



**Salary and Dividend Illustrations for Tax Year 2020/2021**

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**Important:**

**We will require your written / email instruction to run your company's payroll and submit RTI to HMRC.  
Only EPS (nil return) can be submitted for non-responding clients**

## Introduction

From 6 April 2020, personal allowance will remain the same at £12,500 but the threshold for Class 1 employee's (PT) and employer's (ST) NIC will raise to £9,500 and £8,788 per annum respectively. The dividend allowance will remain at £2,000. We have put together these illustrations to demonstrate the effect of the changes in order to assist limited company directors to make a decision on their 2020/21 salary.

	2019/20	2020/21
Personal Allowance	£12,500	£12,500
Class 1 Employee's NIC Threshold (PT)	£8,632	£9,500
Class 1 Employer's NIC Threshold (ST)	£8,632	£8,788
UK Higher Tax Rate Threshold	£50,000	£50,000
UK Additional Tax Rate Threshold	£150,000	£150,000
Dividend Allowance	£2,000	£2,000



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[March 2020 budget key points for contractors](#)

[2020/2021 Income tax rates and thresholds](#)

[COVID-19 Support](#)

[Offpayroll reform for private sector delayed](#)

For contractors who are the only director and employee of their company, please refer to our calculations on page 2 (page 5 for Scottish tax payer) as Employment Allowance is not available for your company so please consider the cost of employer's NIC for salary over the NIC threshold of £8,788.

For companies that have an additional employee paid above the NIC threshold other than the director, Employment Allowance will be available if the employee's salary is over NI threshold. So it is worth considering a slightly higher salary set up to utilise this allowance. Please see our summaries on page 3 (page 6 for Scottish tax payer) for your reference.

The 'most tax efficient' model included in our illustrations is an example based on the assumption that one does not have any other income, it is not a 'one size fit all' solution. **Please consult with our accountants for tailored advice.** Employers must also consider the National Living Wage and auto-enrolment threshold for pension purposes. If you have employees who are not a director of the company then their pay should be at a commercial rate reflecting their contribution to the business.

It is **absolutely essential for contractors to consider their contract's IR35 status** when planning their salary. If you work in the private sector and are caught under the legislations, up to 95% of your contract income will be taxed under PAYE and NIC. For public sector contractors, please see additional information on page 7.

Our computations are for your reference only. Actual tax and NIC liabilities will be different subject to individual circumstances. Please speak to our accountants for more information and bespoke advice. Please contact us by Wednesday **15 April 2020** to let us know your decision on your salary.

## Salary / Dividend illustration for companies with a single Director and no employees for tax year 2020/21 - Not eligible for Employment Allowance

	<b>Illustration 1</b> <i>On National Living Wages</i>	<b>Illustration 2</b> <i>At Personal allowance</i>	<b>Illustration 3</b> <i>At auto-enrolment threshold</i>	<b>Illustration 4</b> <i>At PT Threshold</i>	<b>Illustration 5</b> <i>At Lower earning limit for NI</i>
<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Taxable Amount	4,504.00 @ 20%	0.00 @ 20%	0.00 @ 20%	0.00 @ 20%	0.00 @ 20%
	900.80	0.00	0.00	0.00	0.00
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Primary threshold	(9,500.00)	(9,500.00)	(9,500.00)	(9,500.00)	(9,500.00)
Amount for Employee's NIC	7,504.00 @ 12%	3,000.00 @ 12%	500.00 @ 12%	0.00 @ 12%	0.00 @ 12%
	900.48	360.00	60.00	0.00	0.00
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Secondary threshold	(8,788.00)	(8,788.00)	(8,788.00)	(8,788.00)	(8,788.00)
Amount for Employer's NIC	8,216.00 @ 13.8%	3,712.00 @ 13.8%	1,212.00 @ 13.8%	712.00 @ 13.8%	0.00 @ 13.8%
	1,133.81	512.26	167.26	98.26	0.00
Employer allowance	Not Eligible	Not Eligible	Not Eligible	Not Eligible	Not Eligible
<b>PAYE and NIC Payable</b>	<b>2,935.09</b>	<b>872.26</b>	<b>227.26</b>	<b>98.26</b>	<b>0.00</b>
<b>Corporation Tax</b>					
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Employer's NIC	1,133.81	512.26	167.26	98.26	0.00
Deductible for CT	<b>18,137.81 @ 19%</b>	<b>13,012.26 @ 19%</b>	<b>10,167.26 @ 19%</b>	<b>9,598.26 @ 19%</b>	<b>6,240.00 @ 19%</b>
	<b>3,446.18</b>	<b>2,472.33</b>	<b>1,931.78</b>	<b>1,823.67</b>	<b>1,185.60</b>
<b>Net Tax (Saving) / Cost</b>	<b>(511.10)</b>	<b>(1,600.07)</b>	<b>(1,704.52)</b>	<b>(1,725.41)</b>	<b>(1,185.60)</b>

