

# How much salary should a contractor pay themselves as director?

## Introduction

Contractors working via their own limited companies need to pay themselves a salary. This article discusses the level of salary to pay depending on IR35 status.

## Tax and IR35 issues

An optimum salary minimises the tax burden and maintains a working year credit towards the State Pension Scheme.

The optimum salary level depends largely on the IR35 status of your contract – inside or outside IR35.

## Outside IR35

Before IR35, most contractors paid themselves a salary around £5,000 per annum, with the balance being paid out as dividends.

Contractors outside of IR35 should still continue with a salary of around £5,000.

One advantage is that £5,000 is just above the threshold for National Insurance Contributions. Paying a very small amount of N.I. Contributions means you will receive a "working year" credit towards the State Pension Scheme.

There is also an income tax advantage by claiming your personal allowances against a salary.

## Inside IR35

Contractors inside IR35 cannot use the option of low salary with dividends.

The IR35 legislation effectively forces all income, after certain allowable expenses, to be paid in the form of a salary only.

The exact amount of the salary needs to be calculated in accordance with the HMRC criteria, which can be found on the [HMRC website](#). You can also use the IR35 calculators on [www.ir35calc.co.uk](http://www.ir35calc.co.uk).

During the year, a salary is drawn "on account" of the amount deemed by IR35. Each month a best estimate of the IR35 deemed salary can be paid - approx 75% of the IR35 contractual income. For example, if monthly contractual income is £5,000, then you a suitable gross salary "on account" would be £3,750.

The figures would be slightly different if you were making use of a [contractor pension](#) to [reduce the amount of IR35](#) taxes you pay.

The exact calculation of the IR35 "deemed payment" can be done in late March, and the balancing "IR35 bonus" can be made prior to the end of the tax year on 5 April.

## National Minimum Wage Issues

The National Minimum Wage legislation does not apply to directors of their own limited companies, unless there is a contract of employment with the company. This is very unlikely in the context of a one person company.

**Published: Tuesday, September 23, 2008**

[Tweet](#)

“ The optimum salary level depends largely on the IR35 status of your contract ”

David Colom

“ Contractors inside IR35 cannot use the option of low salary with dividends ”

David Colom



**Expert Contributor**

**David Colom**  
Principal  
D J Colom & Co Chartered Accountants

David Colom qualified as a Chartered Accountant in the City of London in 1981 and is the founder and principal of D J Colom & Co Chartered Accountants established in 1989.

Started specialising in serving IT contractors in 1993 and is now one of the longest standing suppliers of accountancy services to computer contractors. [Read Full Profile...](#)

[View all our experts](#)

© 2011 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#). If you want to use any content you have seen on this site then please [request our media pack](#) and ask for details of our Content Licencing Service.

Readers Comments...

 Be the first to comment on this article

#### Also of interest...

##### Related Guides:

- [What is IR35?](#)
- [Setting Up a Limited Company](#)
- [Limited Company or Umbrella – Deciding on a Payment Structure](#)
- [What are Umbrella Schemes for Contractors](#)
- [Should contractors with limited companies take salaries?](#)

##### Related Calculators:

- [Limited Company Calculator](#)
- [PAYE/NI Net Salary Tax Calculator](#)
- [Contractor Calculator](#)



ABCe verified website - last audit confirmed **130,682 monthly unique visitors**

© Copyright 2011 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)