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26/27

Tax year

LIMITED COMPANY TAX SERIES

DIRECTORS · BENEFITS AND EXPENSES

The Director's Tax-Saving Guide

The benefits and expenses you can legitimately claim through your limited company, and how a solo director on £80,000 of profit can pay around £8,800 less tax a year on 2026/27 rates. Every figure checked against GOV.UK on 12 October 2026.

ELECTRIC CAR BENEFIT	DIVIDEND ALLOWANCE	PENSION ALLOWANCE
4%	£500	£60k

HD Reviewed by **Harvey Dhillon**, ACMA CGMA · Zmartly

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START HERE

Most directors leave real money on the table

As a director and shareholder of your own company, you choose how money leaves the business and which costs run through it. Get those choices right and you pay less tax, completely legitimately. Get them wrong, or never make them, and you quietly overpay year after year. This guide is the short version of what a good accountant would set up for you.

The biggest levers, at a glance

OPTIMAL SALARY	ELECTRIC CAR	EMPLOYER PENSION	EQUIPMENT RELIEF
£12.6k	**4%**	**£60k**	**£1m**
Around the personal allowance	Taxed on 4% of list price	Deductible, no personal tax now	Annual Investment Allowance

What this guide covers

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⚠ **LEGITIMATE, NOT AGGRESSIVE**

Everything in this guide uses reliefs and exemptions HMRC sets out in its own guidance. The point is not clever schemes, it is simply claiming what you are entitled to, with the records to back it up: **the invoice, a minute for every dividend, a log of every business mile.**

What you'll need

ABOUT 15 MINUTES

- **Your latest accounts** or a rough idea of your annual profit
- **How you pay yourself now**, salary and dividends, and your pension position
- **Your car and home-working setup**, plus any equipment you buy through the company

01 SALARY, DIVIDENDS AND PENSION

The most tax-efficient way to pay yourself

As director and shareholder you choose how you are paid: a small salary, dividends on top, and a company pension contribution. Blend the three well and less tax comes off the same money.

A small salary first

If you have no other income, a salary of around **£12,570**, the personal allowance, is usually the sweet spot. It is free of income tax and employee National Insurance, deductible for Corporation Tax, and keeps your State Pension record going. With no other employees the company cannot claim the Employment Allowance, so it pays a little employer National Insurance (15 per cent above £5,000).

Dividends on top

Take further income as **dividends** from post-tax profit. The first **£500** a year is tax free, then the rates are **10.75 per cent** (basic), **35.75 per cent** (higher) and **39.35 per cent** (additional), with no National Insurance. But a dividend comes out of profit that has already paid Corporation Tax, so the saving is smaller than the rates suggest.

THEN LET THE COMPANY PAY YOUR PENSION

An **employer pension contribution** paid in the year is deductible for Corporation Tax if your total pay package is reasonable, carries no National Insurance and is not taxed as your income now. The annual allowance is **£60,000** across all your pensions, plus unused allowance from the last three years if you were in a scheme then. It is lower for very high earners and once you have drawn a pension flexibly. Most of the pension is taxed when you draw it.

Worked example · £48,206 of company cost, paid two ways

Option A · £42,570 salary, costing the company £48,206 with employer NI	**£42,570**
Less income tax and employee NI	**£8,400**
Option B · £12,570 salary, costing £13,706 with employer NI	**£12,570**
Plus a dividend from the other £34,500, after £6,555 Corporation Tax at 19%	**£27,945**
Less dividend tax (£500 free, then 10.75%)	**£2,950**
Better off under B (£37,565 in your pocket against £34,170)	**£3,395**

THE SAVING SHRINKS AS PROFITS RISE

That £3,395 assumes company profits under £50,000, taxed at 19 per cent. If the whole £34,500 falls in the marginal relief band, between £50,000 and £250,000, it is taxed at 26.5 per cent and the same example is worth £1,085. A dividend also needs available profit, or HMRC can treat it as a loan.

02 BENEFITS WITH ZERO PERSONAL TAX

Tax-free benefits you can take through the company

These benefits cut the company's Corporation Tax bill and create no personal tax for you, as long as you meet the conditions. They are small individually, but they add up and they are simple to set up.

