REINZA TRAINING

Tax Essentials for the Owner-Managed IT Company

Module RT-101

Company Money and Personal Money

Course Pack

Version v1.1

Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

This pack contains:

Study guide · Course text · Checklist · Reference list

This material is provided for general training and educational purposes only. It does not constitute professional advice in relation to the specific circumstances of any person or entity. Independent professional advice should be obtained before acting on any matter covered in this material.

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Module RT-101 — Study Guide

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1. What this module covers

RT-101 deals with the boundary between the company's money and the director's money: where that boundary sits in law, the routes value can take across it, and what each route costs.

It is the first of three modules, and it comes first deliberately. Almost every other question in an owner-managed company turns on the distinction it sets out.

The module is built around six substantive sections, followed by a seventh section that brings the decision points together across the year:

Section	Subject	The question it answers
A	Whose money is it?	Why the company's bank balance is not yours, and what follows from that
B	Route one: salary	Why salary earns a deduction, what it costs, and how the salary figure is derived
C	Route two: dividends	What a dividend actually requires, and how it is taxed
D	The director's loan account	How a balance appears without a decision, and what it costs to leave it there

Section	Subject	The question it answers
E	Timing	Why the same money taken in a different month can cost materially less tax
F	Not extracting at all	What retained profit costs, and what happens when the company is closed
G	Putting it together	Which decisions need to be recognised at each point in the year

All worked examples use a single fictitious company, **Brackford IT Support Limited** — one director who is also the sole shareholder, working from home, with turnover approaching the VAT registration threshold. The same company reappears in Modules RT-102 and RT-103.

Worked-example assumptions. Unless stated otherwise, Sam is UK-resident, is not a Scottish taxpayer, has the full personal allowance and no other income; relevant dividend and capital gains allowances are unused; and Brackford has sufficient taxable and distributable profits. These are teaching assumptions, not general facts.

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2. What you have been sent

Seven items may be supplied. Six form the recommended study sequence; the slide deck is a quick-reference aid rather than a separate required study step.

#	Item	What it is for	Time
1	**Training video**	The module taught visually, with narration. The fastest route through the material.	approx. 45 min
2	**Slide deck**	The video's slides, with the full narration in the speaker-notes field. Useful for skimming back to one point.	—
3	**Course text**	The complete written treatment. Goes further than the video, particularly on the calculations, and is designed to be read on its own.	60–90 min
4	**Study guide**	This document.	5 min
5	**Checklist**	The practical review points arising from the module, in one place.	10 min

#	Item	What it is for	Time
6	**Self-assessment**	Ten questions to complete and return, with an answer commentary.	30–45 min
7	**Reference list**	The published official sources the content is based on.	—

Recommended study time for the module: approximately 3 hours.

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3. The order to use them in

Step one — read this guide. Five minutes. You are here.

Step two — watch the video, straight through, without stopping. Do not take notes on the first pass. The module has a shape, and the shape is easier to see if you let it run. There are two points where the narration invites you to pause and work something out; take those pauses if you want to, but nothing else.

Step three — read the course text. This is where the module earns its keep. Every calculation is set out in full, and several are worked further than the video takes them. If you only have time for one written item, this is the one.

Step four — work through the checklist. It converts the module into questions you can ask about a real company. Read it with a specific company in mind.

Step five — complete the self-assessment and return it. Ten questions. Attempt them before you look at the answer commentary — a question you got wrong teaches more than one you got right. Reinza Training will return short written comments on the completed form.

Step six — keep the course text. The single most likely use of these materials is eighteen months from now, when a question comes up again.

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4. If you are short of time

The material is designed to be taken in more than one sitting. A workable split:

Sitting	What to do	Time
First	Video, straight through	45 min
Second	Course text, Sections A to C (whose money, salary, dividends)	45 min
Third	Course text, Sections D to G (loan account, timing, retained profit, summary)	45 min
Fourth	Checklist and self-assessment	45 min

If you are shorter of time than that, the order of value is: **video, then course text Section D, then the self-assessment.** Section D is the director's loan account, and it is where the largest avoidable numbers in the module are found.

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5. Three things to look out for as you go

The reasoning matters more than the figures. Rates and thresholds change, often annually. The course text shows how its conclusions are derived, but the assumptions must also be rechecked: residence status, other income, worker status, available allowances and company profits can all change the result.

The largest numbers are not where you would expect. Under the Brackford worked-example assumptions, the whole salary-level decision in Section B is worth about £752 a year. An unmanaged director's loan account in Section D costs over £11,000 in a single year, and the two-tax-year timing illustration in Section E saves £5,628.75. Attention is better spent on the second and third than the first.

Several points are decisions that must be recognised during the year. Timing, the £100,000 income band, the nine-month-and-one-day loan account deadline, and the payment of an employer pension contribution before the accounting year end are all worthless if noticed afterwards. The course text closes with a month-by-month map of those points.

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6. What this module does not do

It teaches rules of general application. It does not examine any particular company's accounts or figures, and it produces no statement about any particular company's tax position. Every figure used belongs to a fictitious company created for teaching.

Where the material identifies a decision point, the appropriate next step is to obtain independent professional advice on the specific facts.

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7. What comes next

Module RT-102 — Allowable Expenses and Capital Allowances for an IT Services Company. What the company can deduct before it arrives at a profit figure: home working, equipment, vehicles, telecommunications, travel, entertaining, training and records.

Module RT-103 — Corporation Tax, VAT Thresholds and the Annual Compliance Cycle. Turning that profit into a tax liability, the VAT registration threshold, and the four filing regimes that run at once. RT-103 also includes a printable annual compliance calendar.

Reinza Limited, trading as Reinza Training. Module RT-101, study guide, version v1.1.

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Module RT-101 — Course Text

Company Money and Personal Money: Profit Extraction and Remuneration Structure

Programme: Tax Essentials for the Owner-Managed IT Company
Module reference: RT-101
Document: Course text
Version: v1.3
Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

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How to use this course text

This document is the complete written treatment of Module RT-101. It is not a transcript of the training video and it is not a printed copy of the slide deck. It has been written so that it can be read and understood entirely on its own, by someone who has not watched the video, and so that it remains usable as a reference in later years.

The module materials are designed to be used in this order:

1. **Study guide** — two pages, explaining how the items fit together;
2. **Training video** — the module worked through visually, with narration;
3. **Course text** — this document, which goes further than the video in several places, particularly in the worked calculations;
4. **Checklist** — the practical review points arising from the module;
5. **Self-assessment** — ten questions, to be completed and returned;
6. **Reference list** — the published official sources on which the content is based.

Every calculation in this document is set out in full. Where a figure is derived rather than quoted, the derivation is shown. This is deliberate: rates and thresholds change, often annually, and a figure memorised without its reasoning becomes wrong without warning. A method survives the change; a number does not.

A note on what this document does **not** do. It describes rules of general application, using a fictitious company. It does not take account of the circumstances of any particular company or person, and it does not tell any reader what to do. Where a decision point is identified, the appropriate step is to obtain independent professional advice on the specific facts.

Contents

Key figures for 2026/27

Every figure in this table applies to the tax year 6 April 2026 to 5 April 2027, or to company accounting periods falling in the financial year beginning 1 April 2026, as indicated.

Item	2026/27
Personal allowance	£12,570
Basic rate band (taxable income after allowances)	£37,700
Higher rate threshold (personal allowance plus basic rate band)	£50,270
Additional rate threshold	£125,140
Personal allowance taper	£1 lost for every £2 of adjusted net income above £100,000
Income tax rates on earnings — basic / higher / additional	20% / 40% / 45%
Dividend allowance	£500
Dividend rates — ordinary / upper / additional	10.75% / 35.75% / 39.35%
Employee (primary Class 1) National Insurance — main rate	8% between £12,570 and £50,270
Employee National Insurance — above the upper earnings limit	2% above £50,270
Employer (secondary Class 1) National Insurance rate	15%

Item	2026/27
Employer secondary threshold	£5,000
Lower earnings limit (National Insurance credit for State Pension)	£6,708
Employment allowance	£10,500 (not available to a company whose only employee paid above the secondary threshold is a single director)
Class 1A National Insurance on benefits	15%
Corporation tax — small profits rate (profits up to £50,000)	19%
Corporation tax — main rate (profits above £250,000)	25%
Corporation tax — effective marginal rate between £50,000 and £250,000	26.5%
Marginal relief fraction	3/200
Section 455 charge on loans to participators made on or after 6 April 2026	35.75%
Section 455 charge on loans made between 6 April 2022 and 5 April 2026	33.75%
Beneficial loan threshold (no benefit if balance never exceeds)	£10,000
Official rate of interest (from 6 April 2026)	3.75%
Business asset disposal relief rate (disposals on or after 6 April 2026)	18%
Business asset disposal relief lifetime limit	£1,000,000
Capital gains tax annual exempt amount	£3,000
Capital gains tax main rates	18% / 24%
Distribution on striking off treated as capital — limit	£25,000

Two points about this table.

First, the £50,000 and £250,000 corporation tax limits are **divided by the number of associated companies**. A company with one associated company has limits of £25,000 and £125,000. They are also proportionately reduced for accounting periods shorter than twelve months.

Second, the official rate of interest may now be changed **during** a tax year. Until April 2025 HMRC's stated policy was that the rate would not rise mid-year. That commitment no longer applies, and the rate is reviewed quarterly. The rate in this table is the rate applying from 6 April 2026; the current rate should always be checked before a calculation is performed.

The illustrative company

Every worked example in this module, and in Modules RT-102 and RT-103, uses the same fictitious company. Nothing in the following description, and no figure used anywhere in these materials, relates to any real company or person.

Brackford IT Support Limited

Incorporated in	England and Wales
Accounting year end	31 March
Directors	One: Sam Ellis
Shareholders	One: Sam Ellis, holding 100 ordinary shares of £1 each
Employees	None other than the director
Trade	Managed IT support for small businesses, with project work and some hardware resale
Workplace	The director’s home, with visits to client premises
Turnover, year to 31 March 2027	£86,400
Operating costs before any director remuneration	£20,000
Profit before director remuneration	£66,400
Retained earnings brought forward at 1 April 2026	Nil

The company is not registered for VAT. Its turnover sits close enough to the registration threshold that the question is a live one, and Module RT-103 deals with it in full. For the purposes of this module, VAT is set aside.

