



Dividends

Things you need to know...

From April 2016 you'll pay tax on any dividends you receive over £5,000 at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band

It can be illegal to pay dividends if:

1. There are insufficient retained profits to cover the dividend payments
2. Dividend payments may be illegal if the relevant paperwork has not been completed

HMRC are increasingly questioning dividends and arguing that they are in reality earnings under the s62 ITEPA 2003 (salary sacrifice) rules and to persuade them otherwise needs proof that a set procedure for the declaration of dividends has been followed.

You will need to have a Board Minute to declare the dividend and to issue Dividend Vouchers.

The dividends and shareholder details must be kept up to date in the Company Statutory Registers.

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What are retained profits?

Retained profits are the profits in the business after paying Corporation Tax.

Dividends are part of your overall income

Dividends within your allowance will still count towards your basic or higher rate bands, and may therefore affect the rate of tax that you pay on dividends you receive in excess of the £5,000 allowance.

How and when are dividends paid?

- Dividends are paid at the same rate for each category of share in accordance with the number of shareholdings held
- CTA10/S1168(1) specifies that dividends are treated as paid for the purposes of the Corporation Tax Acts 'on the date when they become due and payable'

Can you waive your dividend?

Yes, there are times when, for good reasons, a Shareholder may wish to waive their right to a dividend, but HMRC are well aware that often waiving a dividend can have tax implications (bounty and settlement)

Don't take chances, ask for professional advice in declaring or waiving dividends

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