

DIRECTOR'S SALARY & DIVIDENDS FOR 2023/4 – Striking the perfect balance

As a business owner, determining the ideal salary for company directors can be tricky.

Often, most directors will want to balance their salary and dividend payments to be as tax efficient as possible.

The 2023/24 tax year presents an array of factors to consider, such as income tax thresholds, National Insurance contributions (NICs), and personal tax allowances.

It is important to explore the key considerations that company directors should weigh up when balancing their salaries and dividends.

The tax-free personal allowance

The tax-free personal allowance for the 2023/24 tax year stands at £12,570. By keeping your salary below this threshold, you can avoid paying any PAYE income tax.

However, for every £2 you earn above £100,000, you lose £1 of your personal allowance, meaning it drops to zero once your income reaches £125,140.

National Insurance considerations

Your company will be required to pay 13.8 per cent in Employers' NICs on salaries exceeding £9,100 per year.

However, the Employment Allowance allows eligible businesses to reclaim up to £5,000 in Employers' NICs. To benefit from this, directors must earn at least £9,100, although this does not apply to sole directors without other employees.

You will also need to pay National Insurance personally if your salary is above the Primary Threshold (£12,570 for 2023/24).

Pension and minimum wage concerns

It is essential to consult The Pension Service to understand how your state pension may be affected by your NICs.

If your salary is too low, it may impact your pension entitlement. To secure



Ensure compliance

HMRC is increasing checks to ensure dividend payments are accurately recorded. To satisfy HMRC and Company law requirements, directors should consider company reserves, cash flow, personal tax situations, and director requirements when determining dividend amounts.

*Additionally, directors should hold meetings to decide on dividend amounts and methods of payment, and record minutes to maintain accurate documentation. If you need advice on remuneration for your directors, **please get in touch.***

your entitlement to future state pension and benefits without paying National Insurance, ensure that your salary is above the Lower Earnings Limit (£6,396 for 2023/24).

Additionally, if you have an employment contract with your company, you must pay yourself the National Minimum Wage, which is £10.42 per hour for adults aged 23 or above.

Director's salary

Since 6 April 2023, directors can withdraw a maximum salary of £758 per month without incurring National Insurance charges, assuming no other income is earned.

Also from this date, the first £1,000 of dividends remains tax-free. Beyond that, dividend income is taxed as follows:

- Basic tax rate – 8.75 per cent
- Higher tax rate – 33.75 per cent
- Additional tax rate (now above £125,140) – 39.35 per cent

Weighing up all of these points above and each director's pay objectives, you should be able to reach a balance that is tax efficient.