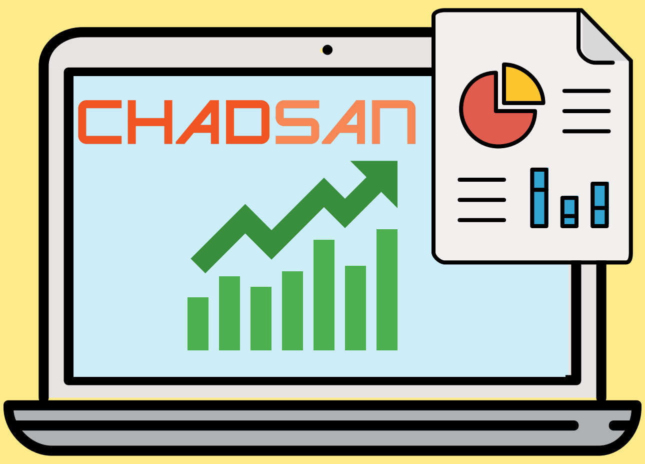
DIVIDENDS

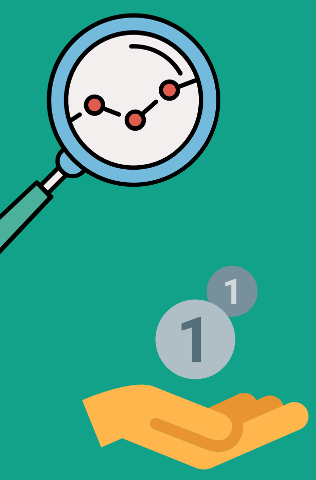
If your business has made a profit, it can distribute these earnings to shareholders by way of a ‘dividend’. Profit is the money the company has remaining after paying all business expenses and liabilities, plus any outstanding taxes (such as Corporation Tax and VAT).

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 profit after tax available to cover the dividend amount.

1: What are dividends?

- As a shareholder you are entitled to a portion of your company’s net profit.
- Net profit is the profit that is left after all of the expenses have been taken from the revenue.
- Net profit can be kept as retained earnings for the business’ future activities or given out as dividends to shareholders





2: When can I take dividends?

- When you have 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 a dividend voucher that corresponds with every dividend payment that the company makes.
- You could take dividends as money out of the business or to lower and over-drawn directors loan account.
- When the available ‘reserves’ have been thoroughly assessed to determine how big the dividend can be.

3: How are dividends taxed? (Tax year 19-20)

- First £2,000 of dividends is tax free.
- It then depends on your income tax band, but it is a lower rate than if you were taking wages. So if you are a basic rate tax payer (up to £50,000 p/a) then you will pay 7.5% tax on dividends, if you are higher rate (up to £150,000 p/a) then you will pay 32.5% and additional rate earners (£150,000 + p/a) will pay 38.1%.
- You pay tax on dividends via a self-assessment (done by our personal tax team)

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