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How to pay yourself as a limited company director

Make the most of your self-employed income and find out how to pay yourself as a limited company director, using the right combination of salary and dividends. And how to manage National Insurance contributions, Corporation Tax, pensions, business expenses and Directors' loans.

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Many contractors and freelancers will choose to set up their business as a limited company. There are several reasons for this, the main one being that the business is a separate legal entity. This affords directors more protection from personal financial risk, but can be a little more complicated, so make sure you understand how to pay yourself as a limited company director.

As a director, you can have greater flexibility over how you choose to pay yourself, and potentially reduce your tax payments depending on your situation.

The amount you choose to take from the business, and the ratio of salary to dividends will depend on your personal needs and circumstances. So it's a good idea to have [a personal and business budget plan in place](#). And if it seems daunting, we have a list of some of the [best tools and apps to make budgeting easier](#).

Speaking with an accountant is also a good idea, as they can help you understand whether it's better for you to operate as a sole trader or limited company. But if you want to know what's involved before you meet with them, or aspects of payment get glossed over, this guide will help you know what's involved in paying yourself as a limited company director.

How to withdraw money from a limited company

There are four ways which you can withdraw money from your company's account into your own:

1. Salary
2. Dividend payments
3. Director's loan
4. Reimbursement of expenses



Salary

Most directors will choose to pay themselves a small salary from the business. In order to do this, the company must be registered with HMRC. And you'll need to ensure that any tax, national insurance (both employee and employer) is deducted and paid to HMRC.

The personal allowance is currently set at £12,570 (as of 6 April 2026). This means, providing you have no other relevant income within the tax year, you can draw a salary up to this amount without the need to pay income tax.

The level of tax you pay will depend on which threshold the salary falls into.

If you pay yourself solely in salary you would pay income tax as follows, based on tax rates as of 6 April 2024 (note there would also be national insurance to pay from both the employee & employer)

- First £12,570 at 0%
- Between £12,571 and £50,270 at 20%
- Between £50,271 and £125,140 at 40%
- Over £125,140 at 45%.

There is a deduction of your personal allowance once you earn over £100,000. For every £2 earned over £100,000 each year, you would lose £1 worth of the £12,570 tax-free personal allowance and if you earned over £125,140 you would lose your entire personal allowance.

Please note Scotland has different tax bands and rates, [which you can see here](#).

Depending on the level of your salary, you may be required to pay national insurance both as employee and employer. Please see national insurance contributions later in this guide.

Dividends

If the company makes a profit, then Dividends can be paid from the company to any shareholders.

There is now a Dividend nil rate of taxation applied to the first £500 per annum (as of 6 April 2026).

Thereafter dividends will be taxed as below based on the same thresholds as income above.

- Basic Rate 10.75%
- Higher Rate 35.75%
- Additional Rate 39.35%

The tax paid is based on the overall level of your income, not just dividends. So, if you had received income up to the higher rate tax threshold and then paid yourself a £5,000 dividend. The first £500 would be taxed at 0%, the remaining £4,500 would be subject to the higher rate of 35.75%.

You can find additional details in our article on [how to take dividends from a limited company](#), and via the [UK Govt website](#).

There is no national insurance paid on dividends.

When to issue dividends will depend on individual circumstances and you need to ensure that the company is making a profit before you take them. Dividends can be issued at any point during the year. As a freelancer your monthly income may fluctuate which would make it more challenging when knowing if you can pay dividends. The key is to ensure that you have worked out whether there is profit that you can distribute. It may be necessary to run accounts to ensure that there are available profits. You should keep a record of any dividends taken.

Directors' loans and repayments

If you need to take more money out from your limited company, and can't raise your salary or issue a dividend at the time, then you can withdraw amounts to your personal account as a Directors' Loan.

These will need to be repaid to the business, and there may be interest charged (or a taxable benefit may arise if no interest is paid). The company may also be liable for a 33.75% temporary tax charge (known as a [section 455 charge](#)) if the loan is not repaid by the end of your company's financial year.

