

F E B R U A R Y 2 0 2 6

SPOTLIGHT ON:

Salary, dividends and pensions:
Your 2026 pay guide



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PAYING YOURSELF THIS YEAR

Paying yourself from your business sounds simple until you start weighing up salary, dividends and pensions, and how each one affects your take-home pay. The “best” answer also shifts depending on profits, cashflow and what else is going on at home, for example, child benefit, student loans or whether you are close to the higher-rate tax threshold.

This guide breaks down the main options for the 2025/26 tax year and explains the key thresholds that tend to shape decisions. It is designed as a practical reference you can come back to when you are planning the year ahead, topping up income, or thinking about longer-term savings. Where it helps, we flag the points that usually need a quick check before you act.



THE 2025/26 NUMBERS THAT DRIVE MOST DECISIONS

These are the figures that typically matter when deciding how to extract income.

INCOME TAX BANDS AND PERSONAL ALLOWANCE FOR ENGLAND, WALES AND NORTHERN IRELAND IN 2025/26

- **Personal allowance:** £12,570
- **Basic rate:** 20% on taxable income up to £50,270
- **Higher rate:** 40% on taxable income from £50,271 to £125,140
- **Additional rate:** 45% over £125,140

The personal allowance reduces by £1 for every £2 of income above £100,000.

If you pay Scottish income tax (on non-savings, non-dividend income), the bands and rates differ. HMRC publishes Scottish PAYE rates for 2025/26.

NATIONAL INSURANCE (NI)

NI often makes salary decisions more sensitive than people expect.

Employees (Class 1 primary) in 2025/26 (category A, most common):

- 0% up to the primary threshold
- 8% on the main band
- 2% above the upper earnings limit.

Employers (Class 1 secondary) in 2025/26 (category A):

- **15%** once earnings exceed the secondary threshold.

Key thresholds include:

- **Primary threshold** (employee NI starts): £12,570 per year
- **Secondary threshold** (employer NI starts): £5,000 per year
- **Lower earnings limit** (protects benefit entitlement even when no NI is due): £6,500 per year.

DIVIDENDS, ALLOWANCE AND TAX RATES

Dividends do not attract NI, but they do come with their own tax rules.

- **Dividend allowance:** £500 (taxed at 0%, it does not extend your tax bands)
- **Dividend tax rates (2025/26):**
 - 8.75% (basic rate band)
 - 33.75% (higher rate band)
 - 39.35% (additional rate band).

A useful reminder from HMRC's published material: over 90% of UK taxpayers do not receive taxable dividend income, which is one reason dividend reporting rules catch people out when they start investing or running their own company.

CORPORATION TAX REMINDER (BECAUSE DIVIDENDS COME FROM POST-TAX PROFITS)

If you run a limited company, dividends are paid from profits after corporation tax.

For company profits (nonring-fenced) the main published rates are:

- **19% small profits rate** for profits under £50,000
- **25% main rate** for profits over £250,000
- **profits between £50,000 and £250,000** pay the main rate reduced by marginal relief.

This matters because "dividends are lower taxed than salary" is not always true once you include corporation tax;



WHAT SALARY GIVES YOU AND WHAT IT COSTS

Salary can still play a useful role even where dividends are available.

- It uses your personal allowance predictably.
- It creates “earned income”, which can matter for certain reliefs and for personal pension contribution limits.
- It helps build entitlement for state benefits, depending on levels and credits, and the lower earnings limit is the key figure for many people.
- It is a deductible business cost for corporation tax when paid wholly and exclusively for the trade (normal remuneration rules apply).

EMPLOYER NI NOW STARTS AT £5,000

The employer NI threshold for 2025/26 is £5,000 per year, and the employer rate (category A) is 15%.

That means a salary set close to the personal allowance may create an employer NI cost unless another relief offsets it.



EMPLOYMENT ALLOWANCE CAN OFFSET EMPLOYER NI

Employment allowance can reduce an eligible employer's annual Class 1 NI bill by up to £10,500, but not everyone qualifies.

