



Dividends

Things you need to know...

Dividends are a very tax efficient way to pass the profits of the business to its owners.

If your income tax rate is 20% (or zero) you won't have to pay any tax when you are paid dividends but higher rate tax payers will pay additional tax.

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.

Dividend income is shown in boxes 3 and 4 on your Self Assessment Tax Return.

What are retained profits?

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

Dividend Vouchers show a 10% tax credit, can this be reclaimed?

No. You can't claim the 10 per cent tax credit, even if your taxable income is less than your Personal Allowance and you don't pay tax. This is because Income Tax hasn't been deducted from the dividend paid to you – you have simply been given a 10 per cent credit against any Income Tax due.

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