Two features of this company shape everything that follows.

The first is that **Sam is both the director and the shareholder**. Those are two different capacities, and the distinction is not cosmetic. Money paid to Sam as director is employment income. Money paid to Sam as shareholder is a distribution of profit. They are taxed under different rules, they carry different National Insurance consequences, they are deductible or not deductible for the company on different principles, and they are subject to different legal preconditions. A single person occupying both roles has to be able to say, of every pound leaving the company, which capacity it was paid in.

The second is that **retained earnings brought forward are nil**. This is a simplifying assumption, and it makes one constraint visible that is often invisible in practice: the company cannot pay a dividend larger than the profit it has actually made and kept, after corporation tax. Section C returns to this.

Assumptions used in the worked examples

Unless an example states otherwise, the calculations in this module use the following assumptions:

- **Personal tax position.** Sam is UK-resident, is not a Scottish taxpayer, is entitled to the full personal allowance, and has no other income except where an example says otherwise. The employment-income calculations therefore use the rates applying in England, Wales and Northern Ireland.

- **Allowances and other deductions.** The dividend allowance is unused before the dividends shown, and the capital gains annual exempt amount is unused before the closure example. No student loan, High Income Child Benefit Charge or other personal deduction is included.
- **Company tax position.** Brackford has no associated companies unless stated, has sufficient taxable profit for the corporation tax deductions illustrated to have current value, and has sufficient distributable profits whenever an example assumes a valid dividend can be paid.
- **Purpose of the figures.** These are training assumptions, not default facts for every owner-managed company. A different residence status, other income, losses, associated companies, worker status or prior use of allowances can change the result.

A. Starting point: whose money is it?

A.1 The illusion

A single-director company presents its owner with a persistent illusion. The company's bank account looks like a personal bank account with a business name on it. The debit card works in the same way as any other debit card. The balance in the account is the direct result of the owner's own work, done by the owner alone, and nobody else has any claim on it. Nothing on the banking app distinguishes the two.

In law the two are entirely separate, and almost every question in this module follows from that separation. It is worth stating the principle plainly before the mechanics.

A.2 Separate legal personality

When a company is incorporated, a new legal person comes into existence. It is not the same person as its shareholder, even where there is only one shareholder holding every share. This has been settled law in the United Kingdom since *Salomon v A Salomon & Co Ltd* was decided by the House of Lords in 1897, and it is the foundation of the whole structure.

The consequences are worth spelling out, because each of them has a practical edge:

- **The company owns its assets.** The cash in the company's bank account belongs to the company, not to the shareholder. The laptop the company bought belongs to the company. The client contracts are the company's contracts.
- **The company owes its debts.** Trade creditors, the tax authority and the company's landlord are creditors of the company, not of the shareholder.
- **The shareholder owns shares, not assets.** What Sam owns is 100 ordinary shares in Brackford IT Support Limited. Those shares carry rights — to vote, to receive dividends when they are properly declared, and to share in the assets on a winding up. They do not carry a right to help oneself to the bank balance.
- **The director is an officer of the company.** In that capacity Sam owes duties to the company, set out in Part 10 of the Companies Act 2006. These include the duty to promote the success of the company, the duty to exercise reasonable care, skill and diligence, and the duty to avoid conflicts of interest. They are owed to the company as a separate person — which, when the company has one shareholder, can feel abstract, and stops feeling abstract the moment the company becomes insolvent.

A.3 Limited liability and its boundaries

Limited liability means that the shareholder's exposure is limited to the amount unpaid on their shares. For Sam, whose 100 £1 shares are fully paid, that exposure is nil. If the company fails owing £40,000, Sam is not personally liable for the £40,000 by virtue of being a shareholder.

That is the general position. It has boundaries, and an owner-manager should know where they are:

- **Personal guarantees.** Banks, landlords, equipment finance providers and sometimes major suppliers routinely require a director's personal guarantee. A guarantee is a contract; it does exactly what it says, and limited liability does not touch it.
- **An overdrawn loan account is an asset of the company.** If the company enters insolvency while the director owes it money, the liquidator will pursue the director for the balance. This is one of the most common ways in which a director of a failed company discovers that the loan account was real.
- **Wrongful and fraudulent trading.** Where a director continues to trade past the point at which there was no reasonable prospect of avoiding insolvent liquidation, the court can require a personal contribution to the company's assets under the Insolvency Act 1986.
- **Unlawful dividends.** A dividend paid without sufficient distributable profits can be recovered from the shareholder. Section C deals with this.

Limited liability protects the shareholder from the company's ordinary trading debts. It does not convert the company into a personal wallet.

A.4 Five common routes considered in this module

Value can move from the company to its owner-manager in a number of recognised ways. Each has its own rules, and each is taxed differently. It helps to have the principal routes considered in this module in view before narrowing to the three that matter most:

Route	Capacity	Deductible for corporation tax?	Broad tax treatment on the individual
Salary and bonus	Director as employee/officer	Yes	Income tax through PAYE; employee and employer National Insurance
Dividend	Shareholder	No	Dividend rates; no National Insurance
Employer pension contribution	Director as officer or employee	Yes, if the wholly and exclusively test is met	Not taxed on the individual when paid, within the annual allowance
Reimbursement of expenses incurred on the company's behalf	Either	Follows the underlying expense	Not income at all where the expense is genuinely the company's
Loan (and repayment of amounts the company owes the director)	Participator / creditor	No	Not income when advanced, but see Section D

Two further routes exist and are covered in Module RT-102: **rent**, where the director charges the company for the use of part of their home, and **interest**, where the director has lent money to the company and charges interest on it.

For the great majority of owner-managed IT companies, the practical question is how to combine the first two. That is where Sections B and C go. But the last route on the list — the loan — is the one that arises without anybody deciding anything, and Section D is devoted to it for exactly that reason.

A.5 What happens when the company card pays for something personal

Suppose Sam pays for a family holiday, £2,400, using the company debit card. Nothing dramatic happens at the moment of the transaction. The bank does not object. The card does not decline. There is no immediate consequence at all — which is precisely why this is the most common source of difficulty in owner-managed companies.

But something has happened in the accounts. The company has parted with £2,400 of its money for something that is not a company purpose. That amount has to be recorded somewhere. For this payment, the three realistic treatments are:

1. **As a business expense.** It is not one. The holiday was not incurred wholly and exclusively for the purposes of the trade. Recording it as an expense understates the company's taxable profit, and if discovered on enquiry it produces additional tax, interest and — because the error was not innocent — a penalty calculated by reference to behaviour.
2. **As remuneration.** The company can treat the payment as salary. It is then deductible for corporation tax, but it is subject to income tax and National Insurance through the payroll, grossed up appropriately, and must be reported in real time.
3. **As a loan to the director.** This is the default, and in practice the usual answer. The company has advanced £2,400 to Sam. It sits in the director's loan account as a debt owed by Sam to the company, and Section D explains what follows from that.

The critical point is that **doing nothing is not one of the options**. The transaction has occurred; the accounts must reflect it; the only question is which of the three treatments applies. A director who "doesn't really keep track" is not avoiding the analysis, only deferring it to the accountant preparing the year-end accounts, at which point the loan account balance appears — and, if it is large enough and old enough, brings a tax charge with it.

A.6 The practical discipline

None of this requires elaborate systems. It requires one habit: **every payment out of the company account is categorised at the time it is made**, into business expense, remuneration, dividend, expense reimbursement, or director's loan. Bookkeeping software makes this a few seconds' work per transaction. Doing it monthly is manageable; doing it once a year, from a bank statement, eleven months after the event, is where errors and lost deductions come from.

The second habit is a **separate personal account for personal spending**, funded by transfers from the company that are themselves categorised. The mixing of the two is not illegal. It is simply expensive in time, and it produces the loan account balances that Section D is about.

B. Route one: salary

B.1 Why the company gets a deduction

A salary paid to a director is a cost of employing that director. Provided it is incurred wholly and exclusively for the purposes of the trade — and remuneration for genuine services to the company is — it is deducted in arriving at the company's taxable profit.

That is a meaningful difference from a dividend, which is a distribution of profit already taxed and is not deductible at all. Every £1 of salary reduces taxable profit by £1, and therefore reduces corporation tax by the company's marginal corporation tax rate. For Brackford, whose profits sit between £50,000 and £250,000, that marginal rate is **26.5%**.

Timing qualification. A salary or bonus charged in the accounts is not always deductible in that same period. If remuneration remains unpaid more than nine months after the end of the period of account, corporation tax relief is deferred until the period in which it is paid. The rule also covers remuneration of office-holders.

There is a second, less obvious cost on the company's side, and it changes the arithmetic considerably.

B.2 Employer National Insurance

The company pays secondary Class 1 National Insurance on the director's earnings above the **secondary threshold of £5,000** a year, at **15%**.

Two things about this are worth pausing on, because both changed relatively recently and a great deal of published guidance still reflects the old position:

- The rate rose from 13.8% to 15% with effect from 6 April 2025.
- The secondary threshold fell from £9,100 to £5,000 with effect from the same date, a reduction of more than £4,000.

Both were unchanged for 2026/27. The combined effect is that employer National Insurance now begins at a much lower level of pay and is charged at a higher rate. A salary that was largely free of employer National Insurance under the old thresholds is not free of it now.

Employer National Insurance is itself deductible for corporation tax. So a salary of £1 costs the company £1.15 gross, and £1.15 × (1 − 0.265) = £0.84525 after corporation tax relief at the marginal rate.

B.3 Employee National Insurance and the thresholds that matter

On the director's side of the same payment:

Threshold	2026/27	What happens at this point
Lower earnings limit	£6,708	Earnings at or above this level give a **qualifying year** for State Pension purposes, even though no contributions are actually payable
Primary threshold	£12,570	Employee National Insurance begins, at 8%
Upper earnings limit	£50,270	Employee National Insurance falls to 2% above this point

The personal allowance, £12,570, coincides exactly with the primary threshold. That coincidence is what makes £12,570 a natural candidate for a director's salary: at that level there is no income tax (the personal allowance covers it) and no employee National Insurance (the primary threshold is not exceeded).

