LKA GUIDE

Optimum limited company director salary and dividends 2025/26

LKA

This Essentials Guide outlines the most tax efficient salary and dividend structure for director/shareholders for the 2025/26 tax year (6th April 2025 to 5th April 2026).

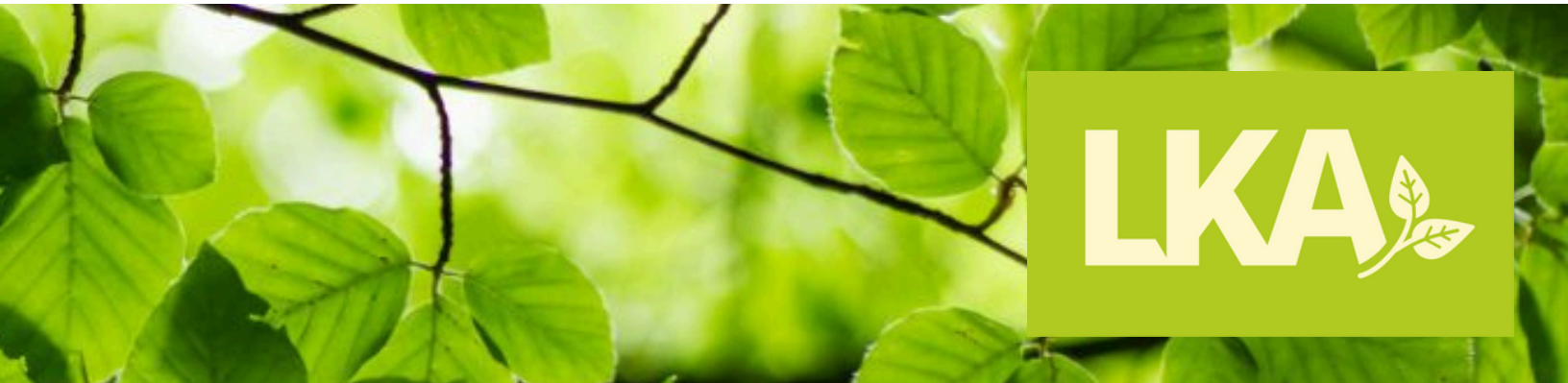
Why should I pay myself through a payroll?

We recommend having a payroll scheme and running a salary because:

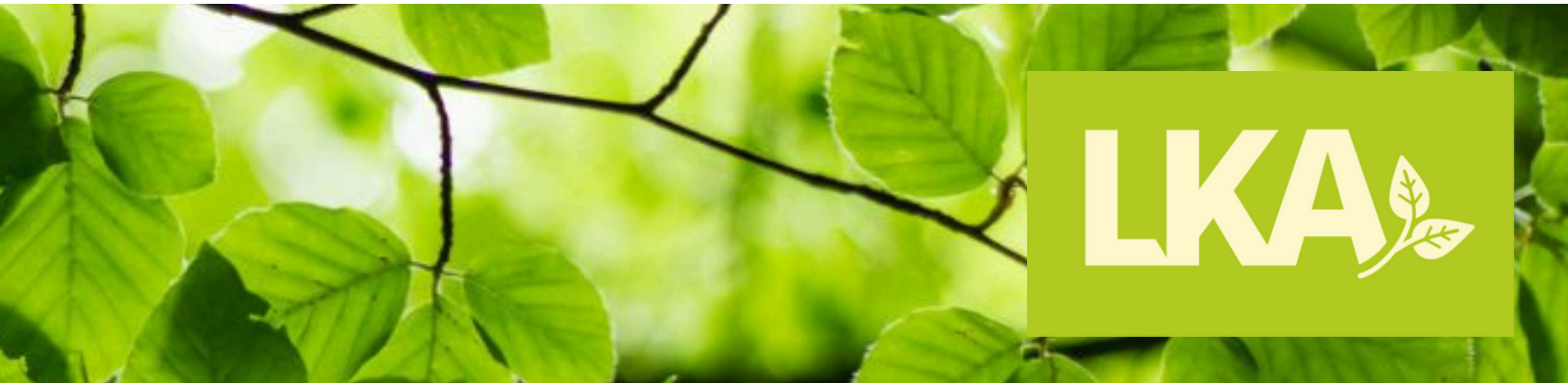
- A salary is a tax allowable cost for the business, so corporation tax is saved.
- You will earn a qualifying year for state pension and other benefits (providing we run a salary above the lower earnings limit).
- If you have no other sources of income, this salary would fall into your tax-free allowance, so therefore would not be subject to income tax.

Why are you receiving this guide?

As a director/shareholder of a limited company, you can decide how to pay yourself in the most tax efficient way. In previous years there has been a relatively straightforward option known as the ‘low salary / high dividend strategy’ (being an annual PAYE salary plus dividends up to either £50k or £100k).



