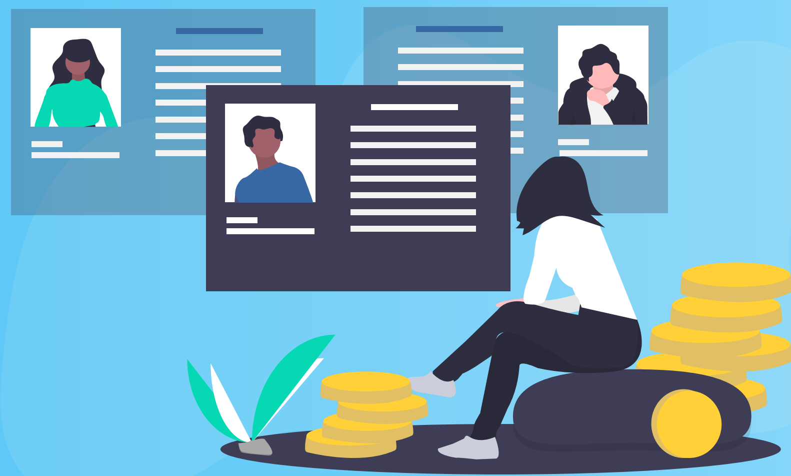

the accountancy partnership

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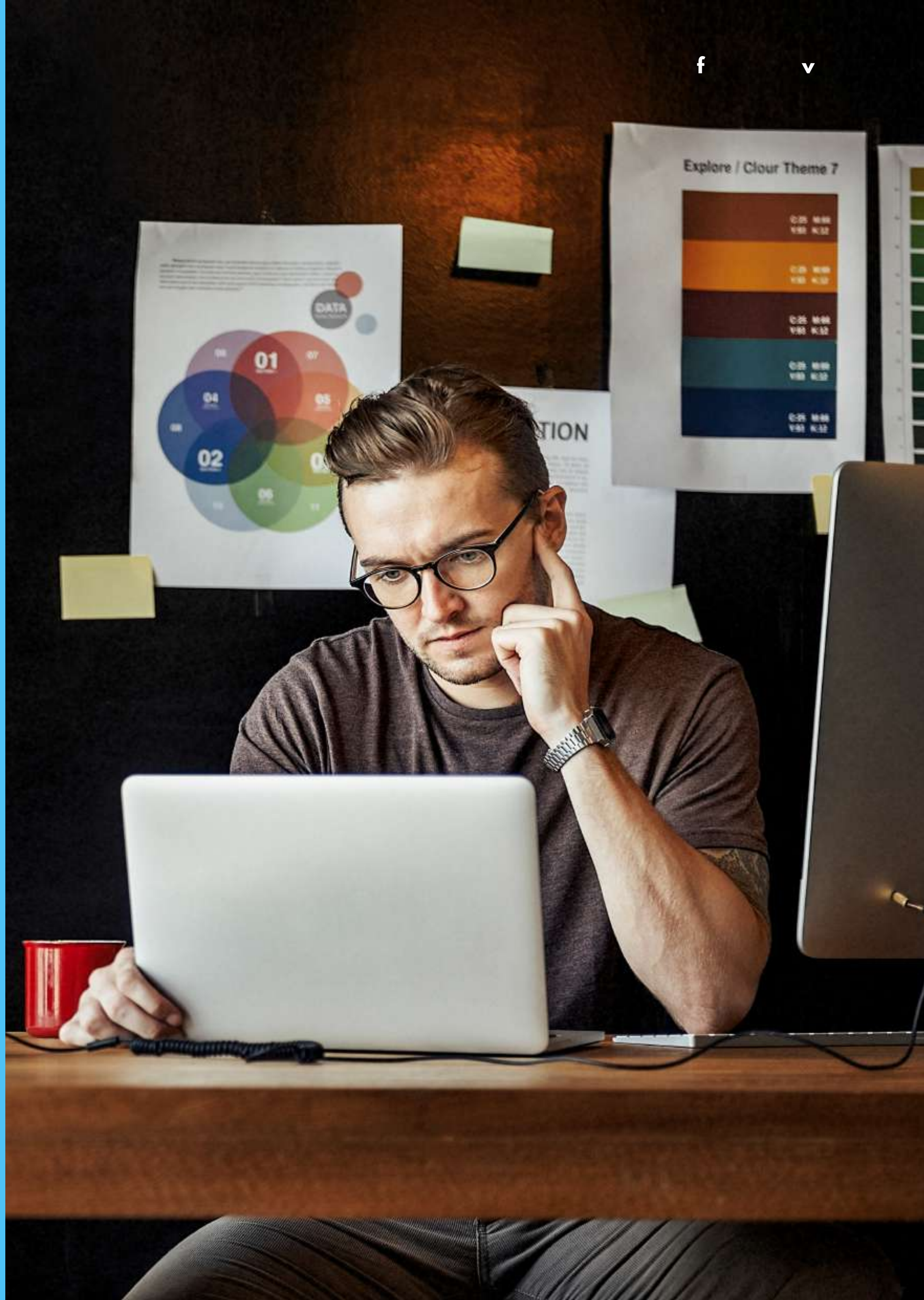
Dividends are payments made from the company's profits (after Corporation Tax) to its shareholder(s).

