



Salary and Dividend Planning 2019-20



This document is for limited companies where the owner is the director, shareholder and the sole employee of the company:

- As the director is an employee they are entitled to a salary
- As they are a shareholder, they are an investor and entitled to a dividend

When money is extracted from the company, it is taken in the following order:

- Out of pocket expenses (no tax)
- Salary (utilise personal allowances)
- Dividends (dividends are paid from the company profits after corporation tax)

Salaries and bonuses are subject to National Insurance (employees and employers) but are eligible for corporation tax relief.

Dividends are not subject to National Insurance, but must be paid out of profits after the company has paid its corporation tax bill. The rates of income tax on dividends is different from those applying to salaries or bonuses.

The illustrations in this document assume:

- The director's engagements are not caught by IR35 (i.e. no deemed payment)
- The director is the only employee of the company and is the only shareholder
- The employment allowance for Employers NI does not apply (this only applies if there is more than one employee)
- The director does not have any other sources of income (e.g. rental property)

Note: For Scottish residents - the Scottish Parliament does NOT have the power to set the personal allowance, national insurance contributions or tax dividend income. As a result, the calculations are the same for all UK residents.



Tax rates and allowances (UK excluding Scotland)

Allowance	2019-20	Notes
Personal allowance	£12,500	
Basic rate Tax rate between PA & PA + £37,500 (£50,000)	20%	
Higher rate Tax rate between PA + £37,500 (£50,000) and £150,000	40%	<ol style="list-style-type: none">1. Child benefit is withdrawn between £50,000 and £60,0002. Personal allowance is withdrawn between £100,000 and £125,000
Additional rate Tax rate over £150,000	45%	
Dividend tax rates (first £2,000 is 0%)	Income up to £50,000 – 7.5% Income between £50,000 & £150,000 – 32.5% Income over £150,000 – 38.1%	<ol style="list-style-type: none">3. Dividends are not allowable for corporation tax (19%)4. Dividends are only paid from the company if there are distributable reserves



National Insurance

Allowance	2019-20	Notes
Lower limit	£6,136	1. Do not let salary fall below this level as you will not accrue the state pension
Primary Threshold (NI rates applying above this value)	£8,632 (Employee NI 12% & Employer NI 13.8%)	
Upper Earnings Limit (NI rates applying above this value)	£50,000 (Employee NI 2% & Employer NI 13.8%)	



Illustrations

Single Director/Shareholder/Employee

There are two tax examples outlined:

- (i) Example 1 – salary at the National Insurance primary threshold of £8,632 and dividend up to £50,000.
- (ii) Example 2 – salary at the personal allowance of £12,500 and dividend up to £50,000.

Example 1 has the benefits of being the most tax efficient and requires the least amount of administration.

Notes:

- (i) It is assumed that the Director does not have any other sources of income e.g. rental income.
- (ii) It is not possible to claim the employment allowance for Employers NI.
- (iii) Any dividends that take the total income over £50,000 will be subject to dividend tax of 32.5%.
- (iv) All company profits are subject to corporation tax at 19%.

Example 1			
PAYE	£	Tax rate	Tax £
Salary	8,632.00		
Personal allowance	<u>12,500.00</u>		
Taxable amount	<u>0.00</u>	20%	-

National Insurance			
Salary	8,632.00		
Primary threshold	<u>8,632.00</u>		
	<u>0.00</u>		
Employee's NIC		12%	-
Employers NIC		13.80%	-
Total PAYE & NI			-

Dividend Tax			
Salary	8,632.00		
Personal allowance	12,500.00		
Surplus personal allowance	-3,868.00		
Basic rate band	<u>37,500.00</u>		
Dividend at basic rate	<u>41,368.00</u>		
Less:			
Dividend included in PA	3,868.00		
Dividend allowance	<u>2,000.00</u>		
Taxable dividends	<u>35,500.00</u>	7.50%	<u>2,662.50</u>

Total personal tax 2,662.50

Total tax 2,662.50

Income 50,000.00
Personal tax rate 5.33%



Example 2			
PAYE	£	Tax rate	Tax £
Salary	12,500.00		
Personal allowance	<u>12,500.00</u>		
Taxable amount	<u>0.00</u>	20%	-

National Insurance			
Salary	12,500.00		
Primary threshold	<u>8,632.00</u>		
	<u>3,868.00</u>		
Employee's NIC		12%	464.16
Employers NIC		13.80%	533.78
Total PAYE & NI			997.94

Dividend Tax			
Salary	12,500.00		
Personal allowance	12,500.00		
Surplus personal allowance	0.00		
Basic rate band	<u>37,500.00</u>		
Dividend at basic rate	<u>37,500.00</u>		
Less:			
Dividend included in PA	0.00		
Dividend allowance	<u>2,000.00</u>		
Taxable dividends	<u>35,500.00</u>	7.50%	<u>2,662.50</u>

Total personal tax 3,660.44

Corporation tax relief
Salary over NI threshold and Employers NI 4,401.78 19% 836.34

Total tax 2,824.11

Income 50,000.00
Personal tax rate 5.65%