

PAYROLL & SALARY OPTIMISATION GUIDE

The following guide is for informational purposes only. Examples, illustrations & references to rates, bands, filing deadlines etc. are made with respect to those in effect for the 2017/18 (previous) tax year.

Overview

As a director of a private limited company, you can pay yourself a salary (as an employee) and/or take dividends (as a shareholder). You pay lower rates of tax on dividends; however, because you receive a tax-free personal allowance each year, it is also beneficial to pay a salary which can be absorbed by this allowance. You will pay £nil tax on your salary up to the personal allowance limit, whilst also making sufficient National Insurance (NI) contributions to entitle you to state benefits. You do not have to pay National Insurance contributions on dividends.

Payroll guide

Administration

- 1) How to set-up Payroll –
 - a. You will need to register your business as a new employer with HMRC (even if you are employing yourself (as the sole director of the limited company). You can do this online with HMRC. HMRC will then issue you with an office and PAYE reference. Once you have this, you can then start submitting reports known as Real Time Information (RTI) on or before each payday for your salary.
 - b. You will need to decide how often you wish to take your salary e.g. weekly, bi-weekly, monthly etc. Most clients opt for monthly salary payments, however, if you are used to taking money out of the business more often e.g. weekly – you could always opt for more frequent salary payments. There is less admin (e.g. fewer RTI submissions and payslips) with monthly payments.
 - c. Payslips/payroll software – in addition to telling HMRC what you are paying yourself as a salary (through RTI), you will need to keep records of this pay e.g. payslips, P60's etc. In order to do this, you will require payroll software.
 - d. Forms & documentation – you will need to prepare a P60 at the end of the tax year (this simply summarises your total pay and deductions for the year). Copies of P60's, P11d's and, if required, P45's will need to be issued to all staff.
 - e. Employment contracts – NOTE – as a Director of a limited liability company, you are considered as an employee by HMRC, however, unlike regular employees, you do not need to issue yourself an employment contract.

- 2) How to set-up dividend payments –
 - a. You will need to fill out a 'Dividend Voucher' to pay yourself a dividend. A dividend voucher must be completed each time you pay yourself/other directors a dividend, or you can complete an annual dividend declaration at the end of the year.

Waite Financial is the trading name of Waite Financial Ltd
A list of directors' names is available at The Loft, 76F Station Road, Hampton, TW12 2AX

Waite Financial Ltd is a Limited Liability company registered in England and Wales, registration number: 09929576

Registered Office: The Loft, 76F Station Road, Hampton, TW12 2AX

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- 3) National Insurance – you normally pay National Insurance (NI) on your salary, but not on dividends, however, because we recommend you pay yourself up to the monthly Primary Earnings Threshold of £680, this will be low enough to still entitle you to accrue state benefits, without having to pay NI (you only pay NI if your annual salary is greater than £680.33 per month).
- 4) Accounting / Bookkeeping entries –
 - a. Each time you pay salaries/pay a dividend, you will need your bookkeeper to record the payroll transactions:
 - i. To reconcile cash & record the staff salary expense
 - ii. To record associated PAYE & NIC creditors due to HMRC
 - iii. Record dividend transactions in equity (dividend transactions are recorded in the period in which they are declared, not necessarily paid).
- 5) Self-assessment – approximately 10 months after the end of the tax year (each tax year ends on 5th April), you will need to submit a Self-assessment to HMRC. This return outlines all of the information from your payslips and P60 (as above), together with any further schedules of income which you might have.
 - a. Registering – you will need to register for Self-assessment with HMRC.
 - b. Paying your bill – depending on how much salary and dividend you draw from the business, you may need to set aside some money to pay your tax bill. Assuming you pay yourself less than £45,000 in tax year 17/18 (£8,164 as salary and £36,836 as dividends), you will need to set aside c. 7.5% of anything you take as a dividend.
- 6) Other considerations –
 - a. Paying yourself a salary up to the Primary Threshold each year, is an allowable expense for your limited company, which will reduce your corporation tax bill, saving you corporation tax at 19% of the employment expense.

Salary optimisation

[The perfect blend of salary and dividends \(prior tax year - 17/18 numbers used in the following example\):](#)

With entitlement to the full UK personal allowance of £11,500, a salary of £8,164 (the NI Primary Earnings Threshold) should be paid. This amount will effectively be tax-free. Anything further which you wish to pay yourself should be paid as a dividend. For tax year 17/18, you will pay no tax on the first £2,000 of dividends, and you will pay 7.5% on the next £31,500 of dividends. You will then pay 32.50% on any dividends paid above this threshold, up to the additional rate band.

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Illustration:

17/18 - basic rate

	Salary only	Dividend only	Salary & dividends	
<u>Drawings:</u>				
Salary	19,000	-	8,164	
Dividend	-	19,000	10,836	
Total drawings	19,000	19,000	19,000	
Less: personal allowance	(11,500)	(11,500)	(11,500)	
Taxable income	7,500	7,500	7,500	
Tax @ 0%	-	-	-	(first £2,000 of dividends)
Tax @ 7.5%	-	413	413	(remainder of dividends)
Tax @ 20%	1,500	-	-	(salary)
Total tax	1,500	413	413	

17/18 - higher rate

	Salary only	Dividend only	Salary & dividends	
<u>Drawings:</u>				
Salary	60,000	-	8,164	
Dividend	-	60,000	51,836	
Total drawings	60,000	60,000	60,000	
Less: personal allowance	(11,500)	(11,500)	(11,500)	
Taxable income	48,500	48,500	48,500	
Tax @ 0%	-	-	-	(first £2,000 of dividends)
Tax @ 7.5%	-	2,363	2,363	(dividends at lower rate)
Tax @ 20%	6,700	-	-	(salary at basic rate)
Tax @ 32.5%	-	4,225	4,225	(dividends at higher rate)
Tax @ 40%	6,000	-	-	(salary at higher rate)
Total tax	12,700	6,588	6,588	

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