## Dividend tax illustrations - for taking dividends up to the higher tax rate threshold of £50,000

<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance (PA)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Salary over / (under) PA	4,504.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Basic Rate Band	37,500.00	37,500.00	37,500.00	37,500.00	37,500.00
<b>Dividend under basic rate</b>	<b>32,996.00</b>	<b>37,500.00</b>	<b>40,000.00</b>	<b>40,500.00</b>	<b>43,760.00</b>
Dividend covered by PA	0.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Dividend allowance	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)
<b>Dividend Tax</b>	<b>30,996.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>
	<b>2,324.70</b>	<b>2,662.50</b>	<b>2,662.50</b>	<b>2,662.50</b>	<b>2,662.50</b>
<b>Overall tax and NI cost</b>	<b>1,813.60</b>	<b>1,062.43</b>	<b>957.98</b>	<b>937.09</b>	<b>1,476.90</b>

\*Note: The 'most tax efficient' model included above is an example based on the assumption that one does not have any other income, it is not a 'one size fit all' solution. Please consult with our accountants for tailored advice.

## Salary / Dividend illustration for companies that have at least 1 employee other the director earning over NI threshold for tax year 2020/21 - Eligible for Employment Allowance

	<b>Illustration 1</b> <i>On National Living Wages</i>	<b>Illustration 2</b> <i>At Personal allowance</i>	<b>Illustration 3</b> <i>At auto-enrolment threshold</i>	<b>Illustration 4</b> <i>At PT/ST Threshold</i>	<b>Illustration 5</b> <i>At Lower earning limit for NI</i>
<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Taxable Amount	4,504.00 @ 20%	0.00 @ 20%	0.00 @ 20%	0.00 @ 20%	0.00 @ 20%
	900.80	0.00	0.00	0.00	0.00
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Primary threshold	(9,500.00)	(9,500.00)	(9,500.00)	(9,500.00)	(9,500.00)
Amount for Employee's NIC	7,504.00 @ 12%	3,000.00 @ 12%	500.00 @ 12%	0.00 @ 12%	0.00 @ 12%
	900.48	360.00	60.00	0.00	0.00
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Secondary threshold	(8,788.00)	(8,788.00)	(8,788.00)	(8,788.00)	(8,788.00)
Amount for Employer's NIC	8,216.00 @ 13.8%	3,712.00 @ 13.8%	1,212.00 @ 13.8%	712.00 @ 13.8%	0.00 @ 13.8%
	1,133.81	512.26	167.26	98.26	0.00
Employer allowance	(1,133.81)	(512.26)	(167.26)	(98.26)	0.00
<b>PAYE and NIC Payable</b>	<b>1,801.28</b>	<b>360.00</b>	<b>60.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Corporation Tax</b>					
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Employer's NIC	0.00	0.00	0.00	98.26	0.00
Deductible for CT	<b>17,004.00 @ 19%</b>	<b>12,500.00 @ 19%</b>	<b>10,000.00 @ 19%</b>	<b>9,598.26 @ 19%</b>	<b>6,240.00 @ 19%</b>
	<b>3,230.76</b>	<b>2,375.00</b>	<b>1,900.00</b>	<b>1,823.67</b>	<b>1,185.60</b>
<b>Net Tax (Saving) / Cost</b>	<b>(1,429.48)</b>	<b>(2,015.00)</b>	<b>(1,840.00)</b>	<b>(1,823.67)</b>	<b>(1,185.60)</b>

