



Lloyd's Financial Q&A Column

Grantham-based tax and accountancy specialist Lloyd Stubbs gives advice on financial matters to small businesses

How is National Insurance changing for directors?

Q: I am a director and shareholder in my own company. Following the announcement of changes to National Insurance, what is the most tax-efficient method of profit extraction from my company?

A: Profit extraction from an owner-managed company can be complicated and it is always best to speak to your accountant who knows your financial situation and circumstances. Any other income you receive will affect the calculations as will the financial performance of your company. When it comes to looking at the tax-efficiency of directors' pay, many factors should be considered including:

- Dividend allowance
- Employee and employer class 1 National Insurance Contributions (NIC) rate
- Corporation tax rate
- Pension contributions

It is important to take a detailed look, using actual numbers, to work out the most tax-efficient way of paying yourself. It is a balancing method, and the level of salary, bonus and/or dividend will need to be compared to determine the most tax advantageous payment.

It is important to bear in mind that the employment allowance cannot be claimed by companies where the director is the only employee paid above the secondary threshold, and therefore the only person for whom employers' NIC is payable.

A key change announced in the Autumn Budget was an increase in the rate of NIC paid by employers in respect of the wages they pay to their employees, including directors. Currently, employers pay employer NIC at the rate of 13.8% on wages over £9,100. However, from April 2025, the rate employers must pay NIC will increase to 15%. In addition, the threshold where

employer contributions become payable will fall from £9,100 to £5,000.

Will salary sacrifice save tax?

Q: I am an employer. Will I save tax if I introduce a salary sacrifice scheme for my employees?

A: Salary sacrifice is an agreement to reduce an employee's pre-tax salary. The most common uses of a salary sacrifice scheme are for childcare, travel and pension contributions.

Introducing a salary sacrifice scheme can be complex and you may need help setting it up, including with HR actions, as all employee contracts will need to be updated.

When it comes to salary sacrifice pension contributions, because the deductions are taken from a salary before tax, there can be some tax and NI savings for both employees and employers.

It can also be helpful for some employees as it can spread the cost of larger costs, such as the purchase of a bike for work, into manageable chunks.

However, it is important for employees to consider the impact of salary sacrifice. Because they are sacrificing their salary, when it comes to applying for a mortgage or any other credit, the amount they can borrow could be impacted.

You must give employees all the information they need to make an informed decision on whether they would like to use salary sacrifice or not.

Salary sacrifice is voluntary, so you aren't able to enrol employees in this way unless they approve.

Lloyd Stubbs specialises in managing tax and accountancy affairs for small business owners and can be contacted by phone or email

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