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Salary and Dividend - Making the best of your allowances

As the sole owner/director of your company you face a dilemma over how to extract income from that company. If you pay yourself a salary of more than £8,060 per year you will have to pay class 1 NIC at the rate of 12% on the excess pay above that threshold up to £42,385 pa. However, **income tax is not due until your salary tops** £10,600 (the value of your personal allowance for 2015/16).

One solution is to take a salary of up to £8,060 and any further income as dividends of up to £30,892 pa (£34,325 gross including the 10% tax credit). This combination would mean a zero tax and NIC bill, but gives you an NI credit to qualify for the state pension. However, £2,540 of your personal allowance is "wasted" as the 10% dividend tax credit can't be reclaimed when the personal allowance is set against a dividend.

If your spouse receives a salary that exceeds their personal allowance, but does not pay 40% tax another adjustment is possible. You can now transfer £1,060 of your personal allowance to your spouse. This will allow them to save tax of £212 (£1,060 @20%).

However, to avoid you slipping into the 40% tax bracket you must also reduce the level of dividends you take to a maximum of £29,938 (£33,265 gross) for 2015/16. The result is that the family as a whole has the same tax allowances, but the income tax paid has decreased by £212.