	£50,270		£100,000	
	Income	Tax	Income	Tax
Payroll	12,570	-	12,570	-
Dividends @ 0%	500	-	500	-
Dividends @ 8.75%	37,200	3,255	37,200	3,255
Dividends @ 33.75%	-	-	49,730	16,784
Total income	**50,270**	**3,255**	**100,000**	**20,039**

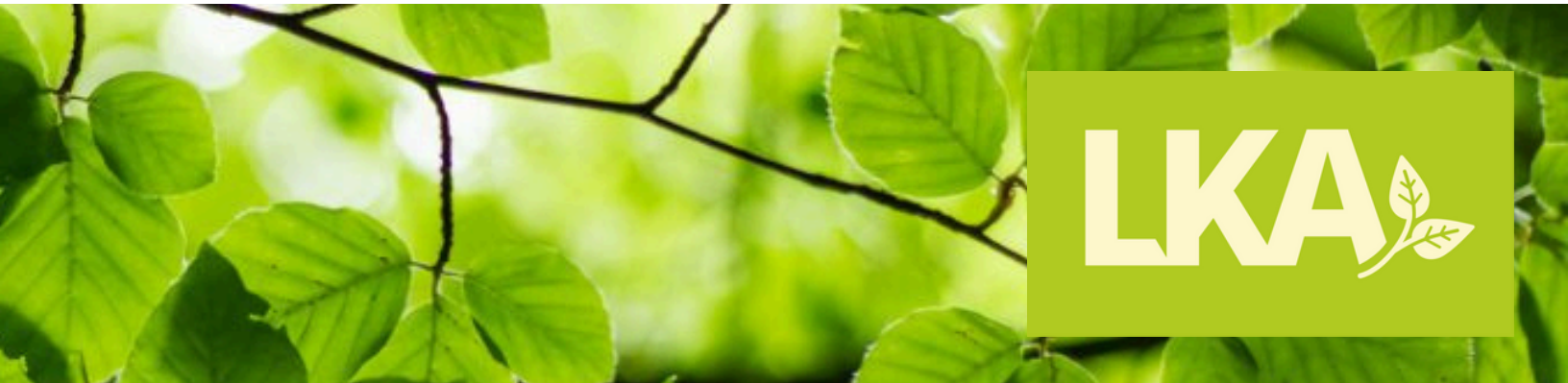


The government announced in the Autumn Budget 2024 that the Employer National Insurance Contribution (NIC) rate will increase from 13.8% to 15% from April 2025, and the threshold will drop from £9,100 to £5,000. This means that employers will pay NIC on employees' earnings above £5,000 at 15%. The Employment Allowance was also increased from £5,000 to £10,500. This allows eligible employers to reduce their annual National Insurance liability. Note that Employment Allowance is not available to employers with only 1 director on the payroll.

As a reminder, PAYE salary may be liable to national insurance and higher income tax rates than dividends, but salary is a tax-deductible expense for the limited company (so saves corporation tax). Dividends do not carry any national insurance liability and benefit from lower income tax rates but cannot be treated as tax-deductible expenses for the limited company.

What should I do?

For the tax year 2025/26, we would recommend that those who have previously operated a low salary / high dividend strategy, continue doing the same as this will maintain a similar net income for you personally as in previous years.



However, since the introduction of marginal relief for corporation tax, when considering the company corporation tax position (depending on profits) the low salary / high dividend strategy is no longer guaranteed to be the most tax-efficient strategy overall. For example, in some cases the overall net position between company and individual can be improved using a high salary/low dividend strategy, but it should be noted that in these cases LKA would not as standard recommend this course of action as your individual net income will reduce considerably.

What will I be paid in 2025/26?

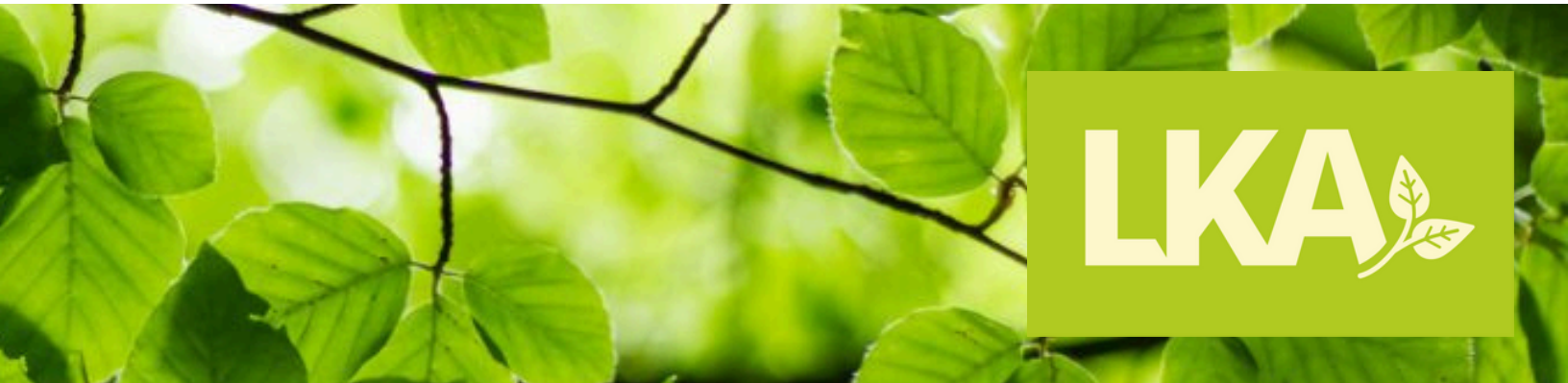
If you are a director with no other income from outside your company, you should look to pay the optimum directors' salary of £12,570. Any additional income should be paid as dividends.

