MY BUSINESS IS SET UP AS A COMPANY – HOW SHOULD I PAY MYSELF?

Clients who run their business through a company have two ways of paying themselves: a PAYE Salary or by taking drawings. Like most situations there is no one-size-fits-all answer as there are pros and cons to each method.

PAYE Salary
This may be a good option if you are already an employer as your salary is taxed as you receive it and PAYE is paid directly to Inland Revenue monthly. No big Provisional Tax payments which is easier to manage. Other benefits include:

- Income for ACC purposes is certain
- KiwiSaver contributions, if a member, are paid monthly with your PAYE

The main downside is that if company profits are low or a loss you may end up paying more tax overall between the company and yourself. Also, as with any other employee you are required to have an employment agreement and comply with employment law.

Drawings
You could take drawings from the company and receive a shareholder salary based on what you have taken out during the year. This is the best way to mitigate overall tax liability between the company and yourself, as your shareholder salary is established at the time your annual accounts are prepared. A major drawback of this is you will have to budget for your provisional tax payments and these payments may vary substantially year-to-year, making budgeting more difficult.

Care also needs to be taken not to draw out more than your shareholder salary, as overdrawn current accounts are subject to interest. This can be hard when you won't know what your shareholder salary is going to be until the accounts are prepared.

We often recommend ACC CoverPlus Extra if you are paid in this fashion, as your level of cover varies with your income under the standard ACC CoverPlus, in the unfortunate event of an accident.

For the best solution for you and your business please talk to your Chartered Accountant.