



UNLOCK YOUR NUMBERS



**Empowering financial confidence
for small business growth**

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BUILDING A MORE RESILIENT AND FINANCIALLY FLUENT NATION

Foreword, by Kate Hayward, UK Managing Director, Xero

We are a nation of small business owners, but not a nation who trains our kids to think and behave like entrepreneurs. Culturally, there's a stigma around not knowing your numbers, with many I speak to worried that they should know more than they do.

Others say they're confident, but the reality is they're unaware of the growth opportunities that can come with better financial skills. For the UK's smallest businesses employing up to nine staff, which we've based this report on, many don't have the same exposure as larger SMEs to the financial skills they need. Information about tax rules and new regulations, such as Making Tax Digital for Income Tax, can be confusing, leading to misunderstandings around tax time. For small business owners from economically disadvantaged backgrounds, with less access to support, the challenges can be even greater.

There are 5.3 million sole traders and small businesses with up to nine employees in the UK. Empowering these businesses to know their numbers unlocks a huge opportunity for productivity gains, enabling them to make more informed decisions, build confidence in taking risks, and access capital for growth.

This research highlights a critical gap in financial literacy among business owners and future entrepreneurs, and the pressing need for better skills training to unlock growth. It's in everyone's interests to improve the fluency of this vital section of the business community and help put financial literacy

firmly on the agenda. If we can help small businesses make more informed financial decisions, from understanding budgeting and saving, to navigating taxes and even access to capital and investments, it will open up a world of opportunity that perhaps many small businesses never thought possible.

To address these challenges and unlock this opportunity, we are launching Xero's Unlock Your Numbers, a social impact initiative that provides free online financial education and mentoring to enable a vibrant small business community. The content is designed to fit into small business owners' busy schedules, with videos and guides that can be digested in less than five minutes. Xero's Unlock Your Numbers programme aims to help people who are running businesses now, or who might want to start a business in the future. As well as content, it provides mentoring to small businesses from accountants and bookkeepers through the Xero Ambassador programme.

But a solution won't come from one source alone. To address the financial confidence gap amongst small businesses, there needs to be collaboration across disciplines, industries and sectors, and by government. While Xero intends to expand and build on its initiatives, we're also keen to encourage and support the work of others. Together we want to give the next generation of entrepreneurs the confidence to start new businesses, and help build a more resilient and financially fluent nation.

THE SMALLEST BUSINESSES ARE THE UNSUNG CHAMPIONS OF THE ECONOMY

There are three million sole traders in the UK and 1.2 million small businesses in the UK with fewer than ten employees. Together, these provide 8.6 million jobs, amounting to some £680 billion, or 13% of the country's economy.¹

When commentators look at the UK's productivity crisis, or slow growth, too often they neglect the needs and impact of the smallest firms. Yet they are the ones that keep the economic engine going, and it's crucial to understand what's happening with them.

This report is based on a survey of sole traders and leaders of businesses employing less than ten people, together with research conducted with accountants and bookkeepers who support small businesses.



¹ <https://www.gov.uk/government/statistics/business-population-estimates-2024/business-population-estimates-for-the-uk-and-regions-2024-statistical-release>



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Section 1

POOR FINANCIAL LITERACY CAUSES TOO MANY MISTAKES





Small businesses often exude confidence, but the reality is they often lack the financial skills to back it up. Because they don't know what they don't know, they typically take unnecessary risks and miss opportunities.

- **Four out of five (83%)** small businesses say they are confident managing financial issues in business
- Yet **more than half (56%)** of the accountants and bookkeepers working with small businesses believe they start up with insufficient financial skills
- **Nearly three quarters (74%)** of small businesses say they've made a significant financial mistake at least once

Over-confidence vs under-confidence

This over-confidence is illustrated by the mistakes that people make:

- **A third (33%)** don't claim all the expenses they are entitled to
- **About a quarter (23%)** don't put aside enough money for tax
- **Nearly half (44%)** have been caught short by unexpected expenses

At the other end of the scale, many small business owners lack confidence and admit that financial literacy is a problem for them.

- **A fifth (22%)** say they don't have the skills they need to manage financial aspects of the business

- **A fifth (20%)** are too afraid to ask questions about financial management because they believe “everyone knows about this stuff” and they should too
- **28%** believe they are simply ‘not a numbers person’

Overall, **more than half (55%)** avoid finances primarily due to lack of enjoyment, anxiety, or being busy.

Small business confidence vs reality

83%

confident managing financial issues in business

74%

made a **significant financial mistake** at least once



➤ **LOTTIE BLACKWELL**
FOUNDER
AND DIRECTOR
AT &LOTTIE

“My least favourite part of running a business is probably accounting. When you start working as a sole trader, you become the accountant, the marketer, the creator, the operator. And for a creative person like me, working on the accounts, working on the spreadsheets is the last thing you want to do.”



