Paying Yourself from Your Business

the accountancy partnership

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Paying yourself as a sole trader

As a sole trader (or as a partner in a partnership) the profits that you make from the business are yours to keep.

This means you don't pay yourself a wage or salary, and can simply record the money you draw out of the business in your bookkeeping.

As a sole trader you're taxed on the profit the business makes, and not on the amount of money you take out of the business.

It's always a good idea to keep a portion of your earnings aside to cover your tax bill! That way you won't get a nasty surprise at the end of the year.

Paying yourself through a limited company

Even if you're the owner of your limited company, you're legally separate from the business. This means that you can't just keep the profits as income, in the way that sole traders do, so paying yourself from your limited company has a little more to it.

If you're the director and the shareholder of your company, and have no other sources of income during the tax year, then the most tax-efficient way to pay yourself is normally through a combination of a small salary each month, and then taking the remaining balance as a dividend.

This is because company directors are essentially employed by their own company. Employers and employees must both pay National Insurance Contributions (NICs) on salary payments above the relevant NI threshold, but they don't pay NI on dividends.

As a result, it makes more sense to pay yourself a smaller salary and make up for it with dividend payments. That way you won't end up paying National Insurance twice on the same money.

However, if you do have other sources of income, depending on the amount, it might be better to just take dividends.

So how do you pay yourself a salary as a company director?

Working out the most tax efficient salary for a limited company directors depends on how many other people are in the business, and is based on the tax allowances and National Insurance thresholds for the tax year.

We explain this in more detail in our article, with the latest figures.

Taking a salary means you'll need to make monthly submissions called RTI returns to HMRC on each pay day. This is so that HMRC know how much each employee has been paid (including you!) as well as the details of any deductions.

You can either do this yourself through your payroll software, or ask your accountant to do it for you.

You should record these amounts as a director's salary in your bookkeeping.

Paying yourself dividends

The majority of the money you take from your company will usually be as a dividend. Dividends are payments which a company makes to its shareholders from the company profits.

Dividends can be taken any time, though you'll need to complete some paperwork to record the process. This involves recording minutes to show the agreement to pay dividends from the company, and issuing a dividend voucher with the amount to pay each shareholder.

You'll need to do this even if you're the only shareholder or director in the company! We've prepared templates to help you with the process.

Dividends and tax

As long as the amount of dividends you take during a tax year is under the higher rate tax threshold, you won't pay any personal tax or National Insurance.

Read our article for the latest figures on dividend tax rates and thresholds.

Dividends are taken from the company profits after tax, but it's important that you don't take all your profits, and risk making your company insolvent. As a rough guide, you can take up to 80% of the profits you make.

Looking for more help with paying yourself from your business?

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

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