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Is it time to pay a Dividend?

From April 2016, the current dividend tax regime will be updated, resulting in a significant tax hike for many limited company owners.

What has changed?

The Government believes that the way dividends are currently taxed including the dividend tax credit is arcane and complex. The rules were introduced at a time when Corporation Tax was far higher than it is now and the Chancellor believes that many people now work via their own limited companies simply to save tax.

The new dividend tax regime should provide billions to help plug the hole in the public finances, and will also fulfil another Government objective – to remove some of the tax benefits of incorporating compared to employment.

According to the Government's estimates, the new dividend tax regime is expected to raise £2.5bn during 2016/17, with smaller, but still significant income flowing to the Treasury in subsequent years.

From April 2016 changes that are being made to the taxation of dividends as follows:

- A new tax free dividend allowance of £5,000 will be available to all individuals
- There will no longer be a 10% dividend tax credit
- The dividend tax rates are being increased by 7.5%

The table below shows the effect of these changes to dividend rates, comparing this tax year with next.

	2015/16 (effective rate)	**2016/17 (first £5,000)**	**2016/17 (over £5,000)**
Basic rate	0%	0%	7.5%
Higher rate	25%	0%	32.5%
Additional rate	30.6%	0%	38.1%

What does this mean for me and my business?

For many taxpayers the changes may result in less tax by virtue of the £5,000 exemption. Those involved with owner-managed businesses might like to consider whether they can plan for these changes. People's personal circumstances will differ and professional advice should be taken but the following could be considered:

- If dividends have not been paid out of the company then from next year, where possible, it is worth paying dividends at a level which will utilise the £5,000 exemption
- If you are planning on taking a significant amount out of the company by bonus or dividend then making a large dividend payment by 5 April 2016 may be more tax effective than paying one after that date.

Finally, as always, it is essential to deal with the paperwork for approving and paying a dividend. In particular, dividends must be approved in advance.

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