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Salary vs Dividends: Comparing Your Options for £45,000

*How the numbers stack up for company directors **in the 2026/27 tax year.***

Why this matters

If a company wants to pay a director a total of £45,000 in a tax year, there is more than one way to structure it: as salary, as a mix of a low salary topped up with dividends or somewhere in between. The route chosen changes how much tax is paid both by the company and by the director personally and can make a difference of several thousand pounds. This guide compares two common structures using confirmed rates for the 2026/27 tax year (6 April 2026 to 5 April 2027).

Assumptions used in this comparison

- The director is the sole director and only employee of the company, so the company cannot claim the Employment Allowance
- This is the director's only source of income, and the standard personal allowance applies
- UK-wide rates are used throughout: dividend tax rates and the dividend allowance are the same across the whole of the UK, including Scotland
- The minimum salary option is set at £12,570, matching the personal allowance and the employee National Insurance threshold, so no income tax or employee National Insurance is due on it. The Lower Earnings Limit of £6,708 has not been used as HMRC take the view that a 'Living Wage' should be taken and £6,708 is hardly a living wage
- Corporation tax is assumed at the small profits rate of 19%, which applies where a company's profits are £50,000 or less

What reaches the director personally

This table shows what happens to the same £45,000 once it leaves the company, under each approach.

	Full salary £45,000	Min salary £12,570 + dividends £32,430
Income tax	£6,486.00	£0.00
Employee's National Insurance	£2,594.40	£0.00
Dividend tax	not applicable	£3,432.48
Total personal tax and NI	£9,080.40	£3,432.48
Net take-home	£35,919.60	£41,567.53

The headline difference

Taking the same £45,000 as a low salary topped up with dividends leaves about £5,648 more in take-home pay than taking it all as salary, an improvement of roughly 16%. This is because the dividend portion avoids employee's National Insurance entirely and dividend tax rates (10.75% in the basic band) are lower than the combined income tax and National Insurance rate on salary (28% in the basic band).

What it costs the company to provide that £45,000

Salary (plus employer's National Insurance on it) is deductible against corporation tax which reduces the company's tax bill. Dividends can only be paid out of profit after corporation tax has already been charged, so the two routes draw on different amounts of company profit to deliver the same £45,000.

	Full salary	Min salary + dividends
Employer's National Insurance	£6,000.00	£1,135.50
Corporation tax	£0.00 (fully offset by the deduction)	£7,607.04
Company profit required	£51,000.00	£53,742.54
Total tax, company and personal combined	£15,080.40	£12,175.01
Take-home as a share of profit used	70.4%	77.4%

The overall picture

The dividend route does ask the company to generate about £2,743 more in pre-tax profit to fund the same £45,000 payout because of the corporation tax charged before the dividend is paid. Even so, it remains the more efficient route overall: only 22.7p of every £1 of company profit used is lost to tax across both the company and the director personally, compared with 29.6p under the full salary route.

A COMMON MISCONCEPTION

A salary of £12,570 is not required to protect a State Pension qualifying year as is sometimes assumed. HMRC credits a full qualifying year to anyone earning at or above the Lower Earnings Limit, which is £6,708 for 2026/27, well below the Primary Threshold where National Insurance actually becomes due. Earnings between the two are treated as 'zero-rate' contributions: no National Insurance is paid, but the year still counts. In practice this means the personal take-home shown above would be identical even at a £6,708 salary; the choice between £6,708 and £12,570 comes down to a small difference in company-level cost, plus non-tax factors such as mortgage applications and pension relevant earnings, covered below, rather than any risk to the State Pension record.

Points beyond the tax figures

- A higher salary builds a stronger figure for mortgage or loan affordability assessments since some lenders give limited weight to dividend income
- Salary creates relevant UK earnings which matters for tax-relievable personal pension contributions (dividends do not count towards this) so a higher salary supports larger pension contributions
- Statutory sick pay and maternity or paternity pay are based on salary so a very low salary reduces what could be claimed
- Dividends can only be paid from retained, distributable profit and must be paid in proportion to shareholding where there is more than one shareholder

ASSUMPTION

The corporation tax figures above assume the small profits rate of 19%, which applies when a company's profits are £50,000 or less. If a company's total annual profits are higher (so marginal relief or the 25% main rate applies instead) the corporation tax cost of the dividend route would rise, narrowing, though not eliminating, its advantage. It is always worth checking a company's actual profit level or getting in touch with us to confirm the figures against your specific accounts before settling on a remuneration strategy.