Profit extraction Ltd

Profits can be extracted from a company in several ways, and each method has different implications. This factsheet provides a helpful summary and quick reference guide for company owners. The appropriate remuneration strategy will vary depending on your circumstances. Several factors must be taken into account to determine the optimal mix of profit extraction methods.

How much do you need to take from the business?
Tax can be at least deferred and, in some circumstances, saved, where some of the funds are left within the company. Once we know how much the director needs after tax, we can work out the most tax-efficient way of getting this to you.

Is the director owed funds by the company?

Some or all of the loan could be repaid tax-free to the individual, or the company could pay interest in respect of the amount borrowed. Interest is tax-deductible for the company and does not give rise to a NICs bill for the company or the individual.

Director's salary.

It is common for a salary in excess of the Class 1 NICs Lower Earnings Limit (£6,396) to be paid. This helps you build entitlement to state benefits. There is no liability to employer's NICs where the salary is £9,100 or less, and no liability to income tax where the salary is £12,570 or less.

Does the company use an asset owned by you?

This is most likely to be land and buildings. Rent could be paid to the individual. Any rent paid is liable to income tax in your personal tax return, but no NICs are due; and for the company, the payment is tax deductible and doesn't give rise to a liability to the employer's NICs.

Do you want to save/invest for the future?

Pension contributions are tax-deductible for the company and tax-free for the individual, subject to meeting certain conditions. A small self-administered pension scheme (SSAS) or Self Invested Personal Pension (SIPP) could be an option for you to consider. SSAS allows for a loan back from the fund to the company so that money contributed can be accessed and used by the business.

Tax Lex LONDON

Basic strategy:

Our goal is to enact a profit extraction strategy that integrates all available methods to fully leverage all available tax bands.

1. Pay dividends in a tax year up to the basic tax band after personal allowance so dividends are taxed at 8.75%, not 33.75% or 39.35%. Where possible split dividends between family members so each person can use personal allowance and lower tax band.

2. Utilize personal allowance as salary and rent income where possible – the company pays rent for using home space (it's essential to consider any potential Capital Gains Tax (CGT) consequences in the future, especially if the company is paying rent for using home space).

3. Retaining profits within the company can help decrease personal income tax liability by keeping personal income within lower tax bands. Additionally, retained profits can be reinvested in the company for growth or used for future distributions.

4. Paying pension contributions directly from the company is a tax-efficient way to save for retirement. These contributions are usually tax-deductible for the company and can help reduce both corporate and personal tax liabilities.

5. Paying interest on the loan to the company to utilize savings allowance and reduce corporation tax.

6. Charging company all allowable expenses before calculating corporation tax (mileage, mobile phone, travel subsistence) to maximize tax efficiency by reducing the taxable income on which corporation tax is levied.