The lower earnings limit rose from £6,500 to £6,708 for 2026/27. It is the figure that determines whether a year counts towards the State Pension record, and it is the reason a salary of exactly £5,000 — which avoids employer National Insurance entirely — is not obviously the right answer.

B.4 The employment allowance and why it does not help here

The employment allowance reduces an eligible employer's secondary Class 1 National Insurance liability by up to **£10,500** for 2026/27. For a company with employees, it very often eliminates employer National Insurance on a director's salary altogether.

It is **not available** to a company where the only employee paid above the secondary threshold is a single director. That restriction is specific and it catches most personal service and owner-managed companies precisely. Brackford IT Support Limited cannot claim it: Sam is the sole director and the only person on the payroll.

This single restriction is why the salary question is harder for a one-person company than for a company with two directors or one employee. Where the allowance is available, employer National Insurance on a £12,570 salary disappears. Where it is not, it is a real cash cost of £1,135.50 a year, and the analysis has to justify it.

(A second point of detail: the £100,000 prior-year National Insurance liability cap that used to restrict eligibility for the allowance was removed from April 2025. That change does not assist a single-director company, which is excluded on different grounds.)

B.5 Directors' National Insurance is calculated annually

National Insurance for a director is worked out using an **annual earnings period**, not the weekly or monthly period that applies to other employees. Contributions are assessed against the annual thresholds on cumulative earnings for the tax year.

The practical consequence surprises people. A director paid irregularly may receive several payments with no National Insurance at all, and then a single later payment that pushes cumulative earnings past a threshold and produces a large deduction in that one period. This is not a payroll error; it is the correct operation of the rules.

An alternative method exists, which assesses a regularly paid director on the ordinary periodic basis during the year and then reconciles to the annual position in the final payroll period of the year. Payroll software handles both. What matters for the reader is knowing that the total for the year is what counts, and that the timing of payments within the year does not change it.

B.6 The National Minimum Wage point

A director is not entitled to the National Minimum Wage merely because they hold the office of director. The duties of the office can be performed without the director being a worker for National Minimum Wage purposes. But the same individual can also be a worker under a separate contract to perform work or services personally; that contract may be written, oral or implied.

This matters because a salary of £6,708 or £12,570 for full-time work is far below the National Minimum Wage, which rose to £12.71 an hour for workers aged 21 and over from 1 April 2026. A low director's salary is therefore only compatible with the National Minimum Wage rules where the relevant duties are performed as an office-holder and no worker contract applies to that work. The absence of a written service agreement is not conclusive: the actual relationship must be considered.

B.7 Deriving the salary figure, rather than being told it

Almost every published article gives a director a number. This section derives it instead, because the derivation is what survives the next change in rates.

The question is: **starting from a salary of £5,000, is each additional £1 of salary worth taking, given that the alternative is leaving that value in the company to be paid out as a dividend?**

Consider one extra pound of salary, paid to a director whose salary is still below the personal allowance:

Step	Amount
Salary received by the director	£1.0000
Income tax on it (covered by the personal allowance)	nil
Employee National Insurance on it (below the primary threshold)	nil
Cost to the company: salary plus 15% employer National Insurance	£1.1500
Corporation tax relief on that cost, at the marginal rate *c* = 26.5%	£0.3048
Net reduction in the company's after-tax profit	£0.8453
Therefore, reduction in the dividend the company can pay	£0.8453

So the director gains £1 of salary and loses £0.8453 of dividend. But the two are not taxed alike, and there is a second effect: the extra salary uses up personal allowance that would otherwise have sheltered dividend income. Total income rises by £1 − £0.8453 = £0.1547, and because the personal allowance is fixed, that whole amount is additional taxable income. Dividends are the top slice of income, so it is taxed at the dividend rate applying at the top of this director's income — in Brackford's case, the upper rate of 35.75%.

Putting it together, where *c* is the company's marginal corporation tax rate and *d* is the dividend rate at the top of the director's income:

Net gain per £1 of salary = [1 − 1.15 × (1 − c)] × (1 − d)

For Brackford, with *c* = 26.5% and *d* = 35.75%:

[1 − 1.15 × 0.735] × (1 − 0.3575) = [1 − 0.84525] × 0.6425 = 0.15475 × 0.6425 = **£0.0994 per £1**

The expression is positive — that is, salary beats dividend — whenever 1.15 × (1 − c) is less than 1, provided the company obtains current corporation tax relief for the remuneration and employer National Insurance. That requires a marginal corporation tax value above roughly 13.04%. At the 19%, 25% and 26.5% rates used in this module, the test is met.

Under the assumptions used for Brackford — full personal allowance available, no employment allowance, sufficient taxable profit for current corporation tax relief, and dividend being the alternative extraction route

— salary up to the personal allowance is worth taking in preference to dividends. The reason is that the corporation tax relief on the salary and the employer National Insurance outweighs the employer National Insurance cost. The size of the advantage varies with the corporation tax rate, but the direction is the same under those assumptions.

Note the boundary conditions carefully. The derivation assumes the salary stays within the personal allowance and at or below the primary threshold, that those allowances are fully available, and that no National Minimum Wage or worker-contract constraint changes the feasible salary. Above £12,570, income tax at 20% and employee National Insurance at 8% both begin, and the conclusion changes. Section C.7 works that case through.

B.8 The three candidate salaries, worked through in full

On Brackford's assumptions, the derivation points to "as much salary as possible up to £12,570". It is worth confirming that with complete figures, because it also shows the size of the difference — which is smaller than many people expect.

Brackford's profit before director remuneration is £66,400. In each case the company pays a salary, pays the employer National Insurance, computes corporation tax on what is left, and pays out the entire after-tax profit as a dividend. Dividends are rounded down to the nearest pound.

Option 1 — salary of £5,000 (the secondary threshold)

	£
Profit before remuneration	66,400.00
Salary	(5,000.00)
Employer National Insurance: (5,000 − 5,000) × 15%	(0.00)
Taxable profit	61,400.00
Corporation tax: 19% on 50,000, plus 26.5% on 11,400	(12,521.00)
Profit after tax, available for distribution	48,879.00
Dividend declared	48,879.00

Director's personal tax	£
Salary	5,000.00
Dividends	48,879.00
Total income	53,879.00
Less personal allowance	(12,570.00)
Taxable income (all of it dividend income)	41,309.00
Dividend allowance, £500 at 0%	0.00

Director’s personal tax	£
Next £37,200, within the basic rate band, at 10.75%	3,999.00
Balance of £3,609, above the basic rate band, at 35.75%	1,290.22
Total personal tax	**5,289.22**
Net cash to the director (5,000 + 48,879 − 5,289.22)	**48,589.78**

No income tax or National Insurance arises on the salary. But at £5,000 the salary is below the lower earnings limit of £6,708, so the year does **not** count towards the State Pension record. That is the hidden cost of this option, and it does not appear anywhere in the arithmetic.

Option 2 — salary of £6,708 (the lower earnings limit)

	£
Profit before remuneration	66,400.00
Salary	(6,708.00)
Employer National Insurance: (6,708 − 5,000) × 15%	(256.20)
Taxable profit	59,435.80
Corporation tax: 19% on 50,000, plus 26.5% on 9,435.80	(12,000.49)
Profit after tax, available for distribution	47,435.31
Dividend declared	47,435.00

Director’s personal tax	£
Total income (6,708 + 47,435)	54,143.00
Less personal allowance	(12,570.00)
Taxable income	41,573.00
Dividend allowance, £500 at 0%	0.00
Next £37,200 at 10.75%	3,999.00
Balance of £3,873 at 35.75%	1,384.60
Total personal tax	**5,383.60**
Net cash to the director	**48,759.40**

This option secures a qualifying year for the State Pension at a cost to the company of £256.20 in employer National Insurance, and leaves the director £169.62 better off than Option 1 in cash terms as well. It is the option most commonly chosen by sole directors who want to keep the payroll simple.

Option 3 — salary of £12,570 (the personal allowance and primary threshold)

	£
Profit before remuneration	66,400.00
Salary	(12,570.00)
Employer National Insurance: (12,570 − 5,000) × 15%	(1,135.50)
Taxable profit	52,694.50
Corporation tax: 19% on 50,000, plus 26.5% on 2,694.50	(10,214.04)
Profit after tax, available for distribution	42,480.46
Dividend declared	42,480.00

Director's personal tax	£
Total income (12,570 + 42,480)	55,050.00
Less personal allowance	(12,570.00)
Taxable income	42,480.00
Dividend allowance, £500 at 0%	0.00
Next £37,200 at 10.75%	3,999.00
Balance of £4,780 at 35.75%	1,708.85
Total personal tax	**5,707.85**
Net cash to the director	**49,342.15**

Comparison

	Option 1: £5,000	Option 2: £6,708	Option 3: £12,570
Employer National Insurance	£0.00	£256.20	£1,135.50
Corporation tax	£12,521.00	£12,000.49	£10,214.04
Personal tax	£5,289.22	£5,383.60	£5,707.85

	Option 1: £5,000	Option 2: £6,708	Option 3: £12,570
Total tax and National Insurance	**£17,810.22**	**£17,640.29**	**£17,057.39**
Net cash to the director	**£48,589.78**	**£48,759.40**	**£49,342.15**
State Pension qualifying year	No	Yes	Yes

Three observations, and they are the ones worth carrying away.

First, the differences are small. The gap between the best and worst of these three options is £752.37 on a company generating £66,400 of profit — a little over one per cent. This is worth having, but it is not where the large numbers in an owner-managed company are found. The larger numbers are in Section D (an unmanaged loan account), in Section E (timing), and in Module RT-102 (expenditure that was deductible and was not claimed).

Second, the "best" answer moves. Option 3 wins here because Brackford's profits are in the marginal relief band, where corporation tax relief on the salary is worth 26.5%. For a company whose profits are comfortably below £50,000, the relief is worth only 19%, the advantage over Option 2 narrows to a few hundred pounds, and some directors reasonably prefer the lower payroll figure. The formula in B.7 tells you which way it goes for any set of rates.

Third, the pension year is not a rounding error. A qualifying year counts towards the new State Pension. The 35-year figure for the full amount applies only where there is no pre-6 April 2016 NI record; transitional rules can change it. Normally at least 10 years are needed for any entitlement. Skipping a year to save £256.20 of employer National Insurance is a decision with a thirty-year horizon, and it should be made deliberately rather than by accident. Whether it is the right decision in any particular case depends on the individual's existing National Insurance record, which is a matter for independent professional advice.

