

SHAREHOLDERS SALARIES

A Shareholder Salary is a Non PAYE Wage that is allocated to a working shareholder of a company once the financial accounts are completed at the end of the financial year and the company profit has been determined.

As PAYE has not been paid on a Shareholder Salary it must be included into the IR3 of the shareholder who becomes responsible for the Income Tax payable on it.

By law, a working shareholder who receives PAYE Wages from the company cannot also receive a Non PAYE Wage (shareholder salary) in the same financial year.

In recent years it has become common practice around the country that a shareholder salary has been allocated to shareholders who have also received PAYE Wages from the company. In the past the IRD has not policed this, but they have now indicated that in the future they will.

There is no known reason why this is so and to a certain extent it does not make sense, however that is the law and we will have to comply like all other accounting firms.

Allocating a Shareholder Salary has been very convenient as once we have calculated profitability at the year's end it has allowed us to consider the taxpayers overall position and make adjustments accordingly, including allowing us to zero overdrawn current accounts where drawings have been excessive throughout the year.

In future this means that where a shareholder receives a PAYE Wage from the company he/she cannot receive a Shareholder Salary at the year's end. Shareholders will therefore have to be careful that they do not take excessive (or any) drawings throughout the year that would leave their current account overdrawn which would attract interest charged by the company.

We recommend that shareholders who receive a PAYE Wage from the company carefully consider their personal requirements and set their PAYE Wage to suit and don't top up any shortfall from drawings. Effectively shareholder employees should be treated no differently to their own employee's who do not have access to company funds to top up their shortfall.

Shareholders who do not receive a PAYE Wage can be allocated a Shareholder Salary at the end of each financial year. This gives us some control over their Current Account balances and in most cases enables us to zero overdrawn current accounts at the end of the year. It should be noted that if the residual tax payable on the shareholders income tax is over \$2,500 they will be required to pay provisional Tax.

Related Fact Sheets

Current Accounts
PAYE or Non PAYE Wages
Provisional Tax

The information above is of a general nature and has been written to provide basic information only. SBA and its employees takes no responsibility for the current accuracy of the information.