

The optimum directors salary 2022/23 will be £11,908 per annum, which equates to £992 per month or £229 per week. This is the most tax efficient amount for the majority of directors to pay themselves.

Owner managed businesses can typically decide how to pay themselves. This can be either a salary, dividends or a mixture of them both. Directors, which have no other income should look to pay themselves the optimum directors salary of £11,908. Any additional income should be paid as dividends.

### **What is the optimum directors salary 2022/23?**

The optimum directors salary 2022/23 is £11,908 per annum. The reason for this is all down to the National Insurance (NI) rates.

The lower earnings limit for NI in 2022/23 is £6,396 per annum. If you earn over this amount it will count as a qualifying year for your future state pension.

The primary earnings limit for NI in 2022/23 is £11,908 per annum. If your annual salary exceeds this amount you, the employee will need to pay NI contributions.

The secondary earnings limit for NI in 2022/23 is £9,100 per annum. If your annual salary exceeds this amount the employer (your business) will need to pay NI contributions.

The optimum in 2022/23 is to pay £11,908 but not a penny more. This ensures the taxpayer qualifies for the state pension but does not need to pay any employee contributions. Yes, you have read this correctly! You can qualify for a state pension without making any personal NI contributions.

### **Why is it £11,908 and not £12,570 per annum?**

In the Spring Statement held on 23 March 2022, the employees NI primary threshold was increased to match the personal allowance amount of £12,570.

However this was only to commence from 6 July 2022. The earlier months remain at the original amount of £9,880 per annum. As a result, the employees NI threshold is only £11,908 for the tax year 2022/23.

### **Why not pay £nil salary?**

A company can pay a director (who is also a shareholder) through either salaries or dividends.

A salary paid is a tax deductible expense. The company can deduct tax at 19%, which is the current company tax rate.

A dividend paid is not a tax deductible expense for the company.

Therefore paying a salary of £11,908 to the director saves corporation tax of £2,262. There is no such saving if dividends are paid.

Also, by paying a salary of £11,908 you are ensuring another qualifying year for the state pension is added.

### **When is a £nil salary advisable?**

The optimum directors salary 2022/23 should be £11,908 per annum only if the director has tax allowances available.

In situations, where the director has other income such as pension income, another salary, rental income, it may be advisable to pay a £nil salary. Also, if the individual is already at pension age and it is no longer important to have another qualifying year.

Under these circumstances, it is important to seek specialist tax advice, which we can offer. Getting the figures wrong may cost you thousands in extra taxes.

### **Why not pay higher salaries?**

All taxpayers have personal allowances in which they can earn income tax free. As soon as these allowances are used up tax rates are applied.

When income exceeds £11,908 per annum, NI taxes are applied. Also, when the income exceeds £12,570 income taxes are applied.

The NI and income tax rates combined are significantly higher than the dividend tax rate. Even when accounting for the corporation tax reduction on the salaries, paying dividends is still more tax efficient.

### **When to pay more than the optimum directors salary?**

In some certain circumstances it may be advisable to pay in excess of the optimum directors salary.

Should the director have a contract of service they must legally be paid the [national minimum hourly wage](#). This would typically be higher than the £11,908 per annum.

Dividends can only be paid out if the company has profit and loss reserves. If the company has made losses in the past it may not be possible to pay dividends. Higher salaries may be the only option.

### **Why not pay a directors salary of £9,100?**

In previous years we have always recommended optimum salaries up to the secondary threshold, which in 2022/23 is £9,100.

Paying up to the secondary rate avoids PAYE, employees NI and employers NI.

Our recommended optimum salary of £11,908 will be liable to Employers NI but it saves more in corporation tax. The extra employers NI totals £422 (*calculation is £2,808 at 15.05%*) but the corporation tax saved totals £613. (*calculation is £2,808 at 19% + £422 at 19%*).

### **When to pay a directors salary of £9,100?**

Paying the optimum directors salary of £11,908 does incur employers NI of £422. This will need to be paid to HMRC on typically a monthly (£35 per month) or quarterly (£105 per quarter) basis.

Many businesses would rather avoid this extra admin of making regular payments. To avoid making the payments the salary needs to be reduced so that no employers NI is due. To achieve this, the optimum directors salary should be reduced to £9,100.