C. Route two: dividends

C.1 What a dividend actually is

A dividend is a distribution of profit to shareholders, made in their capacity as shareholders. It is not payment for work. It is not remuneration. It is the return on the shares.

That distinction has three consequences that run through everything in this section:

- A dividend is **not deductible** for corporation tax. It comes out of profit that has already borne corporation tax.
- A dividend attracts **no National Insurance**, on either side. This is the entire source of its attraction.
- A dividend can only be paid if the company has **profits available for the purpose**, and if the correct company law procedure is followed. Salary has no equivalent precondition.

C.2 The company law precondition: distributable profits

Part 23 of the Companies Act 2006 permits a company to make a distribution only out of **profits available for the purpose**. For a company like Brackford, that means accumulated realised profits, so far as not previously distributed or capitalised, less accumulated realised losses so far as not previously written off.

In ordinary language: the company may distribute what it has actually earned and kept, after corporation tax, across its whole life to date — not what it has in the bank, and not what it expects to earn.

The distribution must be justified by reference to **relevant accounts**. For most owner-managed companies these are the last annual accounts. Where the last annual accounts do not support the distribution — typically because the profit was earned in the current year, after the year end shown in those accounts — interim accounts must be prepared that do support it. For a private company, those interim accounts need not be filed or audited, but they must be sufficient to enable a reasonable judgement to be made.

The practical discipline this implies is not onerous, but it is real: **before declaring a dividend, look at a profit figure, not a bank balance.**

C.3 Distributable profits are not the cash balance

This is the single most common error in owner-managed companies, and it is worth a worked illustration.

Suppose that on 31 December 2026 — nine months into the year to 31 March 2027 — Sam looks at the company account and sees £34,000. It is tempting to read that as £34,000 available.

It is not. Consider what that balance contains and what it owes:

	£
Cash at bank, 31 December 2026	34,000
Less: corporation tax accruing on the profits earned so far, payable 1 January 2028	(7,600)
Less: PAYE and National Insurance owed to date on the director's salary	(900)
Less: trade creditors and accrued costs not yet paid	(3,200)
Less: money received in advance for support contracts not yet delivered	(5,000)
Cash genuinely free of existing obligations	**17,300**

And even £17,300 is not the answer to the dividend question, because the test is not "how much cash is unencumbered" but "how much accumulated realised profit, after corporation tax, has the company made". Those two figures move differently. A company that has been paid a year's support fees in advance has cash it has not yet earned. A company owed money by clients has earned profit it does not yet hold.

For Brackford, with nil retained earnings brought forward, the maximum lawful dividend for the year to 31 March 2027 is the profit after corporation tax for that year — £42,480.46 on Option 3 — and no more, however much cash happens to be in the account on any particular day.

C.4 What happens if a dividend is paid unlawfully

A dividend paid otherwise than out of distributable profits is unlawful. The consequences are not theoretical:

- Under section 847 of the Companies Act 2006, a shareholder who knew, or had reasonable grounds to believe, that the distribution was unlawful is **liable to repay it** to the company. A sole director-shareholder will find it difficult to argue that they did not know.

- In practice, the amount may need to be repaid or adjusted and, depending on the facts and accounting treatment, may result in a **debit to the director's loan account**, with the consequences set out in Section D — potentially including a section 455 charge if an amount remains outstanding.
- The director may also face a claim for breach of duty in respect of the decision to pay it.

This is the mechanism by which a director who believed they were taking dividends discovers, months after the year end, that they were taking loans.

C.5 The paperwork, and why it is not optional

Dividends come in two forms and the formalities differ.

Interim dividends are declared by the directors during the year, on the strength of interim accounts showing sufficient distributable profits. The board resolves to pay the dividend; the resolution is minuted; a dividend voucher is prepared for each shareholder showing the company name, the date, the shareholder, the number and class of shares, and the amount.

Final dividends are recommended by the directors and approved by the shareholders after the year end, usually with the annual accounts.

For a single-member company the board meeting and the general meeting are, realistically, one person making a decision at a desk. The minute and the voucher are still required. They are the evidence that the payment was a dividend rather than a loan, and they are the first documents requested when the point is examined. A file of dated minutes and vouchers takes minutes a quarter to maintain and is worth a great deal if the question is ever asked.

C.6 The personal tax on a dividend

Dividends are treated as the **top slice** of an individual's income. Earnings, pensions and other income are taxed first; dividends sit on top and are taxed at the rates applying at that level.

For 2026/27:

	Rate
Dividend allowance — first £500 of dividend income	0%
Dividends within the basic rate band	10.75%
Dividends within the higher rate band	35.75%
Dividends within the additional rate band	39.35%

Two features of the allowance are regularly misunderstood.

First, the **£500 dividend allowance is not an exemption; it is a nil rate band**. The dividends covered by it still count as taxable income and still use up part of whichever band they fall in. Taking £500 of dividends does not create £500 of extra room in the basic rate band.

Second, the ordinary and upper rates both rose by **two percentage points from 6 April 2026**, from 8.75% and 33.75% to **10.75% and 35.75%**. The additional rate is unchanged at 39.35%. This is the single most important change in the 2026/27 remuneration picture, and it has a second consequence that Section D deals with: the section 455 charge on directors' loans is tied to the upper rate, so it rose automatically alongside it.

The dividend allowance itself has not moved. At £500 it is a small fraction of the £5,000 that applied when it was introduced in 2016.

C.7 Salary against dividend, above the personal allowance

Section B.7 showed that salary up to the personal allowance beats dividends. Above the personal allowance the answer reverses, and it is worth seeing why with figures rather than assertion.

Take Brackford at Option 3 — salary £12,570, dividends £42,480 — and suppose the company generates an additional **£11,500** of profit before remuneration. There are two ways of getting it to Sam.

Route A — pay it as a bonus. A bonus of £10,000 costs the company £10,000 plus employer National Insurance of £1,500, which is the whole £11,500.

	£
Bonus	10,000.00
Income tax at 20% (the personal allowance is already used by the existing salary)	(2,000.00)
Employee National Insurance at 8% (earnings still below the upper earnings limit)	(800.00)
Net bonus in hand	7,200.00
But: the bonus occupies £10,000 of the basic rate band, displacing £10,000 of dividend income from 10.75% to 35.75%	(2,500.00)
Net benefit to the director	**4,700.00**

Route B — pay it as a dividend.

	£
Additional profit	11,500.00
Corporation tax at the marginal rate of 26.5%	(3,047.50)
Additional dividend	8,452.50
Dividend tax at 35.75% (this sits above the basic rate band)	(3,021.77)
Net benefit to the director	**5,430.73**

The dividend route delivers **£730.73 more** from the same £11,500 of company profit — a retention rate of 47.2% against 40.9%.

The reason is the **displacement effect**, and it is the part most often missed. A bonus does not merely suffer its own income tax and National Insurance. Because dividends are the top slice, every pound of extra salary pushes a pound of dividend income up out of the basic rate band and into the higher rate. The marginal cost of the bonus is therefore 20% income tax, plus 8% employee National Insurance, plus a further 25 percentage points of dividend tax on the displaced income — and that is before the employer National Insurance the company paid to deliver it.

Note the conditions under which this could change. If the director's earnings were already above the upper earnings limit of £50,270, employee National Insurance on the bonus would be 2% rather than 8%, improving Route A by six percentage points. If the director's dividends were already entirely within the higher rate band, there would be no displacement effect, and Route A would improve by a further twenty-five points. These are precisely the circumstances in which a bonus can become competitive again — which is why the answer must be worked out on the actual figures rather than assumed from a rule of thumb.

C.8 The extreme case: everything as salary

For completeness, and because it puts the earlier £752 of difference in perspective, here is what happens if Brackford pays out its entire profit as salary.

The salary that exactly absorbs £66,400 of profit is £58,391.30, since salary plus 15% employer National Insurance on the excess over £5,000 must equal £66,400.

	£
Salary	58,391.30
Employer National Insurance: (58,391.30 − 5,000) × 15%	8,008.70
Total company cost	66,400.00
Corporation tax (no profit remains)	nil

Director's personal tax	£
Salary	58,391.30
Less personal allowance	(12,570.00)
Taxable income	45,821.30
Income tax: £37,700 at 20%	7,540.00
Income tax: £8,121.30 at 40%	3,248.52
Employee National Insurance: £37,700 at 8%	3,016.00
Employee National Insurance: £8,121.30 at 2%	162.43
Total personal tax and National Insurance	**13,966.95**
Net cash to the director	**44,424.35**

Against Option 3's £49,342.15, the all-salary route costs the director **£4,917.80**. That is the value of the salary-and-dividend structure at this level of profit — roughly seven and a half per cent of the company's entire profit, and around six and a half times the difference between the three salary levels examined in Section B.

It is worth being clear about what produces that gap. It is not that dividends are taxed lightly; at 35.75% the upper dividend rate is not light. It is that **dividends carry no National Insurance on either side**. In this example, employer and employee National Insurance together account for £11,187.13 of the all-salary outcome. That is the number the structure is avoiding.

D. The director's loan account

D.1 Why this section matters more than the last two

Sections B and C dealt with decisions. This section deals with something that happens without a decision being taken at all, and it is where the largest avoidable numbers in an owner-managed company are usually found.

A director's loan account is simply a record of the running balance between the director and the company. It can be **overdrawn** — the director owes the company — or **in credit** — the company owes the director, typically because the director paid for something on the company's behalf, or lent it money to start with.

The overdrawn case is the one that produces tax charges.

D.2 How an overdrawn balance comes into existence

Almost never by anybody deciding to borrow. The usual causes are:

- **Drawings taken in anticipation of a dividend.** The director takes money regularly through the year, intending to formalise it as dividends when the accounts are prepared. If the profits turn out to support the dividends, this works. If they do not, the drawings remain loans.
- **Personal expenses paid on the company card.** Section A.5. Each individual amount is small; the annual total is often not.
- **A dividend declared without sufficient distributable profits.** Section C.4. The dividend is unlawful; depending on the facts, repayment or adjustment may leave a debit on the director's loan account.
- **Expenses claimed that turn out not to be deductible.** Where a claimed business expense is disallowed and the company has already paid for it personally, the amount is a loan or must be treated as earnings.
- **Timing mismatches.** The director puts a large company purchase on a personal card and reimburses themselves twice, or the company pays a personal bill by standing order that nobody cancelled.

