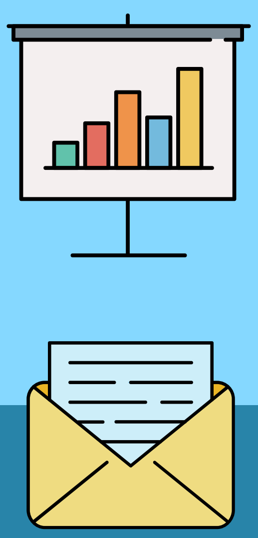
DIVIDENDS



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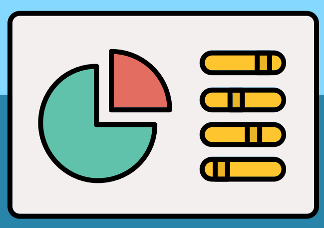


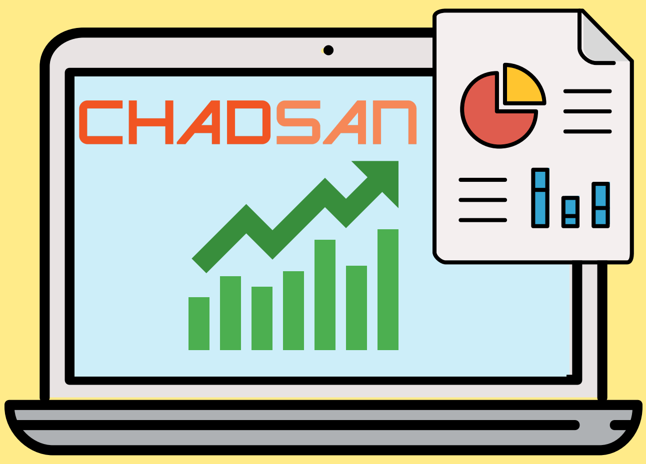
If your company has made a profit, it may be able to distribute these earnings to shareholders by way of a 'dividend'.

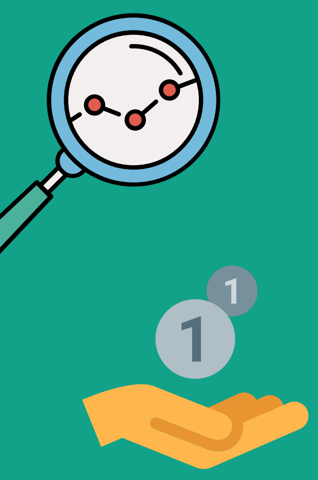
Profit is the money the company has remaining after paying all business expenses including Corporation Tax.

It's important to remember that dividends cannot be counted as a business expense when calculating your Corporation Tax and that it's illegal to pay a dividend if your company does not have sufficient reserves available to cover the dividend amount.

1: What are dividends?

- If you are a shareholder, you are entitled to a proportion of your company's net profit.
- Net profit is the profit that is left after all of the expenses have been deducted from the revenue.
- Net profit can be kept within the business as retained earnings to reinvest into the business' future activities, or distributed to shareholders as dividends.





2: When can I take dividends?

- When your business has made a profit and you can cover all your liabilities! You must have a meeting with all directors and take minutes (even if you are the only director).
- Then, you must 'declare' a dividend and raise a dividend voucher for each dividend payment that the company makes.
- You could take dividends as cash out of the business or to lower use the amount to 'repay' an overdrawn directors loan account.
- When the available 'reserves' have been thoroughly assessed to determine the dividends available for distribution. Available or 'distributable' reserves means: accumulated profits (netted off against any losses) to date in the company. If the company has made more losses than profits in total to date then there may be no 'reserves' available to use as a dividend.

3: How are dividends taxed? (Tax year 2019-20)

- The first £2,000 of dividends are tax free.
- The dividend tax rates then depend on the total of your other earnings, as dividends are treated as the top slice of your income. So, if after allowing for all other earnings your dividends fall within the basic rate band (earnings up to £50,000 p.a.) then you will pay a 7.5% tax rate on the dividends. If the dividends fall within the Higher Rate tax band (between £50,000 p.a. to £150,000 p/a) then you will pay 32.5% and any above £150,000 will fall into the additional rate band and be taxed at 38.1%.

- You can either: a) calculate and pay tax on your dividends through filing a self-assessment personal tax return, or: b) if your dividends are under £10,000 p.a. and you are on payroll, then you may be able to use your taxcode to pay the tax, which will then be repaid steadily in the following year. Our personal tax team can help with both of these scenarios.

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