

# Tax Planning: Dividend v Payroll



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with:  
**Martin Jackson**  
*Lead Tax Writer*

20/08/2024

The webinar will begin at 2:05

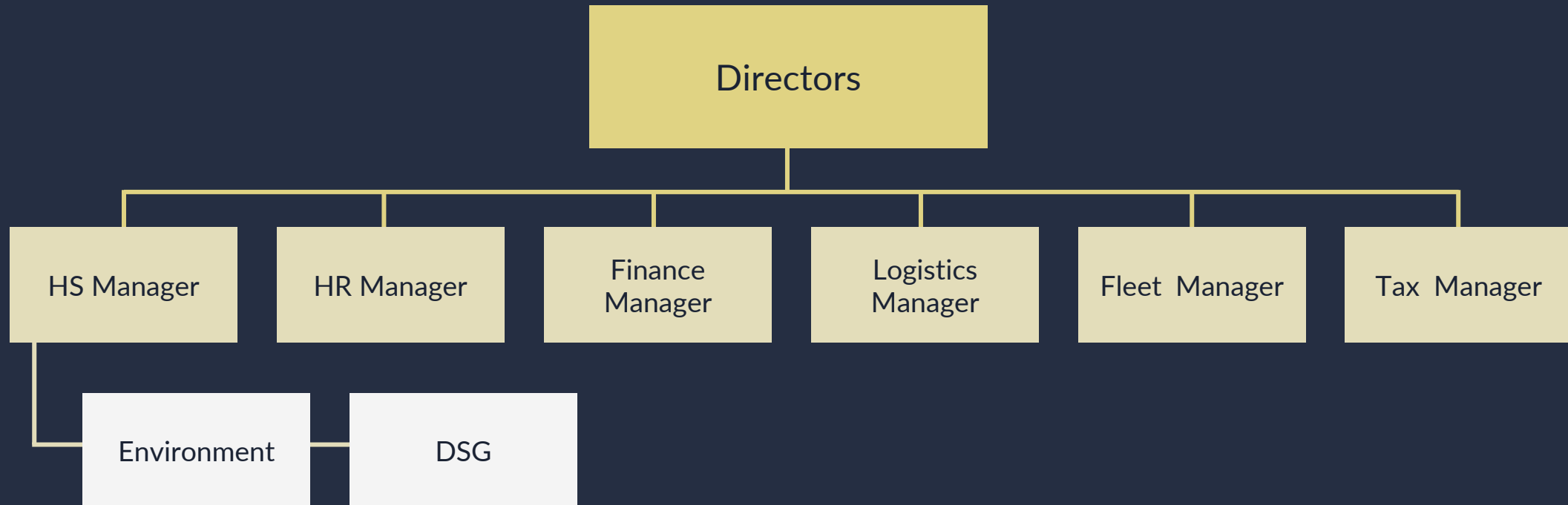
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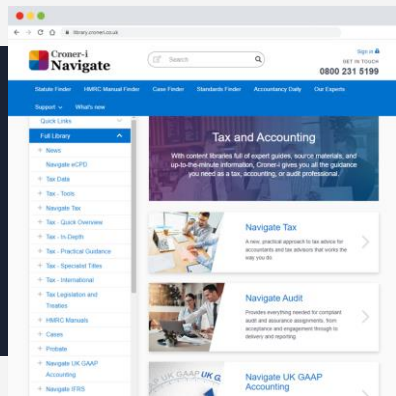
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# Today we will cover...

- The key differences between dividends and payroll
- Whether the dividend is more tax-efficient than the bonus in light of recent changes
- How Croner-i can help you to advise your clients on profit extraction
  
- Housekeeping
  - Tax rates, etc. are for 2024-25 & FY 2024
  - Pre-Budget – changes are possible!



