How should I remunerate myself as a director of my company?

Tim Hardy of Shipleys LLP discusses different tax-efficient payment options for company directors…

As an accountancy firm specialising in small and medium-sized businesses, we're often asked by limited company owners how they should remunerate themselves tax efficiently.

It's a very valid question, particularly as the tax position on dividends has changed considerably in recent years. For example, in 2017/18 you got a £5,000 tax-free dividend allowance and then tax was charged at 7.5% for basic rate tax payers, 32.5% for the higher rate and 38.1% for those with over £150,000 of taxable income. From 6 April this year the tax-free allowance reduced to £2,000 but the tax rates remain the same.

Usually it still makes sense for directors to remunerate themselves by a mix of salary and dividend, but do take specialist advice to determine the right balance for your individual circumstances.

As another tax-efficient option, don't forget that your company can contribute to your pension. The current pension rules are complicated, however, for most people a company could make a contribution into their pension of up to £40,000 a year. (For those earning over £150,000 this amount may be lower).

Being tax savvy with your money

Whilst you can't reduce the tax amounts due on dividends, there are ways to be more tax savvy with what you do with your money. The first is to make the most of the current ISA allowance, which remains at £20,000 for the 2018/19 financial year.

Another option is to consider the tax reliefs being offered by the government when investing in Venture Capital Trusts (VCTs). With VCTs you gain a 30% tax relief on the investment – up to a maximum of £200,000 per year. You also gain tax free dividends and do not face Capital Gains Tax when your VCT is sold. You do, however, have to hold your shares in a VCT for 5 years to gain these tax benefits.

Summary

The changing tax position on dividends is rightly making company owners question how they remunerate themselves. Whilst you can't avoid an increased tax rate on dividends, what you then do with your cash can soften the effect. In some cases, it can give you access to new tax reliefs – all of which help to preserve your capital in the years ahead. Before committing to a course of action do take specialist tax advice that reflects your individual circumstances.

For more tax-planning advice please contact me and our friendly team at Shipleys LLP

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