The common feature is that nothing announces itself. The balance appears when the accounts are prepared, typically several months after the year end, at which point the options for dealing with it have narrowed considerably.

D.3 The section 455 charge

Where a **close company** — broadly, a company controlled by five or fewer participators, which describes essentially every owner-managed company — makes a loan to a participator, and that loan is still outstanding **nine months and one day after the end of the accounting period**, the company must pay a charge under section 455 of the Corporation Tax Act 2010.

The essentials:

Who pays it	The **company**, not the director
Rate for loans made on or after 6 April 2026	**35.75%** of the outstanding balance
Rate for loans made between 6 April 2022 and 5 April 2026	33.75%
When it is due	Nine months and one day after the end of the accounting period — the same day as the corporation tax for that period
Is it corporation tax?	It is paid with the corporation tax, and reported on the company tax return, but it is a separate charge
Is it permanent?	No. It is refundable once the loan is repaid, released or written off

The rate is **tied to the dividend upper rate**. When that rate rose by two percentage points from 6 April 2026, the section 455 charge rose with it, automatically and without separate legislation. The logic of the link is straightforward: the charge exists to remove the advantage of extracting value as a loan rather than as a dividend, so it has to match the dividend rate it is deterring people from avoiding.

The rate that applies to a particular loan depends on **when the loan was made**, not when the charge falls due. A balance built up on both sides of 6 April 2026 therefore carries two rates, and Section D.7 deals with the allocation problem that creates.

Worked example — a modest balance

Sam takes £4,000 a month from the company account during the year to 31 March 2027, a total of £48,000. Salary for the year is £12,570 and properly declared dividends total £30,000, so £42,570 of the £48,000 is accounted for. The remaining **£5,430** is a loan.

Overdrawn balance at 31 March 2027	£5,430
Deadline for repayment before a charge arises	1 January 2028
Section 455 charge if not repaid, at 35.75%	**£1,941.23**
Payable by	Brackford IT Support Limited, on 1 January 2028

The company can avoid the charge by clearing the balance before 1 January 2028 — most commonly by declaring a further dividend of £5,430 and applying it against the loan account, if distributable profits allow. Note the condition. If profits do not allow it, the purported dividend is unlawful and does not clear the balance; the loan remains outstanding unless it is otherwise repaid or validly cleared.

Worked example — a larger balance

Suppose instead the overdrawn balance at 31 March 2027 is **£30,000**, and that the average balance through the tax year was £18,000.

	£
Section 455 charge at 35.75%, payable by the company on 1 January 2028	10,725.00

	£
Beneficial loan benefit: £18,000 at the official rate of 3.75%	675.00
Class 1A National Insurance on that benefit, payable by the company at 15%	101.25
Income tax on the benefit for the director, at 20% on the benefit itself	135.00
Additional dividend tax caused by the benefit displacing £675 of dividends into the higher rate	168.75

Just over **£11,100** in charges, on money the director already has and will eventually have to return. The section 455 element is recoverable. The rest is not.

D.4 The beneficial loan charge

Separately from section 455, a loan from a company to a director on which no interest, or interest below the **official rate**, is charged gives rise to a taxable benefit — the value of the cheap borrowing.

Threshold	No benefit arises if the total balance never exceeds **£10,000** at any point in the tax year
Official rate from 6 April 2026	**3.75%**
Charged on	The director, as employment income, reported on form P11D or payrolled
Employer cost	Class 1A National Insurance at 15% on the benefit
How to eliminate it	Charge interest at or above the official rate under a genuine obligation and ensure it is actually paid. It must be paid for the relevant tax year, but it need not be paid within that tax year.

Two points of detail. The £10,000 test looks at the **maximum balance at any point in the year**, not the year-end figure; a balance that peaked at £12,000 in July and was £4,000 by March is caught. And the official rate can now be varied during a tax year following quarterly review, so the applicable rate should be checked rather than assumed.

Charging and actually paying interest at the official rate can eliminate the benefit-in-kind charge, but the obligation to pay that interest must exist during the relevant tax year. The payment may be made later; a retrospective agreement made after the tax year does not create qualifying interest for that year. The interest is taxable income of the company. None of this changes the separate section 455 charge.

D.5 Reclaiming the section 455 charge

The charge is refundable, but the mechanics matter more than the principle.

Relief is due when the loan is repaid, released or written off. The claim is made on form L2P, or through the company tax return where the return can still be amended. The claim time limit is four years from the end of the financial year in which the loan was repaid, released or written off.

The critical practical point is when the section 455 money comes back. The tax is not repaid to the company when the loan itself is cleared. Relief becomes repayable nine months and one day after the end of the accounting period in which the loan was repaid, released or written off.

Follow that through for Brackford's £30,000 balance:

Date	Event
31 March 2027	Loan of £30,000 outstanding at the year end
1 January 2028	Section 455 charge of £10,725 paid by the company
June 2028	Director repays the loan in full
31 March 2029	End of the accounting period in which the loan was repaid
1 January 2030	Earliest date the £10,725 is repaid to the company

Two full years during which £10,725 of the company's money sits with the tax authority rather than in the business. For a company of this size that is a significant working capital cost, and it is the reason section 455 deserves attention well before the nine-month deadline rather than after it.

D.6 Writing the loan off, and why it is rarely the cheap answer

A director with an overdrawn loan account they cannot repay sometimes asks whether the company can simply write it off. It can. The consequences are these:

- **For the individual**, where the director is also a shareholder, the write-off is normally treated as a **distribution** and taxed at dividend rates. It must be reported on the individual's self-assessment return.
- **For the company**, there is **no corporation tax deduction** for the amount written off.
- **National Insurance.** Class 1 National Insurance can arise where the release or write-off is remuneration or profit derived from the director's employment. The precise treatment depends on the facts, so advice should be obtained before a write-off.
- **Section 455 relief** is available on the write-off, so the charge, if paid, becomes recoverable — on the timetable in D.5.

Compare the two ways of clearing a £30,000 balance for a director whose other income puts them in the higher rate band. In line with the worked-example assumptions above, the £500 dividend allowance is still available:

	Clear by declaring a dividend	Write the loan off
Distributable profits required	£30,000	Not required
Personal tax after £500 dividend allowance	£10,546.25	£10,546.25
Corporation tax deduction for the company	None	None

	Clear by declaring a dividend	Write the loan off
National Insurance exposure	None	Potential Class 1 NIC, depending on the facts
Section 455	Avoided if done in time	Charged, then reclaimable slowly

The write-off produces the same personal income tax on these assumptions as a dividend used to clear the balance, but it can also create Class 1 National Insurance exposure where the amount is remuneration or profit derived from employment. Because a write-off is normally considered only when profits are insufficient for a dividend, it can also signal that the company has already distributed more value than it earned. It is a route out of the debt, not a tax saving.

D.7 Two anti-avoidance points

Repayment and immediate redraw ("bed and breakfasting"). The obvious way to defeat section 455 would be to repay the loan a week before the deadline and take it out again a week afterwards. Two rules prevent this.

The first is a thirty-day rule: where repayments total £5,000 or more and new loans of £5,000 or more are made within the relevant thirty-day period, the repayments are matched with the new borrowing to the extent of the lower amount rather than simply clearing the older loan.

The second is a backstop for arrangements outside that mechanical rule: where at least £15,000 is outstanding before a repayment and, at the time of repayment, arrangements exist for at least £5,000 of new borrowing, the repayment can again be matched with the new borrowing rather than treated as clearing the earlier loan.

Allocation of repayments across the rate change. Because loans made before 6 April 2026 carry 33.75% and loans made on or after that date carry 35.75%, a fluctuating loan account spanning that date contains two tranches at different rates. Where a partial repayment is made, which tranche it clears determines the charge.

The parties may specify the allocation, and should do so in writing at the time. If they do not, the default is the rule in *Clayton's Case* — the common law principle that, absent any specified allocation, repayments clear the **oldest** debt first. That default usually favours the taxpayer, because it clears older borrowing that may already have triggered a charge. Across the April 2026 rate change it does the opposite: it clears the cheaper 33.75% tranche and leaves the more expensive 35.75% tranche outstanding.

The practical implication is simple and cheap to act on: **when making a partial repayment to a loan account that straddles 6 April 2026, record in writing which advances the repayment is intended to clear.** An email from the director to the company, kept on file, is sufficient.

D.8 A loan account in credit

The mirror image deserves a paragraph, because it is genuinely useful.

Where the director has lent money to the company — often at the outset, or by paying company costs personally — the company owes the director. That balance can be repaid at any time, in any amount, **entirely free of tax**. It is the return of the director's own money, not income.

For a director whose company is short of distributable profits but holds cash, and who has a credit balance on the loan account, drawing that balance down is frequently the cheapest money available. It requires only that the balance is real and documented, which is an argument for recording director-funded costs properly at the time rather than absorbing them personally.

The director may also charge the company **interest** on a credit balance. That interest is deductible for the company, is taxable on the director as savings income, and is subject to the company's obligation to deduct income tax at 20% and report it quarterly on form CT61. The personal savings allowance and the starting rate for savings can make this efficient in the right circumstances. It is a route that requires advice on the specific numbers before it is used.

E. Timing

E.1 Two year ends, and the confusion between them

An owner-managed company lives with two calendars, and a great deal of avoidable difficulty comes from treating them as one.

	Brackford IT Support Limited
Accounting year end — the company's own financial year	31 March
Tax year end — the individual's, fixed by statute for everyone	5 April

The company's corporation tax, its accounts, its filing deadlines and its section 455 clock all run from the **accounting** year end. The director's income tax, personal allowance, basic rate band and dividend allowance all run from the **tax** year end.

These two are five days apart for Brackford, which makes them easy to conflate and occasionally useful. For a company with, say, a 30 September year end, they are six months apart, and the distinction becomes unavoidable.