Two common points to be aware of are:

- a company with only one director must not have that director as the only employee liable for employer (secondary) NI if it wants to claim
- connected companies can only claim once across the group.

For some single-director companies, employer NI becomes a significant cost of running a salary strategy.

FOR DIRECTORS AND NI, TIMING CAN MATTER

Directors are subject to specific NI calculation rules (an annual earnings period), which means payroll timing can affect deductions. This is one area where it is worth modelling rather than relying on rules of thumb.

HOW DIVIDENDS WORK AND THE PRACTICAL LIMITS

Dividends can be a tax-efficient tool, but only when you follow the underlying company law and tax rules.

DIVIDENDS ARE ONLY AVAILABLE WHEN THE COMPANY HAS DISTRIBUTABLE RESERVES

A limited company can only pay dividends from distributable profits (after accounting for accumulated losses). If reserves are tight, salary or pension contributions may be the only practical routes.

DIVIDENDS ARE NOT DEDUCTIBLE FOR CORPORATION TAX

Salary reduces taxable profits. Dividends do not. That is why dividend planning should always include a corporation tax view, not just your personal tax position.

DIVIDEND ALLOWANCE AND REPORTING

In 2025/26, the dividend allowance is £500, and dividend tax rates depend on your income tax band.

Dividends also feed into other calculations that are based on total taxable income, for example adjusted net income (see child benefit, below).

PENSIONS ARE OFTEN THE MOST TAX EFFICIENT “PAY YOURSELF LATER” OPTION

For many owner managers, pensions sit alongside salary and dividends, rather than competing with them.

PENSION CONTRIBUTIONS CAN REDUCE TAX IN MORE THAN ONE PLACE

Depending on how you fund them, pension contributions can:

- reduce personal income tax (personal contributions, subject to limits and relief method)
- reduce corporation tax (employer contributions, subject to normal deductibility rules)
- avoid NI when made as an employer contribution, which is often a key advantage versus extra salary.

ANNUAL ALLOWANCE IN 2025/26

The annual allowance is £60,000 in 2025/26. High earners can face the tapered annual allowance. HMRC's published thresholds for 2025/26 include:

- threshold income limit of £200,000
- adjusted income limit of £260,000
- minimum tapered annual allowance of £10,000.

If you have already flexibly accessed pension benefits, the money purchase annual allowance is £10,000 for 2025/26.

PERSONAL CONTRIBUTIONS DEPEND ON RELEVANT EARNINGS, BUT DIVIDENDS USUALLY DO NOT COUNT

Tax relief on personal pension contributions is generally limited to 100% of relevant UK earnings.

If most of your income comes from dividends, that can restrict how much you can contribute personally with tax relief. Employer contributions from your company can often solve that issue, subject to the annual allowance and the company's position.

FOR NON-EARNERS AND LOW EARNERS, SMALL CONTRIBUTIONS STILL GET RELIEF

If you earn less than £3,600 a year, you can still get tax relief on contributions up to £2,880 net (grossed up to £3,600).

PENSION PARTICIPATION REMAINS HIGH

The latest government figures show that around 89% of eligible employees in Great Britain saved into a workplace pension in 2024 (21.7m people). Overall participation across all employees was around 82% (23.3m people).

For business owners, the message is simple: pensions remain a mainstream, tax-advantaged way to build long-term assets.

COMMON APPROACHES BY BUSINESS TYPE

LIMITED COMPANY OWNER-MANAGERS

Most extraction plans blend the three routes.

- 1. A base salary**, often set with NI thresholds and benefit entitlement in mind.
- 2. Dividends** as the flexible top-up, assuming reserves allow.
- 3. Employer pension contributions** where cashflow supports longer-term saving.

What changes the answer quickly is:

- whether the company can claim employment allowance
- whether your total income approaches £50,270 (upper earnings limit for NI and higher rate tax-entry point)
- whether your total income approaches £100,000, where the personal allowance starts tapering.

