

YOU AND YOUR FAMILY

Paying Yourself: Salary, Dividends and Pensions

How directors and owners take money from a company, how each route is taxed, and how to choose a sensible, defensible mix.

FOR: COMPANY DIRECTORS AND OWNER-MANAGERS • SOME EXPERIENCE

There is more than one way to take money out

The company's money is not yours until it is paid to you in a way the law recognises. The main routes are salary, dividends, pension contributions, repayment of loans you have made, expenses and benefits. Each is taxed differently, for the company and for you, and each has rules about when it can be used. Choosing the mix well can save tax. Choosing it badly can cost tax, or create problems with the law.

Salary

- **Paid through payroll**, with income tax and national insurance, and reported to HMRC each time.
- **Deductible for the company**, which reduces its corporation tax.
- **Can build entitlement to state benefits** if it is at or above certain levels.
- Directors and employees must be paid at least the minimum wage if they are employees, which depends on the circumstances.

A common approach is a modest salary set at a level that is tax-efficient given the thresholds. The right level depends on your other income, whether you employ others and whether the company claims relief for employer's national insurance, so ask before you decide.

Dividends

- **Paid from profits the company has available**, after tax, and not from capital. If the company has not made enough profit, a dividend may be unlawful, and may have to be repaid.
- **Not deductible for the company**, which means they come out of profits that have already borne corporation tax.
- **Taxed on you at dividend rates**, which are lower than ordinary income tax rates, after an allowance that has been reduced over time.
- **Need paperwork**: a board decision, a dividend voucher, and, for different classes of shares, careful treatment.

Who this is for

- Directors of owner-managed companies
- New company owners setting up pay
- Anyone not sure their pay is tax-efficient

Key points

- Salary is deductible. Dividends are not.
- Dividends need profits, and paperwork.
- A pension contribution is often the most tax-efficient route.
- Do not take undocumented withdrawals.
- Review the mix every year.

Pension contributions

The company can pay into your pension, and, if the conditions are met, the payment is generally deductible and not taxed on you as income. There are annual limits and conditions, and the amount you can pay is related to your earnings and the company's circumstances. Our guide on pensions for owner-managers goes through the details.

Repaying loans and expenses

If you have lent money to the company, repayments are not taxable. If you have paid business costs personally, the company can reimburse you against receipts. These are neither salary nor dividend, but they need records.

Loans from the company to you

If you take more than you are owed and it is recorded as a loan, there are tax consequences if it is not repaid within the period allowed. The company may suffer an extra charge, and you may be taxed on the benefit of a cheap loan. It is not usually a good long-term way of taking money out. Our guide on separating personal and business money explains.

Choosing a mix

ROUTE	FOR THE COMPANY	FOR YOU
Salary	Deductible	Income tax and national insurance
Dividend	Not deductible	Dividend tax
Pension	Deductible, if conditions met	Not taxed as income when paid in
Loan repayment	Neutral	Not taxed
Benefits	Varies	Often taxable

The best mix changes with profits, your personal circumstances and the rules in force each year, so ask us to review it before the year-end.

Keep the records

Minute each dividend, record the salary in payroll, keep the voucher, and note any pension contribution. Records are what turn a payment into a defensible one if anyone asks.

Related guides

If this is useful, you may also want:

- Pensions for owner-managers
- Personal tax planning
- Corporation tax

Before paying yourself

- Has the company made enough profit?
- Is the paperwork ready?
- Is the salary right for the year?
- Are pension contributions considered?
- What is the cash for tax?
- Reviewed with an adviser?

How King Street can help

0161 835 2080
client@mtmlp.co.uk

We advise on the best mix of salary, dividends and pension for your situation, prepare dividend paperwork, run payroll for directors, and review the position before each year-end. If the company cannot lawfully pay a dividend, we say so before the money moves.

Manchester: 3rd Floor, 82 King Street, M2 4WQ · Wilmslow: Cresta House, 42 Water Lane, SK9 5AL