If you've previously loaned money to the company from your personal finances, then that loan can also be repaid to you at a convenient date.

It's important to keep track of any Directors' Loans to make sure you're not caught out at the end of the financial year. Otherwise you might find yourself with an unexpected extra tax payment to make, or being required to pay back thousands at short notice.

Your directors loan should be reconciled at the end of the accounting year, money could then be allocated from dividends to pay the loan. If the company can't make these payments then the account is classed as overdrawn. You have 9 months from the end of the accounting period to repay, otherwise you might face a corporation tax penalty of 32.5% of the loan. If the loan is over £10,000 or interest free the HMRC would class this as income with income tax and national insurance implications for the business and the director. Interest will also be charged by HMRC on loan.

HMRC classes Directors' Loans as a high risk area, where it is easy to make errors. Should you be utilising a Directors' Loan account it should be regularly monitored, records kept and you would likely benefit from using an accountant.



Reimbursement of expenses

If you have costs which have been made 'wholly and exclusively' for the purpose of your business, these can be claimed as a legitimate business cost. Therefore, not only will your business receive tax relief on these expenses, but you will also be able to reimburse yourself personally for the cost.

Examples would include

- Travel costs (business miles)
- Business Insurance
- Equipment
- Software costs
- Professional services

This method would not make up a significant portion of your remuneration, but it is important to claim for legitimate expenses due to the tax advantages. If you're working from home, you're also able to claim back the percentage of costs relating purely to business use. Find out [what expenses you can claim working from home, here](#).

What do I need to be aware of as a ltd company business owner when it comes to tax?

Corporation Tax

In addition to the tax that you pay as an individual, the company will also pay tax.

The first thing to note is that any income paid as salary is deducted from company profits so there is no corporation tax to pay on this.

As dividends can only be paid out from profits these are subject to corporation tax paid by the business.

Corporation tax is simply a tax on the profits of an incorporated business i.e. a LTD or a PLC. The current rate for Corporation tax for companies with profits of £250,000 or more is 25%. A Small Profits Rate of 19% exists for companies with profits of £50,000 or less and the main rate is tapered between £50,000 and £250,000. (as of 6 April 2026)

You can deduct the costs of running your business before your profits are calculated, so employee payments (including to the business owner where they are also an employee), employers National Insurance and pension contributions (subject to the wholly and exclusively rule) are allowable deductions.

National Insurance

If you run a limited company, depending on the level of salary you will be required to pay national insurance.

Employers must pay national insurance if the salary paid reaches a certain threshold (there would also potentially be employee national insurance to pay).

The rate can vary based on age and related factors, but most owners can expect their salary to fall into category 'A' - meaning they pay the following rates within the thresholds below.

Employee's salary	Employee's NIC rate (Class 1)
£0 - £12,570	0%
£12,571 - £50,270	8%
Over £50,270	2%



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How can Limited Company Directors benefit financially?

As a limited company director, you have much greater control and choice over how you pay yourself, meaning you can potentially minimise the tax you pay.

A sole trader would be required to take a salary and would be taxed accordingly, whereas a director could take a combination of salary and dividends. Dividends are not subject to national insurance, they are also subject to a lower rate of tax at the basic band of 8.75% compared to 20% income tax. Therefore less tax may be payable.

Unlike salary, dividends can only be paid from profits which are subject to corporation tax. So, when setting your level and thinking about how to pay a Limited Company Director, this needs to be considered.

Setting your wages as a Limited Company Director

Assuming that you are the sole director the most tax efficient salary to pay yourself is £9,100.

- There is no employer national insurance to pay.
- There is no employee national insurance to pay.
- No income tax to pay as under the personal allowance threshold.

Beyond this amount how you should remunerate will depend on your level of earnings you wish to take.

Between £9,100 to £12,570 it's usually best to take a salary. Although you will need to pay national insurance as an employee, there's no obligation for it to be paid by your business as an employer. You will also be under the threshold for income tax, and have no corporation tax to pay - as you are not paying yourself in dividends.

What should I set my directors salary as?

This will depend on your individual circumstances, but assuming you have no other income being paid, it is likely the optimal salary is £12,570.