Seven big problems

➤ Small business owners face seven key challenges:

41%

PERSONAL BANK ACCOUNTS:

only two-fifths of registered sole traders have a separate business bank account

37%

INACCURATE EXPENSES:

more than a third of businesses don't regularly check their business expenses

36%

UNKNOWN PROFITABILITY:

a third aren't keeping track of their profitability

23%

NEGLECTING TAXES:

a quarter aren't setting aside enough money to pay their taxes

44%

UNEXPECTED COSTS:

nearly half have received large expenses they weren't expecting

51%

UNCERTAIN CASH FLOW:

half struggle with cash flow

21%

LATE TAXES:

a fifth have missed paying their taxes on time



Financial folklore and the need for better skills training

Nearly half of accountants and bookkeepers (45%) blame ill-informed conversations in places like the pub for the spread of financial misinformation. They fear this means small firms are making avoidable financial mistakes, with regulations relating to expenses being widely misunderstood.

For small businesses, accountants and bookkeepers are a hugely trusted source. Nearly all small businesses (98%) who have consulted them found the advice helpful.

50%

Half of accountants and bookkeepers have worked with small businesses who incorrectly assume the government will reimburse their expenses.

33%

A third of accountants and bookkeepers have met business owners who didn't realise dividends were taxable

9%

One in ten small businesses incorrectly believe that they don't need to declare all their income to tax authorities

TOWARDS A SOLUTION... industry partners

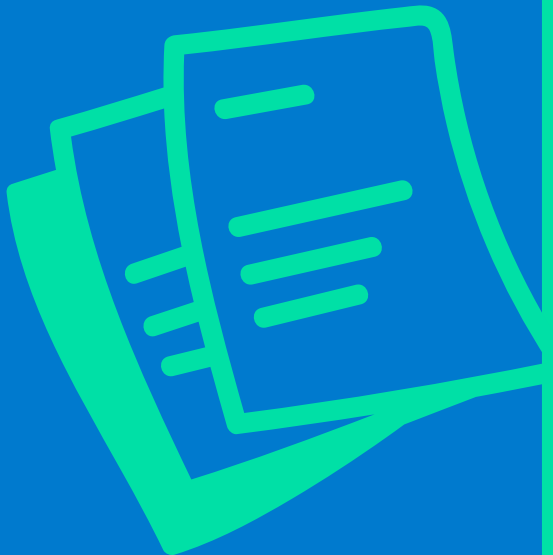
- **Coordinated mentoring:** Many different financial education programmes are initiated by the private sector, but these could be more joined up. We'd like to see more industry-specific mentoring schemes that connect experienced business leaders with those starting out, particularly in under-represented groups.
- **Promote access to accountants and bookkeepers:** Some 98% of small business owners who consulted an accountant found them helpful. Accountants and bookkeepers really are the hands-on guides that businesses need. We'd like to see the government run a public information campaign encouraging all small businesses to work with accountants and bookkeepers.



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Section 2

FINANCIAL LITERACY TO PREPARE FUTURE BUSINESS LEADERS



Small businesses receive little support in mastering financial literacy:

70%

say almost no attention is paid to financial literacy in the education system.

53%

Over half of accountants and bookkeepers agree that not enough attention is paid to financial literacy in the education system

Our research showed demographic disparities with financial literacy too:

- Women are ten percentage points more likely than men to feel that they're 'not a numbers person' (32% of women vs 22% of men). They're also more likely to say they are too afraid to ask financial management questions (26% of women vs 16% of men).
- Younger people are the most likely to doubt their financial management skills and knowledge. 38% of 18–34 year olds say they're not numbers people. Over a third of those aged 18–34 (35%) say they don't have the financial skill they need to run their business.



Percentage of people who feel they're '**not a numbers person**'

Women

32%

Men

22%

Percentage of people who say they are **too afraid to ask financial management questions**

Women

26%

Men

16%

TOWARDS A SOLUTION... government

- **The school curriculum:** the government is already reviewing the national curriculum in England, where there is clearly scope to do more to embed financial literacy at an early age. This would help bridge the gap later in life that prevents entrepreneurs from managing business finances, and in doing so would contribute to economic growth.
- **Joined-up government:** financial literacy doesn't sit in one bucket. Solutions to improve it will often depend on small steps in many areas, and in many government departments. We'd like to see a dedicated ministerial lead, responsible for joining everything up in government.





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Section 3

DIGITAL TOOLS AND FINANCIAL LITERACY CAN IMPROVE PERFORMANCE



People in small businesses could take steps to improve their financial literacy, but too often they don't see the benefit in doing so.

Digital skills

55%

Some 55% of accountants and bookkeepers believe small businesses could improve their financial management by developing stronger digital skills. But the smallest businesses are not convinced.

48%

Half would be prepared to invest more if they truly thought it would help keep costs down

75%

But they don't see the benefits in investing in digital tools. Three-quarters believe that such tools are designed for bigger businesses, not for them

The challenge reflects the 'SME fallacy':

the fact that too many service providers and government departments assume that all small businesses are the same, whether they employ under ten people or 250. They are not. The needs and pressures on business with fewer than ten employees are wildly different to their larger counterparts.



