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Salary vs Dividends 2026/27

The owner-director pay playbook for 2026/27. A small salary, dividends with no National Insurance, and the split that leaves the most in your pocket, with worked numbers at three profit levels.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **14 April 2026** · Sources: gov.uk

PERSONAL ALLOWANCE	DIVIDEND ALLOWANCE	DIVIDEND TAX	CORPORATION TAX	EMPLOYER'S NIC
£12,570	£500	10.75% · 35.75% · 39.35%	19% – 25%	15% over £5,000

01 The short answer: 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 advice may now be slightly off.

GOOD TO KNOW
A salary around the personal allowance, then dividends from post-tax profit, is the starting point for most owner-directors.

02 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 up to the personal allowance pays no Income Tax and is a deductible company cost
- Dividends are paid from profit the company has already paid Corporation Tax on, with no National Insurance
- Corporation Tax comes first: 19% up to £50,000, rising towards 25% above that through marginal relief

GOOD TO KNOW
A dividend can only be paid from available retained, post-tax profit, with a board minute and a dividend voucher.

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

Salary is deductible and preserves your State Pension, but above the £5,000 secondary threshold the company pays employer National Insurance at 15%. 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.

- Sole director: a £12,570 salary usually still wins, the deductible employer NI is outweighed by the full allowance and State Pension credit
- Two or more paid people: the Employment Allowance covers the employer NI, so £12,570 is clearly best
- Push salary above £12,570 and employee NI at 8% starts, while a dividend on the same money pays just 10.75%

GOOD TO KNOW
Even with the employer NI cost, a salary up to the allowance protects your State Pension and cuts Corporation Tax pound for pound.

04 Worked examples at £30k, £60k and £100k of profit

A sole director, no other income, taking a £12,570 salary and drawing the rest as dividends. At £30,000 profit the take-home is about £24,403; at £60,000 it is about £46,091. At £100,000 the dividends spill into the higher band, taxed at 35.75%: total tax and NI of about £34,790 (including £14,537 of dividend tax) leaves a take-home of about £65,210.

- Taken entirely as salary, £60,000 of profit leaves about £41,197, so the mix keeps roughly £4,900 more
- At £100,000, every dividend pound above £50,270 of income is taxed at 35.75%
- Figures are illustrations for a sole director with all profit drawn, verify your own position against GOV.UK

GOOD TO KNOW
The higher band is the turning point: once dividends reach 35.75%, drawing everything is rarely the best move.

05 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.

- Profit you do not draw is taxed only at Corporation Tax, with no dividend tax until you take it
- An employer pension contribution is deductible, carries no National Insurance, and is not taxed as your income now
- The £60,000 pension annual allowance, plus up to three years of carry forward, gives plenty of room

GOOD TO KNOW
Draw the salary, draw enough dividends to use your basic band, then think hard before drawing into the higher band.

Common questions

Is it better to take salary or dividends in 2026/27?

For most owner-directors a small salary up to the personal allowance plus dividends is more efficient than salary alone, because dividends carry no National Insurance and are taxed at lower rates. The best split depends on your total income, so model it on your own figures.

How much dividend tax would I pay on £100,000 of profit?

For a sole director on a £12,570 salary drawing all the post-tax profit, the dividend tax works out at about £14,537 (£37,200 in the basic band at 10.75% plus £29,476 in the higher band at 35.75%), leaving a take-home of around £65,210.

Do I pay National Insurance on dividends?

No. Dividends are not subject to National Insurance, which is a large part of why a salary-plus-dividend mix usually beats a salary alone.

Should I always draw all my profit?

Not necessarily. Leaving profit in the company or paying it into a pension can be more efficient than drawing it, especially once dividends reach the higher band at 35.75%. Review the mix every year before your year-end.

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For guidance only — this factsheet does not constitute professional advice and is not a substitute for advice based on your specific circumstances. Whilst every care has been taken in its preparation, it may contain errors for which we cannot be responsible. Figures are for the 2026/27 UK tax year (England, Wales & Northern Ireland) and may change. Scottish taxpayers face different income tax rates; dividend rates are UK-wide. Last reviewed 14 April 2026.

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