Why do I want a qualifying year?

To get the full basic State Pension you need a certain number of qualifying years of National Insurance. This is currently 35 years. In order to get a qualifying year in 2025/26, one or more of the following applies:

- You are working and have an annual salary of above £6,500 (the lower earnings limit)
- You get National Insurance credits, for example you are unemployed, sick, or a parent/carer
- You pay voluntary National Insurance contributions

We recommend after the end of each tax year that you log in to your Government Gateway account (https://www.gov.uk/check-national-insurance-record) to check your National Insurance record to ensure there are no gaps in your contributions.

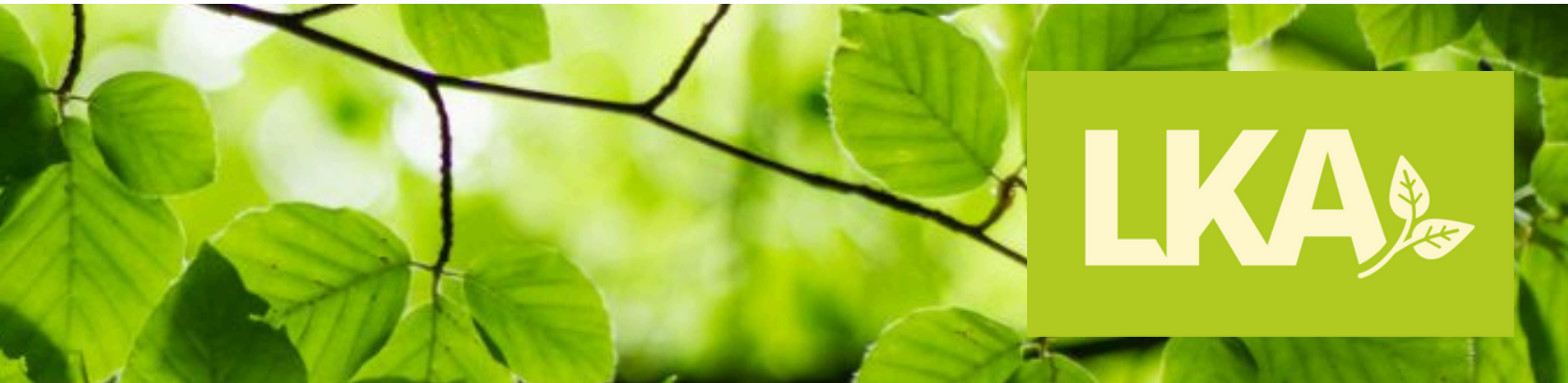


Who should seek additional advice?

There are some circumstances where the strategy above may not be right for you. If any of the following apply, we would recommend getting in touch:

- You are a director but have income from another source outside of your limited company (i.e. rental income).
- How much tax you pay or save across the combination of your company and you personally is more important than what you personally take home in cash, and you can afford to sacrifice personal take-home pay for the benefit of the company tax position.
- You are already drawing more cash than you need to fund your lifestyle.
- You are planning on drawing between £100,000 and £125,000 of income from your company.
- You have income of over £50,000 from other sources.

If you have any queries please do not hesitate to contact us. Call us on **020 3915 8585** or **email us**.



Appendix
2025/26 Tax Rates

Income Tax

Income	Tax Rate
£0-12,570	0%
£12,571-50,270	20%
£50,271-125,140	40%
£125,140+	45%

Dividend Tax

Dividends	Tax Rate
£0-500	0%
£501-50,270	8.75%
£50,271-125,140	33.75%
£125,140+	39.35%

Corporation Tax

Company Profits	Tax Rate
<£50,000	19%
£50,001-250,000	Marginal relief *
£250,000+	25%

*Companies with profits between £50,000 and £250,000 will pay tax at the main rate reduced by a marginal relief providing a gradual increase in the effective Corporation Tax rate. This means it will be a rate between 19-25%.