

How trading through a Limited Company works

You are Directors

As directors you are entitled to be paid – your salary is normally set at a level to avoid triggering a PAYE or NIC charge (around £758 per month). This will ensure you get a state pension contributory year and get a corporation tax reduction.

You will need a PAYE scheme to pay this salary.

Accounts and Tax Return

You will have to file Accounts with HMRC and Companies House each year. You will also need to file a confirmation statement with Companies House

Personal Tax

As a director you will need to file a personal tax return listing out your sources of income including your salary and dividends from your company.



Corporation Tax

Your Company will pay Corporation Tax, 9 months after your year end. Corporation tax will be between 19-25% depending on the level of profit .

$$\text{Sales Less Costs} = \text{Profit} \times \text{Tax Rate} = \text{Corporation Tax}$$

Your director's salary is a cost to the business which reduces profit and tax. Tax Planning actions can be undertaken to reduce your Corporation Tax.

You are also Shareholders

As shareholders you are entitled to a dividend from the company. This must be paid from profit after tax so if your company is loss making this won't be an option.

Dividends are taxed at a rate of 8.75/33.75/39.35 % after a £1,000 tax free allowance.