

# NEWSLETTER - Jul'20

## WELCOME

"With each unique client we challenge ourselves to ensure you achieve strategic growth within your organisation"

We achieve this with emphasis on  
clear and concise reporting

HELPING YOU MAKE THE CONNECTION BETWEEN  
SALES, FINANCE & PROFITS

**F D** OUTSOURCE

more than accountants

# RESTARTING SALARY FROM YOUR COMPANY

You've not drawn salary from your company for the last three months because its income was significantly reduced. It's now improving and you're restarting your salary next month. Is it worth paying yourself the arrears?

That's because workers often scramble to take any remaining holiday entitlement before the leave year ends in December. Especially if they can't carry holiday over into the next year. This can leave your workforce seriously stretched over the festive period. So what are your alternatives?

## **Back To Normal ?**

If you're one of the many company owner managers who reduced or took no salary because of the financial fallout of coronavirus, you might now be thinking about the right time to reinstate it. You might also be worrying about the effect the crisis will have on this year's financial results and if the company will make an overall loss. If so, would it be tax efficient for you to reinstate your salary?

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## Tax Efficiency

There are two tax regimes to consider when thinking about salary and tax efficiency: corporation tax (CT) for the company and personal tax (and NI) for yourself. While they are independent of each other both must be taken into account.

### Corporation Tax

Your company is entitled to a tax deduction for the salaries it pays. This applies even when the company makes a loss for a financial year. The salary will increase the loss but that doesn't mean it's not tax efficient to take it. **TIP:** Even while your company has no CT to pay for a loss-making year it can use the loss to reduce its tax bill for the previous year and claim the resulting refund. Or, where it didn't pay CT for the previous year it can instead use the loss to reduce its next tax bill. Either way your company gets a tax deduction for your salary.

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## Personal Tax

Unlike CT, the tax efficiency of salary isn't affected by whether or not the company makes a profit. Instead it depends on your total income for the tax year (not that for the company's financial year). Taking account of your other income (as best as you can estimate at this time) aim to take a salary that brings your income to at least equal your tax-free allowances and reliefs. For 2020/21 that's a minimum of £12,500 but could be more. The NI-free amount is lower at around £9,000 and it can be more tax and NI-efficient overall to limit your salary to this.

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**TIP:** If you're unsure whether or not to reinstate your salary and/or pay yourself any arrears, you can leave the decision to as late as 5 April 2021 (the last day of the 2020/21 tax year). If you need to take income sooner but can't take it as dividends, borrow the money and repay it from your salary, when you do restart it (or dividends).

**TIP:** On the other hand, if the lack of cash available in your company is deterring you from taking a salary from your company to achieve tax efficiency, this needn't pose a problem. Your company can pay you a salary in principle but you don't have to draw the money for it to count as paid for personal tax and deductible for CT purposes. You can leave it on account indefinitely as a credit to your director's loan account until the company can afford for you to take it. This means tax efficiency can be achieved for the cost to your company of PAYE tax and NI (if any) payable

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The lack of cash or current year's profits shouldn't prevent you from awarding yourself a salary. It will be tax efficient as long as your company has enough profits in the previous financial year or any future one. The total salary should at least equal your tax and NI-free allowances. Leave the salary in the company if it hasn't got enough cash to pay it.

To Our Stakeholders

FD Outsource is committed to working directly with Sales Driven MD's within their specialised sector to ensure they achieve continual strategic growth.

The Strategic Growth can be measured against the business plan using quantifiable financial measures.

These financial measures can be within Sales/Revenue, Gross Margins, Cashflow, Profitability and Net Worth.

The milestones set in the business plan will be monitored and reviewed at regular intervals through the business life cycle with continual focus on succession planning with the management team.

Our internal core values can be seen within our 5c Guarantee provided to all clients. These are:

- CCommunication
- CCreativity
- CCoherence
- CCommitment
- CConclusion

### Analyse , Identify and Plan

Our priority is that cash flow doesn't become a Barrier to Growth and business profits be converted in to personal wealth.

Sincerely

A handwritten signature in white ink that reads 'Mark Terrington'.

Mark Terrington  
Founder & CEO

WE WORK WITH SALES DRIVEN  
BUSINESS OWNERS

HELPING YOU MAKE THE CONNECTION  
BETWEEN  
SALES, FINANCE AND PROFITS



For a Free discussion on how you can  
make the connection and convert  
business profit in to personal wealth.  
Contact us today

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