



A Limited Company Guide to Dividends

E. info@contractingscout.com



**CONTRACTING
SCOUT**



— A Limited Company Guide to Dividends



— WHAT IS A DIVIDEND?

A dividend is essentially a proportion of a company's profits which is distributed out to its shareholders. Usually this is done on a monthly or quarterly basis and it can be issued as cash payments, shares of stock, or other property.

— WHY USE A DIVIDEND?

Essentially as the director of your limited company, you are treated as an employee for tax purposes, and are therefore subject to making National Insurance contributions on your pay.

Dividends, on the other hand do not attract National Insurance. So, in order to get the most out of their limited company, many contractors prefer to pay themselves a small salary and extract the remainder of their income in the form of dividends.



An experienced contractor accountant will be able to assist you with your dividend calculations and payments.

— WHAT HAS CHANGED SINCE APRIL 2016?

Effective from 6 April 2016, a number of changes were introduced to increase the tax applicable on dividend distributions.

The 10% tax credit was abolished and a new tax-free Dividend Allowance of up to £5,000 brought in, which is in addition to the £11,000 personal allowance for the 2016/17 tax year. Any dividends that you draw out beyond this limit will be taxed at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers, and 38.1% for additional rate taxpayers

Therefore the maximum you can draw out of your company before being hit by the new rules from April 2016 is £16,000.

— DECLARING A DIVIDEND

To issue a dividend payment you must hold a directors' meeting to 'declare' the dividend and keep minutes of the meeting. Of course, in practice, if you are the sole director this will become more of a paperwork exercise than anything else.

For each dividend payment you must write up a dividend voucher showing the:

- Date,
- company name,
- names of the shareholder/recipient,
- total number of shares owned by the shareholder; and
- total dividend payable to the shareholder.

A copy of the voucher will then be given to the recipient of the dividend and a second copy will be kept for your company's records.