

What Are 'Drawings'?

*The money that you take out of your own business, explained **with no jargon***

The short version

If you run your business as a sole trader or a partnership, 'drawings' is the name for any money (or anything else of value) that you take out of the business for your own personal use. Paying yourself each month? That's drawings. Paying your home energy bill from the business account? Also drawings.

Think of the business as a pot - profit is what goes in, drawings are what you scoop out to live on. They're not the same thing, and mixing them up causes a lot of confusion.

The key points

- Drawings are not wages. As a sole trader you can't employ yourself, so there is no 'salary' in the usual sense.
- Drawings are not a business expense. They don't reduce your profit or your tax bill.
- You pay tax on your profit, not on what you draw.
- Drawings aren't always cash. Taking stock home, or paying personal bills from the business account, counts too.
- Limited companies are different. Directors take a salary and dividends instead.

A quick example

Sam, a self-employed dog groomer, makes £30,000 profit this year and transfers £2,000 a month to a personal account: £24,000 in drawings.

Sam's tax is based on the £30,000 profit, not the £24,000 drawn. Had Sam drawn £35,000, the tax would still be based on £30,000, but the extra £5,000 has to come from somewhere (earlier savings, or an overdraft).

A NOTE FROM HERMIT

Drawings are where cash flow and tax quietly collide. Draw everything the business earns and there's nothing left when the January tax bill lands. Getting this right isn't box-ticking - it's how you pay yourself sensibly without nasty surprises.

What to do next

- Keep a separate business bank account so drawings are easy to spot
- Pay yourself a regular, round amount rather than dipping in as and when
- Set aside money for tax before deciding what to draw
- Book a chat with us for help working out a sensible amount

