Director's Payroll - What you need to know

simply accounts

Why do most directors have a £12,570 salary?

Tax efficiency & state pension - £12,570 utilises the full Personal Allowance, meaning there is normally no Income Tax to pay on the salary (if there is no other income using that allowance).

It's also usually enough to provide full annual National Insurance contributions towards qualifying years for the State Pension and both the salary and NI contributions are generally an allowable business cost for the company, reducing the corporation tax due by as much as £2-3k.

How does it work?

1 Setup

We'll work with you and assess the ideal salary amount for your circumstances - usually based on your other streams of income

2 Monthly

We'll set up a monthly payroll for you and you'll receive **a payslip each month**, usually around the 25th of the month.

This is just a formality and **does not dictate how much you can take** or when you can pay yourself

2 Quarterly

If you're on a quarterly bookkeeping package with us, we'll reconcile the money you've removed across payroll, DLA and dividends accordingly

There will be some employer's National Insurance contributions for the company to pay, typically from month 5 (August) to month 12 (March) but this business cost will work to reduce corporation tax due. - We'll always keep you informed of what, when and how to pay.

Did you know

You do not need to pay yourself the value on your director's payslip - you can pay yourself any amount, at any time
How? - Just make a simple bank transfer from you company bank to your personal, and we'll do the rest.

How does it actually work? - A working example over a full trading year:

Jan, Feb, March - 3 months

What you do

- You've just started the business so you transfer £5k into your business account to get things going.
- You pay yourself £2k per month by simple bank transfer into your personal account

What we do in the background

- We credit your director's loan account (DLA) with £5k.
- You're on a £12,570 salary so we send you a payslip for £1047.50 each month
- You've actually taken £6k in wages, so we reconcile £3,142.50 as salary, and the remaining £2,857.50 works towards paying back the DLA account.

April, May, Jun - 3 months

What you do

- It's a straightforward quarter, and you continue to pay yourself £2k per month using a simple bank transfer to your personal bank account.

What we do in the background

- We continue with the formality of sending you a payslip for £1047.50 each month and so we continue to reconcile just £3,142.50 as salary per quarter (3 x £1047.50).
- You've actually taken £6k in wages again, and so there's £2,857.50 still to reconcile. - There's still £2,142.50 remaining to repay the DLA so this is repaid first.
- The remaining £715 is then assigned to a director's dividend.

July - December - 6 months

What you do

- Business is building well and you've decided to take more money out of the business.
- You now pay yourself £3k per month for the rest of the year.
- The company will need to make some employer NI contributions to HMRC, so you'll pay this via bank transfer from the business account. - We'll tell you how.

What we do in the background

- You still get a payslip for £1047.50 each month - £3,142.50 as salary per quarter.
- The £9k per quarter you've now taken in actual wages is £5,857.50 after the payslip values are removed. There's no DLA left to pay back so this full value is processed as a director's dividend. You'll pay personal dividend tax on money removed as a dividend but its typically far lower than PAYE income tax.

At the end of the financial year, we'll use your salary and employer National Insurance contributions as allowable business costs to reduce your company's taxable profit. Your dividends are then paid from the remaining post-tax profits, with any personal dividend tax declared through a director's Self Assessment.