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How Should I Structure my Income in 2025/26?

(Published: March 25)

It is well documented that from April 2025, Employers' National Insurance rates and thresholds are set to change. This article explores what is changing, how the changes might affect you and what your options are.

WHAT IS CHANGING?

At present, businesses pay Employers' National Insurance Contributions **(Ers' NIC)** on all employees' wages at the rate of 13.8%. This tax applies to each individual employee where their annual salary exceeds the Secondary Threshold which is £9,100; there is no upper limit where this tax ceases to operate. So, for example, if you employed a student, on a part-time basis, and their total salary for the tax year amounted to £6,000, no Ers' NIC would be payable because the salary does not exceed the secondary threshold. Conversely, if you employed a computer programmer on an annual wage of £80,000, the Ers' NIC charge would be £9,784.20 calculated as (£80,000 - £9,100) x 13.8%.

To remove this tax burden from very small businesses, all businesses that have more than one employee are entitled to claim the Employment Allowance. This exempts each business from paying the first £5,000 of Ers' NIC each year. Therefore, if your Ers' NIC liability was (say) £4,600 then £nil would be payable, whereas if the liability was £13,000, then only £8,000 would be payable, because the first £5,000 is free.

From 6 April 2025, the **Employment Allowance is increasing to £10,500**, the **Ers' NIC rate is increasing to 15%** and the **Secondary Threshold is reducing to £5,000**.

HOW CAN I BE TAX EFFICIENT?

Below are what we believe to be the two most tax efficient ways that a director can pay themselves. Note, we have assumed that the overall remuneration should be kept below the higher rate tax threshold, meaning directors can earn £50,270.

Option 1 – if your company only has one employee (i.e. you), then the business will not qualify for the Employment Allowance, and therefore, you should consider setting your salary at the Lower Earnings Limit of £6,500. At this level, you, the individual, will qualify for National Insurance credits which gives you entitlement to the state pension on retirement. The £43,770 balance of remuneration should be paid as dividends.

Under option 1, the salary of £6,500 is tax free, as is the first £6,070 of dividends because these equal the personal allowance of £12,570 for 2025/26. Then, £37,200 of dividends will be taxed at 8.75%, and the final £500 of dividends are taxed at 0%.

Under this scenario, the director will suffer a personal tax liability of £3,255 on total personal income of £50,270. This is calculated as £37,200 x 8.75%. However, as the salary of £6,500 is more than the

Secondary Threshold, there will be a small Employers' NIC charge, payable by the business of £225, calculated as 15% x £1,500.

Option 2 – if your company employs more than one employee, then it will likely qualify for the Employment Allowance of £10,500 and therefore, you should consider paying yourself a higher salary than under option 1.

You should consider setting your salary at £12,570 where you will qualify for National Insurance credits which will give you entitlement to the state pension on retirement. The balance of remuneration, £37,700, should be paid as dividends.

As the salary is equal to the personal allowance, no tax is payable. With regards to the dividend income, £37,200 will be taxed at 8.75%, so therefore, the personal tax liability for a total income of £50,270 will again be £3,255.

WHICH IS THE BEST OPTION?

As usual, there is no definitive answer, and the best option will depend on individual circumstances. However, all things being equal, option 2 is favorable because whilst the personal tax liability is the same under both options, the company's corporation tax liability will be lower under option 2 because the higher wages will attract more corporation tax relief. The additional wages of £6,070 (£12,570 - £6,500) will attract corporation tax relief of £1,153.30 assuming a corporation tax rate of 19% or £1,517.50 if the corporation tax rate is 25%; where the rate is determined by company profit levels. In addition, there is no National Insurance charge under option 2, unlike in option 1.

A few other things to note, include:

- salary levels may impact the amount of pension payable (employee's and employers') as this is directly linked to gross salary,
- if your business claims for Research and Development, lower director's wage costs may reduce the company's tax credit, and
- if a remuneration package is required of more than £50,270, then under both options 1 and 2, the further dividend tax rates will be the same for each option. Additional dividends up to £100,000 of income will be charged at 33.75% and any dividends beyond that, will be charged tax at 39.35%.

CONTACT US

If you have any queries or need any advice, please do not hesitate to contact us on 0151 228 8977 or email us at advice@jkca.co.uk

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