# Dividends

- Distribution of assets – usually cash – to shareholders in respect of ownership (not work)
- Must meet Companies Act 2006 requirements
  - Sufficient distributable reserves
  - Process to be correctly followed (properly voted, constitutional documents, vouchers)
  - Illegal/ultra vires dividends repayable
- Different types of dividends
  - Interim – often declared by directors; taxed when paid/made available
  - Should be management accounts sufficient to justify the interim dividend
  - Final – generally approved by shareholders; taxed ‘when due and payable’ (CTA 2009, s. 1168)
- Must be paid in proportion to shareholdings
  - Different classes of shares (alphabet shares issues)
  - Dividend waivers (potential settlement issue, *Donovan & Anor [2014] TC 03188*)
- See [CTM15205](#) for HMRC’s views

# Dividends (continued)

- Paid out of the company's after-tax profits
  - No CT deduction
- Dividend income tax rates:
  - Common rates throughout UK (including Scotland)
  - Tax-free dividend allowance: £500
  - 8.75% - 33.75% - 39.35%
- Tax paid through Self-Assessment
  - Balancing payment 31 Jan 2026 (POAs 31 Jan 2025 & 31 July 2025)
- Dividends are not earnings
  - No NICs (employee or employer)
  - Do not count as 'relevant earnings' for pension contribution purposes

# Payroll (salary or bonus)

- Earnings (salary/bonus) are in recognition of performance (not ownership)
- For the individual:
  - Income tax (E, W & NI)
    - Basic rate: 20%
    - Higher rate: 40%
    - Additional rate: 45%
  - NICs
    - 0% up to £12,570
    - 8% between £12,570 and £50,270
    - 2% above £50,270

# Payroll (salary or bonus) (continued)

- For the company:
  - NICs
    - 13.8% above £9,100 (annual secondary threshold)
    - Employment allowance £5,000 - but NICA 2014, s. 2(4A) excludes many single shareholder/director companies
  - CT relief
    - Wholly and exclusively test satisfied
    - Small profits (up to £50,000) rate - 19%
    - Marginal rate (£50,000 - £250,000) - 26.5%
    - Main rate (£250,000+) - 25%
    - Deduction on the accruals basis, provided not paid more than 9 months after the year-end
- Tax & NICs paid through PAYE
  - RTI returns required (annual scheme option)

# Other issues

- Simplicity?
  - Payroll involves RTI returns
  - Dividends require vouchers & distributable profit justification
- Flexibility?
  - Ad hoc, in year payroll amounts much less likely to be challenged
- Cash flow?
  - Payroll has immediate PAYE liabilities
  - Dividends have annual balancing payment/6-monthly payments on account for Self Assessment
  - Credit to a director's loan account is a payment
    - If in anticipation of future earnings – is earnings (PAYE/NICS due at time of credit)
    - If in anticipation of future dividends – is a beneficial loan (unless below £10k)
    - Possible 33.75% Section 455 tax for the company

# Poll

**What level of earnings is required to produce a 'qualifying year' for State Pension purposes?**

- £6,396
- £9,100
- £12,570

# Other issues

- State pension/benefits entitlement
  - Full State Pension requires 35 qualifying years
  - Minimum State Pension requires 10 qualifying years
  - Minimum NICable earnings needed for a 'qualifying year' is 52 x Lower Earnings Limit (LEL) (£6,396 in 2024-25)
  - NICs are deemed to be paid on earnings between the Lower Earnings Limit and the Primary Threshold (PT) – even though no physical employee's NICs payable (£6,396 to £12,570 in 2024-25)
- Unless there is other employment so that the individual already has a qualifying year, a minimum salary of *at least* £9,100 should always be taken (because a CT deduction is available for the earnings and no employer's NICs are due until the secondary threshold of £9,100 is reached)

# Factors to take into account

- How much to extract from the company
- How much to leave in the company
- Corporation tax position of the company
- Distributable profits of the company
- Shareholdings (other shareholders?)
- Income tax position of the individual
- National Insurance position of the individual
- Personal pension position of the individual
- It's complicated!

