What is the most tax efficient way to pay myself as a Director of a Ltd Company? 2020/21

- The most tax efficient way for your ltd company to pay you as a Director is through a combination of dividends and salary.
- Both employers and employees must pay National Insurance (NI).
- The point at which employees start paying NI (the primary threshold) is £9,500 per year.
- The point at which employers start paying NI (the secondary threshold) is £8,788 per year.
- Whilst a Director is technically an employee of the company, if they were to take a salary of £9,550 (for instance) then the business would have to pay Employer's NICs (National Insurance Contributions) and the Director would have to pay Employee's NI. So if you're a sole director, you'd effectively be paying National Insurance twice on the same money

Sole Directors
If you're a sole director with no employees, then the optimum salary would be £8,788 per annum. The puts you above the Lower Earnings Limit for Class 1 NI (so you'll still be paying into your state pension) but below the Primary and Secondary Thresholds, so you won't actually be paying any National Insurance.

Two or more Directors
If there are two or more of you on the payroll (including any employees) then you'll be entitled to claim the Employment Allowance of up to £4,000 to cover the costs of Employers' NI.
The most efficient salary to take in this instance would be £9,500 for each of you- and you won't incur any NI costs at all.

But that's not enough to live off!
Claiming a salary of £8,788 or £9,500 probably won't be enough for you to live off. The remainder of the money that you take out of the business would be declared as dividends. This is because the first £2,000 of dividends is tax free (called a dividend allowance) and it doesn't affect your personal allowance.
Therefore, you'd effectively take home £14,500 without paying any tax (i.e. salary of £9,500 plus dividends £5,000 (£14,500) less personal allowance £12,500 less dividend allowance £2,000 (£14,500))

The next £35,500 of dividends would then be taxed at 7.5%, then 32.5% and 38.1% after that (depending on whether you're a higher or additional rate tax payer)

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