What's the Most Tax Efficient Director's Salary?

As a director you're legally separate from your limited company even if you're also the owner. This means you're not allowed to simply keep the profits for yourself in the same way a sole trader can in their business.

Instead, you'll need to decide how much to pay yourself. The most tax-efficient way to take an income from your own limited company is normally through a combination of a low salary (in the same way as any other employee) and dividend payments.

Taking a salary and dividends

If you're a director, you're technically an employee of your own limited company. This is an important point because it means you're both an employee *and* an employer – of yourself! But why does it matter?

Employers and employees both pay National Insurance Contributions (NICS) on salary payments, but not on dividends. In that respect it might make sense to pay yourself a smaller salary and make up for it with dividend payments.

But the good thing about taking a salary is that it means you have regular income throughout the year which, because directors are 'office holders', can be below the minimum wage without breaking any rules.

So how much should you pay yourself from your own company? Paying yourself as a company director is actually a bit of a balancing act in order to be as tax efficient as possible. To get the balance right it's useful to consider:

- National Insurance contributions as both an employee and as an employer, as well as the benefits of making qualifying payments for the State Pension
- How many people there are in the business
- Tax allowances for dividends
- Income tax allowances
- Tax relief for employee salaries

What does National Insurance mean for director's salaries?

The thresholds for paying employer's and employee's NI are at different levels, so this has an impact on the amount of salary you take.

If you take a salary from the business and it's higher than the National Insurance threshold (the point at which you start paying National Insurance) for both employers and employees:

- **Primary Threshold:** You, as the employee, will start paying National Insurance on the salary your company pays you
- **Secondary Threshold:** Your company, as your employer, will start making employers NIC's on your earnings

It basically means you're paying National Insurance twice on the same money – which isn't very tax efficient at all!

The National Insurance thresholds for the 2024/25 and 2025/26 tax years are shown in our table below for both employers and employees. The threshold at which employers start making National Insurance contributions is actually lower, so they start paying NI before employees do.

What are the employer and employee National Insurance thresholds and rates?

This table can seem a bit confusing because the Secondary Threshold (when employers start paying NI) is actually lower than the Primary Threshold (when employees start paying NI). We're including this because it shows where each threshold starts and ends, which is useful when it comes to working out the optimal director's salary.

You won't pay NI or accrue NI benefits (such as qualifying payments towards the State Pension) on earnings below the Lower Earnings Limit. Earnings above the LEL up to the Primary Threshold don't incur NI either, but *you will* earn NI 'credits' and accrue NI benefits on them.

	Weekly Threshold 2024/25	Annual Threshold 2024/25	Weekly Threshold 2025/26	Annual Threshold 2025/26
Lower Earnings Limit (LEL)	**£123**	**£6,396**	£125	£6,500
Primary Threshold: *Employees* pay NI at a rate of 8% on earnings above the threshold.	**£242**	**£12,570**	£242	£12,570
Secondary Threshold: *Employers* make NICs on earnings above the threshold. **2024/25:** 13.8% **2025/26:** 15%	**£175**	**£9,100**	£96	£5,000
Upper Earnings Limit (UEL): *Employees* pay NI at a rate of 2% on earnings above the UEL.	**£967**	**£50,270**	£967	£50,270

Optimising your director's salary to qualify for the State Pension

Taking a salary which is higher than the Lower Earnings Limit allows directors to build up qualifying years for their State Pension. The threshold for this is £6,396 in 2024/25, but this will rise to £6,500 from April 2025.

If your salary is above the Lower Earnings Limit but below the Primary Threshold (£12,570 for the 2024/25 and 2025/26 tax years) then you'll accrue all the benefits of National Insurance, without actually paying it. This will affect how much State Pension you are entitled to once you pass state retirement age.

Can I use the tax-free Personal Allowance on my director's salary?

Yes, you can. The Personal Allowance is the amount you are allowed to earn before you have to start paying income tax. In 2024/25 and 2025/26 the allowance is £12,570, so you only pay tax on the part of your income which is above that threshold amount.

For example

If you earn £14,000 in a year, you'll only pay income tax on £1,430 of it.

£14,000 (salary) – £12,570 (tax free Personal Allowance) = £1,430. The amount subject to income tax is £1,430.

This year the Primary Threshold (when you start paying National Insurance as an employee) is the same amount at the tax free personal allowance.

So, if you take a salary from your limited company which is below the Primary Threshold, you won't pay tax *or* NI on it as an employee.

Paying tax on dividends

It’s worth noting that although they’re not subject to National Insurance, dividends are subject to tax, but at a different rate to normal income tax.

The good news is there is also a separate dividend tax allowance you can use on top of the Personal Allowance.

Are salaries an allowable expense for Corporation Tax?

A limited company pays Corporation Tax on the profit it makes throughout the year. Claiming tax relief on allowable expenses reduces the amount of profit, therefore reducing the amount of Corporation Tax which the company pays.

Salaries are an allowable expense, so if you’re a company director then paying yourself a salary from the business can help you lower your Corporation Tax bill.

How does the National Insurance Employment Allowance affect director’s pay?

Thanks to the Employment Allowance, the optimum salary for a company director also depends on how many other people there are in the business.