BENEFIT	WHAT YOU CAN DO	THE LIMIT
Trivial benefits	Small non-cash gifts such as a gift card or a hamper, not a reward for work or in your contract	**£50 each, £300 / yr**
Annual event	A Christmas party or summer event open to all staff, partners welcome as guests	**£150 / head**
Mobile phone	One phone on a contract between the company and the provider, personal use is fine	**One per person**
Eye tests	Eye test required for screen work, plus glasses the test shows you need only for it	**Full cost**
Subscriptions	Fees to professional bodies on HMRC's approved List 3, relevant to your job	**Full cost**

Source: GOV.UK, Expenses and benefits (trivial benefits, social functions and parties, mobile phones, subscriptions and professional fees), and HMRC's Employment Income Manual (trivial benefits, annual events, eye tests). 2026/27.

TRIVIAL BENEFITS, THE EASY £300

As a director of a close company you can take up to **£300** a year in trivial benefits, made up of separate gifts costing **£50 or less** each, including VAT. Six £50 gift cards that cannot be swapped for cash, spread across the year, is the classic approach. Go a penny over £50 on any one gift and that whole gift becomes taxable.

THE £150 EVENT IS A THRESHOLD, NOT AN ALLOWANCE

The annual event exemption covers up to **£150 per head** across the year, including VAT and any transport or overnight stay you provide. Spend £151 a head on one event and its **entire** cost becomes a taxable benefit, not just the £1 over. With two events, only those that fit within £150 together stay exempt. Count your guests and keep the receipts.

One mobile phone per person is fully tax free if the contract is between the company and the provider and it is not part of a salary sacrifice, even where you use it personally. Reimbursing your own personal contract is taxable, apart from extra business calls, so move the contract across or take out a new one.

03 THE STANDOUT SAVERS

The electric company car and the £1m equipment allowance

Two of the biggest levers a director has sit here. A new electric car taxed on just 4 per cent of its list price, and full tax relief on the equipment you buy to run the business.

A petrol or diesel company car is usually a poor deal, taxed on a high share of its list price every year. An **electric car** is the opposite. For 2026/27 a fully electric company car is taxed on just **4 per cent** of its list price, so the personal tax is small and the company still gets the running costs.

Worked example · a £40,000 car, higher-rate director

Electric car, taxed on 4% of £40,000	**£1,600 benefit**
Your tax on the electric car at 40%	**£640 / yr**
Petrol car at 120 g/km, taxed on 30%	**£12,000 benefit**
Your tax on the petrol car at 40%	**£4,800 / yr**
Personal tax saved by choosing electric	**£4,160 / yr**

ELECTRIC MEANS FULLY ELECTRIC

The 4 per cent rate applies only to cars with **zero** tailpipe emissions. Plug-in hybrids are taxed on a higher percentage set by their CO2 and electric range. On the smaller benefit the company also pays £1,560 a year less Class 1A National Insurance. For many directors a personal car claimed at mileage rates (see Section 04) still beats any company car: compare both.

Equipment, laptops and the Annual Investment Allowance

A laptop, phone, tools or other equipment the company owns and provides for your work, with **no significant private use**, creates no benefit in kind for you. The company claims the cost through the **Annual Investment Allowance**, which gives **100 per cent relief** on up to **£1,000,000** of qualifying equipment in the year you buy it. Buy in the company name, keep the invoice, and add it to your asset register.

A £1,500 LAPTOP, RELIEVED IN FULL

Buy a £1,500 laptop through the company (net of any VAT it reclaims) and the full cost comes off your taxable profit this year. At the 19 per cent small profits rate that is **£285** off the Corporation Tax bill, more at the marginal or main rate. Cars cannot use the allowance: a new, unused electric car gets a 100 per cent first-year allowance instead if the company buys it by 31 March 2027, and other cars get writing-down allowances.

04 WORKING FROM HOME AND MOTORING

Home office, mileage, and what to avoid

If you work from home and use your own car for business, the company can reimburse you tax free. A few common traps are worth knowing before they cost you.

Working from home

The simplest route: if you regularly work from home under an arrangement with the company, it can pay you **£6 a week** (£26 a month if paid monthly) towards household costs, with **no records** of the actual costs needed. A formal **licence agreement** to rent a home office to the company can give more relief, but it needs a market rate and care over the tax on the rent, so take advice first.

Business mileage in your own car

Use your own car for business and the company reimburses you tax free at HMRC's approved rates: **55p a mile** for the first 10,000 business miles, then **25p**. It is **24p** for motorcycles and **20p** for bicycles. The payment is deductible for the company and tax free for you, with no benefit in kind.