## Dividend tax illustrations - for taking dividends up to the higher tax rate threshold of £50,000

<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance (PA)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Salary over / (under) PA	4,504.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Basic Rate Band	37,500.00	37,500.00	37,500.00	37,500.00	37,500.00
<b>Dividend under basic rate</b>	<b>32,996.00</b>	<b>37,500.00</b>	<b>40,000.00</b>	<b>40,500.00</b>	<b>43,760.00</b>
Dividend covered by PA	0.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Dividend allowance	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)
<b>Dividend Tax</b>	<b>30,996.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>
	<b>2,324.70</b>	<b>2,662.50</b>	<b>2,662.50</b>	<b>2,662.50</b>	<b>2,662.50</b>
<b>Overall tax and NI cost</b>	<b>895.22</b>	<b>647.50</b>	<b>822.50</b>	<b>838.83</b>	<b>1,476.90</b>

\*Note: The 'most tax efficient' model included above is an example based on the assumption that one does not have any other income, it is not a 'one size fit all' solution. Please consult with our accountants for tailored advice.

## Scottish rate of Income Tax (SRIT)

Scotland Act 2016 provides the Scottish Parliament with the power to set all income tax rates and bands (except the personal allowance, which remains reserved) that will apply to Scottish taxpayers' non-savings, non-dividend (NSND) income for tax year 2020/21. Scottish income tax is only payable by Scottish taxpayers. HMRC will determine whether or not you are a Scottish taxpayer based on where your main place of residence is.

The Scottish Parliament set the following income tax rates and bands for 2020/21:

Starter Rate	From £12,501 to £14,585	19%
Basic Rate	From £14,586 to £25,158	20%
Intermediate Rate	From £25,159 to £43,430	21%
Higher Rate	From £43,431 to £150,000	41%
Top Rate	From 150,001	46%

Since the Scottish rates and thresholds apply to earned income (e.g. employment salary, rental profit, pension or profit from self-employment) only, a Scottish taxpayer with interest and dividend income may have to consider both the UK rates and thresholds (for interest and dividend) and the Scottish rate and thresholds (for earned income) in order to assess their income tax liability.

Due to this reason, our dividend tax illustrations for SRIT will be using the UK tax rates and thresholds and not the above Scottish rates and thresholds.

Salary / Dividend illustration for companies with a single Director and no employees for tax year 2020/21 - Not eligible for Employment Allowance

	<b>Illustration 1</b> <i>On National Living Wages</i>	<b>Illustration 2</b> <i>At Personal allowance</i>	<b>Illustration 3</b> <i>At auto-enrolment threshold</i>	<b>Illustration 4</b> <i>At PT/ST Threshold</i>	<b>Illustration 5</b> <i>At Lower earning limit for NI</i>
<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Taxable Amount	4,504.00	0.00	0.00	0.00	0.00
Scottish starter tax rate	2,085.00 @ 19%	0.00 @ 19%	0.00 @ 19%	0.00 @ 19%	0.00 @ 19%
Scottish basic tax rate	2,419.00 @ 20%	0.00 @ 20%	0.00 @ 20%	0.00 @ 20%	0.00 @ 20%
	4,504.00	0.00	0.00	0.00	0.00
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Primary threshold	(9,500.00)	(9,500.00)	(9,500.00)	(9,500.00)	(9,500.00)
Amount for Employee's NIC	7,504.00 @ 12%	3,000.00 @ 12%	500.00 @ 12%	0.00 @ 12%	0.00 @ 12%
	900.48	360.00	60.00	0.00	0.00
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Secondary threshold	(8,788.00)	(8,788.00)	(8,788.00)	(8,788.00)	(8,788.00)
Amount for Employer's NIC	8,216.00 @ 13.8%	3,712.00 @ 13.8%	1,212.00 @ 13.8%	712.00 @ 13.8%	0.00 @ 13.8%
	1,133.81	512.26	167.26	98.26	0.00
Employer allowance		Not Eligible	Not Eligible	Not Eligible	Not Eligible
<b>PAYE and NIC Payable</b>	<b>2,914.24</b>	<b>872.26</b>	<b>227.26</b>	<b>98.26</b>	<b>0.00</b>
<b>Corporation Tax</b>					
Salary	17,004.00	12,500.00	10,000.00	9,500.00	6,240.00
Employer's NIC	1,133.81	512.26	167.26	98.26	0.00
Deductible for CT	18,137.81 @ 19%	13,012.26 @ 19%	10,167.26 @ 19%	9,598.26 @ 19%	6,240.00 @ 19%
	3,446.18	2,472.33	1,931.78	1,823.67	1,185.60
<b>Net Tax (Saving) / Cost</b>	<b>(531.95)</b>	<b>(1,600.07)</b>	<b>(1,704.52)</b>	<b>(1,725.41)</b>	<b>(1,185.60)</b>

