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ZMARTLY FACTSHEET SERIES

COMPANY DIRECTORS

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 2026/27, and why the right mix always depends on your own numbers.

Tax year **2026/27** · Prepared by **Harvey Dhillon** · Last reviewed **28 November 2025** · Sources: gov.uk

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

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.

GOOD TO KNOW
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 10.75%, 35.75% and 39.35% across the tax bands
- Must come from retained profit, with board minutes and a voucher

04 Try the salary vs dividends calculator

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

GOOD TO KNOW
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.

GOOD TO KNOW
There is no universal best salary; the right figure balances NIC, Corporation Tax and your dividend rate together.

Common questions

Is it better to take dividends vs salary?

For most director-shareholders the dividends vs salary answer is "both": a small salary up to your personal allowance, topped up with dividends. Dividends pay no National Insurance and carry lower rates, while a salary preserves your State Pension record and is deductible for Corporation Tax. Test your own split with the calculator above.

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.

Is there a tax calculator for salary and dividends?

Yes. The salary and dividends tax calculator above lets you model different salary versus dividends combinations against your own profit, so you can see the take-home and total tax for each mix before you decide. Treat it as a starting point, then refine the result with advice for your situation.

NEXT STEP

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Book a free 30-minute Tax Health Check — we review your situation, sense-check the figures and show you where you could save.

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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 28 November 2025.

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