#) by [the Institute for Fiscal Studies \(IFS\)](#) * and the [Office for Budget for Responsibility \(OBR\)](#) **.

Instead of paying employment income tax and national insurance, people who incorporate can pay income tax on dividends, which are wholly untaxed up to £2,000 and avoid national insurance contributions altogether, whereas a normal employee is liable for income tax and national insurance

Treasury takes a £3.5 billion hit, but the economic benefits are questionable

Despite self-employment being a significant driver of employment since 2008, the OBR predicts tax revenues will be £3.5 billion lower in 2021/22 as the rate of people incorporating grows faster than employment. Research by the IFS has shown that the number of owner managed businesses (one owner and manager) has increased by 600% to 300,000 since 2007/08. People working in 'business services' make up by far the biggest proportion (30%) and owner managers earn up to 4.5 times more than others in self-employment. Meanwhile the share of these business owners investing, or employing others has dropped dramatically in recent years, according to the IFS research.

Mr Palmer said: "Self-employment has been a significant driver of overall employment in recent years, but the move from employment to self-employment can come at a cost in terms of overall tax revenue. This reduces the money available to fund public services like health, housing and social care.

"The government needs to explain why owner managers are able to pay less tax and consider removing the tax difference between owner managers and those in other forms of employment, altogether."

And this, of course, ignores the risk of fraud and non-payment because UK regulation of companies is so weak.

The question is, what to do? And will anyone do it?

I am an adviser to TJUK.