



# Guide to director payroll

Many business owners set up limited companies as a tax efficient mechanism to generate income. They hear that a combination of dividends and payroll is beneficial. If like many, you're not sure whether and how to run payroll, then you're not alone. We are frequently asked questions about payroll, when and how to get paid and importantly how much to pay yourself. I've produced this simple guide to help.

- **Do I need to run payroll for myself as a Company Director?**

If you run a limited company then you should consider running payroll for yourself in order to take advantage of your tax free allowance of £11000 per year. You may have heard that dividends are a good way of drawing money from your company as they are tax free, however you would have already paid corporation tax at 20% on that money so to take the figure of £11000 as a dividend would make you financially worse off. For example in order to give you a dividend of £11000 the company would have to make nearly £14000 in profits before tax. Taking the same earnings as a salary would mean an annual saving of over £2600 in tax per shareholder/ director. You could then consider taking a dividend after you have paid yourself your salary in order to top up your earnings and be more tax efficient. See our '5 steps to Dividend Income' for more guidance on this subject.

- **Can I run payroll once a year?**

Yes but!!! If you need money each month then it needs to be allocated correctly e.g. salary, dividends, expense reimbursement or loan repayment. Getting this wrong can lead to all of it being treated as a salary generating a major tax bill for you.

- **Do I need a payslip?**

Yes you will need to have a payslip as proof of your earnings for your tax free allowance.

- **How much should I pay myself?**

Ideally you'll want to use your tax free annual allowance but this may not always be the best option. I can calculate the most beneficial salary based on your personal circumstances. I will also consider the impact on your state pension entitlement.

- **I've just come out of employment to start my business – when should I start running payroll?**

Payroll offers the best strategy to allow you to earn your tax free annual income in the most tax efficient manner. If you've already earned this through employment it's likely you could benefit from delaying running payroll. Remember if you have other sources of income such as pensions and investments these will all count towards your tax free allowance.

At Inca we operate payroll for a number of our clients. As part of this service we guide you to the most tax efficient director's salary to draw each month whilst also running traditional payroll for your employees. In order to save you time and worry we'll also guide you as to when and how much needs to be paid to HMRC each month, handle new starters, leavers and all the year-end filing. Our payroll services operate on standard fees all quoted in advance so there are no surprises.



To learn more about Inca's small business payroll solutions please call me, Jo Berry on 01235 868888.



*where it's more than  
just the numbers*