

# Accurox's Guide to Optimal Salaries for Family Businesses



**One of the most perplexing areas of owning a business is determining whether to remunerate directors with salary, dividends, or both...**

## **The benefits of taking a salary include:**

- Your NI contributions are paid
- You reduce the amount of corporation tax your business pays
- You can retain maternity benefits and expect higher pension contributions

## **However, the drawbacks are that:**

- Salaries are taxed at a higher rate than dividends
- Your business will be liable to pay employer NI contributions.

## **Salary or Dividend?**

For most directors, the answer to this is both. A combination of an income that meets their National Insurance needs and is tax deductible for the business, while not incurring NI employer payments for the business (this is the secondary earnings limit) + plus dividends to make up the balance of your agreed or targeted remuneration amount.

## **Example – Optimal Salary for 2021/22**

In 2021/22 the lower earnings limit for National Insurance is £6,240 a year, meaning you should earn above this amount to make the correct contributions to your NI. The secondary earning threshold for the same year is £8,840, it is above this secondary earning threshold that your salary becomes liable to pay employers NI contributions. Therefore, the optimal salary for 2021/22 is £8,840, with the difference being paid in dividends. This allows for:

- Your employee NI contributions to be made
- Does not incur the cost of employer NI contributions for your business
- Allows the business to claim £8,840 as salary in its accounts, saving corporation tax

## More About Salaries

However, the salary limits change from year to year, meaning you must recalculate annually. So, does it make more sense to ditch the salary altogether and take all your remuneration as dividends? While this is possible, it is not the most efficient strategy for the following reasons:

- You are not taking advantage of the reduction in corporation tax your business receives because of paying the £8,840 salary. This is currently calculated at 19% and would save £1,679 in corporation tax.
- You are not paying your employee NI contributions. However, this may not be an issue if for instance you pay your NI contributions through other employment or if you are retired.

## More About Dividends

Dividends are taxed at 7.5% for the basic rate and are subject to a dividend allowance that means you pay no tax on the first £2,000.



## How to Optimise Your Salary & Dividend Allowances

### Example – Optimal Salary + Dividends

Suppose you want to optimise the lower rate dividend tax band allowance (£50,270 for 2021/22) and use the optimal salary we discussed above.

- You will pay yourself £8,840 through salary (saving £1,679 in corporation tax)
- Your personal tax allowance is £12,570 for 2021/22
- Add your dividend allowance of £2,000 which brings your personal allowance up to £14,570
- This leaves room for £35,700 (to bring you to the £50,270 lower rate limit) in dividends at 7.5% which equals £2,678 to be paid in corporation tax if maxed out to the full amount

### Remember...

As we've already noted, the rates change regularly, so it really is worth taking advice from your accountant regularly to optimise your finances.

At Accurox, we can help you with your optimal salary and many other ways to streamline your finances.

You can find full details about National Contribution Thresholds for 2021/22 [here](#)

### Contact us for more information

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