

## Directors Optimum Salary for 2023/24

For 2023/24 the personal allowance in England and Wales remains at £12,570 – this means your first £12,570 of income is tax free.

In addition to this the higher tax band remains at £50,270 for this year.

For income above this the tax rates are as below (different rates apply to dividends)

- £12,570 to £50,270                      20%
- £50,271 to £125,140                    40%
- £125,141+                                    45%

Scottish resident taxpayers have slightly different tax bands.

The dividend allowance will be reduced to £1,000 (half of that for 2022/23) – this means the first £1,000 of your dividends are tax free.

Over and above this £1,000, the dividend income is taxed as below.

- If you have any un-used personal allowance (£12,570), that element is tax free.
- Any dividends in the basic tax band (up to £50,270) attract a tax charge of 8.75%
- Dividends above the basic tax band (over £50,270) are charged at 33.75%
- Any dividends in the upper tax band (£125,141+) are taxed at 39.35%.

Owner managed businesses can typically decide how to pay themselves. This can be either a salary, dividends, or a mixture of both. Directors, with no other income should look to pay themselves the optimum director's salary with additional income paid as dividends.

So, how does this work? In simple terms the optimum Directors salary is the most tax efficient amount for, the majority, of directors to pay themselves. This will change from year to year as it is dependent on the National Insurance threshold set by the Government in any given year. For 2023/24 tax there are three options, the best for you will depend on your circumstances.

### Option 1 – Salary of £9,100

With this option there is no Income Tax, or National Insurance to pay for either the employee or employer. This reduces the admin as there will be no need to make any payments to HMRC.

### Option 2 – Salary of £11,908

If you are a single owner-director company, then this is the best and most tax efficient option for you. The company will save corporation tax compared to option 1, see the table at the top of the next page. However, there will be an Employers NI liability of £422.60. This cost is also an overhead expense so deductible from the Corporation Tax.

### Option 3 – Salary of £12,570

If your company has 2 or more employees and is eligible for the Employer Allowance, then this is the best and most tax efficient option for you. The company will save corporation tax compared to option 1. There will be no tax or NI for the Director to pay and with Employers allowance the employer NI will be just £87.72 Please see the table below:



TAX	Option 1	Option 2	Option 3 (with Employment Allowance)
Income Tax	Nil	Nil	Nil
Employee NI	Nil	Nil	87.72
Employers NI	Nil	£422.60	Nil
Corporation Tax Saving	£1,729	£2,262.52	£2,388.30

## How this works in principle

When it comes to tax efficient salary levels for 23/24 there are three national insurance thresholds you need to be aware of:

- **Lower Earnings Limit** – paying a salary above protects your entitlement to future state pension and benefits, without paying any national insurance. For 23/24 this is £6,396 per year.
- **Primary Threshold** – earnings above this threshold and you personally must start paying national insurance – for 23/24 this is £12,570 per year
- **Secondary Threshold** – earnings above this threshold and your business must start paying national insurance – for 23/24 this is £9,100 per year

Therefore, the Secondary Threshold is optimum level if you are a single owner-director this ensures you are paying enough to qualify for the state pension but neither you nor your business have to pay National Insurance contributions. If you employ 2 or more people and qualify for the Employment Allowance, then paying up to the Primary Threshold becomes the most tax efficient option.

## How has the optimum Directors Salary Changed?

Every year the income tax and NI rates change. Consequently, the optimum director's salary changes every tax year, as you will see from the table below:

Tax Year	Annual Salary	Monthly Salary
2022-23	£11,908	£992
2021-22	£8,838	£736
2020-21	£8,788	£732
2019-20	£8,628	£719

## Why not pay £nil salary?

A salary paid is a tax deductible whereas a dividend paid is not a tax-deductible expense for the company. Therefore, paying a salary of £11,908 to the director saves corporation tax of £2,262.52. There is no such saving on dividend payments.

Also, by paying a salary of £11,908 you are ensuring another qualifying year for the state pension as mentioned above.

## Caveats

The Employment Allowance is £5,000 for 2023/24, typically the employment allowance means that it is slightly more tax efficient to take a gross salary all the way to the tax free personal allowance level (£12,570 for 23/24), however HMRC over the years have brought in more and more restrictions as to who is entitled to claim the employment allowance – one of which was where they said the employment



allowance would not be available to companies where the only person on the payroll is a director, i.e. 'single director employee' limited companies.

In order to keep things straightforward, we have not taken the employer allowance into consideration for these calculations, which also assume the following:

- You are resident in the UK.
- You don't have an outstanding Student Loan.
- Your only income is your salary and dividends from your company.
- You are not working inside of IR35.
- You have a standard personal tax allowance.
- Your company has sufficient post tax profits to support these dividends.

### **How to optimise salary and dividends for directors in 2023-24?**

With regards to dividends, assuming you wish to take dividends up to the higher tax band but no further, then this would leave you with £37,700 of dividend headroom (£50,270 higher tax band – £12,570 salary).

The personal tax on dividends of £37,700 would total £3,211.25 – this is calculated as below:

- None of the dividends are in the tax-free personal allowance
- £1,000 of the dividends are in the tax-free dividend allowance.
- This then leaves the balance of dividends totalling £36,700 to be taxed at 8.75% = £3,211.25

This will give you a net monthly income of £3,921.56