Dividend tax illustrations - for taking dividends up to the higher tax rate threshold of £50,000

<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance (PA)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Salary over / (under) PA	4,504.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Basic Rate Band for dividends	37,500.00	37,500.00	37,500.00	37,500.00	37,500.00
<b>Dividend under basic rate</b>	<b>32,996.00</b>	<b>37,500.00</b>	<b>40,000.00</b>	<b>40,500.00</b>	<b>43,760.00</b>
Dividend covered by PA	0.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Dividend allowance	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)
<b>Dividend Tax</b>	<b>30,996.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>
	<b>2,324.70</b>	<b>2,662.50</b>	<b>2,662.50</b>	<b>2,662.50</b>	<b>2,662.50</b>
<b>Overall tax and NI cost</b>	<b>1,792.75</b>	<b>1,062.43</b>	<b>957.98</b>	<b>937.09</b>	<b>1,476.90</b>

\*Note: The 'most tax efficient' model included above is an example based on the assumption that one does not have any other income, it is not a 'one size fit all' solution. Please consult with our accountants for tailored advice.

Salary / Dividend illustration for companies that have at least 1 employee other the director earning over NI threshold for tax year 2020/21 - Eligible for Employment Allowance

	<b>Illustration 1</b> <i>On National Living Wages</i>		<b>Illustration 2</b> <i>At Personal allowance</i>		<b>Illustration 3</b> <i>At auto-enrolment threshold</i>		<b>Illustration 4</b> <i>At PT/ST Threshold</i>		<b>Illustration 5</b> <i>At Lower earning limit for NI</i>	
<b>Salary</b>	<b>17,004.00</b>		<b>12,500.00</b>		<b>10,000.00</b>		<b>9,500.00</b>		<b>6,240.00</b>	
Personal Allowance	(12,500.00)		(12,500.00)		(12,500.00)		(12,500.00)		(12,500.00)	
Taxable Amount	4,504.00		0.00		0.00		0.00		0.00	
Scottish starter tax rate	2,085.00 @ 19%	396.15	0.00 @ 19%	0.00	0.00 @ 19%	0.00	0.00 @ 19%	0.00	0.00 @ 19%	0.00
Scottish basic tax rate	2,419.00 @ 20%	483.80	0.00 @ 20%	0.00	0.00 @ 20%	0.00	0.00 @ 20%	0.00	0.00 @ 20%	0.00
	<u>4,504.00</u>	<u>879.95</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Salary	17,004.00		12,500.00		10,000.00		9,500.00		6,240.00	
Primary threshold	(9,500.00)		(9,500.00)		(9,500.00)		(9,500.00)		(9,500.00)	
Amount for Employee's NIC	7,504.00 @ 12%	900.48	3,000.00 @ 12%	360.00	500.00 @ 12%	60.00	0.00 @ 12%	0.00	0.00 @ 12%	0.00
Salary	17,004.00		12,500.00		10,000.00		9,500.00		6,240.00	
Secondary threshold	(8,788.00)		(8,788.00)		(8,788.00)		(8,788.00)		(8,788.00)	
Amount for Employer's NIC	8,216.00 @ 13.8%	1,133.81	3,712.00 @ 13.8%	512.26	1,212.00 @ 13.8%	167.26	712.00 @ 13.8%	98.26	0.00 @ 13.8%	0.00
Employer allowance		(1,133.81)		(512.26)		(167.26)		(98.26)		0.00
<b>PAYE and NIC Payable</b>		<b>1,780.43</b>		<b>360.00</b>		<b>60.00</b>		<b>0.00</b>		<b>0.00</b>
<b>Corporation Tax</b>										
Salary	17,004.00		12,500.00		10,000.00		9,500.00		6,240.00	
Employer's NIC	0.00		0.00		0.00		98.26		0.00	
Deductible for CT	<b>17,004.00 @ 19%</b>	<b>3,230.76</b>	<b>12,500.00 @ 19%</b>	<b>2,375.00</b>	<b>10,000.00 @ 19%</b>	<b>1,900.00</b>	<b>9,598.26 @ 19%</b>	<b>1,823.67</b>	<b>6,240.00 @ 19%</b>	<b>1,185.60</b>
<b>Net Tax (Saving) / Cost</b>		<b>(1,450.33)</b>		<b>(2,015.00)</b>		<b>(1,840.00)</b>		<b>(1,823.67)</b>		<b>(1,185.60)</b>

