



CORELLIA

Wealth | Legacy | Partnership

Article

# How Becoming a Company Director Can Affect Your Financial Plan

When you start a company, you become accountable for something bigger than yourself. The company is an entity in its own right, with all the additional responsibilities that come with it.

As well as having a financial plan for yourself, you should also have one for your company. You will need to consider:

- Cashflow
- Plans to grow and expand
- Dealing with any contingencies
- Your exit strategy

Your business plan and your financial plan are intertwined; both need to be carefully monitored, but they will ultimately help you achieve your goals.

So, as a company director, how can you align your business and personal financial plans?

## **Control Over Your Earnings**

As the director of the company, you can, to an extent, control how much you earn.

If you increase productivity or cut costs, you can earn more. If you want to reinvest more in the business, you can withdraw less.

Your personal financial plan can help you establish how much you need to earn to achieve your goals. This will take into account:

- Your immediate bills and spending requirements.
- Ad hoc expenses and gifts.
- Saving and investing for the future.
- Building in contingencies to deal with, for example, ill-health or care costs.

If you know how much you need to earn, this can help to inform your business decisions.

Of course, it is not that simple, as the business will incur costs beyond your control. The cost of employing people, renting premises, buying supplies, and obtaining suitable insurance can increase your business expenditure, sometimes at short notice.

The key is to make sure your business has strong cashflow and reserves to deal with unforeseen events.

## **Structuring Your Income**

As a director, you can decide how to take your income from the business. This can include:

- A salary, which provides a fixed amount every month. This is an allowable expense for the business.
- Dividends. Dividends are declared at regular intervals, but are adjusted in line with the company's profits. Profits do not always translate directly into dividends, however, as it might be appropriate to reinvest back into the business or keep some cash on reserve. Dividends are calculated after deduction of corporation tax, but you pay a lower rate of personal tax on this income. Dividends do not incur National Insurance for either the employer or employee.
- Bonuses, which are not fixed, but are taxed in the same way as salary. Larger companies with multiple shareholders can sometimes benefit from this option, either instead of dividends or alongside them.

- Directors' loans. If you invest money into the company, it can be repaid to you without any tax liability. However, if you take money out of the company that is not salary or dividends, this may be treated as a director's loan. These loans must generally be repaid within nine months of the company's year-end to avoid an additional corporation tax charge. If the loan remains outstanding, the company may face a temporary tax charge, and you may also incur a personal tax charge if interest is not paid at HMRC's official rate. Directors' loans can be useful for short-term funding, but must be carefully managed to avoid unexpected tax consequences.

A combination of the above options can usually be the most effective. Many directors take a low salary, often aligned with National Insurance thresholds or the personal allowance, depending on their circumstances.

Your accountant can help you structure your income in the most efficient way.

## Maximising Your Pension

As the owner of the business, you do not have the security of a workplace pension scheme and need to make your own arrangements.

In general, pensions are a vital component of your financial plan. You receive tax relief on contributions, tax-free growth on the funds, and can withdraw a tax-free lump sum of 25% when you retire. Pensions can also be passed on to your beneficiaries. Typically, tax-free if you die before age 75. After age 75, your beneficiaries would pay tax at their own marginal rate on any withdrawals.

You can make pension contributions either personally or through the business. Company contributions are usually the most efficient and have the following benefits:

- Your contributions are an allowable expense for the business, providing they are reasonable and proportionate.
- You do not pay any tax or National Insurance on your pension contributions.
- The company may be able to pay in a higher contribution than you could personally, as contribution limits are not tied to your earnings.

Your pension can also, in some cases, help you achieve your business goals. Some pensions can buy commercial property, which can be used as premises for the business. Depending on the type of scheme, your pension may also be able to lend money to your business. These are complex arrangements, and advice is strongly recommended.

## Managing Risks

When you are employed, you may receive sick pay, private medical insurance, or death-in-service benefits as part of your remuneration package.

As a company director, if you want these benefits, you need to set them up yourself. However, you may be able to get a better deal through the company than through a personal arrangement, particularly if you are willing to offer similar benefits to your employees.

For example:

- Group income protection or life cover can be more cost-effective than personal cover and may not have the same underwriting requirements.
- Private medical insurance can be significantly cheaper when taken out as part of a group scheme.
- A relevant life plan allows you to arrange substantial life cover in trust for your loved ones. The premiums are an allowable business expense.

- Key person insurance allows you to set up life cover for key personnel (including yourself) to allow the business to keep running if the worst happens.

It's easy to perceive every additional expense as reducing your profits, but in the case of protection, this is often a short-sighted view. Adequate protection can mean that your business can still run efficiently if the unexpected happens.

## Succession Planning

Even if you have just started your company, it's worth thinking about what you would like to happen when you no longer can, or wish to, work in the business anymore.

Some potential exit routes are:

- Sell the business. Business Asset Disposal Relief (formerly Entrepreneur's Relief) means that you will only pay tax of 10% on the first £1 million of lifetime gains from your own businesses.
- Pass the business on to the next generation. While gifts of assets normally incur Capital Gains Tax, the liability can be rolled over indefinitely, provided the business keeps running.
- Continue to own the business and draw an income, while appointing a manager to deal with the day-to-day running. If you still own the business, your shares will attract business relief, offering a 100% exemption from Inheritance Tax.
- Allow key employees to buy shares over time, and eventually take over.
- Extract as much profit as you can during your working life, and eventually wind the business up. This can work well for service businesses with no tangible assets.

If you own a business, it is important that your tax, legal, financial, and personal affairs are managed in sync so that you get the most out of your business and can achieve your personal goals.

Please do not hesitate to contact a member of the team to find out more about financial planning for business owners.

### **Please note:**

This information is for general guidance only and does not constitute personal financial, investment, or tax advice. Tax treatment depends on individual circumstances and may be subject to change. Investments and pensions can go down as well as up, and you may not get back the amount invested. The value of financial planning strategies may be affected by market movements, inflation, and changes in legislation, and no outcomes can be guaranteed. Readers should seek independent financial advice before taking any action.

**Discover the difference of true independence in wealth management.  
Let's build your wealth, your legacy, and your future — together.**

If you value depth of expertise, a personal relationship with your adviser and the reassurance that your wealth is managed with precision and care, Corellia is designed for you.

Contact us to arrange a no-obligation discussion:

e: [ganesh@corelliafs.com](mailto:ganesh@corelliafs.com)

t: +44 20 3375 1584

**Corellia Financial Services Limited**

Arena Offices - 2F02, 100 Berkshire Place Winnersh, RG41 5RD Berkshire **t:** +44 20 3375 1584. **m:** +44 7801 549274.

**e:** ganesh@corelliafs.com **w:** corelliafs.com Corellia Financial Services Limited is authorised and regulated by the Financial Conduct Authority (FCA) No: 793798

Company Reg. No. 10984380.

**Disclaimer:** The value of investments and any income from them can fall as well as rise, and you may not recover the amount of your original investment. The Financial Conduct Authority does not regulate cash flow modelling, tax planning or estate planning.