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Ah, we do love a dividend! A dividend is basically a sum of money paid by a company (on a regular basis) to its shareholders.

Dividends can only be paid when a company is earning a bit of cash and has made a profit.

Large companies tend to pay dividends to shareholders once or twice a year, but just because you aren't a global company it doesn't mean you can't do the same.

If you own a limited company then you have shareholders too – in fact, you're probably a shareholder yourself!

Why you're a shareholder

When you started out you had to appoint shareholders and assign shares – you might have several of shareholders, it might be just you and your partner, or perhaps you are the sole shareholder of your business.

The fact remains, as a shareholder you are entitled to be paid dividends from your business.

As the owner of a limited company, you might feel like there's a lot to get to grips with, and you may well be asking yourself "How do dividend payments work in the UK?".

Well, allow us to shed a light on the basics surrounding dividend payments. We will also explain why paying yourself a dividend is a tax-efficient way to draw money from your business.

What do I need to know about dividends?

First off, let's explore the ins and outs of a dividend, what exactly is it?

- A company can distribute its profit to shareholders via regular dividends.
- Limited companies can issue dividend payments – even if there's only one shareholder (you)! But sole traders cannot.
- If your company is in profit you can announce a dividend at any time.
- Dividends are paid after corporation tax has been calculated.
- Dividends can't be classed as a business cost.
- All shareholders in your business are paid dividends proportionate to their stake in the business.
- The term "illegal dividend" is used to describe a dividend that has been announced when the company is not in profit.

How is a dividend issued?



Don't worry, issuing a dividend payment isn't overly complicated, and the more often you do it the less daunting it will seem. You will need to:

- **Make sure you have enough profit** – check via your balance sheet and profit and loss, and do not announce a dividend unless you are sure your company is in profit.
- **Call a directors meeting**, minute the meeting, and detail your intention to pay dividends.
- **Produce a tax voucher** for each of your shareholders, this is a statement which shows the details of the shareholder and your company. It also depicts the net dividend amount and tax credit.
- **Distribute the dividend payments** and tax vouchers to your shareholders.
- Make sure meeting minutes and associated accounts are appropriately filed.

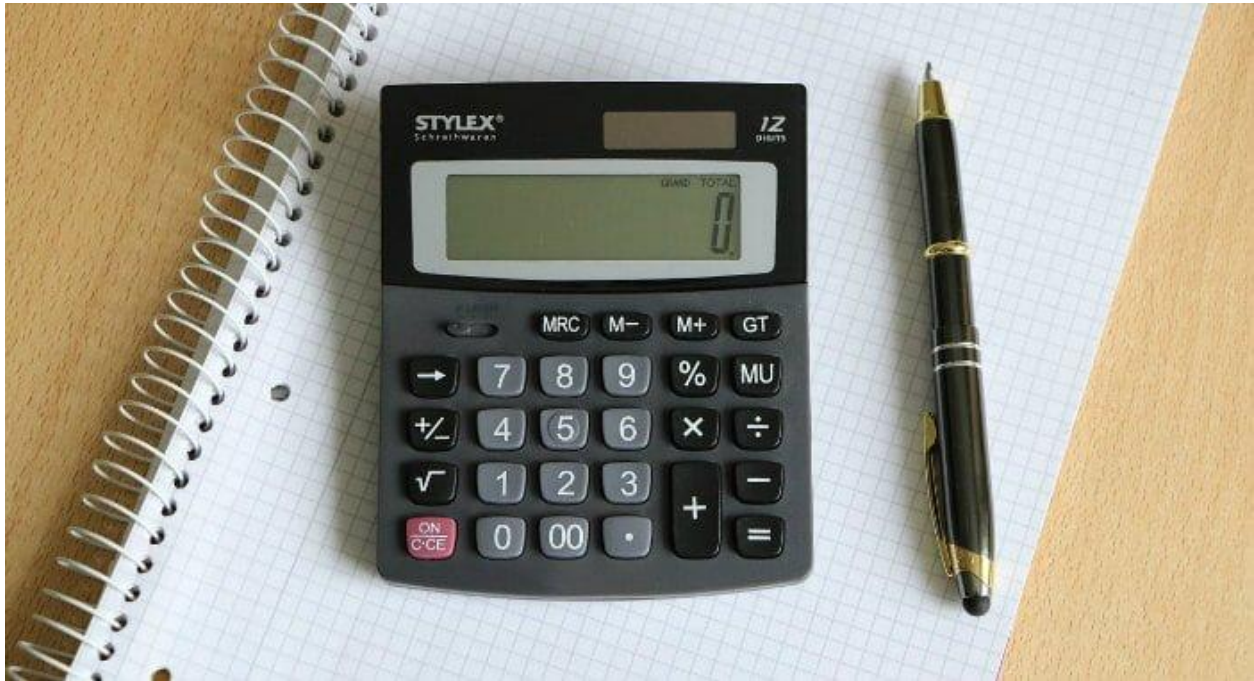
What are the advantages of being a limited company owner and shareholder?