The amount of dividends paid out is usually dependent on the percentage each shareholder has in the company.



As a director and/or shareholder of a limited company, it can often be more tax efficient to take your income as a mixture of salary and dividends.

However, if you haven’t done this before, or if you are struggling to get your head around the idea, the process can quickly become confusing.

A director of a limited company is the person(s) that runs the company.

A shareholder of a limited company is the person(s) that owns the company.

This can often be the same person(s).

A director can be paid a salary from the company through PAYE. However, shareholders (who are not directors) can only be paid with dividends.

If the director is also a shareholder they can be paid a salary through PAYE and also take dividends from the company.

Dividends are tax free up to £2,000.

Basic rate taxpayers pay the dividend ordinary rate of 8.75% on dividends over £2,000.

Higher rate taxpayers pay tax on dividends at a rate of 33.75%.

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If you are the sole director and shareholder of a limited company, often the most tax efficient way for you to receive income is to take a small salary up to the National Insurance (NI) threshold, then take the remainder as a dividend.

The salary you process will be an expense to the limited company (and therefore reduce your corporation tax), but it will be tax and NI free to you personally.

If this is your sole source of income, this is a great way to utilise your allowances.

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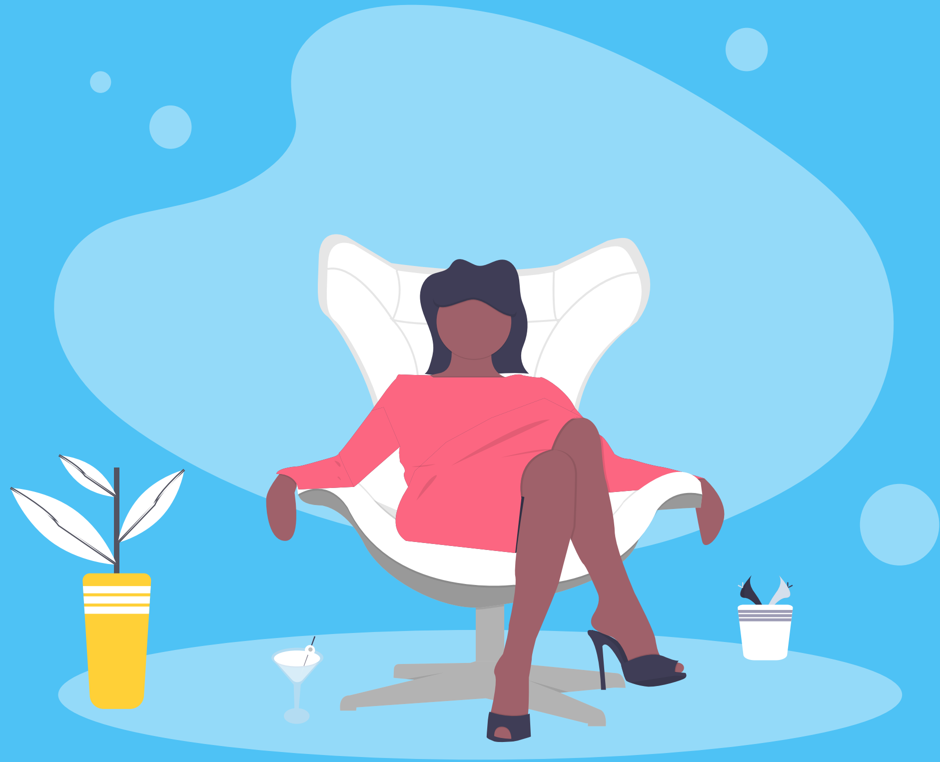
You may be wondering why it's best to take salary up to the NI threshold (£9,800 in 2022-23) rather than the Personal Allowance threshold (£12,570 in 2022-23).

The reason for this is that as a sole director, you are not entitled to the employer's NI allowance.

