

TAX PLANNING FOR DIRECTORS 2014/15

This article considers tax efficient remuneration planning and assumes no additional income from investments etc.

INCOME TAX AND NATIONAL INSURANCE

If your company is relatively new or you've only previously taken your remuneration through salary, then with the right level of remuneration split between salary and dividend it's possible to:-

- Avoid any Income Tax or NIC for a shareholder director
- Achieve a state pension credit for the director at no extra cost
- Leave profits in the company which can be taxed at a rate of 10% (via capital gains tax) when and if the director sells their shares or the company ceases trading.

SALARY

If you take a salary of £7,956 (2014/15) no NIC charge will be triggered, neither employee nor employer, but you will qualify for a credit towards state pension. The salary will qualify as a deduction for corporation tax purposes and reduce corporation tax by £1,591.

DIVIDENDS

Your company doesn't gain anything by paying dividends as they are not deductible for corporation tax purposes. However assuming you have no other income e.g. from pensions or investments including bank/B. Society deposits, then as a director shareholder you can take £30,518 in dividends as well as the £7,956 salary above without triggering any tax. This gives a total net income of £38,474 (£30,518 + £7,956). Spouses and unmarried partners, provided both are director shareholders, can take £38,474 each giving a total income of £76,948.

(This is all possible because at this level of income you are utilising your £10,000 personal allowance and 20% tax band in which dividends are taxed at 10% but you receive a 10% notional dividend credit in recognition of the fact that dividends come from profits that have already been taxed)

SETTING YOUR REMUNERATION PACKAGE FOR 2014/15

Tax allowances,
National Insurance
thresholds and Income
Tax bands have now
been confirmed for tax
year 2014/15, making
it possible to calculate
the optimum levels of
salary and dividends
for tax efficiency.



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