Tax Efficient Extraction of Company Profits

It's your money now how do you get it? You own the company and the company has made profits, can't you just take the money and run? Well not quite! These are the decisions you must make.

Retained Profits

Firstly, the company must have generated enough income after depreciation and tax to enable you to make a payment of a dividend, which can be at any date. If you withdraw more money from the company than it has generated then you could be trading whilst insolvent and, in due course, you will have to pay it back.

Director's Loan Accounts

Any excess drawings will become a director's loan (you have withdrawn more money than you should and therefore owe the money back to the company) and unless that loan is repaid within 9 months of the company's year end, additional corporation tax will be payable at 32.5%. This may later be repayable at the tax due date following the period in which the director loan was repaid in full.

Benefits in Kind on the Director's Loan Account

You will also have to pay tax on any interest you should have paid whilst the company had loaned the money to you. Say, for example, the loan was £10,000 and the official interest rate was 3%, then you would pay income tax at your marginal rate on £300 (£10,000@3%).

The only real way to monitor your director's loan account is to prepare accurate management accounts on a regular basis so any shortfall is spotted immediately. Please contact GreenStones if you have any concerns about this so we can help correct the situation as soon as possible.

Salary Verses Dividends

There are very few reasons now not to extract your profits by way of a small salary (to the National Insurance threshold) and the balance by way of dividends. The payment of a salary at the National Insurance Earnings Limit £8,840 – 2021/22 entitles you to a state pension stamp and it saves the company corporation tax at 19% on curent rates.

In addition to taking the balance above of £8,840 you could also take dividends of £5,730 (2021/22) without incurring income tax by using up your remaining personal allowance and utilising your dividend allowance. If your drawings from the company are between £14,570 and £50,270 you will incur income tax at 7.5%. Any drawings in excess of £50,270 would be taxed at 32.5% plus tax on any other income. So, for example, if you decide to draw salary and dividends totalling £60,000 from the business, your additional personal tax liability would be £5,826.25 plus tax on any other income. The company will, of course, continue to pay corporation tax on net profits at 19% 2021/22.

Depending on other salaries paid by the company, you could save a little tax by taking a salary of £12,570 even though this will incur some national insurance.

We will of course work with you to ensure you receive the optimum split of salary and dividend.

How do I get Paid for using my Car on Company Business?

Most people no longer have a company car as it is more tax efficient to use a personal motor car and charge the company 45p for the first 10,000 business miles and 25p thereafter, all journeys must be for business purposes. Business mileage doesn't include home to a permanent place of business (work). It may be worth asking GreenStones to evaluate whether you should have a company vehicle or not and how you should record any mileage you have completed in your own car if that is the way you decide to go.

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