This means that you would pay 13.25% employee's NI and 15.05% employer's NI on your income above the NI threshold, which is more than you would save in corporation tax.



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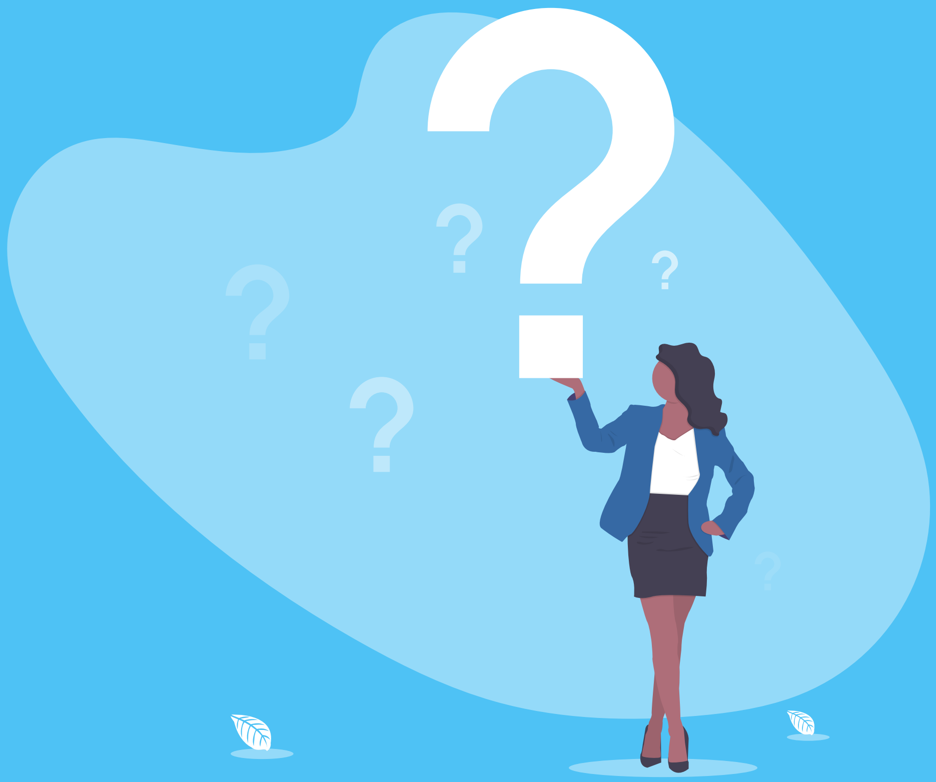

