DIVIDENDS and the reduction of tax next year!

Synopsis: The known reduction of the additional rate of tax to 45% (42.5% for dividends) from 6th April 2013 provides tax-planning opportunities for owner managers.

When you know that your tax rate will reduce by 5% (from 50% to 45%) and from 42.5% to 37.5% for dividends and you are an owner manager with no immediate need for income, deferment of dividends makes essentially good financial sense.

The effective tax rate on a net dividend for an additional rate taxpayer in the 2012/13 tax year is 36.11% (the 10% tax credit is of course non repayable). The effective rate from 6.4.2013 for an additional rate taxpayer will fall to 30.55%. A worthwhile saving.

All you need to do is defer formally declaring the dividend until after 5 April 2013.

But if you need some access to cash before 6 April 2013 then it should be possible to provide it (without formally declaring a dividend) through the company by either:

i. Repaying a currently outstanding director's loan – and then declaring a dividend post 5 April 2013 to reinstate the loan, or

ii. Lending the money to the shareholding director and the director repaying the loan through dividend declaration within nine months of the company year end (but in the next tax year) to avoid penalties.

There has, however, been some talk of HMRC looking into 'method (ii)'. For the time being though – it seems to work (**always take professional advice** before embarking on any course of action).

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