

2026/27 EDITION

Director & Owner- Manager Remuneration Strategy 2026/27

Updated for the April 2026 dividend rate rises

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Foreword

From April 2026, dividend rates have risen by 2 percentage points across the basic and higher bands (8.75% → 10.75%, 33.75% → 35.75%). For a director-shareholder extracting £150,000 a year in dividends, that's £3,000 of additional tax annually. Cumulated over a 20-year working life: £60,000+ — without any change in lifestyle or business performance.

This isn't a small change. It's the third consecutive tightening of the company tax wrapper in five years (after Corporation Tax rises in 2023, the dividend allowance cut, and now this). The arithmetic of director-shareholder remuneration has genuinely shifted.

This guide helps you navigate the new arithmetic. It assumes you already know roughly what salary, dividends and pension contributions are — and gets straight to optimising the mix.

The April 2026 dividend rate rises: what changed

Old rates (to March 2026)

Band	Income range	Rate
Basic	Up to £50,270	8.75%
Higher	£50,271–£125,140	33.75%
Additional	Above £125,140	39.35%

New rates (from April 2026)

Band	Income range	Rate	Change
Basic	Up to £50,270	10.75%	+2.00pp
Higher	£50,271–£125,140	35.75%	+2.00pp
Additional	Above £125,140	39.35%	unchanged

Dividend allowance

The £500 dividend allowance remains. This is a 0% band that applies to the first £500 of dividend income (the dividend still uses up your basic/higher rate band, but the 0% rate applies). For most director-shareholders, this is small change.

Why this isn't a small change

For a higher-rate taxpayer extracting £100,000 in dividends:

- Old: $£100,000 \times 33.75\% = £33,750$ tax
- New: $£100,000 \times 35.75\% = £35,750$ tax
- Additional cost: £2,000/year, or £40,000 over 20 years

For an additional-rate taxpayer extracting £200,000 in dividends (£75k in higher band + £75k in additional band, after personal allowance taper):

- Higher band element: $£75k \times (35.75\% - 33.75\%) = £1,500$
- Additional band: unchanged
- Additional cost: £1,500/year for someone consistently in this band

The compounding effect over a working life is what matters. £2,000/year invested over 20 years at 5% growth: £66,000.

Choosing the optimal director salary

For owner-directors with no other employment, the two viable salary choices are:

Option A: £5,000 (Secondary Threshold)

- £5,000 below the Primary Threshold (£12,570) — no employee NIC
- £5,000 below the Secondary Threshold (£5,000) — no employer NIC (technically equal to the threshold; many use £4,999 or £5,000)
- Uses just £5,000 of personal allowance
- Leaves £7,570 of personal allowance available for other income (e.g. property)

Best when: Employment Allowance is NOT available (sole director company), and director has other income that needs the personal allowance.

Option B: £12,570 (full personal allowance)

- Equal to Primary Threshold — no employee NIC
- £7,570 above Secondary Threshold — employer NIC of $£7,570 \times 15\% = £1,135.50$
- Uses full personal allowance against salary
- But Employment Allowance of £10,500 wipes out most employer NIC

Best when: Employment Allowance IS available (multiple employees, not sole-director), and director has no other income.

Decision matrix

Situation	Optimal salary
Sole director, no other income	£5,000
Sole director, has rental/other income	£5,000
Multi-director with EA available	£12,570 each
Director with full-time PAYE elsewhere	£0 (skip salary entirely, take dividends only)

Worked comparison — £100k profit, sole director

Option A: £5,000 salary, £85k dividends: - Salary tax: £0 - Salary NIC: £0 - Company profit (post salary): £95,000 - CT @ marginal: ~£23,375 - Net for dividend: £71,625, but only £85k drawn so cash overdraft of £13,375 — let's recalc: assume goal is to draw £100k personal - Salary £5k + Dividends £95k from profits net of CT - This needs deeper modelling — see Chapter 3

Option B: £12,570 salary, rest as dividend: - Salary tax: £0 (within PA) - Salary NIC: depends on EA - Company gets £12,570 tax deduction at marginal rate (~26.5%) = £3,331 CT saving - Plus £7,570 in employer NIC if no EA — outweighs the CT saving

