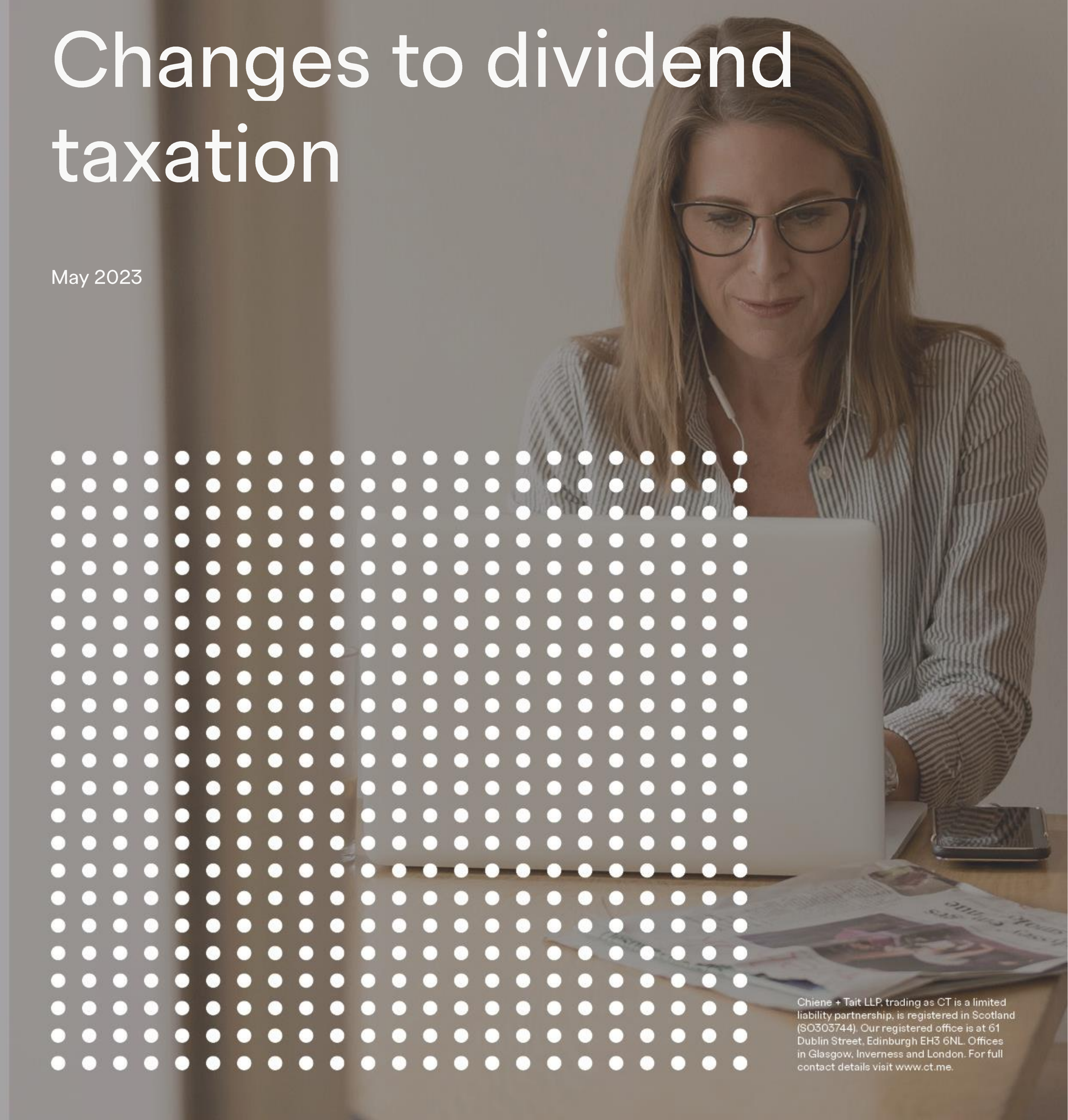
CT : Accountants Advisers

61 Dublin Street
Edinburgh
EH3 6NL

0131 558 5800
www.ct.me

Changes to dividend taxation

May 2023



Changes to dividend taxation

The dividend allowance has undergone significant changes since its introduction. From the 6 April 2023, the allowance stands at £1,000, and it's set to decrease to £500 in the 2024/25 tax year. This means that from 6 April 2024, individuals will only be able to receive up to £500 in dividends tax-free.

For any dividend income received above the allowance, the rates that will apply to dividends from April 6th 2023 are as follows:

Basic rate tax payer	8.75%
Higher rate tax payer	33.75%
Additional rate tax payer	39.35%

Business owners and directors will need to carefully consider their overall remuneration strategy. The factors to consider will include:

- The tax efficiency of the existing profit extraction strategy. The strategy will commonly involve the receipt of a modest salary with additional income in the form of dividends. Calculations comparing salary versus dividend options will be required.

- For business owners who are considering incorporation, is this still worthwhile? The answer is likely to depend on how much profit is needed in the hands of individual shareholders. Incorporation is likely to be worthwhile if profits are to be retained in the company, as they will continue to be subject to lower corporation tax rates. Where profits are £50,000 or less, the small profits rate (19%) applies, and the main rate (25%) applies when profits are more than £250,000. Marginal relief applies where profits are between £50,000 and £250,000.

- The interaction with the Scottish Rate of Income Tax (SRIT), which does not currently extend to dividend income.

Need more help?

For more information, please contact the Personal Tax team at PersonalTaxAdvisory@ct.me

- Information correct at May 2023

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