

PAYING YOURSELF AS A COMPANY DIRECTOR

A guide for your
hospitality
business



A limited company is a distinct legal entity, separate from that of its directors. It is important that directors know the best, and most tax efficient ways to pay themselves...



Paying yourself as a company director

Directors of limited companies have a range of ways they can extract money from their business and it is important to get into good, tax efficient habits as soon as possible.

So, let's look at a few ways.

- Payroll
- Director's loan account and
- Dividends

Payroll

A director is technically an employee of their own limited company, therefore there is nothing to say they can't be paid through payroll the same as their employees.

PROS:

There is a tracked record of consistent earnings. This can be important if the limited company is new, so there are not years of records to show earnings from that company. Many loan or mortgage applications will need evidence of earnings. Payslips do just that.

CONS:

When you pay yourself through payroll, you pay employer's national insurance contributions for yourself.

This can be avoided by paying yourself a minimum amount that keeps you under the threshold to pay this, and then 'top up' to what you need through others ways such as Director's Loan Account'

Director's Loan Account

You can think of the **Director's Loan Account** (DLA) as an imaginary box in your business accounts that tracks the link between the business money and the directors' money.



When you set up a business using your own money, you are effectively '**loaning**' the limited company your money.

Once you've taken that loan back (in a lump sum or bit by bit), the company can technically loan *you* money.

Some people call this money taken from a limited company a **dividend**, *but* a dividend is only possible from profit after tax. So, we'll call this a loan until the end of the year when we all know what profits there are.



Warning:

It is important when starting a new business that you show restraint on what money you take from the business. Your own needs should be factored in at the point of putting together your business plan.

Remember, you might get a great few months but that could be followed by a quieter time, and don't forget those pesky tax bills you need to save for!

Remember: If you owe HMRC tax money, don't take dividends!

So, if the money you're taking out of your company throughout the year **isn't a dividend**, what *is* a dividend and when do you take that? Also, what happens if I take more out of the company than it can afford at the end of the year?

Dividends

A **dividend** is a payment made by a company to its shareholders **from its profits.**

In simple terms, if a company makes a profit after paying all its expenses and taxes, it can choose to distribute some of that profit to the people who own shares in the company.

That payment is called a dividend.

Dividends are not wages or salary. They are a return on ownership. They can only be paid if the company has sufficient retained profits available.

If you have been taking money from your company throughout the year, you have been taking a director's loan (see last page). At the end of the year, if your business made enough profit to cover that amount, you can convert that amount to a dividend.

If your company did not make enough profit, what happens?

1. You pay it back personally.
2. If it is still not paid back after 9 months, your company is taxed 33.75% of the unpaid amount!
3. The director may have to pay more tax personally too, as HMRC views having the money as a taxable benefit.

In summary:

Any money you take from your company (as cash, bank transfer or spending via the company debit card), is treated as the director '*borrowing*' money from the company.

At the end of the financial year, *if* the company has made enough profit to cover that loan, it can be treated as a dividend. If not, then there are serious tax consequences.

Remember, only shareholders get dividends.