The rule to hold on to: **the tax year in which a dividend falls is determined by the date the dividend is paid, not by the company's accounting period.** A dividend paid on 3 April 2027 is income of 2026/27. A dividend paid on 8 April 2027 is income of 2027/28. Both may be paid out of the profits of the year ended 31 March 2027.

E.2 When is a dividend "paid"?

This matters because the answer determines the tax year, and the answer differs by type of dividend.

Interim dividends are treated as paid when the money is actually paid to the shareholder, or credited to the director's loan account in circumstances where the shareholder can draw on it. Until then the directors can vary or cancel the resolution; the shareholder has no enforceable debt. This means a resolution passed on 2 April with payment made on 10 April is a payment in the later tax year.

Final dividends are treated as paid on the date they are approved by the shareholders, unless the resolution specifies a later date for payment, in which case that date applies. A final dividend approved in general meeting creates an enforceable debt from that moment.

The practical consequence is that an interim dividend gives more control over timing than a final dividend, because the date of payment is within the directors' control up to the last moment. That is one reason most owner-managed companies use interim dividends throughout the year rather than a single final dividend.

E.3 Splitting extraction across two tax years

This is the largest number in this module that arises purely from timing.

Suppose Brackford has accumulated distributable profits of £60,000 and Sam takes a salary of £12,570, so that the personal allowance is fully used by the salary and every pound of dividend is taxable.

For illustration, assume Sam's salary and other income are the same in the second tax year and that the relevant dividend allowance, rate bands and dividend rates are unchanged. In practice, the second year must be recalculated using the rates and circumstances that actually apply.

Everything in one tax year

	£
Dividends in 2026/27	60,000.00
Dividend allowance, £500 at 0%	0.00
Next £37,200, within the basic rate band, at 10.75%	3,999.00
Balance of £22,300, above the basic rate band, at 35.75%	7,972.25
Dividend tax	**11,971.25**

Split across two tax years, £30,000 in each

	£
Dividends in each year	30,000.00
Dividend allowance, £500 at 0%	0.00
Next £29,500 at 10.75%	3,171.25
Dividend tax per year	3,171.25
Dividend tax across two years	**6,342.50**

Difference: £5,628.75 on those assumptions. The saving in this illustration comes from using two annual dividend allowances and two annual basic rate bands rather than concentrating the dividends in one tax year.

The mechanism is not subtle: the basic rate band is an annual allowance that does not carry forward. A director who takes £60,000 in one year wastes an entire year's worth of the band and pays 35.75% on £22,300 that could have been taxed at 10.75%.

Three conditions have to hold for this to be available, and all three are real constraints:

1. **The company must have distributable profits in both years**, and enough cash. Deferring extraction into the second year is only possible if the company can afford to hold the money.
2. **The director must be able to live on the smaller amount** in the first year. This is the constraint that actually binds in practice, and it is why the discussion belongs at the start of a year rather than in late March.
3. **The second year must not itself be crowded out** by other income. If year two also contains a large one-off dividend, the band is used up anyway.

E.4 The £100,000 cliff edge

Where adjusted net income exceeds £100,000, the personal allowance is reduced by £1 for every £2 of income above that level, disappearing entirely at £125,140. The effect is an unusually high effective marginal rate in that band, and it is worth calculating rather than describing.

For an extra £1 of **dividend** income in the £100,000 to £125,140 band:

Dividend tax at the upper rate on the £1 itself	35.75p
Personal allowance lost: 50p, which displaces 50p of income into charge at the top slice (35.75%)	17.88p
Effective marginal rate	**53.63%**

For an extra £1 of **salary** in the same band the equivalent calculation gives 40p plus 20p, an effective marginal rate of **60%**, plus 2% employee National Insurance and 15% employer National Insurance on top.

An owner-manager whose company is profitable enough to bring total income near £100,000 has a genuine and quantifiable reason to look at the timing of extraction, at employer pension contributions (Module RT-103, Section C), or at both. This is a point at which the arithmetic changes sharply rather than gradually, and it is one of the clearest examples in the whole programme of a decision point that must be recognised during the year to be of any use.

E.5 The self-assessment cash-flow shock

A director who has taken salary within the personal allowance has had no income tax deducted at source. The whole of the dividend tax therefore falls due under self-assessment, and the first year in which this happens produces a payment considerably larger than the liability.

Take Option 3 from Section B: personal tax of £5,707.85 for 2026/27.

Date	Payment	£
31 January 2028	Balancing payment for 2026/27	5,707.85
31 January 2028	First payment on account for 2027/28 (50% of the prior year liability)	2,853.93
31 July 2028	Second payment on account for 2027/28	2,853.93
Total payable within seven months		**11,415.71**

Payments on account are required where the self-assessment liability exceeds £1,000 and less than 80% of the tax was collected at source. A director on a low salary and substantial dividends meets both conditions comfortably.

The liability itself has not doubled. The system is simply catching up: the first year collects one year in arrears plus half a year in advance. But a director who has budgeted for £5,707.85 and receives a demand for £8,561.78 experiences it as a doubling, and it arrives in the same month as a good many other bills.

E.6 A note on the accounting year end

Timing decisions around the **accounting** year end mainly concern expenditure and capital purchases, and they are dealt with in Module RT-102 (equipment and capital allowances) and Module RT-103 (corporation tax timing and pension contributions). One point belongs here, because it concerns extraction:

Employer pension contributions are deductible in the accounting period in which they are actually paid, not the period to which they relate. A contribution intended to reduce the profit of the year ended 31 March 2027 must leave the company's bank account on or before 31 March 2027. This is one of a very small number of genuine deadlines in an owner-managed company where a day's delay changes the answer by a full year.

F. Not extracting at all

F.1 Where retained profit sits

Profit that is not extracted stays in the company as **retained earnings** — an accumulated figure in the company's balance sheet, representing everything the company has ever earned after tax and not distributed.

Three things follow.

First, **it is the company's money, not the director's**. It remains available to the company's creditors. A company that has held back three years of profit and then loses a substantial claim will find those profits are part of what is available to meet it.

Second, **it is not taxed again while it sits there**. Corporation tax has already been paid on it. There is no annual charge on retained profit.

Third, **it is not free of future tax**. Whatever it is eventually used for — a dividend, a bonus, a liquidation distribution — will be taxed at that point, at the rates then in force. Retaining profit defers the personal tax; it does not remove it. That is a real advantage when it allows extraction to be spread across years (Section E.3), and it is a real risk if rates rise in the meantime, as dividend rates have done twice in the last five years.

F.2 What retained cash costs

The direct costs are modest but not nil:

- **Interest earned on company deposits is taxable in the company** at corporation tax rates, and it forms part of the profits used to determine which corporation tax rate applies. Interest received is non-trading income, and for a company close to the £50,000 threshold it can be the amount that tips profits into the marginal relief band.
- **Cash held for no business purpose can affect reliefs.** This is the significant one, and it is easy to overlook.

F.3 The reliefs that a cash pile can put at risk

Two reliefs depend on the company being a **trading company**, and a company holding cash and investments substantially in excess of its trading needs may cease to qualify.

Business asset disposal relief requires, among other conditions, that the company is a trading company throughout the two years before the disposal. The legislation asks whether non-trading activities are substantial, and there is no simple statutory percentage test. HMRC considers indicators including non-trading income, the asset base, expenses and management time, and the company's history. HMRC also says that where neither non-trading income nor the asset base suggests a non-trading element above 20%, a case is unlikely to warrant more detailed review; that is an administrative review indicator, not a safe harbour or a stand-alone test. Retained trading profits held as working capital are not usually a problem. A long-term investment portfolio can be.

Business property relief for inheritance tax similarly excludes "excepted assets" — assets not used for the business — and depends on the company not being wholly or mainly an investment business. From 6 April 2026, 100% relief on qualifying agricultural and business property is subject to a **£2.5 million** allowance, with qualifying value above the available allowance generally receiving 50% relief, which makes the composition of a company's balance sheet more consequential than it was.

Neither of these is a reason to strip a company of working capital. Both are reasons to know why a large cash balance is being held, and to be able to say so.

F.4 Getting money out on closure

For a director who intends to close the company rather than continue extracting, the position changes materially, because a distribution on winding up can be **capital** rather than income.

Striking off. Where a solvent company is dissolved by striking off, distributions to shareholders in anticipation of dissolution are treated as capital, rather than as income distributions, only up to a total of **£25,000**. Above that limit the whole distribution — not merely the excess — is treated as an income distribution and taxed at dividend rates.

Members' voluntary liquidation. Where a liquidator is appointed to wind up a solvent company, distributions are capital distributions without the £25,000 ceiling. Where the conditions are met, business asset disposal relief reduces the capital gains tax rate to **18%** for disposals on or after 6 April 2026, subject to the **£1 million lifetime limit**.

The comparison below is deliberately simplified. Assume £100,000 is available for extraction, Sam's £500 dividend allowance and £3,000 capital gains annual exempt amount are unused, the dividend remains wholly within the upper dividend rate, and the shares have a £100 base cost. Liquidator's fees are shown separately as an indicative cost:

	Dividend	Members' voluntary liquidation
Amount extracted	£100,000	£100,000
Base cost of shares	—	£100
Dividend allowance / capital gains annual exempt amount	£500	£3,000

	Dividend	Members' voluntary liquidation
Taxable amount	£99,500	£96,900
Rate	35.75%	18%
Tax	£35,571.25	£17,442
Liquidator's fees (indicative)	—	£3,000 to £4,000 plus VAT
Net to the director (approximate)	£64,428.75	Approx. £77,800 to £79,000 after the indicative fee and VAT

The gap can be substantial, which is why a members' voluntary liquidation is commonly considered when a solvent company closes with meaningful reserves. It is not automatically preferable: professional fees, the individual's capital gains position, business asset disposal relief eligibility and the targeted anti-avoidance rule can all change the result. The relief conditions must be planned for rather than discovered:

- the shares must have been held, and the individual must have been an officer or employee, for **two years** before the disposal;
- the company must be a **trading company** throughout that period (Section F.3);
- the individual must hold at least 5% of the ordinary share capital and voting rights and satisfy an economic-interest test: either entitlement to at least 5% of distributable profits and 5% of assets on a winding up, or entitlement to at least 5% of the proceeds on a hypothetical sale of the whole ordinary share capital;
- the **£1 million lifetime limit** applies across all qualifying disposals in a lifetime, not per company.