# Example 1 - Profit between £50k-£250k - extracting all profit - min salary £9,100

Company position (19%/26.5% corporation tax)	£	Payroll £	£	Dividend £
Profits		100,000		100,000
Salary/bonus	88,977		9,100	9,100
Employers NICs (13.8%)	11,023		0	0
Less: total payroll cost		(100,000)		(9,100)
Taxable profits		0		90,900
Less: corporation tax		0		(20,339)
Profit after tax		0		70,562
Less: dividend		0		(70,562)
<b>Retained profit</b>		<b>0</b>		<b>0</b>

# Example 1 - Profit between £50k-£250k - extracting all profit – min salary £9,100

Individual position	Payroll £	Dividend £
Salary/bonus	88,977	9,100
Dividend	n/a	70,562
Gross receipt	88,977	79,662
Less: income tax (PAYE)	(23,023)	0
Less: income tax (self assessment)	0	(13,175)
Less: employee's NICs	(3,790)	0
<b>Net receipt</b>	<b>62,164</b>	<b>66,487</b>

Additional after-tax receipt under dividend route: £4,323

# Example 2 - Profit between £50k-£250k - extracting all profit - min salary £12,570

Company position (19%/26.5% corporation tax)	£	Payroll £	£	Dividend £
Profits		100,000		100,000
Salary/bonus	88,977		12,570	12,570
Employers NICs (13.8%)	11,023		479	0
Less: total payroll cost		(100,000)		(13,049)
Taxable profits		0		86,951
Less: corporation tax		0		(19,292)
Profit after tax		0		67,659
Less: dividend		0		(67,659)
<b>Retained profit</b>		<b>0</b>		<b>0</b>

# Example 2 - Profit between £50k-£250k - extracting all profit - min salary £12,570

Individual position	Payroll £	Dividend £
Salary/bonus	88,977	12,570
Dividend	n/a	67,659
Gross receipt	88,977	80,229
Less: income tax (PAYE)	(23,023)	0
Less: income tax (self assessment)	0	(13,366)
Less: employee's NICs	(3,790)	0
<b>Net receipt</b>	<b>62,164</b>	<b>66,863</b>

Additional after-tax receipt under dividend route: £4,699 (£376 more than if a £9,100 salary is taken)

# Example 3 - Profit over £250k - extracting £100,000 – min salary £9,100

Company position (25% corporation tax)	£	Payroll £	£	Dividend £
Profits		500,000		500,000
Salary/bonus	88,977		9,100	9,100
Employers NICs (13.8%)	11,023		0	0
Less: total payroll cost		(100,000)		(9,100)
Taxable profits		400,000		490,900
Less: corporation tax		(100,000)		(122,725)
Profit after tax		300,000		368,175
Less: dividend		0		(68,175)
<b>Retained profit</b>		<b>300,000</b>		<b>300,000</b>

# Example 3 - Profit over £250k - extracting £100,000 – min salary £9,100

Individual position	Payroll £	Dividend £
Salary/bonus	88,977	9,100
Dividend	n/a	68,175
Gross receipt	88,977	77,275
Less: income tax (PAYE)	(23,023)	0
Less: income tax (self assessment)	0	(12,369)
Less: employee's NICs	(3,790)	0
<b>Net receipt</b>	<b>62,164</b>	<b>64,906</b>

Additional after-tax receipt under dividend route: £2,742

# Example 4 - Profit over £250k - extracting £100,000 - min salary £12,570

Company position (25% corporation tax)		500,000	£	Dividend £
Profits	88,977			500,000
Salary/bonus	11,023		12,570	12,570
Employers NICs (13.8%)		(100,000)	479	0
Less: total payroll cost		400,000		(13,049)
Taxable profits		(100,000)		486,951
Less: corporation tax		300,000		(121,738)
Profit after tax		0		365,213
Less: dividend		300,000		(65,213)
<b>Retained profit</b>		<b>300,000</b>		<b>300,000</b>

