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Indie Dev' Guide
Personal tax

Introduction

As a director of a UK Limited company you are legally required to register for self-assessment and submit personal tax returns annually from the tax year in which you become a director.

In addition, if you are a shareholder of a company and receive dividend income in excess of your personal allowance and dividend allowance, you will also be required to submit personal tax returns.

The personal tax return incorporates all your personal taxable income (e.g. salary and dividends) in the tax year in order to compute your tax liability for the year.

Important dates

The tax year begins on 6 April and finishes on 5 April.

If you submit a paper personal tax return it is due for submission to HM Revenue & Customs by 31 October following the end of the tax year.

The majority now submit online and if you do so, the deadline for submission is extended to the following 31 January.

Your tax liability for the previous tax year ended 5 April is due for payment by 31 January (the same date for submitting your return online).

If your liability for the previous tax year was more than £1,000, HM Revenue & Customs will automatically assume your liability will be the same for the next tax year. In this case they will request that you make two payments on account towards your liability for the next year. The payments on account are 50% each of the previous year's liability. The first payment is due on 31 January (along with the tax due for the previous year). The second payment is due on the following 31 July.

The two payments are offset against your actual tax liability for the year. You can claim to reduce these payments on account, if you has good reason to believe your liability will be lower the following year and can compute a reliable estimate of your liability. If you do reduce them and the tax is higher, you may be liable to interest on the underpayment of your payments on account.

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In a typical director/shareholder company the director will be remunerated by way of a tax efficient mixture of salary and dividends.

In 2019/20, commonly the director will receive a basic salary of £8,632, which is the limit before National Insurance deductions are incurred, but ensures they still receive their credit towards their state pension. The company also saves corporation tax on this salary.

The director will then receive dividends to top up their income.

In 2019/20, assuming no other sources of taxable income, the director could receive a further £3,868 in dividends before reaching their income tax free personal allowance threshold of £12,500.

The director could then receive a further £2,000 dividends, which are covered by their dividend allowance.

This equates to a total income of £14,500 tax free.

Any further dividend income at the basic rate of tax (between £14,501 and £50,000) would be taxed at 7.5%. This means for every £1,000 of dividends paid, the personal tax liability would be £75.

The tax rate on dividends received above £50,000 increases to 32.5%. This means for every £1,000 of dividends paid, the personal tax liability would be £325.

The director may wish to consider alternative methods of remuneration, especially if they are considering Video Games or R&D Tax Relief claims, where only salary qualifies as expenditure and dividends paid do not.