We've already touched on the fact that if you are at the helm of your own [limited company](#) then you are also a shareholder – which means you can pay yourself dividends.

In fact, as long as your company is in profit you can pay dividends every month if it suits you. But what's so great about that we hear you ask?

Well, taking a dividend is a [tax-friendly way of obtaining money from your company](#). As a business owner, you can take dividends at a lower rate of tax, which is great news for your bank balance!

Why is paying yourself a dividend a tax-efficient option?



If you want to run a profitable business you need to minimise your tax liability.

How are you currently taking money from your business? Do you pay yourself a salary?

Do you pay yourself through dividends? Or do you pay yourself with a combination of the two? The way you pay yourself has a huge impact on keeping your tax bill nice and low. Let's explore further:

Do I pay tax on dividends from my limited company?

You can use PAYE to acquire a regular income, but one of the best things about being a director is that you get to define exactly how you are paid.

Many directors opt to pay themselves a low salary and then take advantage of extricating a higher dividend payment when the company is making a healthy profit.

To clarify, your company doesn't need to worry about [paying tax on the dividend payments](#) it makes to shareholders. However, as a shareholder yourself, you might need to pay tax on any dividend you receive.

How much dividend can I pay myself tax-free?

As a shareholder, you will need to pay tax if you receive over £2000 in dividends during the 2019/2020 tax year.

Remember you have a personal allowance of £12,500 – the dividend tax rate applies once this personal allowance has been used.

How much tax do I pay on dividends in the UK?

The basic dividend tax rate of 7.5% applies if you pay yourself between £2000 and £37,500 in dividend payments (after your personal tax allowance is used).

There's also a higher tax rate of 32.5% if you pay yourself between £37,501 and £150,000 in dividend payments, and an additional tax rate of 38.1% should you acquire over £150,000 in dividend payments.

Do you pay corporation tax on dividends?

Dividend payments allow a company to distribute profit to shareholders. To calculate profit the company must first deduct business expenses, such as employee wages, company insurance, fees for accountancy etc from its income.

The company pays corporation tax of 20% from the calculated profit – corporation tax is paid *before* any dividends are paid out to shareholders.

The balance can then be paid as a dividend to shareholders, who can rest easy that corporation tax has already been paid on their dividend (this is known as a tax credit).



Do dividends go through payroll?

Dividends are separate from payroll – dividend payments are made to distribute profit to the shareholders of a business. Payroll distributes wages to employees of the company for the work they have done.

If you are the owner and sole shareholder of your limited company it might just be you working for your business. It's important to remember to keep the two types of income – salary and dividend payments – separate (to avoid any confusion).

What is the most tax efficient way to pay myself?

As the owner and shareholder of a limited company, it's possible to pay yourself exclusively by dividends if you prefer. However, it's more common to pay yourself a low salary and then receive the balance of profit as a dividend.

Remember wages are classed as an allowable business expense – dividend payments are not.

If you choose to be paid entirely by dividend you won't pay income tax on the money you withdraw, however, your company will have to pay 20% corporation tax on the profits used to pay those dividends.

We suggest you pay yourself a low wage (a figure below your personal allowance). This will allow your company to receive 20% corporation tax relief on your salary, and you won't have to fork out for national insurance or income tax. Pay yourself the balance of any profit as a dividend.

A Quick Case Study to Illustrate Our Point: Meet Jon

Jon owns a gift shop, he pays himself a small salary of £8632 (this falls within the personal allowance threshold of £12,500), so Jon pays no tax on this.

Jon makes a profit and pays himself a further £3868 as a dividend payment. The total amounts to £12,500 – the personal allowance threshold, so Jon is still not required to pay any tax.

Jon then takes a further £2000 as a dividend payment, as he is allowed up to take up to £2000 prior to paying dividend tax, he still pays not one penny in tax.

But what if he wants to earn more?



If Jon were to take further dividend payments (up to £37,500) he would have to pay 7.5% tax.

So, let's assume that Jon wants to take an income of £37,500 from his business in the tax year 2019/2020. If he were to take this only as salary (no dividends whatsoever), he'd end up paying around £8,464 after all the various taxes have been deducted.

However, if he only took his personal allowance (£12,500) in PAYE salary and the remaining £20,000 in company dividends, he'd only end up paying £2,189 in the various taxes.

That means by paying a lower wage and taking the rest in dividends he can save himself a whopping £6,275 in tax over the course of the year. It's one of the perks of running your own business!

Are you embracing tax-efficiency and operating a profitable company?

It's certainly worth understanding the nature of dividends. They can bring great financial benefits to you as a shareholder in your limited company.

Hopefully, this brief guide has provided you with some useful information. When someone asks you "how do dividends work in the UK?" You'll now feel more confident in providing an answer!

Even if you feel that you now have a good understanding on dividends, we still suggest you consult an accountant.

A [good accountant](#) can help you make the most of your business. They can also advise you on the best way to save money, and will have a superb working knowledge of all the latest tax efficiency methods.

It's time to make the most of your business and ensure your company is operating in the most profitable way possible.