

# Why National Insurance works differently in your first year as a director, and how to avoid surprises

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If you set up your limited company part way through the tax year, it's very common to ask: "Can I still pay myself the usual £12,570 tax-efficient director salary?". The short answer is: sometimes, but not automatically. It depends on when you became a director and how your salary is paid.

## Directors and National Insurance:

Directors are treated slightly differently to employees when it comes to National Insurance. Rather than being assessed strictly week by week or month by month, directors are looked at over the tax year as a whole. That's why you'll often hear about an "annual" director salary being tax efficient.

However, you only get access to the full annual National Insurance allowance if you were a director for the entire tax year.

If you became a director part way through the year, National Insurance is only assessed over the period you were actually a director, and any months before that are ignored. This means you do not have access to National Insurance allowances from earlier in the tax year, before you became a director. This is why the timing of when you became a director matters.

## What changes if you became a director mid-year

If you became a director part way through the tax year, for example in September, you only have a few payroll months left before the end of the tax year on 5 April.

Although directors are assessed on an annual basis in theory, payroll still calculates National Insurance based on the months you were a director.

This means:

- You do not have access to the unused National Insurance allowance from earlier in the tax year
- Any salary you take has to fit within the thresholds available from your start date onwards

To reach a full "annual" salary in fewer months, your monthly pay would need to be higher than the usual £1,047.50 figure that works when paid across a full tax year. For example, if you only had December, January, February & March remaining in the tax year, this would be £3,142.50 per month to reach £12,570 in total.

Because payroll applies National Insurance thresholds to each pay run during the period you were a director, higher monthly pay can trigger employee's and employer's National Insurance, even if your total

salary for the tax year is within the usual tax-efficient range.

So, while a salary of £1,047.50 per month may be tax efficient for someone who became a director before the start of the tax year, it may not be tax efficient if you became a director part way through the year.

## **What this means for you**

If you became a director part way through the tax year:

- Paying a higher monthly salary can trigger National Insurance
- This is normal and expected
- It is not a payroll error

In some cases, it may be more sensible to:

- Take a lower salary in the first year
- Use dividends instead
- Or accept some National Insurance where it still makes sense for your personal and company taxes holistically, and/or it means you will qualify for state benefits.

## **How we help**

There is no one-size-fits-all answer here. The most tax-efficient salary depends on:

- When you became a director
- How many payroll months are left
- Your wider circumstances

As your accountants, we'll advise on the salary level that makes the most sense for you, taking into account tax, National Insurance and your specific situation, so you don't have to guess or rely on rules of thumb.

If you're unsure what to pay yourself, just ask your dedicated accountant or support ([support@mightyaccounting.com](mailto:support@mightyaccounting.com)). That's exactly what we're here for.

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