

— DIRECTORS · PAYING YOURSELF

Salary vs Dividends, the efficient way to pay yourself

The owner-director's pay playbook for 2026/27. A small salary, dividends with no National Insurance, and the split that leaves the most in your pocket, with real worked numbers at three profit levels. Every figure checked against current GOV.UK guidance.

DIVIDEND TAX,
BASIC**10.75%**DIVIDEND
ALLOWANCE**£500**EMPLOYER NI ON
PAY**15%**

• THE SHORT ANSWER

Most directors take a small salary plus dividends

Dividends carry no National Insurance and are taxed below salary, so a modest salary topped up with dividends usually beats taking everything as pay. The April 2026 rise in dividend rates changed the maths, so last year’s advice may now be slightly off.



THE HEADLINE

A salary around the **£12,570** personal allowance, then dividends from post-tax profit, is the starting point for most owner-directors. Dividends pay **no National Insurance** and are taxed at 10.75%, 35.75% and 39.35%, well below the equivalent salary plus NI. The right split still depends on your own numbers.

At a glance, the rates that drive the decision

| PERSONAL ALLOWANCE | DIVIDEND ALLOWANCE | DIVIDEND RATES | CORPORATION TAX |
|--------------------------------|-----------------------------------|-----------------------------|-------------------------|
| £12.6k | £500 | 10.75% | 19% |
| Salary here pays no Income Tax | Taxed at 0%, then the rates below | Then 35.75% / 39.35%, no NI | To £50k, then up to 25% |

What is inside



The building blocks

Salary, dividends and Corporation Tax, how the layers stack · page 3



The salary-level decision

Employer NI, the £5,000 threshold and Employment Allowance · page 4



Worked examples

The full sums at £30k, £60k and £100k of profit · pages 5 and 6



The bigger picture

Retained profit and pension contributions · page 7



THESE ARE ILLUSTRATIONS, NOT YOUR ANSWER

The worked numbers assume a sole director with no other income and all profit drawn. Other income, a second shareholder, pension plans or Employment Allowance all move the optimum. Use them to see the **pattern**, then model your own figures.

01 HOW THE LAYERS STACK

The three building blocks of director pay

Company money is not your money until you take it out properly. Three things decide what reaches your pocket: the salary, the Corporation Tax on what is left, and the dividends you draw from the post-tax profit.

A salary around the personal allowance

A salary up to the **£12,570** personal allowance pays no Income Tax. It is a deductible business cost, so it reduces the company's Corporation Tax. And a salary at this level keeps you above the lower earnings limit, so the year still counts towards your State Pension record, without any employee National Insurance to pay.

Dividends from post-tax profit

Dividends are paid from profit the company has already paid Corporation Tax on. The first **£500** falls within the dividend allowance and is taxed at 0%. Above that, dividends are taxed at **10.75%** in the basic band, **35.75%** in the higher band and **39.35%** in the additional band, and they carry **no National Insurance** at all. That NI saving is the heart of why the mix works.

| INCOME BAND (YOUR TOTAL INCOME) | DIVIDEND TAX RATE | NI ON DIVIDENDS |
|----------------------------------|-------------------------|-----------------|
| First £500 of dividends | 0% (dividend allowance) | None |
| Basic band, to £50,270 | 10.75% | None |
| Higher band, £50,271 to £125,140 | 35.75% | None |
| Additional band, over £125,140 | 39.35% | None |

Source: GOV.UK, Tax on dividends and Income Tax rates and bands, 2026/27. Dividend rates rose by 2 percentage points in the basic and higher bands from 6 April 2026.

Corporation Tax comes first

Before any dividend, the company pays Corporation Tax on its profit: **19%** on profits up to **£50,000**, and **25%** on profits over **£250,000**, with marginal relief tapering the rate between the two. Salary and employer pension contributions are deducted first, so they cut the profit that is taxed.



A DIVIDEND NEEDS PROFIT BEHIND IT

A dividend can only be paid from available retained, post-tax profit, with a board minute and a dividend voucher. Pay one when the profit is not there and HMRC can recharacterise it as salary or a director's loan, with tax to match.

02 HOW MUCH SALARY

The salary level: it depends who else is on the payroll

Salary is deductible and preserves your State Pension, but above a low threshold the company starts paying employer National Insurance. Whether you can offset that decides the ideal salary, and it splits directors into two camps.

Above the **£5,000** secondary threshold, the company pays employer National Insurance at **15%** on the salary. The **£10,500** Employment Allowance can wipe that out, but **not** for a single-director company where the director is the only person paid above the threshold. So a sole director and a company with two or more paid people optimise differently.

