Fairhurst

Accounting for your potential

How to pay yourself when setting up your own limited company

There are many things to consider when thinking about setting up your own business. The financial risk involved is a big part of it. It is important that you assess how much money you need per month for essential living expenses, such as mortgage payments, utility bills, food and so on. You may have savings to cover this for the short term but eventually you will need to start paying yourself.

Be realistic about how much you should be earning. This will depend on the sector your business is in and should be based on how much other people in similar positions are paid. If you are unsure then perhaps contact a trade association to see if they can help. It is important to write this figure into your business plan. If it doesn't seem viable then maybe you should reconsider whether to set up on your own as the financial risk may be too high.

Hopefully your business will succeed and once it starts to make a profit then the decision comes whether to pay yourself or to plough it back in the business. Obviously, if your business is your main source of income this is the time that you probably need to start extracting some money out of it to help with your living expenses and to take the pressure off you financially.

A limited company is a separate entity and will have its own assets, liabilities and legal status. The money made belongs to the company and so any payment to you must be made through an appropriate channel. This is either through payroll and taking a regular salary on the PAYE (pay as you earn) system or alternatively through dividends. A mixture of the two is also possible. By paying yourself through PAYE you are classed as an employee as well as a director, so unless there is a written contract between yourself and the company, you don't have to comply with minimum wage rules. The personal allowance for 2018/19 tax year is £11,850, so you can avoid paying income tax on an amount less than this. You will however still be liable for NI contributions if paying yourself above £8,424. There are other things to consider though such as if you receive income from another job or if you can claim Employment Allowance (only possible if you employ another person earning over the NI threshold). Dividends are also subject to tax and the rates differ from PAYE. The dividend allowance means that you don't need to pay tax on the first £2,000 you draw down. After that specific tax bands apply.

It can be a highly complex issue to take money from your company in the most tax efficient manner, taking into consideration tax saving schemes and so on, so we suggest that you speak to an accountant or tax advisor for help and advice.

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