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ACCOUNTING IN THE CLOUDS

TAKING MONEY OUT OF YOUR COMPANY

Salary, dividends and personal tax allowances explained

Many Directors use a combination of salary and dividends to pay themselves throughout the tax year to utilise the tax allowances and thresholds in the most efficient way.



Personal Income tax

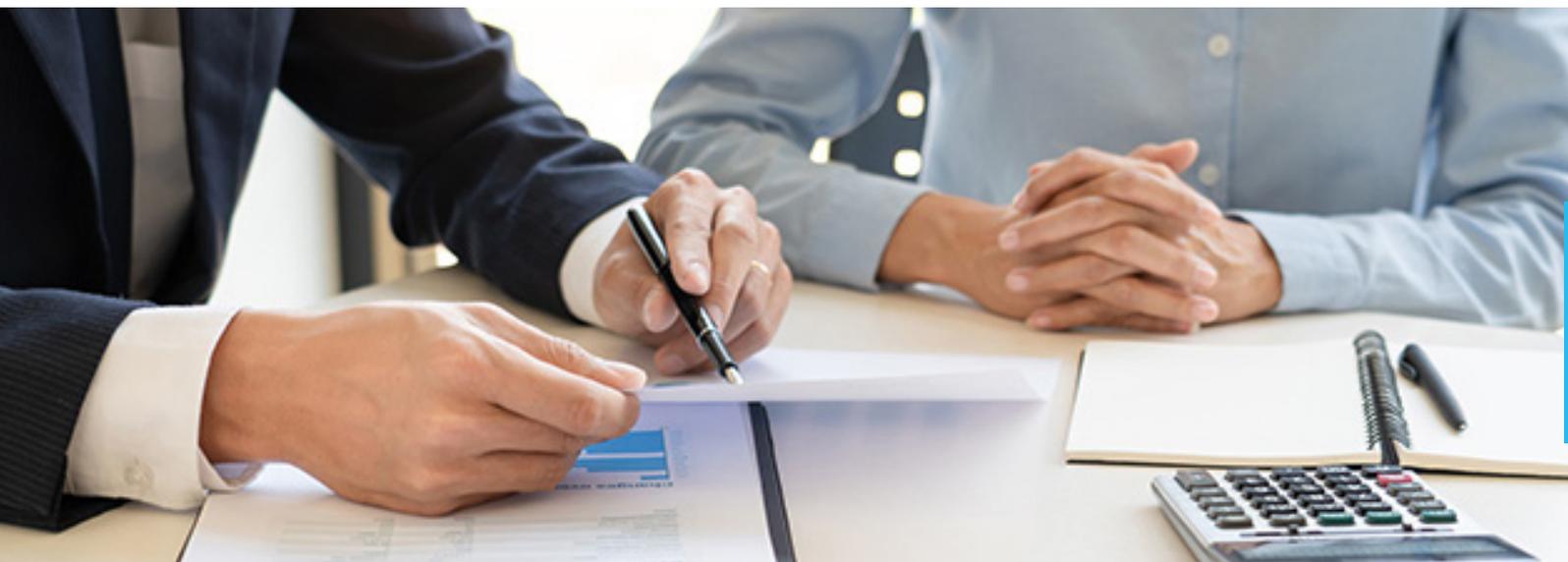
As Director of a limited company you must submit an annual self-assessment tax return (aka Director's tax return) to HMRC. This return is completely separate from the company, as it only includes what you've earned as an individual.

Your self-assessment will declare all the income you've earned in the tax year, 6th April - 5th April. This might include income from your company, interest payments, income from a rental property and income from a separate job even if tax has already been deducted.

The return is due for submission and payment by the end of the following January, at the latest.

If you owe more than £1,000 in income tax you must make an advanced payment towards next year's tax bill. The advanced payment is split into 2 instalments, due in January and July. When we prepare your return we'll calculate this for you, let you know how much is owed and when the payment is due.

If you owe less than £1,000 in income tax, it's just one payment due by the end of January.





What is a dividend?

A dividend is a payment made to shareholders of a company.

Dividends can only be taken if the company has enough profits.

The tax on dividends is different from salary payments. Dividends are paid after corporation tax has been deducted so there's no tax impact for the company.

The first £2,000 of dividends in the tax year are taxed at 0%. If your profits and cash flow allow, you should always take £2,000 of dividends to ensure you benefit from this 0% rate.

Although dividends can be taken at any time in the year, you need make sure there's enough cash left in the business to cover any taxes not yet due, like VAT or corporation tax.

More information is available here
<https://www.gov.uk/income-tax-rates>

Pay As You Earn 'PAYE'

The PAYE method is when income tax and National Insurance gets deducted from an employee's salary before it's paid. A payslip will show what's been deducted.

A tax-free level of income (personal income tax allowance) is available to most individuals.

As a Director of a limited company, if you have no other income in the 2022/23 tax year, we'd advise you take a Director's salary of £758 per month.

This allows you to stay within your personal allowance and stay below the threshold where National Insurance becomes payable. From the company's perspective, it's also under the threshold for employer's National Insurance.

If you'd like to pay yourself a higher salary or more in dividends, we can help you understand the tax impact from an individual and company perspective.





Income tax and dividend tax rates for 2022-2023

These tables explain the different tax rates for income tax and dividends.

When your self-assessment tax return is prepared, we'll look at your total income and calculate the relevant tax depending on the type of income you've received.

Income Tax Band Name	Tax Rates
Personal Allowance	0% on total income up to £12,570
Basic Rate Tax	20% on total income £12,571-£50,270
Higher Rate Tax	40% on total income £50,271-£150,000
Additional Rate Tax	45% on total income £150,000 +

More information is available here
<https://www.gov.uk/income-tax-rates>

Dividend Tax Brackets	Dividend Tax Rates
Dividend tax-free allowance	£2,000 (included in basic rate)
Dividend basic rate	8.75% on total income up to £37,700
Dividend higher rate	33.75% on total income £37,701-£150,000
Dividend additional rate	39.35% on total income above £150,001

Before we can make any payroll (PAYE) filings for you, we need to have HMRC authorisation. Applying for this can take weeks so please let us know as soon as are thinking about taking a salary or hiring a member of staff.

We charge additional fees to process payroll and file pension contributions. If this isn't already included in your package, the Team would be happy to provide a quote.





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