The targeted anti-avoidance rule. A winding-up distribution that would otherwise be capital can be treated as income where all the statutory conditions are met. In outline: the individual had at least a 5% interest immediately before the winding up; the company was a close company at some point in the two years ending with the start of the winding up; within two years of the distribution the individual continues, directly or indirectly, to carry on or be involved with the same or a similar trade or activity; and it is reasonable to assume that a main purpose of the winding up is the avoidance or reduction of an Income Tax charge. For an IT support business, where the trade could readily be resumed through another vehicle, the rule is directly relevant and needs to be considered before, not after, the decision to liquidate.

F.5 The alternative to extraction

The third possibility, alongside extracting now and retaining indefinitely, is to move value out of the company into a tax-favoured personal vehicle. The principal route is the **employer pension contribution**, which is deductible for the company, is not taxable on the individual when made, and carries no National Insurance on either side.

For an owner-manager, the employer contribution is structurally different from a personal contribution, and its interaction with the annual allowance, carry-forward and the company's own deduction rules is dealt with in **Module RT-103, Section C**. It is mentioned here because a complete answer to "should this profit be extracted?" has three options in it, not two.

G. Putting it together: the decision points across a year

The material in this module is not a set of year-end tasks. Most of it is only useful if the decision is recognised while there is still time to act on it. What follows maps the module onto a company with a 31 March accounting year end and a director on a low salary and quarterly dividends.

When	What is being decided	Where in this module
Early April — start of the tax year	Set the salary level for the year and instruct payroll. Confirm whether the employment allowance is available. Check the National Insurance record if the lower earnings limit is in question.	B.4, B.7, B.8
Early April	Plan the year's extraction as a whole: roughly how much, and in which tax year. Decide whether any of it should be deferred.	E.3
Monthly	Categorise every payment out of the company account. Run payroll and report in real time. Keep personal spending off the company card.	A.5, A.6
Quarterly, before each dividend	Confirm distributable profits from up-to-date figures. Minute the board decision. Issue a dividend voucher. File both.	C.2, C.5
Quarterly	Check the director's loan account balance. Note whether it has exceeded £10,000 at any point in the tax year.	D.2, D.4
By 1 January (nine months and one day after the 31 March year end)	Repay any loan account balance outstanding at the previous year end, or — where distributable profits permit — clear it by a valid dividend or other lawful credit. This is the section 455 deadline.	D.3
31 January	Self-assessment balancing payment and first payment on account. Budget for it from the previous April.	E.5
February and March	Year-end review: is a dividend better paid before or after 5 April? Is the loan account clear? Should an employer pension contribution be made before 31 March? Is total income approaching £100,000?	E.1, E.3, E.4, E.6

When	What is being decided	Where in this module
On or before 31 March	Pay any employer pension contribution intended to reduce this year's profit. It must leave the bank account, not merely be resolved upon.	E.6
6 July	P11D reporting deadline, if a beneficial loan or any other benefit arose in the tax year just ended.	D.4
22 July (19 July if paying by post)	Class 1A National Insurance on benefits payable.	D.4
31 July	Second payment on account.	E.5

The four propositions worth remembering

If everything else in this module fades, these four remain useful:

1. **The company's money is the company's money.** For the owner-manager extraction decisions considered in this module, every payment should be identified and recorded according to its true character. It should never be left as "not yet decided".

2. **A dividend requires profits, not cash.** The test is accumulated realised profit after corporation tax, evidenced by accounts. A healthy bank balance is not evidence of anything, because it contains other people's money — the tax not yet paid, the work not yet done.

3. **The loan account is the expensive one.** The difference between the best and worst salary level in Section B was £752 for the year. An unmanaged £30,000 loan account in Section D cost over £11,000, most of it recoverable only after two years and some of it not at all. Attention is better spent on the second than the first.

4. **Timing is worth more than structure at this size.** Splitting £60,000 of extraction across two tax years saved £5,628.75 — more than seven times the entire salary-level decision. Decisions about timing must be taken during the year, which means they must be recognised during the year.

And the fifth proposition, which is the honest one: **every figure in this document changes.** Dividend rates rose two percentage points in April 2026. The section 455 charge rose with them. The employer National Insurance threshold fell by more than £4,000 in April 2025 and the rate rose. Business asset disposal relief has changed rate twice in two years. What does not change is the structure of the reasoning — the sequence of questions, the order in which income is stacked, the difference between a deduction and a distribution. That is what this course text has tried to give.

Glossary

Term	Meaning
Adjusted net income	Total taxable income less certain reliefs; the measure used to test the £100,000 personal allowance taper
Annual earnings period	The basis on which a director's National Insurance is calculated — cumulatively across the tax year against annual thresholds
Close company	Broadly, a company controlled by five or fewer participators; the definition that brings section 455 into play
Distributable profits	Accumulated realised profits less accumulated realised losses; the only source from which a dividend may lawfully be paid
Dividend allowance	The £500 nil-rate band applying to the first slice of dividend income; not an exemption, since it still uses part of the tax band it falls in
Interim dividend	A dividend declared by the directors during the year, treated as paid when the money is actually paid or credited
Final dividend	A dividend recommended by the directors and approved by the shareholders, treated as paid on approval unless a later date is specified
Marginal relief	The mechanism producing an effective 26.5% corporation tax rate on profits between £50,000 and £250,000
Official rate of interest	The rate used to value the benefit of a cheap or interest-free loan from a company; 3.75% from 6 April 2026
Participator	A person with a share or interest in the capital or income of a company; a director-shareholder is one
Primary threshold	£12,570 — the point at which employee National Insurance begins
Secondary threshold	£5,000 — the point at which employer National Insurance begins
Lower earnings limit	£6,708 — earnings at or above this level give a State Pension qualifying year, though no contributions are payable
Section 455 charge	The charge on a close company where a loan to a participator remains outstanding nine months and one day after the accounting period end
Top slicing	The rule that dividend income is treated as the highest part of a person's income and taxed at the rates applying at that level

Sources

The content of this module is based on published legislation and official guidance. The **reference list** supplied with this module gives the full set of links. In outline, the principal sources are:

- **Companies Act 2006, Part 23** — distributions, distributable profits, and the consequences of an unlawful distribution
- **Companies Act 2006, Part 10** — directors' general duties
- **Corporation Tax Act 2010, sections 455, 458, 464ZA and 464ZB** — loans to participators, relief on repayment, and the anti-avoidance rules
- **Corporation Tax Act 2009, sections 1288 and 1289** — timing of deductions for unpaid remuneration
- **National Minimum Wage Act 1998, section 54** — worker status, contracts and office-holders
- **Corporation Tax Act 2010, section 1030A** — distributions in anticipation of dissolution
- **Income Tax (Trading and Other Income) Act 2005, section 396B** — the targeted anti-avoidance rule on winding-up distributions
- **Income Tax (Earnings and Pensions) Act 2003, Part 3, Chapter 7** — employment-related loans and the beneficial loan charge
- **Taxation of Chargeable Gains Act 1992** — business asset disposal relief
- **GOV.UK** — income tax rates and allowances; National Insurance rates and thresholds; corporation tax rates and marginal relief; dividend tax rates; beneficial loan arrangements official rates; business asset disposal relief
- **HMRC internal manuals** — the Company Taxation Manual on loans to participators and winding-up distributions; the Employment Income Manual on beneficial loans; the Business Income Manual on remuneration timing; the National Minimum Wage Manual on directors and office-holders; and the Capital Gains Manual on business asset disposal relief
- **HMRC booklet CA44** — National Insurance for company directors

All rates, thresholds and allowances stated in this document are those applying for the 2026/27 tax year, and for corporation tax the financial year beginning 1 April 2026.

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REINZA TRAINING

Module RT-101 — Checklist

Company Money and Personal Money

Programme: Tax Essentials for the Owner-Managed IT Company
Module reference: RT-101
Version: v1.1
Content basis: rates, thresholds and allowances for the 2026/27 tax year (corporation tax: financial year beginning 1 April 2026)

> This material is provided for general training and educational purposes only. It does not constitute professional advice in relation to the specific circumstances of any person or entity. Independent professional advice should be obtained before acting on any matter covered in this material. Content is based on the rates, thresholds and allowances applying for the 2026/27 tax year and for the corporation tax financial year beginning 1 April 2026.

How to use this checklist. These are the review points that arise from Module RT-101, written as questions rather than instructions. They are questions a director of an owner-managed company might reasonably ask about their own arrangements, and they are the questions most likely to be asked by an adviser or on enquiry. They are general points of principle. A “no” or a “not sure” is not a conclusion about anything — it is a point to raise with a professional adviser, on the facts.

A. The boundary between the two sets of money

#	Review point	✓
A1	Is every payment out of the company account categorised at the time it is made — as a business expense, remuneration, a dividend, an expense reimbursement, a pension contribution or a loan?	☐
A2	Is personal spending kept off the company card, with personal drawings made as identified transfers instead?	☐
A3	Is there a record of which capacity each payment was made in — as director, or as shareholder?	☐
A4	Have any personal guarantees been given, and is it clear what they cover?	☐
A5	Is bookkeeping done at least monthly, rather than once a year from a bank statement?	☐

B. Salary

#	Review point	✓
B1	Is the salary level a decision that was taken, with a reason, rather than a figure carried forward from an earlier year?	☐
B2	Has it been checked whether the employment allowance is available, given the restriction where the only employee paid above the secondary threshold is a single director?	☐
B3	Is the salary at or above the lower earnings limit, so that the year counts towards the State Pension record?	☐
B4	Has the National Insurance record been checked, to see how many qualifying years already exist?	☐
B5	Is the salary reported in real time through the payroll each time it is paid?	☐
B6	Is it understood that a director's National Insurance is calculated on an annual earnings period, so contributions can appear unevenly across the year?	☐
B7	If the director may also be a worker under a written, oral or implied contract, has the National Minimum Wage position been considered?	☐
B8	If salary or bonus is accrued at the year end but remains unpaid, will it be paid within nine months after the end of the period so that the corporation tax deduction is not deferred?	☐