NOTE: By paying the higher amount of £11,908 the tax saving was only £191 (*calculation is corporation tax £613 – employers NI £422*). Assuming this extra saving is to be paid out as a dividend this reduces down even further to £175 (basic rate taxpayer). Also the payments totalling £422 are payable during the accounting year. However, the corporation tax saving isn't saved until 9 months after the year end. Accounting for this timing difference reduces the £175 saving even further.

As a result, we would expect many sole director businesses to carry on paying the lower amount of £9,100. This avoids the burden of paying HMRC any PAYE or NI liabilities.

### **Can I claim the employment allowance?**

The employment allowance allows a company to reduce their employers NI liability by up to £5,000 per annum. (In 2021/2022 the allowance was £4,000).

Unfortunately the employment allowance is not available to all businesses. A company must have multiple directors or employees to be able to make the claim. Who can [claim the employment allowance](#).

Should an employment allowance claim be available, then the optimum directors salary is £11,908. The employers NI of £422 reduces down to £nil as it is covered by the allowance. The corporation tax saving when compared to a salary of £9,100, would be £533. (*calculation is £2,808 at 19%*).

**The annual optimum directors salary is £11,908 but what is the monthly amount?**

The annual amount is £11,908, which equates to £992 per month.

However the increase in employees NI does not commence until July 2022. As a result the £992 in months 1 to 3 may incur employees NI.

**TOP TIP:**

Ensure that when running the payroll for the directors(s) that the annual calculation for NI is used. The non-annual version is also known as the alternative method. Using the annual method should avoid any employees NI being charged in the earlier months.

If this is not possible, then process the monthly payroll as £823 per month for months 1 to 3. Then in months 4 to 12 process the monthly amount as £1,048. This method should avoid any employees NI being charged on the annual salary.

**What was the optimum directors salary in 2021/22?**

Every year the income tax and NI rates change. As a consequence the optimum directors salary changes every tax year.

The optimum directors salary in 2021/22 was £8,840.

**What was the optimum directors salary in 2020/21?**

The optimum directors salary in 2020/21 was £8,788.

**What was the optimum directors salary in 2019/20?**

The optimum directors salary in 2019/20 was £8,632.

**How to register and file payroll information?**

When directors pay themselves the optimum salary, typically no taxes will be payable to HMRC. However HMRC still require the payroll information to be filed with them.

To do this, the business must register for PAYE. See our blog [How to register as an employer for a step by step guide](#).

### **How to optimise salary and dividends for directors in 2022/23?**

When income exceeds £11,908, dividends are more tax efficient than additional salaries. This is because the dividend tax rates are lower than PAYE & NI tax rates.

Clearly an annual salary of £11,908 is not high enough for most individuals to live off. The additional income is then paid to the director as dividends. We are assuming the director is also a shareholder.

After paying a salary of £11,908, the first £2,662 worth of dividends are tax free. (*Calculation: Personal allowance of £12,570 less salary of £11,908 plus the [dividend allowance of £2,000](#)*).

The director has therefore now earned £14,570 all of which is completely tax free.

The next £35,700 of dividends are taxed at 8.75% (2021/22 rate was 7.5%). This takes us up to the top level of basic rate, which is £50,270 for 2022/23.

Dividend tax rates for higher rate taxpayers are taxed at 33.75% (2021/22 rate was 32.5%) and for additional rate taxpayers it is 39.35% (2021/22 rate was 38.1%).

## **Conclusion – optimum directors salary 2022/23**

The majority of owner managed businesses should pay themselves a salary of £11,908. However, we do expect many sole director businesses to pay the lower amount of £9,100. We then recommend additional income is paid as dividends.

The salary of £11,908 will save the company corporation tax of £2,262.

A director who earns £50,270 through a combination of salary and dividends will pay personal taxes of £3,124. This is therefore an effective tax rate on the £50,270 income of just over 6%.

There are numerous assumptions made when concluding the above figures. The amounts are not suitable for all directors. To calculate your optimum directors salary 2022/23 you must look into your individual circumstances. Contact a Chartered Accountant today on 01388 448208 (Bishop Auckland Accountancy Office) or 01325 508688 (Darlington Accountancy Office) and ensure your tax position is optimised.