# Example 4 - Profit over £250k - extracting £100,000 – min salary £12,570

Individual position	Payroll £	Dividend £
Salary/bonus	88,977	12,570
Dividend	n/a	65,213
Gross receipt	88,977	77,783
Less: income tax (PAYE)	(23,023)	0
Less: income tax (self assessment)	0	(12,541)
Less: employee's NICs (8% above LEL)	(3,790)	0
<b>Net receipt</b>	<b>62,164</b>	<b>65,243</b>

Additional after-tax receipt under dividend route: £3,079 (£337 more than if salary of £9,100 taken)

# Example 5 - Profit up to £50k - extracting all profit – min salary £9,100

Company position (19%/26.5% corporation tax)	£	Payroll £	£	Dividend £
Profits		50,000		50,000
Salary/bonus	45,040		9,100	9,100
Employers NICs (13.8%)	4,960		0	0
Less: total payroll cost		(50,000)		(9,100)
Taxable profits		0		40,900
Less: corporation tax		0		(7,771)
Profit after tax		0		33,129
Less: dividend		0		(33,129)
<b>Retained profit</b>		<b>0</b>		<b>0</b>

# Example 5 - Profit up to £50k - extracting all profit – min salary £9,100

Individual position	Payroll £	Dividend £
Salary/bonus	45,040	9,100
Dividend	n/a	33,129
Gross receipt	45,040	42,229
Less: income tax (PAYE)	(6,494)	0
Less: income tax (self assessment)	0	(2,551)
Less: employee's NICs (8% above LEL)	(2,598)	0
<b>Net receipt</b>	<b>35,949</b>	<b>39,678</b>

Additional after-tax receipt under dividend route: £3,729

# Example 6 - Profit up to £50k - extracting all profit - min salary £12,570

Company position (19%/26.5% corporation tax)	£	Payroll £	£	Dividend £
Profits		50,000		50,000
Salary/bonus	45,040		12,570	12,570
Employers NICs (13.8%)	4,960		479	0
Less: total payroll cost		(50,000)		(13,049)
Taxable profits		0		36,951
Less: corporation tax		0		(7,021)
Profit after tax		0		29,930
Less: dividend		0		(29,930)
<b>Retained profit</b>		<b>0</b>		<b>0</b>

# Example 6 - Profit up to £50k - extracting all profit – min salary £12,570

Individual position	Payroll £	Dividend £
Salary/bonus	45,040	12,570
Dividend	n/a	29,930
Gross receipt	45,040	42,500
Less: income tax (PAYE)	(6,494)	0
Less: income tax (self assessment)	0	(2,575)
Less: employee's NICs (8% above LEL)	(2,598)	0
<b>Net receipt</b>	<b>35,949</b>	<b>39,925</b>

Additional after-tax receipt under dividend route: £3,977 (£247 more than if salary of £9,100 taken)

# Summary

- Tax efficiency 2024-25
  - assuming standard CT bands and the *full* available amount is taken from the company
  - minimum salary plus dividends is more efficient until the extracted amount exceeds approximately £411k
  - for extractions greater than £411k, payroll is more efficient
  - minimum salary of £12,570 is more efficient up to approximately £134,000
  - minimum salary of £9,100 is more efficient between £134,000 and £411,000
- Detailed calculations are always required!
  - Croner-i guidance and calculator
- More help needed?
  - Croner-i VIP tax team

# Poll

**Which tools would help you to advise your clients in the most efficient manner?**

- Expert guidance
- In-depth commentary on tax
- Tools and calculators
- Second opinion