The maths is closer than people think. **For a sole director without EA, Option A wins by ~£1,000–£1,500/year.**

Salary vs dividend: the post-April-2026 maths

The "combined wrapper rate" framework

For every £1 of company profit extracted via dividends:

1. Company pays CT first (effectively 19%, 26.5% marginal, or 25%)
2. Remainder paid as dividend
3. Personal dividend tax applied
4. Net to shareholder = $\text{£1} \times (1 - \text{CT rate}) \times (1 - \text{dividend rate})$

Combined wrapper rate = $1 - [\text{net to shareholder}]$

Combined rates 2026/27

For a director-shareholder paying 19% CT (small profits):

Personal band	Wrapper rate	Take-home of £1
Basic (10.75%)	27.7%	72.3p
Higher (35.75%)	47.9%	52.1p
Additional (39.35%)	50.9%	49.1p

For a director-shareholder paying 26.5% marginal CT:

Personal band	Wrapper rate	Take-home of £1
Basic (10.75%)	34.4%	65.6p
Higher (35.75%)	52.8%	47.2p
Additional (39.35%)	55.4%	44.6p

For a director-shareholder paying 25% CT (>£250k):

Personal band	Wrapper rate	Take-home of £1
Basic (10.75%)	33.1%	66.9p
Higher (35.75%)	51.8%	48.2p
Additional (39.35%)	54.5%	45.5p

Five worked examples

Scenario 1: Basic-rate target (£40k extraction) - £5k salary + £35k dividend - Company profit needed: £40k personal target / 0.723 (basic wrapper for 19% CT band) = ~£55,300 pre-tax - Actual: £5k salary (no employer NIC if at threshold) + company makes £50,300 pre-CT profit + £9,557 CT + £35,000 dividend ≈ £5,743 retained for next year

Verify: shareholder gets £5k salary + £35k dividend = £40k gross. Dividend tax: £500 allowance + £34,500 × 10.75% (still within basic band) = £3,709 tax. Net: £36,291. Personal effective rate on £40k drawn: 9.27%.

Scenario 2: Middle target (£75k extraction) - £12,570 salary + £62,430 dividend - Salary tax: £0 (within PA) - Dividend tax: £500 allowance + £37,200 (remaining basic band) × 10.75% + £25,230 (higher band entered) × 35.75% = £0 + £3,999 + £9,019 = £13,018 - Net: £75,000 - £13,018 = £61,982 - Personal effective rate: 17.36%

Scenario 3: Higher-rate target (£125k extraction) - £5k salary + £120k dividend - Salary tax: £0 - Dividend tax: £500 allowance + remaining basic band ~£44,770 × 10.75% + £74,870 × 35.75% = £0 + £4,813 + £26,766 = £31,579 - Net: £93,421 - Personal effective rate: 25.26%

Scenario 4: HNW target (£200k extraction, hits PA taper) - £5k salary + £195k dividend - Adjusted Net Income = £200k, personal allowance tapered to £100k mark — for £200k, PA = max(0, 12,570 - (200,000-100,000)/2) = max(0, 12,570 - 50,000) = 0 - Basic band: full £37,700 × 10.75% = £4,053 - Higher band: £74,870 × 35.75% = £26,766 - Additional band: £200,000 - £125,140 = £74,860 × 39.35% = £29,457 - (Salary uses up bands first, so £5k of the basic band is salary at 20%) - Total tax: salary £0 (PA gone but uses up first £5k of basic band, which absorbs into £0 IT since salary income still gets PA conceptually... actually with PA = 0, salary is taxable at 20% = £1,000) - Recompute: PA = 0; £5k salary @ 20% = £1,000; £195k dividend with £500 allowance, then £32,700 remaining basic band @ 10.75% = £3,515; £74,870 higher @ 35.75% = £26,766; £69,860 additional @ 39.35% = £27,489 - Total: £58,770 - Net: £141,230 - Personal effective rate: 29.4%

