

[Company name]

Dividend vs PAYE

The tax implications

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Dividend Tax

Working out tax on dividends (with dividends it is worked out as a total number regardless of how many companies make up its value), it is the total value of dividend received that is important.

It is worth bearing in mind that the company/companies would have to pay 19% tax first as you can only pay a dividend out of the profits and you are charged Corp Tax on profits.

Dividend allowance

Tax year	Dividend allowance
6 April 2020 to 5 April 2021	£2,000
6 April 2019 to 5 April 2020	£2,000

Working out tax on dividends

Tax band	Tax rate on dividends over the allowance
Basic rate	7.5%
Higher rate (total income over £50k)	32.5%
Additional rate	38.1%

To work out your tax band, add your total dividend income to your other income. You may pay tax at more than one rate.

Corporation Tax Information

The Corporation Tax rate for company profits is 19%

Company Profit (£)	19% for Tax (£) For the tax man	Remaining (£)	Dividend payment (£)
6200	1178	5022	5000
12400	2356	10044	10000
18600	3534	15066	15000
24800	4715	20088	20000
31000	5890	25110	25000

PAYE TAX

Gross Pay	100%	£8,000.00
Tax free allowance	156.4%	£12,509.00
Total taxable	0.0%	£0.00
Total Tax due	0.0%	£0.00
<i>20.0% rate</i>	0.0%	£0.00
<i>40.0% rate</i>	0.0%	£0.00
<i>45.0% rate</i>	0.0%	£0.00
National Insurance	0.0%	£0.00
Total Deductions	0.0%	£0.00
Net Wage	100.0%	£8,000.00
Employers NI	0.0%	£0.00
Net change from 2019		£0.00

Gross Pay	100%	£12,500.00
Tax free allowance	100.1%	£12,509.00
Total taxable	0.0%	£0.00
Total Tax due	0.0%	£0.00
<i>20.0% rate</i>	0.0%	£0.00
<i>40.0% rate</i>	0.0%	£0.00
<i>45.0% rate</i>	0.0%	£0.00
National Insurance	2.9%	£360.00
Total Deductions	2.9%	£360.00
Net Wage	97.1%	£12,140.00
Employers NI	4.1%	£512.26

Gross Pay	100%	£18,000.00
Tax free allowance	69.5%	£12,509.00
Total taxable	30.5%	£5,491.00
Total Tax due	6.1%	£1,098.20
<i>20.0% rate</i>	6.1%	£1,098.20
<i>40.0% rate</i>	0.0%	£0.00
<i>45.0% rate</i>	0.0%	£0.00
National Insurance	5.7%	£1,020.00
Total Deductions	11.8%	£2,118.20
Net Wage	88.2%	£15,881.80
Employers NI	7.1%	£1,271.26

PAYE impact on Corporation Tax

Salaries are business expenses, which reduce your profit and, in turn, your Corporation Tax. So before it's time to pay tax on your profits, pay yourself!

A word of caution though. Many business owners pay themselves with a mixture of salary and dividends – dividends are drawn from profit, so you need to be able to show you have profits available before issuing dividends. Otherwise HMRC will most likely reclassify your dividends as salary and you'll need to pay Income Tax and National Insurance Contributions.

Reduction of Corporation Tax

Salary (£)	Corporation Tax reduction (£)
8000	1520
12500	2375
18000	3420

Taxes involved

Salary	Income Tax	Employee National Insurance	Employer National Insurance	Corporation Tax
8000	0	0	0	£1520
12500	0	£360	£512.26	£2375
18000	£1098.20	£1020	£1271.26	£3420

Overview of Taxes Benefit

Salary	Tax to Pay	Tax to Minus	Overall Benefit
£8000	£0	£1520	£-1520
£12500	£872.26	£2375	£-1502.74
£18000	£3389.46	£3420	£-30.54

In all 3 salaries you pay less tax and national insurance than is deducted for Corporation Tax.

Dividend Examples

Salary £8000 + £5000 Dividend

*Salary = 8,000,
Net dividend = 5,000,
Tax code = 1250L,
Tax year = Fiscal Year 2020/2021.*

Dividend Information

The Dividend Tax Allowance is **£2,000**, making **£3,000** of your dividend potentially taxable.