In 2024/25 eligible employers can use the Employment Allowance to claim up to £5,000 in order to cover the costs of employer’s National Insurance. In 2025/26 the allowance increases to £10,500.

To be eligible, employers must have at least 1 employee or 2 directors on the payroll, and the directors must not have another company claiming the Employment Allowance already. This means sole directors can’t claim the allowance, which is why the optimum salary is a bit different for them.

Director’s salaries – How much should I pay myself from my limited company?

Considering all the taxes and allowances together, the most tax-efficient salary for a limited company director depends on whether you’re a sole director or there are more people in the business. It also really depends on your own circumstances!

With so many variables in 2025/26 it’s more important than ever to speak to your accountant about your needs, but we’ll do our best to outline the different options.

A summary table for director’s salaries in 2025/26

We know it’s a lot of information to look at, so our table below summarises the effect of taking a salary at different levels for directors. We go into more detail in the sections below.

	Sole Director Secondary Threshold	Sole Director Lower Earnings Limit	Sole Director Primary Threshold	2+ Directors Primary Threshold
Annual salary amount	£5,000	£6,500	£12,570	£12,570
Can claim Employment Allowance				
Will need to pay employer NI				
Will need to pay NI as an employee				
Will need to pay income tax				
Will earn NI credits				
Total NI to pay	£0.00	£225.00	£1,135.50	£0.00
Corporation Tax Relief Based on CT rate of 19%	£950.00	£1,277.75	£2,604.05	£4,776.60
Net tax savings	£950.00	£1,052.75	£1,468.55	£4,776.60

What is the best company salary for a sole director in 2025/26?

Working out the most efficient salary for sole directors is complicated by the fact that you *can't* claim the Employment Allowance if you're the only person in the business.

It's why some company directors *might* find it beneficial to add another director, such as a spouse or family member, so that they're eligible for the allowance because:

- Although the Secondary Threshold (the point at which you start making NI contributions as an employer) reduces from £9,100 to £5,000 in 2025/26
- The Employment Allowance will increase from £5,000 to £10,500

The optimum salary that you take depends on your circumstances, but as a **very** broad guide we'll go over three different options, each with their own considerations. Other options are available!

In all of our examples below:

- The salary is at or below the Primary Threshold for paying employee National Insurance contributions
- It's at or below the Personal Tax Allowance so you won't incur income tax, and can put the unused part of your income tax allowance against any dividends
- The company can claim tax relief against your salary, which will help to reduce its Corporation Tax bill
- It is less than £1,500 of employer's NI per month, so your company could choose to pay its contributions to HMRC on a quarterly basis, even if you receive a monthly salary

Take a salary of £5,000 (£416.66 per month)

Taking a slightly lower salary as a sole director can mean there's more money left for dividends at the end of the year.

- It's *below* the Lower Earnings Limit, so you *won't* earn NI credits towards your state pension
- As a sole director you can't claim the Employment Allowance, but this salary is at the Secondary Threshold, so your company won't need to pay employer's NI on it anyway

Take a salary of £6,500 (£541.66 per month)

- It’s at the Lower Earnings Limit, so you will earn NI credits towards your state pension
- This salary is a bit higher than the Secondary Threshold, so there will be some employer’s NI to pay because your company won’t be eligible for the Employment Allowance. It works out at £225 for the year.
- The company can claim tax relief against your salary, which will help to reduce its Corporation Tax bill. Assuming the company pays tax at a rate of 19%, this works out to be more than the NI it would contribute as an employer.

Taking a salary of £12,570 (£1,047.50 per month)

A sole director taking a salary at this level will incur employer’s National Insurance on their wages, but this is offset against the tax relief they can claim against Corporation Tax.

- It’s *above* the Lower Earnings Limit, so you *will* earn NI credits towards your state pension
- As a sole director you won’t be able to claim the £10,500 Employment Allowance. Taking a salary above the Secondary Threshold like this means you’ll need to pay Employer NI contributions. It works out at £1,135.50 for the year.
- Although the company will incur employer’s NI, it will also be able to claim tax relief for your salary, which will reduce your Corporation Tax bill. This reduction is more than the employer’s NI that your company will need to pay on this salary, so will effectively cancel it out.
- Taking a higher salary might affect your company’s cash flow throughout the year (and will leave a bit less in the pot for dividends)
- It might also mean that your accountant or payroll provider charges you a slightly higher fee

What is the most tax efficient salary for two or more directors in 2025/26?

Having at least one employee, or 2 or more directors, on the company payroll means you’re eligible to claim the Employment Allowance, so you can take a higher salary and still be tax efficient.

The most efficient salary for 2 or more directors in 2025/26 is

£12,570

Two directors can take an annual salary up to the Primary Threshold (£12,570) without making NI contributions as employees. Because the business is eligible for the £5,000 Employment Allowance (which rises to £10,500 in 2025/26), this will also cancel out the portion of employer's National Insurance they would otherwise incur.

What if I have another source of income?

The optimum amount for director's payroll takes advantage of the Personal Allowance (£12,570). If you are already using it up because you have other income from elsewhere, then director's payroll becomes PAYE payroll, and is subject to tax and NI as normal.