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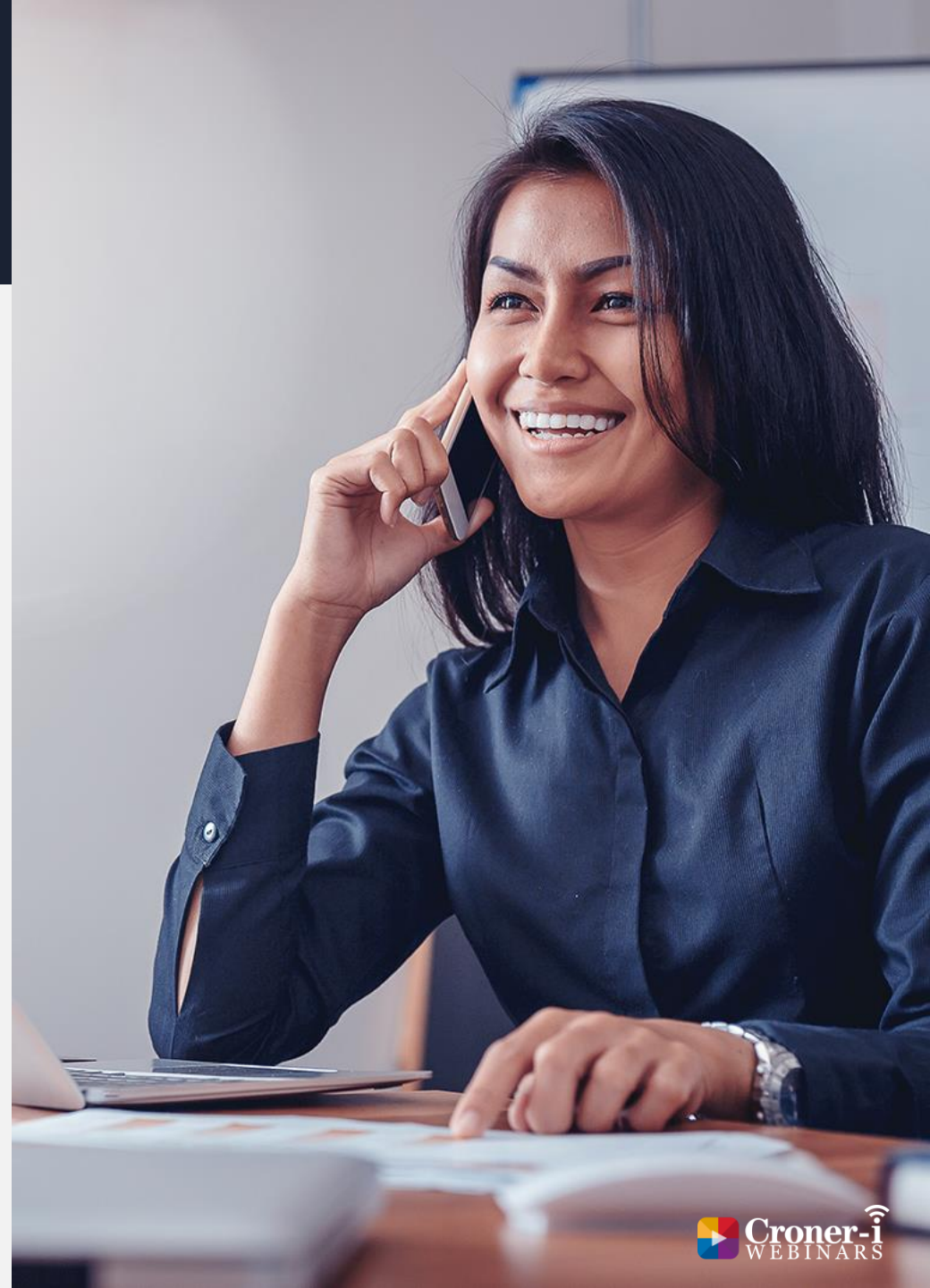


# Next steps



- A member of our team will give you a call to receive your feedback
- A recording of this webinar will be sent to you within a week
- To find out more on what Croner-i Navigate can offer you, follow this link

[FIND OUT MORE HERE](#)



# Thank you

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