Your total taxable income of **£11,000** is less than your personal allowance of **£12,500**.

No extra Personal tax is payable on your dividend.

Corporation Tax Payable before on Dividend
£5000 = £1178

Corporation Tax reduced because of Salary.
£8000 = £1520

Tax Overview

Total Income = £13000

- (A) Tax Paid = (Tax on Salary) + (Corporation Tax for Dividend) + (Dividend Tax)

0+1178 +0

-(B) Corporation Tax Reduced = £1520

(A)-(B) = 1178 – 1520 = saving of £342

Tax overview if on salary only

£13000

Gross Pay	100%	£13,000.00
Tax free allowance	96.2%	£12,509.00
Total taxable	3.8%	£491.00
Total Tax due	0.8%	£98.20
<i>20.0% rate</i>	0.8%	£98.20
<i>40.0% rate</i>	0.0%	£0.00
<i>45.0% rate</i>	0.0%	£0.00
National Insurance	3.2%	£420.00
Total Deductions	4.0%	£518.20
Net Wage	96.0%	£12,481.80
Employers NI	4.5%	£581.26

Total Paid = 518.20 + 581.26 = 1099.43

Reduction in Corporation Tax = 2470

Overall Reduction of Corp Tax = 1370.57

Summary

To declare an income of £13000 a year, you would reduce your overall tax bill in both methods. Salary and Dividend saving is £342 whereas if you were to use salary only you would save £1370.57. Therefore it paying less tax is your option would be better off an salary only.

Salary £8000 + £10000 Dividend

Salary = 8,000,

Net dividend = 10,000,

Tax code = 1250L,

Tax year = Fiscal Year 2020/2021.

The Dividend Tax Allowance is **£2,000**, making **£8,000** of your dividend potentially taxable.

Your total taxable income of **£16,000** is more than your personal allowance of **£12,500**.

You are a basic rate tax payer. Extra tax is payable on your dividend.

£3,500 of your dividend income is subject to further tax.

The extra tax to pay is **£262 (2.6%** of the dividend).

Band	Rate	Lower Limit	Upper Limit	Tax
basic rate	7.5%	0	£37,500	£262
higher rate	32.5%	£37,500	£150,000	£0
additional rate	38.1%	£150,000	-	£0
Total Tax:				£262

Corporation Tax Payable before on Dividend

£10000 = £2356

Corporation Tax reduced because of Salary.

£8000 = £1520

Tax Overview

Total Income = £18000

- (A) Tax Paid = (Tax on Salary) + (Corporation Tax for Dividend) + (Dividend Tax)

$$0 + 2356 + 262 = 2618$$

- Corporation Tax Reduced = £1520

-(B) = 2618 - 1520 = £1098 Tax paid on income

Tax overview if on salary only

£18000

Gross Pay	100%	£18,000.00
Tax free allowance	69.5%	£12,509.00
Total taxable	30.5%	£5,491.00
Total Tax due	6.1%	£1,098.20
20.0% rate	6.1%	£1,098.20
40.0% rate	0.0%	£0.00
45.0% rate	0.0%	£0.00
National Insurance	5.7%	£1,020.00
Total Deductions	11.8%	£2,118.20
Net Wage	88.2%	£15,881.80
Employers NI	7.1%	£1,271.26

Total Paid = 2118.20 + 1271.26 = 3389.46

Reduction in Corporation Tax = 3420

Overall Reduction of Corp Tax = 30.54

Summary

To declare an income of £18000 a year, you would reduce your overall tax bill in both methods. Salary and Dividend you would have to pay £1098, whereas if you were to use salary only you would save £30.54. Therefore it paying less tax is your option would be better off an salary only.

Salary £12500 + £5000 Dividend

Salary = 12,500,

Net dividend = 5,000,

Tax code = 1250L,

Tax year = Fiscal Year 2020/2021.

The Dividend Tax Allowance is **£2,000**, making **£3,000** of your dividend potentially taxable.

Your total taxable income of **£15,500** is more than your personal allowance of **£12,500**.

You are a basic rate tax payer. Extra tax is payable on your dividend. **£3,000** of your dividend income is subject to further tax.

The extra tax to pay is **£225 (4.5%** of the dividend).

