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DIVIDEND TAX RATES ARE SET TO RISE BY TWO PERCENTAGE POINTS IN APRIL HOW WILL THIS AFFECT BUSINESS OWNERS?

From 6 April 2026, the basic and higher rates of tax on dividend income will rise by two percentage points.

As a result, owner-managers should act promptly if they want to take advantage of straightforward tax planning opportunities.

The basic and higher tax rates on dividend income are currently 8.75% and 33.75%, respectively, but these rates are going up to 10.75% and 35.75%. The dividend additional tax rate is not changing.

CURRENT TAX PLANNING

It makes sense to bring forward a dividend to 2025/26 if this will save the two percentage points in tax, even though it will mean tax is payable a year earlier.

For example, if a higher rate taxpayer brings forward a dividend of £25,000, this will save £500 in tax, although the liability will be due 31 January 2027 rather than 31 January 2028.

FUTURE TAX PLANNING

Although extracting profits with a mix of a low salary and high dividends has often been the most beneficial approach, the balance is shifting towards taking higher salary:

- Take, for example, Daniela, a higher rate taxpayer who is the sole director and shareholder of Dan Ltd. For the year ended 31 March 2027, Dan Ltd is expected to make profits of £150,000, of which Daniela wants to extract £100,000.
- If Daniela takes a salary of £12,570 (to use her personal allowance) plus dividends of £87,430, the total personal tax, corporate tax and national insurance contributions (NICs) cost for her and Dan Ltd will be nearly £56,000.
- However, if Daniela takes the whole £100,000 as salary, the overall tax and NIC cost will be about £3,000 less.

It should be noted, however, that Daniela’s net tax income is nearly £10,000 less with the salary option, because of the way the tax cost is distributed between her and Dan Ltd. If the figures are adjusted so that Daniela has roughly the same net income, there is then a modest tax advantage to taking a low salary and high dividends.

However, there can be non-tax advantages to taking salary, such as making it easier to apply for a mortgage.

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The best extraction strategy will vary from director to director depending on factors such as other income, whether the NIC employment allowance is available, pensions and company profits.

The Government’s guidance on changes to the tax rates for property, savings and dividend income can be found here.

WE CAN HELP

If you require further assistance, please contact us on **01753 888 211** or email **info@nhllp.com**, we are here to help.