What is the best way to take remuneration or earnings from my limited company?

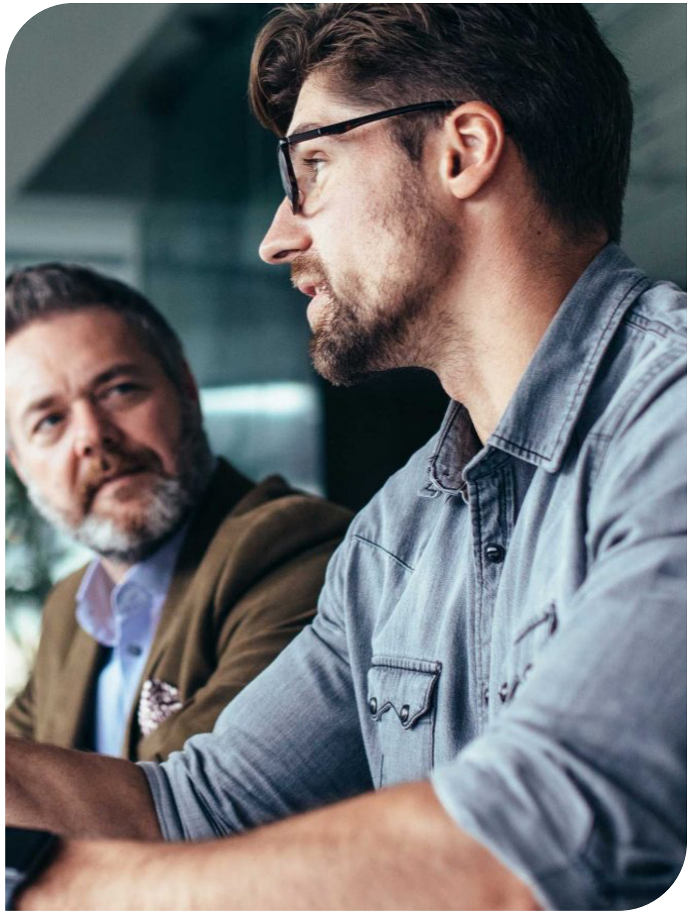
For a limited company where the owners are both the directors and shareholders, the most common way of taking remuneration (or earnings) is via a combination of both payroll and dividends.

Each director will obviously need to become an employee of the limited company to be able to follow this structure (although generally they will be able to ‘opt out’ of the statutory pension requirements).

Typically each individual takes remuneration as follows:

> a basic salary that uses up their annual tax-free allowance for that tax year.

> voting of dividends, which in the first instance will use up the available dividend tax free allowance, and thereafter up to an amount that enables them to maintain their lifestyle (but in many cases aim to keep the individual within the basic rate threshold, where possible).



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Advantages

A combination of both payroll and dividends will be a more tax efficient means of taking remuneration than via payroll alone

Dividends are specifically taxable at a lower tax rate than other income types , the basic, higher and additional tax thresholds

The use of dividends as income for director/shareholders, enables funds which have been paid out as a short-term loan to be repaid.

Disadvantages

The limited company must have an **Employer scheme registration** to have employees

The director/shareholder **must be registered as an employee** to obtain a salary

The limited company must be profitable in order to be able to legally issue dividends to its shareholders

Where there is more than one shareholder in the limited company, then **all shareholders must receive a dividend in proportion to their shareholding** (unless there are different classes of shares in use).

There are some other means of taking 'remuneration' from a limited company which are marginally advantageous, but these are not as useful as salary and dividends and/or bring additional administration or reporting to HMRC in order to utilise e.g. company paying for expenses on behalf of the directors /shareholder, mileage and use of home for business purposes etc.