Scenario 5: Large target (£300k extraction) - Personal allowance: fully tapered - Basic + higher bands fill rapidly with salary + dividend - Bulk of extraction in additional rate at 39.35% - Effective personal tax rate climbs toward 33–34%

What this means in practice

For most owner-managers, **dividends remain marginally more efficient than salary** — but the gap is narrower than before. The right answer for any specific situation depends on:

- Total extraction target
- Other income (rental, employment elsewhere, spouse income)
- Pension contribution capacity
- Long-term plan (exit, IHT, family transfer)

The simplest rule of thumb: optimal salary + remainder as dividend, BUT divert as much as feasible to employer pension contributions before drawing dividends.

Employer pension contributions: the often-best option

Why pension wins

Employer pension contributions are uniquely efficient:

- **Deductible against corporation tax** — reduces CT bill
- **No employer NIC** — saves 15% vs salary
- **No employee income tax** — saves up to 45% vs salary, or 39.35% vs dividend
- **Doesn't count against £100k Adjusted Net Income** — preserves personal allowance
- **Doesn't trigger the 60% marginal rate trap** between £100k and £125,140
- **Treated as expense, not distribution** — doesn't affect distributable reserves

Limits

- **Annual allowance:** £60,000/year (gross). Tapered for those with adjusted income > £260,000, down to £10,000 minimum.
- **Carry forward:** unused annual allowance from prior 3 years can be used.
- **Wholly and exclusively rule:** contribution must be commercial — generally means proportionate to overall remuneration package.
- **Locked until age 55** (rising to 57 from 2028) — opportunity cost for younger directors.

Worked comparison — £20,000 to extract

Via dividend at higher rate: - Company makes £20,000 profit - CT at marginal: ~£5,300 → £14,700 net for dividend - Personal tax: £14,700 × 35.75% = £5,255 - Net to director: £9,445

Via employer pension: - Company contributes £20,000 - Deductible against CT → ~£5,300 CT saved - Net cost to company: £14,700 - Director's pension pot grows by £20,000 (vs £9,445 cash) - Gain: £10,555 (or 112% better)

Scenarios where pension is the clear winner

1. **Director over 50** — pension benefit unlocks within 5–7 years
2. **Director in the 60% trap** (Adjusted Net Income £100k–£125,140) — pension contributions can move ANI back below £100k, restoring the personal allowance
3. **Director planning to sell in 5+ years** — exit cash plus pension creates two extraction routes

4. **Director with other liquid wealth** — doesn't need the cash immediately

Scenarios where pension is the wrong answer

1. **Director under 35** with no other liquid wealth — money locked for 22+ years, opportunity cost is real
2. **Director needing cash for business reinvestment** — keep capital in the company instead
3. **Director who has already used their lump-sum allowance** — the £268,275 tax-free lump-sum allowance (which replaced the Lifetime Allowance, abolished from 6 April 2024) is used up, so further benefit comes out taxed at the marginal rate on drawdown
4. **Director planning to relocate abroad** — UK pension drawdown may be inefficient in new jurisdiction

The £125k–£100k pension "60% trap" play

Income between £100k and £125,140 attracts an effective marginal rate around 60% because:

- Standard 40% income tax on the slice
- PLUS the loss of £1 of personal allowance for every £2 of income above £100k (the lost PA is taxed at 40%, equivalent to another 20% on that £2 slice)

A £25,140 pension contribution by someone with £125,140 of taxable income:

- Reduces ANI from £125,140 to £100,000
- Restores full £12,570 personal allowance
- Effective tax saving: ~£15,000 on a £25,140 contribution
- Net cost: £10,140 for £25,140 of pension growth = 251% effective benefit

This is the single most lucrative tax planning opportunity available to UK director-shareholders earning between £100k and £125k.

Benefits in kind: EV cars, salary sacrifice, healthcare

Electric Vehicle BIK

For 2026/27, EV company cars are taxed at just **4% of list price** as a Benefit in Kind:

- £50,000 EV → £2,000 BIK
- Higher-rate director pays £800 income tax
- Company pays £300 employer NIC

Compare to a petrol equivalent at typically 30%+ BIK rate — £15,000 BIK, £6,000 income tax, £2,250 employer NIC.