➤ **LAURA YOUNGSON**
CEO OF IDA SPORTS

“Running a business is inherently stressful. Anything you can do to simplify some of the elements of the business and make your life easier is worth it. Whether it's using digital tools or working with an accountant, having the finances under control and running smoothly allows me to innovate and dream.”

Financial literacy

Similarly, more than half of small businesses (52%) would invest more time improving their financial literacy if they believed it would make their businesses more efficient and productive. Two-fifths (42%) would, if it would keep costs down.



Reasons small business owners would invest more time in improving their financial literacy



If it would make their business more **efficient and productive**



if it would **keep costs down**

TOWARDS A SOLUTION... community and business support organisations

- **Improve access to advice and support.** There are a huge variety of community and business advice organisations – Citizens Advice, local community hubs, MP surgeries, Business Growth Service, Help to Grow, entrepreneurship programmes, referral pathways, resources – but they aren't coordinated. They all have a part to play, working together.
- **Joined up approach:** We'd like to see a more joined up approach, partnering with financial literacy programmes like Xero's Unlock Your Numbers campaign.



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Section 4

MAKING TAX DIGITAL FOR INCOME TAX: A CASE STUDY IN FINANCIAL LITERACY



New tax regulations, Making Tax Digital for Income Tax (MTD for IT), will be introduced in April 2026.

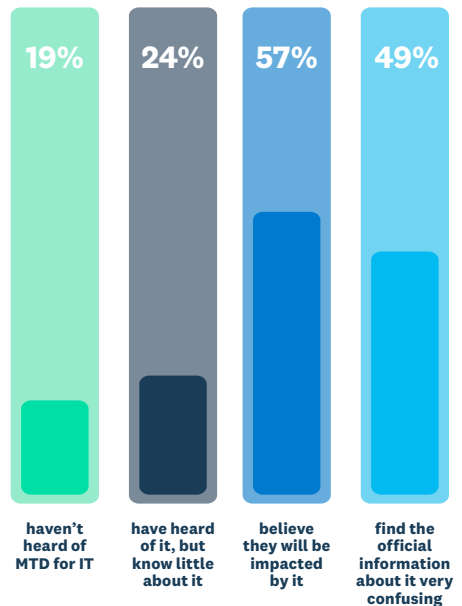
The new regulations will initially apply to sole traders and landlords with an annual turnover of over £50k. In subsequent years, the regulations will apply to wider revenue bands.



But among those who will be included from the outset – **sole traders and landlords with a turnover of over £50k** – confusion reigns. This will divert them from economically productive activity.

- One in five (19%) haven't heard of MTD for IT
- A quarter (24%) have heard of it, but know little about it
- Only three-fifths (57%) believe they will be impacted by it
- Half (49%) find the official information about it very confusing

Overall, a quarter (26%) of sole traders and landlords (irrespective of turnover) have never heard of the UK government's Making Tax Digital for Income Tax scheme.



TOWARDS A SOLUTION... government

- **Tax simplification.** Over recent years the amount of fiddly tax law that applies to small businesses has grown dramatically. Large firms may have the resources to draw on specialist expertise, but small firms don't. Making head or tail of tax law is another barrier to their growth.
- **Continued investment in customer service by HMRC.** It's crucial that small businesses can get support either through digital self-service or over the phone if they have questions. This will help avoid mistakes.
- **Training is not the only answer.** Improved training can help manage the problem, but it doesn't address the underlying complexity. We'd like to see a formal review into simplifying the tax system specifically for the smallest businesses, employing less than ten people.





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Section 5

INTRODUCING UNLOCK YOUR NUMBERS



As part of our effort to help improve financial literacy for existing and future entrepreneurs, Xero is launching a social impact initiative called *Unlock Your Numbers*. This is a series of easy-to-digest videos and guides, designed to fit into small business owners' busy schedules, and address the seven big problems outlined in this report. These resources will also help people interested in starting a business or who have a side hustle they want to grow.

Xero Ambassador programme

The Unlock Your Numbers programme also provides free mentoring to small businesses from Xero accountants and bookkeepers through Xero For Good Ambassadors, to help them apply their new knowledge and supercharge their businesses.



Methodology

This report is based on two pieces of research:

1) Research conducted by Opinium Research between 29 June and 11 July 2025 amongst 1000 UK senior decision-makers in SMEs (including sole traders) with up to 250 employees, who have responsibility for finance or overall responsibility of the business. Unless otherwise stated, this report has specifically looked at the answers from businesses that employ 1-9 people, including sole traders. Where age and gender specific insights are referenced, this is among all surveyed small businesses.

2) Research conducted by Censuswide between 14–18 July 2025, among a sample of 500 UK accountants or bookkeepers serving businesses with 1–49 employees.

This report has specifically focused on the answers from businesses that employ 1-9 people.