

# Salary vs Dividends for Directors

Most director-shareholders take a low salary topped up with dividends. This factsheet explains why, how each is taxed in 2025/26, and why the right mix always depends on your own numbers.

Tax year **2025/26** · Reviewed by **Kiran Boparai** · Last reviewed **6 June 2026** · Sources: gov.uk

PERSONAL ALLOWANCE	DIVIDEND TAX	DIVIDEND ALLOWANCE	EMPLOYER'S NIC	CORPORATION TAX
<b>£12,570</b>	<b>8.75% · 33.75%</b> <b>· 39.35%</b>	<b>£500</b>	<b>15% over</b> <b>£5,000</b>	<b>19% – 25%</b>

## 01 Why directors split their pay

As a shareholding director you can choose how to extract profit, and the tax treatment of salary and dividends is very different. Combining a modest salary with dividends usually leaves more in your pocket than salary alone.

- i** Salary is a business cost that reduces Corporation Tax; dividends are paid from profit after Corporation Tax.

## 02 The low-salary strategy

A common approach is a salary up to the £12,570 personal allowance, so it is free of Income Tax. Employee National Insurance starts above the relevant threshold, and a salary at this level still counts towards your State Pension record.

- Salary up to £12,570 uses your tax-free personal allowance
- Employee NIC applies at 8%, then 2% on higher earnings
- Salary is deductible against Corporation Tax

## 03 How dividends are taxed

Dividends carry their own lower rates and pay no National Insurance, but can only be paid from retained, post-tax profit with proper paperwork. The first £500 falls within the dividend allowance.

- £500 dividend allowance, taxed at 0%
- Then 8.75%, 33.75% and 39.35% across the tax bands
- Must come from retained profit, with board minutes and a voucher

## 04 Try it on your own numbers

The best split shifts with your profit, other income and goals, so there is no single right answer. Use the calculator below to test different salary and dividend mixes against your own figures.

- i** Treat the result as a starting point, then refine it with advice for your specific situation.

## 05 Employer NIC and pensions

Employer National Insurance is charged at 15% on salary above £5,000, which affects how high a salary is worthwhile. Employer pension contributions are an efficient alternative, as they are deductible for Corporation Tax and carry no NIC.

- Employer NIC: 15% on pay above £5,000
- Employer pension contributions are Corporation Tax deductible
- Pensions can extract profit without Income Tax or NIC now

## 06 It depends on your numbers

Corporation Tax of 19% up to £50,000 (and 25% above £250,000, with marginal relief between) interacts with your dividend rates, so the optimal mix is personal. Other income, profit levels and pension plans all move the answer.

- i** There is no universal best salary; the right figure balances NIC, Corporation Tax and your dividend rate together.

## Common questions

### Can I pay myself a dividend if the company made a loss?

Only if there are sufficient retained profits. Dividends must be paid from accumulated post-tax profit, so paying one without it can be unlawful and reclassified by HMRC.

### Why not just take all my pay as dividends?

A small salary helps preserve your State Pension record and uses your personal allowance, and salary is deductible for Corporation Tax while dividends are not. A blend usually beats either extreme.

### Do I pay National Insurance on dividends?

No. Dividends are free of National Insurance, which is a large part of why they are tax-efficient compared with extra salary.

#### NEXT STEP

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