MILEAGE ROSE TO 55P, AND MOST LOGS ARE OUT OF DATE

The car rate rose from 45p to **55p** for the first 10,000 miles from 6 April 2026. If your claims still use 45p you are short-changing yourself. Keep a simple log with the date, the journey and the business reason. Home to a regular workplace is commuting and does not count. The rates are for your own car: with a company car, the company can pay HMRC's advisory fuel or electricity rates instead.

What to avoid

THE TRAP	WHY IT BITES
Illegal dividends	Paying a dividend with no available profit. You may have to repay it, and HMRC can treat it as a loan from the company, with tax to follow.
Mixing the money	Personal costs paid from the company account usually become a loan to you. A loan made from 6 April 2026 still unpaid nine months after the year end triggers a 35.75% s455 charge.
No records	Claims without invoices, dividend minutes or mileage logs are the hardest to defend when HMRC checks.
Client entertaining	Ordinary lunches and hospitality for clients are not deductible for Corporation Tax, however genuine the business reason.

Source: GOV.UK, Taking money out of a limited company; HMRC Company Taxation Manual CTM15205 (unlawful dividends) and CTM61505 (s455); Business Income Manual BIM45010 (entertaining). 2026/27.

05 ILLUSTRATIVE EXAMPLE

Priya, a solo director on £80,000 of profit

Priya is an illustration, not a client. She runs her company alone and works from home. She used to pay herself a £42,570 salary, take the rest as dividends and run a £40,000 petrol company car. Here is what changed when she used the toolkit in this guide. Figures are rounded.

WHAT SHE CHANGED	HOW	TAX SAVED / YR	TAX DEFERRED / YR
Electric car	Same £40,000 list price, taxed on 4% instead of 30%	**£5,152**	
Pay mix	£12,570 salary plus dividends, instead of a £42,570 salary	**£3,081**	
Home and benefits	£312 home office (£6 / wk), £300 of gifts, a £150 event, a £300 phone	**£560**	
Employer pension	£20,000 paid in by the company instead of taken as dividends		**£10,314**
Total, 2026/27		**£8,793**	**£10,314**

Illustrative. £80,000 of profit before her pay, employer National Insurance, the pension and the benefits, in a 12-month year with no associated companies. Sole director with no other employees, so no Employment Allowance, no other income and no pension drawn yet. England, Wales and Northern Ireland rates, Corporation Tax with marginal relief, all post-tax profit paid as dividends. Each change is valued on top of the ones above it, pension last. Buying the car and its capital allowances are left out. Your numbers depend on your profit, your pay mix and your circumstances.

THE HEADLINE

A car of the same value on the drive, and around **£8,800 less tax a year** on 2026/27 rates, saved rather than put off. It reaches Priya as £7,731 more take-home pay and £1,062 of home-office payments, gifts, a party and a phone that cost her no tax. The pension is a separate choice. It cuts this year's tax by a further £10,314, which we count as deferred, not saved: the money is locked away until pension age and most of it is taxed when she draws it. Make all four changes and her take-home pay is £1,955 lower than before, with £20,000 a year more in her pension.

HOW MUCH ARE YOU LEAVING ON THE TABLE?

If you are not already doing most of the above, there is a strong chance you are overpaying. A short review will tell you exactly where, and what it is worth for your company. Details on the next page.

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FREE 30-MINUTE TAX-SAVING DISCOVERY SESSION

Find out what you're leaving on the table

Book a free, no-obligation 30-minute session and a CIMA-qualified accountant will look at how you pay yourself, your car and your benefits, then tell you in plain English what you could save this year.

- A quick review of your salary, dividend and pension mix
- A clear steer on the electric car, mileage and home-office claims
- A plain-English number: roughly what better structure is worth to you

HD Reviewed by **Harvey Dhillon**, ACMA CGMA

Reviewed by a **CIMA-qualified** accountant (ACMA, CGMA)

★★★★★ **4.9** on Google · 63 reviews

SCAN OR VISIT

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About this guide. Reviewed by Harvey Dhillon, ACMA CGMA. For limited company directors. Figures verified against GOV.UK on 12 October 2026 for the 2026/27 tax year, using England, Wales and Northern Ireland income tax rates. This guide is general information, not advice for your specific circumstances; rates, thresholds and reliefs can change. Always confirm your position with a qualified accountant before acting. © Zmartly 2026.