Sloane Walker – Chartered Certified Accountants

Fact sheet 102

Profit Extraction From A Limited Company

So lets imagine that you and your wife run a local business. You both work in the business and are both directors. What is the best way to take your money out of the company, reduce your tax bill and keep as much of your earnings as possible?

Firstly, for the year to 5 April 2010, you should both pay yourself a wage of between £95 and £110 per week. At this level neither you or your company pay any national insurance and you do not pay any tax.

Why between £95 and £110? Well at this rate your earnings count towards your state pension, I know it’s a long way off, but really, we need to think about these things!

Ok so now what? Well next you can each draw a dividend based on the shares you own in the company. Warning, **a dividend can only be taken from after tax profits**, so you can’t take a £200,000 dividend if your business only made after tax profits of £120,000!

So let’s consider how dividends work. A dividend paid by cheque to you of £9,000 is actually a total dividend of £10,000 less a notional (imaginary) 10% tax credit deducted. So what does that mean?

It means that the tax has already been paid on the dividend drawn at a rate of 10%. So if you are a basic rate tax payer there is no more tax due. You keep the £9,000 and no personal tax is due. If your earnings exceed the basic rate limits, then you WILL have extra tax to pay on the dividends.

So show me the numbers....Well assuming you pay yourself a wage of £5,720 (52 wks x £110) then you can pay yourself an actual dividend of up to £34,339 during the 2009/10 and not pay any personal tax, not bad hey!

There are a number of other ways to extract your hard earned profits, including rental payments and also interest.

This simplified guide is not intended to replace the advice of a qualified accountant. Please contact Sloane Walker on 01404 812~~355~~ for further assistance.