Plus the company can claim 100% Full Expensing (new car only) on the EV — recovering the entire cost as a deduction.

Salary sacrifice for EVs

A director can sacrifice salary in exchange for an EV. Benefits:

- Gross salary sacrificed (saves income tax + NIC)
- EV BIK applied (low rate)
- Net cost to driver typically 40–50% lower than buying personally

The "Optional Remuneration Arrangement" (OpRA) rules from 2017 reduced the benefit for most BIKs — but EVs were specifically excluded from these restrictions until 2026, and the favourable treatment was extended.

Healthcare BIK

Private medical insurance is a taxable BIK at the cost the company pays. For a £1,500/year policy:

- Higher-rate director: £600 income tax
- Company: £225 employer NIC
- Net cost to extract equivalent salary then buy yourself: ~£1,200 personal cash
- Savings vs personal: marginal but real

Mobile phones — the surprising exception

A company-provided mobile phone (one per employee) is **tax-free**, including private use. This is a small but consistent saving.

Director loans and the s.455 charge

What is a director loan account (DLA)?

The running balance of money owed between the company and a director. Credit balance (company owes director): generally fine, can be repaid tax-free. Overdrawn balance (director owes company): tax implications.

The s.455 charge

If the DLA is **overdrawn at the year end and not repaid within 9 months**:

- Company pays **33.75% s.455 tax** on the overdrawn amount
- Refundable when the loan is eventually repaid (9 months after the year-end of repayment)
- Effectively a cash-flow tax on retained value

The £10,000 BIK trap

If the DLA balance exceeds £10,000 at any point in the tax year:

- A benefit-in-kind charge applies at HMRC's "official rate" (currently 2.25%)
- For a £25,000 DLA: BIK is $£25,000 \times 2.25\% = £562.50$
- Higher-rate director: £225 income tax + £84 employer NIC

Bed-and-breakfasting rules

Repaying a loan just before year-end and re-borrowing immediately after used to dodge s.455. HMRC closed this — if more than £15,000 is repaid then re-borrowed within 30 days, the original loan is treated as continuing.

Legitimate uses of director loans

- **Short-term cash advances** repaid before the 9-month deadline
- **Bridge financing** for a director buying back into the company
- **One-off opportunities** where the alternative is taxable extraction
- **Mortgage-style repayment plan** with a written loan agreement

When director loans become a trap

- Accumulated personal expenses through the company that should have been salary/dividend

- "I'll pay it back next year" mentality with no formal agreement
 - Repaying just before year-end then drawing back out (caught by anti-avoidance)
 - Loans that exceed available distributable reserves (could be deemed unlawful distribution)
-

Spouse and family income shifting

Spouse on the payroll

Bringing a spouse onto the company payroll is legitimate if:

- They perform genuine work (admin, bookkeeping, reception, marketing)
- Their pay is commensurate with the role (not £50,000 for occasional admin)
- PAYE and NIC are operated properly
- There's a written employment contract

Joint shareholding and dividend distribution

Issuing shares to a spouse so dividends can be split:

- Each spouse uses their own £500 dividend allowance
- Each uses their own basic rate band (£37,700)
- Each may have their own personal allowance

For a couple drawing £100k total dividends:

- One spouse only: £33,750–£35,750 tax (post-2026 rates)
- Split 50/50: each draws £50k, both within higher rate band, but more basic-rate band used = ~£28,000–£30,000 total tax
- Saving: ~£5,000–£7,000/year

The settlements legislation — what HMRC challenges

The settlements legislation can re-attribute "settled" income to the original earner if:

- The arrangement is a bounteous arrangement (gift-like)
- The settlor retains an interest
- The spouse's "income share" is wholly or substantially disproportionate to genuine contribution

The Jones v Garnett (Arctic Systems) case from 2007 settled that ordinary spouse shareholdings with full rights are NOT caught — provided the shares are genuine ordinary shares with full voting and capital rights.

