

TAKE ADVANTAGE OF THE £2,000 EMPLOYMENT ALLOWANCE FROM 6.4.2014

The new £2,000 “employment allowance” that provides relief from paying employers NIC on the first £2,000 of contributions starts 6 April 2014. For many employers the benefit of the £2,000 relief will be obtained in month 1 by reducing employers NIC payable, for others it could take several months before credit for the £2,000 is obtained on a cumulative basis.

This new relief appears to be available to most employers, including one man band companies, and leads us to consider a change of profit extraction strategy from 6 April 2014 as it will be more advantageous to increase directors’ salaries to £10,000 instead of the NIC threshold of £7,956.

The extra £2,044 will save £409 (20%) corporation tax (£818 for two directors) whereas the additional employees NIC would be just £245 each.

Husband and wife company - from 2014/15:

Salary - £9,755 net = gross £10,000
Dividend up to BR band £28,678 net = gross £31,865
Top of BR band £41,865
Net cash extracted(each) £38,433
Total extracted: £76,866

There would however be 20% corporation tax payable.

Profits before tax £71,695 @ 20% = £14,339 corporation tax, thus profits before salaries and tax would be £91,695.

This results in an overall tax and NIC rate of just 16.2%.

A salary in excess of £10,000 would attract income tax (at 20%) and employee’s NIC at 12.2%.

**Please call 0151 647 6681, email enquiries@mcwallace.co.uk
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