

Dividend Tax Changes



As we mentioned in our Summer Budget mailshot, HMRC are changing the way dividends are now taxed from 6 April 2016 onwards.

As a brief reminder, the taxation of dividends has changed as follows:-

Current Regime

	Net Dividend	Tax Credit	Additional Tax	Cash in Hand
Basic Rate Taxpayer	£1,000	£111	£0	£1,000
Higher Rate Taxpayer	£1,000	£111	£250	£750
Additional Rate Taxpayer	£1,000	£111	£306	£694

New Regime

	Net Dividend	Tax Credit	Additional Tax	Cash in Hand
Basic Rate Taxpayer	£1,000	£0	£75	£925
Higher Rate Taxpayer	£1,000	£0	£325	£675
Additional Rate Taxpayer	£1,000	£0	£381	£619

To make allowances for the increase in dividend tax, HMRC have stated that the first £5,000 of dividends received in a year by an individual will not be subject to income tax.

So what can you do to mitigate any tax?

Unfortunately, certainly for the owner managed business owner, the options are somewhat limited, and the savings to be made are modest, but as with all little victories, this will add up over time.

Additional Shareholders

As the first £5,000 of dividends is tax free, it is now worthwhile adding your spouse and other individuals to your company as shareholders (children under the age of 18 are not applicable unless the shares are gifted from someone that is not a parent). This will produce a minimum tax saving of £375 per annum, per shareholder, and could be more depending on their tax rate band.

Increase your basic salary

There have always been two distinct options when it comes to drawing a salary out of a company. One option, as we have advised, is to take a nominal salary just under the national insurance (NI) thresholds. This allows you to qualify for state benefits without having to pay any NI.

The second option is to take a salary equal to the annual personal allowance. As an individual you will pay a relatively small amount of NI personally. The company itself will also pay Employers NI but will receive tax relief on the salary paid out. HMRC however have also revised their small company NI refund. This now allows up to £2,000 of Employers NI to be refunded back to the company.

Whilst this will incur a nominal to process each year, you stand to save up to £150 per employee in your company payroll.

Obviously this benefit will reduce over the next couple of years, as HMRC look to reduce the rate of Corporation Tax to 19% in 2017 and then to 18% by 2020.

Charge Rent for your Home Office

One option that an individual now has is to physically charge rent for the use of one of the rooms at their house, as opposed to making a claim for 'Use of Home as Office'.

The saving amounts to between 6-7% of the rental income received each year, so again, whilst this is a modest saving, looked at over the course of several years, this can soon mount up.

This becomes even more tax efficient if individuals have other rental properties that are producing rental losses.

Advancing Dividends

For those individuals that consistently draw dividends above the basic rate band, it would be worthwhile paying dividends in advance now to take advantage of the lower rates of tax in the current tax year.

Careful planning needs to be undertaken however, as any dividends that are taken that push your income over £100,000 could lead to much higher taxes, and as such this needs to be reviewed before any dividends are declared and paid.

Planning now and advancing the dividends now could lead to savings of £75, per £1,000 taken, and could therefore prove very valuable with the correct review.

How can we help?

We can assist you on implementing all of the above options, and can provide bespoke planning according to your needs.

A list of the planning options and fees are listed below:-

Planning	Annual Fee	One off Fee
Additional Shareholders	-	£75 + VAT per shareholder
Salary Increase*	£69 + VAT	-
Rental Increase	£99 + VAT per recipient	
Dividend Planning	-	£225 + VAT

*This can be implemented in the current tax year to make savings now, however you will need to contact us no later than 18th March for this to be implemented in time.