👤 Sole director, no other staff

No Employment Allowance. A salary of **£12,570** still usually wins: the 15% employer NI on the slice above £5,000 (about **£1,136**) is deductible and is comfortably outweighed by using the full personal allowance and the State Pension credit. Some directors instead cap salary at £5,000 to avoid all employer NI.

✓ Two or more paid people

The **£10,500** Employment Allowance is available, so the company can offset the employer NI on a **£12,570** salary in full. A £12,570 salary is then clearly the better choice: maximum deductible pay, full personal allowance used, and no net employer NI cost.

| SALARY CHOICE (SOLE DIRECTOR) | EMPLOYER NI | TRADE-OFF |
|-------------------------------|---------------------|---|
| £5,000 | £0 | No employer NI, but £7,570 of personal allowance left unused |
| £12,570 | £1,136 (deductible) | Full allowance used, State Pension credit, NI cost outweighed |
| Above £12,570 | Rising | Employee NI at 8% kicks in, salary now taxed more than a dividend |

Source: GOV.UK, Rates and thresholds for employers 2026 to 2027, and Employment Allowance guidance. Employer NI is 15% on pay above the £5,000 secondary threshold; single-director companies cannot claim the Employment Allowance.



WHY SALARY STOPS AT THE PERSONAL ALLOWANCE

Push salary above **£12,570** and you start paying employee National Insurance at **8%** on top of the 15% employer NI, while a dividend on the same money pays just 10.75% and no NI. That is the tipping point where dividends take over.



SALARY STILL EARNS ITS KEEP

Even with the employer NI cost, a salary up to the allowance protects your **State Pension** record, reduces Corporation Tax pound for pound, and lets you make pension contributions and claim certain reliefs. Do not drop it to zero just to dodge a small NI bill.

03 REAL NUMBERS

Worked examples: the sums at £30k and £60k profit

A sole director, no other income, taking a £12,570 salary and drawing the rest as dividends. Profit means company profit before the director’s salary. Follow the layers from profit to take-home pay.

 Profit £30,000 · salary £12,570 plus dividends

| | |
|--|-----------|
| Company profit before salary | £30,000 |
| Less salary (£12,570) and employer NI (£1,136) | – £13,706 |
| Taxable profit | £16,294 |
| Corporation Tax at 19% | – £3,096 |
| Dividends available to draw | £13,199 |
| Dividend tax (£500 at 0%, rest at 10.75%) | – £1,365 |
| Income Tax and employee NI on salary | £0 |

Take-home pay **£24,403**

 Profit £60,000 · salary £12,570 plus dividends

| | |
|---|-----------|
| Company profit before salary | £60,000 |
| Less salary (£12,570) and employer NI (£1,136) | – £13,706 |
| Taxable profit | £46,294 |
| Corporation Tax at 19% | – £8,796 |
| Dividends available to draw | £37,499 |
| Dividend tax (mostly within the basic band at 10.75%) | – £3,977 |
| Income Tax and employee NI on salary | £0 |

Take-home pay **£46,091**

 THE SAME £60K TAKEN AS ALL SALARY

Drawn entirely as a salary, £60,000 of profit leaves about **£41,197** in your pocket after employer NI, Income Tax and employee NI. The salary-plus-dividend mix above keeps roughly **£4,900 more** for the same profit, because the dividend layer pays no National Insurance.

03 REAL NUMBERS

And at £100k profit, where the higher band bites

The same sole director on £100,000 of profit. Now the dividends spill past £50,270 of total income, so the slice in the higher band is taxed at 35.75% rather than 10.75%. That is where leaving profit in starts to look attractive.



Profit £100,000 · salary £12,570 plus dividends

| | |
|--|------------------|
| Company profit before salary | £100,000 |
| Less salary (£12,570) and employer NI (£1,136) | - £13,706 |
| Taxable profit | £86,294 |
| Corporation Tax (marginal relief, about 22.2%) | - £19,118 |
| Dividends available to draw | £67,176 |
| Dividend tax: £37,200 at 10.75% plus £29,476 at 35.75% | - £14,537 |
| Income Tax and employee NI on salary | £0 |
| Take-home pay | £65,210 |

The pattern across the three levels

| PROFIT BEFORE SALARY | TOTAL TAX AND NI | TAKE-HOME |
|---|---------------------|----------------------|
| £30,000 | £5,597 (about 19%) | £24,403 |
| £60,000 | £13,909 (about 23%) | £46,091 |
| £100,000 | £34,790 (about 35%) | £65,210 |
| Effective tax rate climbs as dividends reach the higher band | | Sole director |

Illustration: sole director, no other income, £12,570 salary, all post-tax profit drawn as dividends. Figures rounded. Corporation Tax above £50,000 uses marginal relief. Verify against GOV.UK for your own position.



