

IN-Formed About: Dividend Tax Changes



It had to happen one day... And, yes you will pay a little more tax, BUT it's still better than the alternative!

For some time now there have been considerable tax advantages to be had for shareholder directors of profitable private limited companies who have the flexibility to structure their income to pay themselves a minimal amount of salary and the balance in dividends.

What's happening – the bad news...

From April 2016 the way in which dividends are being taxed is changing. The existing 10% tax credit is being abolished and replaced with a flat rate dividend allowance of £5,000 per person.

Therefore, including this £5,000 threshold, **assuming you have no other income to impact upon your tax band**; any dividends received by an individual would be taxed as follows:

- 0% tax on any dividend income up to £5000
- 7.5% tax on the next £27,000 of dividend income
- 32.5% tax on any dividend income between £32,000 and £150,000
- 38.1% tax on any dividend income greater than £150,000

This means that whereas up until now, assuming you had enough profit in your business, you would be able to draw a total of £38,950 in income (as long as £8,060 of this is in the form of salary and the rest in dividends) without paying any personal tax whatsoever.

To draw the same amount of income after 6th April 2016 - £38,950 you would be subject to a personal tax bill of £1721.75 in addition to the corporation tax bill of £7,727.50 (assuming this equates to your drawing the full available reserves from your business) – effectively a 20% increase in tax payable.

Please note, these figures will be altered should you have any other taxable income from other streams, such as interest, income from property, additional salary or other employment, pension or investment income. They will also change should you make more profit in your business and wish to draw more income out.

So is there any point in remuneration planning and paying oneself in dividends?

YES! The good news is that there is – currently there are considerable savings in National Insurance Contributions (NICs) to be made if you structure your income in the way we have laid out above. There is no change to their status from April 2016, and so a low salary, higher dividend remuneration strategy is still valid and will still deliver to you savings beyond a simple income through salary.



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Contractor Example:

A contractor working 44 weeks per year on a £450 day rate invoices £99,000 in total.

- We can assume general expenses in the region of £10,000, and director's salary of approximately £9,000.
 - [Please note that there are many things which can be done to further reduce your taxable profit, such as contributing to a pension scheme through your business, however such advice will depend on your own individual circumstances]
- This would leave you with a net profit before tax of £80,000, which would be liable to corporation tax of £16,000.
- The remaining £64,000 is therefore available for you to draw out of your business in the form of dividends.
- Having taken only £9,000 in salary, you still have £2,000 of your personal allowance to draw free from any personal taxation.
- Then you can draw your £5,000 free of dividend tax charges.
- The next £32,000 would be taxed at 7.5% (£2,400 in tax)
- This leaves £25,000 to be taxed at 32.5% (£8,125 in tax)

So you will be able to draw a total of £73,000 out of your business for a total personal tax bill of £11,775 leaving you with £61,225 net earnings and effectively paying only 16% personal tax.

To compare this with taking all of your available income from your company as a salary:

- If you paid yourself a salary of £79,182, which would be liable for tax of £20,872 and also Employee's NI of £4,854 (in addition to the Employer's NI of £9,807.66).

This means that you would pay a total personal tax bill of £25,726.80, or 32.48% leaving you with £53,455.20 net take home pay, leaving you £7,769.80 worse off!

As always, it is important to note that individual cases should be reviewed in a bespoke way and you should always take professional advice to see how these changes will affect your personal situation, and what planning options you could employ to minimise the impact of these changes.

Please contact Sarah@IN-Accountancy.co.uk on 0161 456 9666 should you have any questions or would like to understand how the changes impact you.



If we can be of further assistance please contact us via:

  @in_accountancy  0161 456 9666  www.in-accountancy.co.uk
askus@in-accountancy.co.uk

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About Us

We were established in November 2012 to look after individuals and owner managed businesses for all their tax and accounting requirements. We are delighted to have won the Stockport Business Award for 'Most Promising Young Business 2015' and we guarantee the following to you:

- Great, affordable accountancy and tax services - not costly and unnecessary solutions.
- Our services include limited company accounts, sole trader accounts, contractor service, payroll services, personal tax returns, and corporation tax returns.
- No surprises: with our fixed fee, fair price approach, you will receive the fairly priced tax and accounting services you want & need.
- Information when you need it: you want to know how you are performing NOW not 9 months down the line. We guarantee to have completed your accounts within 8 weeks of receiving the required information from you.
- Every client matters: you will never feel overlooked in favour of bigger clients.
- All the tax relief you're entitled to: send us the paperwork and if we find you're missing out, we'll get straight to work on your claim.
- Avoid charges & fines: we will help you avoid them by managing your returns and submission correctly, on time and online & we'll show you how to save tax in the future.
- Take the heartache from VAT returns: from flat-rate to cash-accounting, we'll find the best scheme for you, put everything in place and will even remind you when to pay.

What our clients say:

"We saved more than £3,500 in tax immediately when we moved to IN Accountancy – I would definitely recommend them!"

John Harvey, Dunnes & Dusted

"I find IN Accountancy extremely helpful – they advise me about the best tax efficient way to save money, whilst staying firmly on the right side of the law."

Andy Gale, MAL Professional Services Ltd.

Key Team Members



Managing Director, Sarah Harkness is responsible for running the business and making sure clients are satisfied with our service.



Director Andrew Tyler is a highly commercial and strategic Chartered Accountant responsible for signing off client accounts and leading client meetings



2015 Winner
Most Promising Young Business

If we can be of further assistance please contact us via:



@in_accountancy



0161 456 9666



www.in-accountancy.co.uk
askus@in-accountancy.co.uk