Why employer NI now matters

If a company pays a director a salary of £12,570 in 2025/26, then:

- employee NI is generally nil at that level (it starts above £12,570)
- employer NI may apply above £5,000 at 15% unless reliefs are available.

If the company cannot claim employment allowance, that employer NI cost can reduce or remove the historical advantage of “salary up to the personal allowance”. If the company can claim employment allowance, the cost may be fully offset.

This is exactly where a tailored comparison helps, because corporation tax, profits and cash extraction needs all interact.

SOLE TRADERS AND PARTNERSHIPS

When you do not have dividends, you draw profits. In practice, “pay yourself” planning often focuses on:

- understanding profit levels early enough to avoid surprises in payments on account
- using pension contributions to reduce taxable income where appropriate.
- watching the same thresholds (higher rate entry, personal allowance taper, child benefit charge).

If incorporation is on the table, you should run a full comparison. The decision includes legal responsibilities, profit volatility and admin costs, not just tax.

HOUSEHOLD ISSUES THAT CAN CHANGE THE “BEST” ANSWER

THE HIGH-INCOME CHILD BENEFIT CHARGE AND DIVIDENDS

The high-income child benefit charge (HICBC) applies when adjusted net income exceeds £60,000 (for tax years starting from 2024/25 onwards).

Adjusted net income includes dividends. The House of Commons Library explains that child benefit is fully withdrawn by £80,000 under the current taper design.

This means dividend planning can have a direct impact on whether your household keeps child benefit.



STUDENT LOAN REPAYMENTS

If you are self employed or complete self assessment for another reason, income can be assessed across the year. HMRC works out student loan repayments from your self assessment return, and repayments are based on your income for the whole year.

A practical example from the Low Incomes Tax Reform Group shows plan thresholds for 2025/26, including Plan 1 (£26,065) and Plan 2 (£28,470), and how self assessment can apply when income is spread across sources.

For company directors taking dividends, this is worth checking carefully. Payroll deductions may not be the full story if you also complete self assessment.

WHAT HAS BEEN ANNOUNCED FOR AFTER 5 APRIL 2026

This guide uses 2025/26 figures, but “pay yourself in 2026” often means decisions that fall into the next tax year. HMRC has published measures that would increase dividend tax rates from 6 April 2026, including raising the ordinary and upper dividend rates.

If you expect to pay dividends around the tax year end, it may be worth scheduling a short review before 5 April 2026 to confirm timing, reserves and the most current rules.

PRACTICAL CHECKLIST FOR THE REST OF 2025/26

If you want to take action before 5 April 2026, these steps usually provide the most value.

1. **Forecast your total personal income** for the tax year, including salary, dividends, benefits, interest, rental income and any other taxable income.
2. **Identify which thresholds you are near**, especially £50,270, £60,000, £100,000 and £125,140.
3. **Confirm whether your company can claim employment allowance**, and if not, quantify employer NI when setting salary levels.
4. **Check distributable reserves** before declaring dividends, and document dividend decisions properly.
5. **Review pension scope**, including annual allowance position, taper risk and whether employer contributions make more sense than personal ones.
6. **If child benefit applies**, model adjusted net income and consider whether pension contributions could reduce exposure to the charge.
7. **If you are in self assessment**, include student loan considerations in the forecast, especially if income is split between payroll and other sources.

Before the end of the tax year, it is worth taking a step back and checking how your actual numbers compare with what you planned, especially if profits have moved, you have taken irregular dividends or your household income has changed. A simple forecast for the remainder of 2025/26 can show whether you are about to cross a key threshold, whether a pension contribution could reduce tax, or whether a different mix of salary and dividends would leave you better off while still protecting cashflow.

If you would like a sense check, we can run a few scenarios using your year-to-date figures and what you expect to draw between now and 5 April 2026, then set out clear next steps.



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