Broadcast

FACTSHEET: COMPANY DIVIDENDS

SPECIAL ISSUE

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Readers who run their own limited company will be well versed in the NIC saving strategy of taking their remuneration as a small salary and the majority of their earnings as dividends.

What are dividends?

Dividends are a distribution of a company's taxed earnings or profits. The level of dividends paid depends on judgements made by the company's board of directors.

It is important to realise that dividends are a distribution of profits after corporation tax has been deducted. Presently, corporation tax rates are between 19% and 25%. Consequently, dividends are not a business cost and cannot be deducted from your profits when working out corporation tax payable.

How are dividends taxed?

If shareholders are individuals, any dividends paid are treated as income, but dividends are not taxed at income tax rates, they are taxed at special dividend tax rates. For 2024-25 these rates are:

- The first £500 of dividends received are covered by a tax-free dividend allowance.
- Dividends that form part of your basic rate income tax band are taxed at 8.75%.
- Dividends that form part of your higher rate income tax band are taxed at 33.75%.
- Dividends that form part of your additional rate income tax band are taxed at 39.35%.

Shareholders should note that dividend tax is applied to the amount of dividends paid by the company and that earnings distributed in this way have already been taxed at corporation tax rates.

When the tax-free dividend allowance was first introduced in 2016-17 it was £5,000. Since then, the rate has gradually reduced to the present £500 level.

As most company shareholder directors will be aware, dividends are not subject to a National Insurance deduction and there are savings to be made if the bulk of income is taken as a dividend rather than a salary.

Tax planning – the need for an annual review

As we are facing a possible change of government later this year, the present NIC saving strategy of taking a low salary, high dividend approach may come under threat. This could be achieved by simply increasing the dividend tax rates to include a notional NIC charge.

Also, shareholders' circumstances change. If earnings from other sources increase it may be prudent to reduce dividends paid and avoid a shift from the 8.75% rate to the higher rate band rate of 33.75% or from 33.75% to 39.35%.

And finally, dividends can only be paid out of retained profits, which means that shareholder/directors must be aware of their company's financial position each time they vote a dividend payment.

We can help

Please call us on **01753 888 211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.