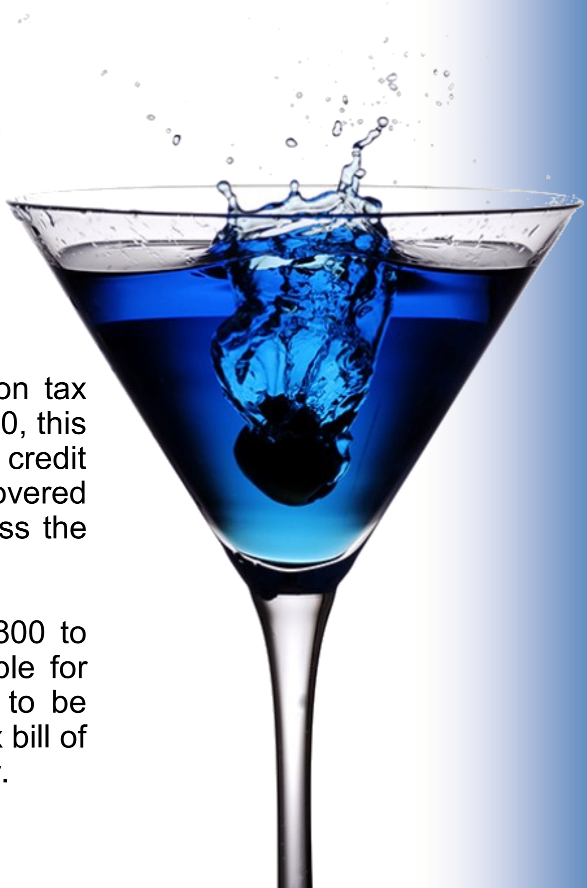
THE GREAT DIVIDEND SHAKE-UP

Dividends for small companies: Shaken but not stirred

From April next year dividends will be treated differently. The 10% 'credit' goes, and there is an allowance such that the first £5,000 of dividends are tax-free. Above this figure, unless covered by personal allowances which will be £10,800 next year, basic rate taxpayers will pay 7.5% on their dividend income. Higher rate taxpayers will pay 32.5%.

This has no effect on ISAs or pensions, and won't affect those with modest investment income from dividends. If you own your own company and take substantial income by way of dividend, however, this is going to cost. The benefits of trading through a limited company and remunerating yourself in this way still exists, but the Government is raising your tax.

Some people may be better off; if you were a higher rate taxpayer with £15,000 per year in taxable dividends, instead of paying 25% on those dividends you'd pay nothing on £5,000 and 32.5% on the rest, saving £500 (you'd 'break even' at £21,667 dividends).



Small business example:

If your company earns £60,000 this year after corporation tax and pays you a salary of the personal allowance of £10,600, this leaves £49,400 available as a dividend. This with the tax credit comes to £54,888. The basic rate band of £31,785 is covered by the 'tax credit' and the balance is taxable at 32.5% less the 10% 'credit', a net cost in tax of £5,197.68.

Given the same income next year and a salary of £10,800 to soak up personal allowances, you'll have 49,200 available for dividend. The first £5,000 is tax free, leaving £31,900 to be taxed at 7.5% and £12,300 to be taxed at 32.5% a total tax bill of £6,390 which is nearly £1,200 more than the previous year.

1 Forstal Road, Aylesford, Kent, ME20 7AU
Tel: 01622 790035/36
Fax: 01622 790037

Email: info@mcleanreid.co.uk

Chartered McLean Reid Accountants