

## **PAYROLL/ SALARIES , EXPENSES AND DIVIDENDS – A SHORT GUIDE TO PROFIT EXTRACTION FROM THE LIMITED COMPANY**

A Limited Company is a completely separate, legal entity from the legal and tax point of view.

Unlike with Sole Traders/Self Employed individuals where money can be taken from the business anytime, The Limited Company's funds belong to the Company. They do not belong to a Shareholder or Director.

This means that you cannot simply take money out of a limited company account like it was your own personal bank account and you must follow certain procedures to take money out of your business.

As a Director, you can pay yourself a regular salary through PAYE scheme. To do so, your company must be registered with HMRC as an employer, therefore the payroll registration. Salary payments are a tax-deductible expenses, so your company will not have any corporation tax liabilities on this money. Majority of single company directors pay themselves a salary up to £700 per month which is exempt from Income Tax, but they still qualify for the State Pension and Benefit entitlements.

After taking salaries, the Director then can take the money out of a Limited Company via expenses. The usual type of expenses are:

- Travel and accommodation
- Mileage and parking charges
- Mobile phones
- Meals
- Computer and office equipment
- Training fees
- Postage costs

The company is reimbursing your expenses during the monthly payroll, that's way we always recommend our clients to provide us with the expenses on monthly or quarterly basis.

Finally, the remainder of the profits held by the Limited Company is then taken as Dividends, of which first £2,000 is tax free and the remainder taxed at 7.5%

That's why having an accountant when being a Director of a Limited Company is an absolute must! The good news, is that we deal with all these matters, therefore you don't have to worry about the admin side of these things.