

Dividends

Company Law can enable directors to pay dividends to shareholders if they have established that there are sufficient distributable profits. You can choose to pay dividends to reduce your tax bill, but this does not always work as all tax payers' situations are different. However you choose to pay dividends, you can run into trouble if you do not handle things properly.

There are two types of dividend; interim and final. DIRECTORS have the power to pay INTERIM dividends. FINAL dividends have to be proposed by the directors AND approved by the SHAREHOLDERS. It is vital that the correct procedure and paperwork is prepared.

Tax inspectors generally hold the view that an interim dividend must actually be paid out of available and distributable profits to each shareholder, following a directors meeting; a credit to the loan account is not sufficient.

A final dividend is different. This is due and payable on the date it is approved at the Annual General Meeting. It is not the date when the dividend is actually paid. This can cause problems, but can also be used to an advantage if planned properly.

We would not advise directors to pay dividends too frequently, as these could be viewed as a salary by the taxman.

So to summarise:-

- Don't use dividends too often.
- Hold a directors meeting to determine the interim dividend to be paid and actually pay it to the shareholders. The taxable date is the date it is paid. Record the directors meeting and preferably the accompanying management accounts. Issue dividend vouchers.
- Always consider final dividends at an AGM at a time when the annual accounts are being considered. Proper notice needs to be given to members to hold an AGM. Record the meeting approving the dividend and include in the minutes when it is likely to be made available – this could be in equal instalments. Issue dividend vouchers. The taxable date is the date of the meeting.

If you are unsure about the paying of dividends please contact us at enquiries@boothparkes.co.uk

Please note while dividends can be a very useful tool in tax planning, it is always sensible to ask us for advice before paying any dividends.

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