Band	Rate	Lower Limit	Upper Limit	Tax
basic rate	7.5%	0	£37,500	£225
higher rate	32.5%	£37,500	£150,000	£0
additional rate	38.1%	£150,000	-	£0
Total Tax:				£225

Corporation Tax Payable before on Dividend
£5000 = £1178

Corporation Tax reduced because of Salary.
£12500 = £2375

Tax Overview

Total Income = £17500

- Tax Paid = (Tax on Salary) + (Corporation Tax for Dividend) + (Dividend Tax)
872.26+1178 +225

- Corporation Tax Reduced = £2375

-(B) = 2275.26 – 2375 = saving of £99.74

Tax overview if on salary only

£17500

Gross Pay	100%	£17,500.00
Tax free allowance	71.5%	£12,509.00
Total taxable	28.5%	£4,991.00
Total Tax due	5.7%	£998.20
<i>20.0% rate</i>	5.7%	£998.20
<i>40.0% rate</i>	0.0%	£0.00
<i>45.0% rate</i>	0.0%	£0.00
National Insurance	5.5%	£960.00
Total Deductions	11.2%	£1,958.20
Net Wage	88.8%	£15,541.80
Employers NI	6.9%	£1,202.26

Total Paid = 1958.20 + 1202.26 = 3160.46

Reduction in Corporation Tax = 3325

Overall Reduction of Corp Tax = 164.54

Summary

To declare an income of £17500 a year, you would reduce your overall tax bill in both methods. Salary and Dividend you would save £99.74, whereas if you were to use salary only you would save £164.54. Therefore it paying less tax is your option would be better off an salary only.

Salary £12500 + £10000 Dividend

Salary = 12,500,
Net dividend = 10,000,
Tax code = 1250L,
Tax year = Fiscal Year 2020/2021.

The Dividend Tax Allowance is **£2,000**, making **£8,000** of your dividend potentially taxable.

Your total taxable income of **£20,500** is more than your personal allowance of **£12,500**.

You are a basic rate tax payer. Extra tax is payable on your dividend. **£8,000** of your dividend income is subject to further tax.

The extra tax to pay is **£600 (6% of the dividend)**.

Band	Rate	Lower Limit	Upper Limit	Tax
basic rate	7.5%	0	£37,500	£600
higher rate	32.5%	£37,500	£150,000	£0
additional rate	38.1%	£150,000	-	£0
Total Tax:				£600

Corporation Tax Payable before on Dividend
£10000 = £2356

Corporation Tax reduced because of Salary.
£12500 = £2375

Tax Overview

Total Income = £22500

- (A) Tax Paid = (Tax on Salary) + (Corporation Tax for Dividend) + (Dividend Tax)

$$882.26 + 2356 + 600 = 3838.26$$

- Corporation Tax Reduced = £2375

-(B) = 3838.26 – 2375 = £1463.26 Tax paid on income

Tax overview if on salary only

£22500

Gross Pay	100%	£22,500.00
Tax free allowance	55.6%	£12,509.00
Total taxable	44.4%	£9,991.00
Total Tax due	8.9%	£1,998.20
<i>20.0% rate</i>	8.9%	£1,998.20
<i>40.0% rate</i>	0.0%	£0.00
<i>45.0% rate</i>	0.0%	£0.00
National Insurance	6.9%	£1,560.00
Total Deductions	15.8%	£3,558.20
Net Wage	84.2%	£18,941.80
Employers NI	8.4%	£1,892.26

Total Paid = 3558.20 + 1892.26 = 5450.46

Reduction in Corporation Tax = 4275

Overall Corp Tax to be paid = 1175.46

Summary

To declare an income of £22500 a year, you would reduce your overall tax bill in both methods. Salary and Dividend you would have to pay £1463.26, whereas if you were to use salary only you would have to pay £1175.46. Therefore it paying less tax is your option would be better off an salary only.

Summary

If we look at the whole picture for an income around the “normal” level for working people, what we see is 2 pictures. First picture if we look at personal tax it is a massive saving, compared to salary only. The second picture is if we include the impact on Corporation tax it is not always straight forward.

What happens is the tax bill is in the company rather than the person. This means it is the company’s assets and profits that will be used to pay the bill.