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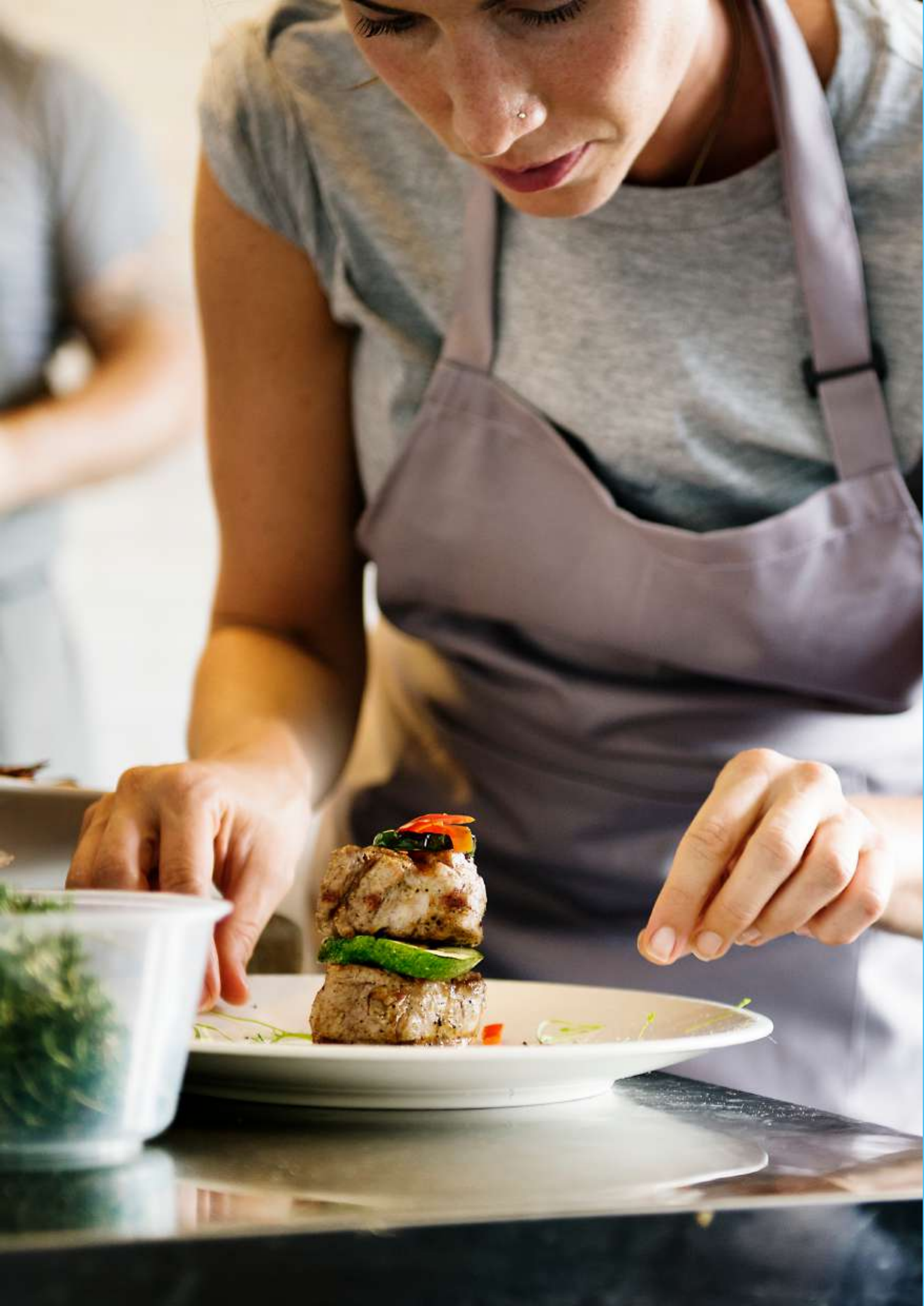
If you have other income then it's useful to assess whether a salary is still the most tax efficient course of action for you.

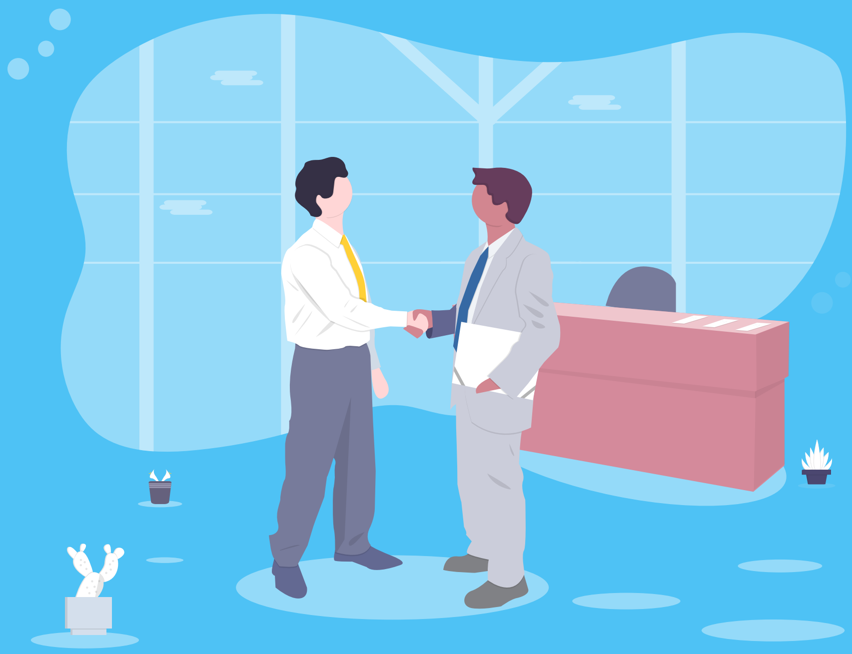
There are a few options you might consider:

- If your other income is **below** the thresholds, the difference can be calculated and put through as salary so all your allowances are used.
- If you have income **over** the threshold then you may be able to take a salary at the NI threshold, which would need to be reported through PAYE.
- If you have other income which is **over** the threshold, you may be able to claim a director's salary below the NI Lower Earnings Limit.

We strongly recommend that you speak to your accountant for a full review if you're unsure of the best option.



As long as a director's payroll is being run for you and it's over the lower threshold, then deemed NI contributions are made on your behalf - which count towards your state pension.