If your earnings are over £9,100, it means you are required to pay national insurance as an employee but the business is not. But because you are not paying corporation tax on salary, it means you're saving money as the national insurance rate is less than the corporation tax rate.

Should you take a Lower salary?

You are unlikely to want to take a lower salary, due to the fact the salary is tax deductible.

As the salary is tax deductible, this means tax is reduced by corporation tax. If these earnings were paid as dividends, then tax would be due on that amount. By paying a salary of £12,570, this means a corporation tax saving of £2,388 which would have been payable if taken as dividends (for companies with profits of £50,000 or less and subject to the 19% small profits rate of corporation tax).

One reason you may pay a lower salary is to avoid the administrative burden of having to pay HMRC any PAYE or NI liability, even though it is more tax efficient to do. So you may decide it's easier to pay a salary of £9,100 and avoid having to sort the employer NIC.

Why not take a higher salary?

Once you have paid yourself a higher salary and you have used up your personal allowance, then income tax rates and national insurance are applied. These are likely to be higher than the dividend tax rate, even after paying corporation tax. In most cases you would keep your salary lower and pay yourself dividends as it is more tax efficient.

It is important to note that dividends can only be paid if a company has made a profit, so past losses could mean the only way to take more money out of the business is via salary not dividends.

There may also be legal reasons you have to take a higher salary, such as if there is a contract of service meaning you are required to be paid minimum wage.

Employee's annual salary	Employer's NIC rate (Class 1a)
£0 - £9,100	0%
Over £9,100	15%



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This means that for any salary being paid over £9,100 an employer contribution of 15% is levied against the salary.

There are allowances available, so it's worth checking with a tax specialist if you're taking on employees.

What about National Insurance as an Employee?

The annual tax-free threshold is £12,570 before you begin to pay employee's national insurance. However the company would pay national insurance on anything over £9,100.

Other options to consider as a director

Relevant Life Policy

This is a life insurance policy a director could take out via the company to provide a lump sum should they themselves die. This policy is tax deductible meaning it reduces your corporation tax.

Directors of limited companies can enjoy valuable tax benefits if the premiums for life insurance are paid by one company instead of from personal income after tax.

Relevant Life Policies can save you nearly 50% tax compared to an ordinary life policy. It is a tax deductible expense with no National Insurance contributions. This makes it tax efficient for both businesses and employees.

If you are paying life insurance directly from personal income it would be more beneficial for the business to pay it.

Pensions

If you're the director of a limited company, making pension contributions could save you and your company a hefty amount in tax.

When you take a small salary and the rest in dividends (like most directors), the amount of tax relief you receive on pension contributions from the government is likely to be low. This is because dividends don't count as 'relevant UK earnings', so the amount of tax relief you receive is based on your salary.

But paying into your pension straight from the company, your pension contributions will leave a pre-taxed environment and go straight into a tax-free environment. Therefore, no need for tax relief.

'Relevant UK earnings' rule also doesn't apply to company pension contributions, meaning you could contribute the current annual allowance of £60,000 per year into your pension (as of 6 April 2025).

Pension contributions from a company to a director's pension also count as an allowable business expense for corporation tax purposes. This means that your company could receive tax relief and receive a reduced corporation tax bill. Not only that, but your company also doesn't have to pay employer national insurance contributions (currently 15%) on any pension contributions.

For the majority of people you can put £60,000 into a pension per year. However depending on previous contributions you may be able to contribute more. We would recommend you seek professional advice before doing so.

Building your pension can be a great way of extracting profits from the business provided you do not need this as an income and are happy to put into a pension that you can't access until you are older.

The age you can access your pension will depend on your date of birth. It was previously 55 but for most people will now be 57 or 58 based on current rules.



More support and resources for Limited Company Directors

- [How to take dividends from a limited company](#)
- [How to pay yourself as a sole trader](#)
- [Self-employed tax advice](#)
- [Making Tax Digital Guide for the self-employed](#)
- [The best budgeting tools and apps for freelancers](#)
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