What HMRC will challenge

- Alphabet shares with discretionary dividends to spouse-class only

- Non-voting "B" shares carrying only dividend rights
- Shareholding given on condition of returning value
- Shareholdings transferred shortly before dividend payment

What HMRC won't challenge

- Spouse owning ordinary shares with full rights (voting, capital, dividend)
 - Spouse acquired shares at the same time as the founder (or with valid consideration)
 - Spouse genuinely contributes time/effort to the business
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Exit planning: BADR and Investors' Relief

Business Asset Disposal Relief (BADR)

- 18% CGT rate
- £1 million **lifetime limit** (note: this is a lifetime cap, not annual)
- For shares: requires 5%+ shareholding, employed or officer for 2+ years
- For sole trader / partnership: business assets used in the trade

The 24-month qualifying period

Most BADR claims fail on the 24-month test:

- Must have held the shares for 24 months prior to disposal
- Must have been employed/officer for that 24-month period
- Company must have been trading throughout

Implication: stop any non-trading activity at least 24 months before sale. A holding company that has cash investments or a property held for personal use can taint the BADR position.

Pre-sale BADR planning checklist (24 months before exit)

- ☐ Confirm 5%+ shareholding (or restructure to achieve)
- ☐ Confirm employment/officer status (resign from board → BADR lost)
- ☐ Confirm trading status (review investment activities, idle cash, etc.)
- ☐ Spousal share arrangements in place (uses spouse's £1m BADR pool)
- ☐ Director loan accounts cleared (overdrawn DLAs become taxable distribution on exit)
- ☐ Personal pension contributions maximised (the last year before exit is your last chance)

Investors' Relief — for the patient minority shareholder

For shares held by external, non-employee investors in unlisted trading companies:

- 18% CGT rate (same as BADR)
- £1 million lifetime limit (cut from £10m for disposals on or after 30 October 2024 — now shares the same cap as BADR)
- 3-year minimum holding period
- Must be subscribed-for (new) shares, not bought from a prior shareholder

The point of Investors' Relief is no longer a larger cap — it is its *eligibility*: it reaches external investors who can't claim BADR because they aren't employees or officers of the company.

Useful for:

- Outside investors in a friend's business
- Family members holding shares but not employed
- Angel investors in pre-IPO companies

Dividends in the run-up to sale

The conventional wisdom is to stop dividends in the year before sale, since dividends reduce distributable reserves and can affect the multiple. But there's a counter-argument:

- Dividends at 10.75–39.35% personal tax may still be better than leaving cash in the company to be taxed at the CT rate then potentially again on exit
- If a buyer would discount distributable reserves regardless, you may as well extract first
- Pension contributions in the pre-sale year are particularly valuable — last chance to extract corporate cash tax-efficiently

This is highly fact-specific. Model both routes.

Pre-extraction checklist

Use this list each year-end to validate your remuneration strategy:

- ☐ Optimal salary set (£5,000 or £12,570 based on EA availability)
 - ☐ Pension contributions reviewed against annual allowance + carry forward
 - ☐ 60% trap (£100k–£125k ANI) actively managed if applicable
 - ☐ Spouse income optimisation considered if applicable
 - ☐ EV salary sacrifice considered for any new car needs
 - ☐ DLA position reviewed — clear or document
 - ☐ Dividend voucher and minutes documented for each dividend declaration
 - ☐ Distributable reserves verified before any dividend declared
 - ☐ Forward-looking 24-month plan for any exit considerations
 - ☐ Annual review with adviser, not just at year-end
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How The Tax Lead can help

The Tax Lead provides remuneration strategy advice for UK director-shareholders. We handle:

- Annual remuneration package optimisation
- Dividend voucher and board minute compliance
- Pension contribution planning, including 60% trap management
- BIK structuring for EVs, healthcare and other benefits
- DLA management and s.455 mitigation
- Pre-exit BADR qualification review

Founded by Shamim Bhuiyan FCCA, CTA, BSc — Forvis Mazars trained Corporation Tax Specialist, currently Head of Tax — Europe at a major digital infrastructure operator.

Free 30-minute consultation: thetaxlead.co.uk/contact

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