Dividend tax illustrations - for taking dividends up to the higher tax rate threshold of £50,000

<b>Salary</b>	<b>17,004.00</b>	<b>12,500.00</b>	<b>10,000.00</b>	<b>9,500.00</b>	<b>6,240.00</b>
Personal Allowance (PA)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)	(12,500.00)
Salary over / (under) PA	4,504.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Basic Rate Band for dividends	37,500.00	37,500.00	37,500.00	37,500.00	37,500.00
<b>Dividend under basic rate</b>	<b>32,996.00</b>	<b>37,500.00</b>	<b>40,000.00</b>	<b>40,500.00</b>	<b>43,760.00</b>
Dividend covered by PA	0.00	0.00	(2,500.00)	(3,000.00)	(6,260.00)
Dividend allowance	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)	(2,000.00)
<b>Dividend Tax</b>	<b>30,996.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>	<b>35,500.00 @ 7.5%</b>
	<u><b>2,324.70</b></u>	<u><b>2,662.50</b></u>	<u><b>2,662.50</b></u>	<u><b>2,662.50</b></u>	<u><b>2,662.50</b></u>
<b>Overall tax and NI cost</b>	<b>874.37</b>	<b>647.50</b>	<b>822.50</b>	<b>838.83</b>	<b>1,476.90</b>

\*Note: The 'most tax efficient' model included above is an example based on the assumption that one does not have any other income, it is not a 'one size fit all' solution. Please consult with our accountants for tailored advice.



## Public Sector Contractors using their own Limited Company

The responsibility to determine your IR35 status is with the hirer, therefore, your role's IR35 status is normally pre-determined before you sign the contract. If you are outside of IR35, you can continue trading as if you are in the private sector. However, if the contract is inside of IR35, the end client or your agency must deduct PAYE, NIC and where applicable, Apprentice Levy before paying the NET amount into your limited company's account.

If you are deemed to be inside of IR35 please note the following:

- 1** Travel and subsistence are no longer allowable expenses if your contract is inside IR35
- 2** If your company is registered for VAT or your total income is above the basic tax rate band, than you should contact your accountant to ensure that sufficient money has been set aside to settle VAT liability as well as additional income tax under the higher tax rate band as your agency is most likely pay rolling you under a 'BR' tax code. This is because the fund your agency transfers to your company's account will include VAT and might not have made sufficient deduction when they are running your payroll at basic rate (BR code).
- 3** Ask your accountant to provide you with a pay reconciliation on the payslips fom the agency / end client to avoid supprises.

**Switching to umbrella or would like to know more about it? please do not hesitate to contact us.**



## Contact us

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