THE HIGHER BAND IS THE TURNING POINT

At £100k, every dividend pound above £50,270 of income is taxed at **35.75%**. Drawing all of it is rarely the best move: if you do not need the cash now, leaving it in the company (taxed only at Corporation Tax) or paying it into a pension usually beats it. See the next page.

04 BEYOND DRAWING IT ALL

The bigger picture: do not draw what you do not need

Salary plus dividends is the right frame, but the genuinely efficient answer often draws less, not more. After the dividend-rate rise, leaving profit in the company or routing it into a pension frequently beats taking everything, especially at higher profits.

Leave profit in the company

Profit you do not draw is taxed only at Corporation Tax (19% up to £50,000). No dividend tax until you take it. You can draw it in a later, lower-income year, use it to fund the business, or one day extract it as capital on a solvent wind-up, potentially at far lower rates.

Pay into a pension instead

An employer pension contribution is deductible for Corporation Tax, carries **no National Insurance**, and is not taxed as your income now. It moves company profit into your pension almost untouched, within the **£60,000** annual allowance plus up to three years of carry forward.

£100k profit · £20,000 to a pension instead of dividends

| | |
|--|----------------|
| Of the £100,000 profit, route £20,000 to a pension | £20,000 |
| Corporation Tax saved on that £20,000 (at 19%) | £3,800 |
| Dividend tax avoided on the same money (35.75% band) | £5,720 |
| Into the pension, untouched by Income Tax or NI now | £20,000 |

Tax deferred or saved versus drawing it

about £9,500

A SIMPLE RULE OF THUMB

Draw the salary, draw enough dividends to live on and to use up your basic band, then think hard before drawing into the higher band. Pension and retained profit are usually the better home for the rest, particularly once dividends are taxed at 35.75%.

IT IS A YEARLY DECISION, NOT A FIXED RULE

The best mix shifts with your profit, your other income, whether a spouse is a shareholder, and your plans for the cash. Review it every year as part of your year-end planning, not once and forget.

05 WORK IT THROUGH

Your pay mix checklist

Print this page and tick along before you set your pay for the year. It walks you through the salary level, the dividend layer and the bigger-picture options, in the order a good accountant would.

Set the salary

- Confirm whether you are a **sole director** or have two-plus paid people
- If two-plus paid, check you can claim the **£10,500 Employment Allowance** CHECK
- Set salary at **£12,570** to use the full personal allowance MOST CASES
- Confirm the salary keeps your **State Pension** year qualifying
- Budget for **employer NI** of about £1,136 if a sole director

Plan the dividends

- Confirm there is enough **retained, post-tax profit** to cover them
- Use the **£500** dividend allowance (taxed at 0%)
- Note how much room is left in your **basic band** to £50,270 10.75%
- Decide how much, if any, to draw into the **higher band** 35.75%
- Prepare a **board minute** and **dividend voucher** for each payment

The bigger picture

- Decide what you actually **need to draw** this year, not the maximum
- Consider an **employer pension** contribution for surplus profit HIGH VALUE
- Consider **leaving profit in** the company for a lower-income year
- Check the **£60,000** pension annual allowance and carry forward
- If a spouse genuinely helps, review them as a **shareholder or employee**

Records and review

- Keep **payslips** and run salary through **PAYE** correctly
- File **dividend paperwork** with the date and amount of each payment
- Watch your **director's loan account** stays in credit
- Re-run the split **every year** as profit and income change YEARLY
- Have it **reviewed** before year-end, while you can still act



BRING THIS TO YOUR REVIEW

Fill in what applies, then book the free pay review on the next page. We will model your exact salary and dividend split against your real numbers and tell you, in plain English, what the most efficient mix is for you.



— FREE PAY REVIEW FOR DIRECTORS

Find your most efficient **pay split**

Book a free, no-obligation pay review and a CIMA-qualified accountant will model your exact salary and dividend mix against your real numbers, factor in pensions and retained profit, and tell you in plain English what the efficient split is for you.

- ✓ Your optimal salary level, with or without the Employment Allowance
- ✓ How much to draw as dividends, and how much is better left in or pensioned
- ✓ A clear, plain-English plan you can act on before your year-end

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

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

★★★★★ **4.9** on Google · 56 reviews



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About this guide. Reviewed by Harvey Dhillon, ACMA CGMA. Figures verified against GOV.UK for the 2026/27 tax year. Worked examples assume a sole director with no other income and all post-tax profit drawn as dividends; your position may differ. This guide is general information, not advice for your specific circumstances; rates and thresholds can change. Always confirm your position with a qualified accountant before acting. © Zmartly 2026.