If you're running a company with an equal business partner or spouse then the same arrangement can be applied to them so that each of you receives a tax efficient sum.

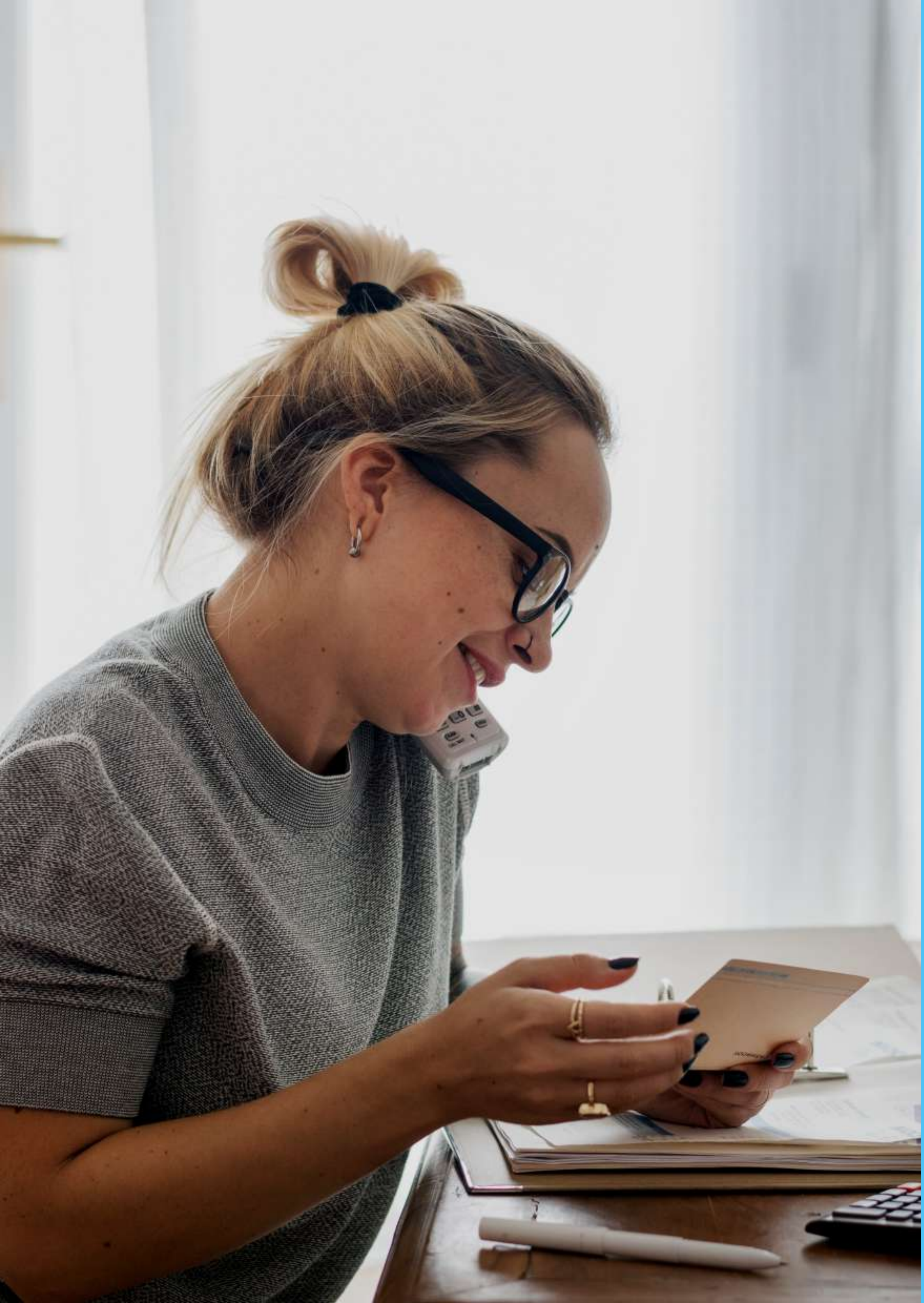
An additional director means your company (as long as it's not a connected company) is eligible for the employer's NI allowance.

This means the directors can take a slightly larger salary than one director operating alone. Salaries are an allowable expense, so the can be offset against 19% corporation tax.

However, it's important to note that if your company has multiple directors and shareholders, with different ownership percentages, then the above arrangements will probably not be feasible.

In this instance it's usually better to pay the directors a full salary in relation to the work they carry out and for the shareholders to receive dividends at agreed intervals.

Although not as tax efficient, everyone is then paid fairly.



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If you have any further questions simply call us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.

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