C. Dividends

#	Review point	✓
C1	Before each dividend, is a profit figure looked at — rather than the bank balance?	☐
C2	Are there accounts capable of supporting the distribution, and where the last annual accounts do not, are interim accounts prepared?	☐
C3	Is a board minute prepared and dated for every dividend?	☐
C4	Is a dividend voucher prepared for every dividend, showing company, date, shareholder, shareholding and amount?	☐
C5	Are those minutes and vouchers kept together in one place, so they can be produced if asked for?	☐
C6	Is it understood that the £500 dividend allowance is a nil rate, not an exemption, and still uses up part of the band it falls in?	☐
C7	Has the effect of the two-percentage-point increase in the ordinary and upper dividend rates from 6 April 2026 been taken into account?	☐

D. The director's loan account

#	Review point	✓
D1	Is the loan account balance known — now, rather than at the next year end?	☐
D2	Is it checked at least quarterly?	☐

#	Review point	✓
D3	Is it known whether the balance has exceeded £10,000 at **any point** in the tax year, not merely at the year end?	☐
D4	Is the section 455 deadline nine months and one day after the accounting year end diarised, with a lawful plan to repay or clear the balance — using a dividend only where distributable profits allow?	☐
D5	If the balance straddles 6 April 2026, is it recorded which advances any repayment is intended to clear — given that two different section 455 rates apply?	☐
D6	Where interest is intended to remove the beneficial-loan charge, did the obligation to pay interest exist during the relevant tax year, and is the interest actually paid (even if payment is made later) rather than agreed retrospectively?	☐
D7	If a benefit arises, is it reported on form P11D, with the Class 1A National Insurance paid?	☐
D8	If the loan account is in credit, is that balance documented — and is it understood that drawing it down is a repayment rather than income?	☐
D9	If section 455 tax has been paid and the loan is later cleared, is the reclaim diarised — including the four-year claim limit from the end of the financial year in which the loan was repaid, released or written off?	☐

E. Timing

#	Review point	✓
E1	Are the accounting year end and the tax year end treated as two separate dates, with two separate sets of consequences?	☐
E2	Is the year's extraction planned in April, rather than reacted to in March?	☐
E3	Where a dividend falls close to 5 April, is it clear which tax year it lands in — and is the difference between interim and final dividends understood?	☐
E4	Is the basic rate band monitored during the year, given that it is annual and cannot be carried forward?	☐
E5	Where total income approaches £100,000, has the personal allowance taper been taken into account?	☐
E6	Is the first self-assessment bill budgeted for from the previous April, including the payments on account?	☐
E7	Where an employer pension contribution is intended to reduce a particular year's profit, is it paid before the accounting year end rather than merely resolved upon?	☐

F. Retained profit and closure

#	Review point	✓
F1	If a significant cash balance is held, is there a stated reason for holding it?	☐
F2	Has the effect of accumulated cash and investments on the company's trading status been considered on the overall facts, rather than by treating 20% as a statutory safe harbour?	☐

#	Review point	✓
F3	Is it understood that retaining profit defers the personal tax rather than removing it, and that rates may change in the meantime?	☐
F4	If closure is a possibility, have the Business Asset Disposal Relief conditions been checked well in advance — including the two-year period and the relevant 5% voting and economic-interest tests?	☐
F5	If closure is a possibility, has the winding-up anti-avoidance rule been considered in full — including the 5% interest, close-company, same-or-similar-trade and tax-purpose conditions?	☐

The five points most often found wanting

Not a ranking of importance — a ranking of how often each turns out to be missing.

1. **The loan account balance is not known during the year.** It appears when the accounts are prepared, by which time the nine-month deadline is close or gone.
2. **Dividend paperwork does not exist.** The payments were made; the minutes and vouchers were not.
3. **Distributable profits were never checked**, because the bank balance looked healthy.
4. **The salary figure was set once and never revisited**, through two changes in the employer National Insurance rate and threshold.
5. **Extraction is decided in March**, when the only remaining lever is which side of 5 April the money lands on.

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REINZA TRAINING

Module RT-101 — Reference List

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Every point in this module can be traced to a published official source. This page lists them by section, so that any figure or rule can be checked — by you, by your adviser, or by anyone else who has occasion to look.

Two notes on using it. HMRC internal manuals are cited by their reference (for example CTM61505); those references are stable even where a web address changes. And rates pages are superseded annually, so a page consulted in a later year will show that year's figures, not these.

Rates, thresholds and allowances (all sections)

Source	Covers
Rates and thresholds for employers 2026 to 2027, GOV.UK	Personal allowance, tax bands, National Insurance rates and all four thresholds, employment allowance
Tax on dividends, GOV.UK	Dividend allowance and the ordinary, upper and additional dividend rates
Corporation Tax rates and allowances, GOV.UK	Small profits rate, main rate, the profit limits and marginal relief
Change to tax rates for property, savings and dividend income — technical note, HM Treasury / HMRC	The two-percentage-point increase in the ordinary and upper dividend rates from 6 April 2026

Section A — Whose money is it?

Source	Covers
Companies Act 2006, Part 10	Directors' general duties
Salomon v A Salomon & Co Ltd [1897] AC 22, House of Lords	Separate legal personality
Insolvency Act 1986, sections 213 and 214	Fraudulent and wrongful trading

Section B — Salary

Source	Covers
Rates and thresholds for employers 2026 to 2027, GOV.UK	Secondary threshold, primary threshold, lower earnings limit, upper earnings limit
Claim the Employment Allowance, GOV.UK	The allowance and the single-director restriction
CA44 — National Insurance for company directors, HMRC	The annual earnings period and the alternative assessment method
Your State Pension explained, GOV.UK	Qualifying years, the transitional calculation for pre-6 April 2016 records, minimum qualifying years
National Minimum Wage and National Living Wage rates, GOV.UK	The current statutory minimum wage rates
NMWM05140 and NMWM04030, HMRC National Minimum Wage Manual	Directors and office-holders; a worker contract may be written, oral or implied
Corporation Tax Act 2009, sections 1288 and 1289; BIM47130 and BIM47135, HMRC Business Income Manual	The nine-month timing rule for unpaid remuneration, including remuneration of office-holders

Section C — Dividends

Source	Covers
Companies Act 2006, Part 23	Distributions, profits available for the purpose, relevant accounts, section 847
CTM15205 — dividends, distributions and company law, HMRC Company Taxation Manual	When interim and final dividends are treated as paid
Tax on dividends, GOV.UK	Rates, allowance and the top-slicing of dividend income

Section D — The director's loan account

Source	Covers
Director's loans, GOV.UK	Overview of the company's and the director's obligations
Corporation Tax Act 2010, sections 455, 458, 464ZA and 464ZB	The section 455 charge, relief on repayment, and the current bed-and-breakfasting rules

Source	Covers
CTM61625 and CTM61635, HMRC Company Taxation Manual	The thirty-day matching rule and the arrangements backstop, including the £15,000 and £5,000 conditions
Beneficial loan arrangements — HMRC official rates, GOV.UK	The official rate of interest, including its quarterly review
Expenses and benefits: loans provided to employees, GOV.UK	The £10,000 threshold, reporting and Class 1A
NIM12020, HMRC National Insurance Manual	Class 1A on beneficial loans and HMRC guidance on Class 1 National Insurance where a director's loan is written off
EIM26250 and EIM26257, HMRC Employment Income Manual	Interest on a beneficial loan: it must be actually paid for the year under an obligation that existed during that year; later payment can qualify, but a retrospective agreement cannot
CTM61600, CTM61610 and CTM98215, HMRC Company Taxation Manual	Section 458 relief: when relief becomes repayable and the four-year claim limit measured from the end of the financial year in which the loan is cleared

Section E — Timing

Source	Covers
CTM15205, HMRC Company Taxation Manual	The date a dividend is treated as paid, interim compared with final
Income Tax rates and Personal Allowances — income over £100,000, GOV.UK	The personal allowance taper
Understand your Self Assessment tax bill — payments on account, GOV.UK	The two conditions for payments on account, and the dates
Pension contributions and corporation tax relief, HMRC Business Income Manual (BIM46000 series)	The rule that employer contributions are relieved in the period paid

Section F — Not extracting at all

Source	Covers
Business Asset Disposal Relief, GOV.UK	Core eligibility, the two-year period, personal-company conditions and the 18% rate from 6 April 2026
HS275 Business Asset Disposal Relief (2026), GOV.UK helpsheet	Worked treatment and the £1 million lifetime limit
Capital Gains Tax rates and allowances, GOV.UK	Main rates and the annual exempt amount
Corporation Tax Act 2010, section 1030A	Distributions in anticipation of dissolution, and the £25,000 limit
Income Tax (Trading and Other Income) Act 2005, section 396B	The statutory targeted anti-avoidance rule on winding-up distributions

Source	Covers
Inheritance tax reliefs threshold to rise to £2.5m for farmers and businesses, GOV.UK news, 23 December 2025	The £2.5 million allowance for agricultural and business property from 6 April 2026, and 50% relief above it
Business Relief for Inheritance Tax, GOV.UK	Qualifying property, excepted assets, and the investment business exclusion
CG64051, HMRC Capital Gains Manual	The Business Asset Disposal Relief economic-interest test: 5% profits and winding-up assets, or 5% of proceeds on a hypothetical sale of the whole ordinary share capital
CG64090, HMRC Capital Gains Manual	Trading-company status and the meaning of “substantial”; the 20% figure is a review indicator, not a statutory safe harbour
CTM36305, HMRC Company Taxation Manual	The four conditions for the winding-up targeted anti-avoidance rule

A note on currency

Several figures in this module were changed within the last two years, and older published commentary has not always caught up. In particular:

- the employer National Insurance rate rose to 15% and the secondary threshold fell to £5,000, both from 6 April 2025;
- the ordinary and upper dividend rates each rose two percentage points from 6 April 2026, and the section 455 charge rose with the upper rate to 35.75%;
- business asset disposal relief rose to 18% for disposals on or after 6 April 2026;
- the combined agricultural and business property relief allowance was set at £2.5 million from 6 April 2026.

The section 455 anti-avoidance provisions cited in this list use the current CTA 2010 section numbers 464ZA and 464ZB; older commentary may still refer to former sections 464C and 464D.

When checking any figure, confirm which tax year the page you are reading applies to.

Reinza Limited, trading as Reinza Training. Module RT-101, reference list, version v1.1.