G[redacted]What Are Dividends?

1. Introductio[redacted]

This guidan[redacted] to dividends – what they are, how they are paid and the pa[redacted] a SME business wishes to make a dividend payment.

This guidan[redacted] dividends declared by SME private companies in respect of o[redacted] we have included a short paragraph introducing dividends in[redacted] guidance note for those considering this type of “dividend in[redacted] specialist area and specific legal (and tax) advice may be nee[redacted]

Dividends d[redacted]anies and fixed rate dividends as they relate to preference [redacted] scope of this note. In addition whilst many businesses [redacted]ed company structure specifically for the tax advantages [redacted]w salary and dividends, this is also beyond the scope of thi[redacted] strongly recommended that specialist accounting and tax advi[redacted]te to the payment of dividends.

Tax credit c[redacted]6 (and the subsequent adjustment to the dividend tax allowan[redacted]and most recently 6th April 2023) and dividend vouchers a[redacted]ever, this is only in the context of the paperwork required for [redacted]. Further information can be found on the HMRC website, ww[redacted]

2. What are d[redacted]

A dividend i[redacted]any’s post-tax profits made to its shareholders. If a company [redacted]e to distribute these funds to its shareholders. In broad terms[redacted] company has left over after paying all its business expenses a[redacted] taxes due. Before a company can legally pay a dividend, it [redacted]ibutable profits. The law regarding distributions is governed by[redacted]es Act 2006.

Dividends c[redacted]m.

<u>Final Divide[redacted]</u>

A final divid[redacted], calculated after a company’s annual accounts have been [redacted]y will know what its financial performance is and therefore w[redacted] be declared. How dividends are recommended and declare[redacted]ny’s articles of association. The Companies Act 2006 does [redacted]lare dividends and does not require dividends to be declared[redacted]ral meeting.

However, u[redacted]has expressly set out a procedure in its articles as to the proce[redacted] declaring dividends or is silent on the point, it is generally a[redacted]hile directors can resolve to recommend final dividends, th [redacted] clared by shareholders at a general meeting or by way of writ [redacted] articularly the case for companies with private company m [redacted] n. Article 30 (1) and (2) state:

(1) “The co [redacted] esolution declare dividends, and the directors may decide t [redacted]

(2) A divid [redacted] eclared unless the directors have made a recomm [redacted] nt. Such a dividend must not exceed the amount recomm [redacted]

For compa [redacted] eclare the dividend, they cannot vote to pay themselves [redacted] e than the amount that the directors have recommend [redacted] maller amount.

However, n [redacted] te companies will choose to amend their articles to dispense [redacted] ds to be declared by shareholders.

A final divid [redacted] the shareholders once approved.

<u>Interim Divi</u> [redacted]

Interim divid [redacted] ime throughout the year and are calculated *before* the compan [redacted] rawn up, meaning before the company’s financial performanc [redacted] m dividend is usually decided solely by the board of directors [redacted] ared) and distributed either quarterly or after six months. Th [redacted] determine how often dividends are distributed, however fro [redacted] g point of view, quarterly or every six months is considered [redacted]. An interim dividend only becomes a debt once it is actually p [redacted] s declared. A board has the ability to rescind its resolution to [redacted] at any time up to the time of actual payment of the dividend [redacted]

3. **Declaring a** [redacted]

As stated a [redacted] o declare a dividend will involve checking the company’s [redacted] d will involve considering whether it is a final or interim divi [redacted] ompany has unmodified private company model articles with [redacted]

Articles may [redacted] the payment of dividends or contain a particular mechanism [redacted] dend.

The model a [redacted] nds are to be distributed according to the number of shares he [redacted] older owns half the company’s shares, he/she will receive 50% [redacted] uted.

When reco [redacted] a dividend, directors must have regard to their common la [redacted] nder the Companies Act 2006. In particular they must have [redacted] act within powers), s.172 (duty to promote the success of [redacted] 74 (duty to exercise reasonable care, skill and diligence). D [redacted] e regard to insolvency legislation as they may be liable under [redacted] ct 1986, if at the time of the payment the company was insolve [redacted] quently becomes insolvent.

4. **Board Mee[redacted] Ordinary Resolution**

What type o[redacted]ed by a SME private company will depend on what type of divi[redacted](interim or final) and whether the articles of the company e[redacted] recommend and declare the dividend or require the declarat[redacted]areholders.

You will fi[redacted]ent template board meeting minutes for the recommend[redacted]dividends in the Simply Docs folder of documents relating to d[redacted]minutes involves the directors both recommending and declari[redacted] second set involves the directors recommending the paymen[redacted]by an adjournment to allow the dividend to be put to the shar[redacted]val (either by written resolution or in a general meeting) a[redacted] is right, will depend on a review of the relevant company's [redacted]whose shareholders must declare a final dividend, a sharehold[redacted]will also need to be passed. This will usually be done by wa[redacted]r package of templates also includes the wording required to [redacted]ary resolution whether by written resolution or in general me[redacted]

Board minu[redacted] of company's general records and also in case they are re[redacted]ence that a dividend was properly recommended and declare[redacted]

5. **Dividend v[redacted]**

Each share[redacted] dividend voucher by the company. A dividend voucher is [redacted]who has received the dividend, how much it was and what s[redacted]er owns. It is like a formal receipt and provides a record of th[redacted]dividend voucher will be sent to a bank or building society if th[redacted]to a bank or building society account. You will find template d[redacted] Simply Docs folder of documents relating to dividends.

The rationa[redacted]ucher is that shareholders must pay tax on any dividends t[redacted]mpanies each tax year via the self-assessment process.

Prior to 6th[redacted]es paid shareholders dividends out of profits on which they [redacted]RC allowed a tax credit recorded in the dividend voucher to [redacted]vidend. The tax credit took account of the tax the company h[redacted] to the shareholder to offset against any income tax that wa[redacted]come.

The dividen[redacted]paid represented 90% of their 'dividend income'. The remain[redacted]ncome was made up of a tax credit. Put another way, the ta[redacted] of the dividend income. A simple example would be:

A company [redacted]of £900. Divide £900 by 9, which give a dividend tax credit of [redacted]areholder - but add the £100 tax credit and record a total of £1[redacted]cher.

From 6th A[redacted]x credit was abolished and replaced by a £5,000 tax-free **div**[redacted] rate band. Individuals from this date did not have to pay tax o[redacted]ir dividend income, no matter what non-dividend income the[redacted] exempts this amount of a taxpayer's dividend income from[redacted]

From **6th Ap**[redacted]ture of the dividend allowance remained in place, changes ma[redacted] 2017 meant that the dividend tax free allowance was **£2,000**[redacted]e tax year 2018/19.

Note that fr[redacted]ax-free allowance for dividend income has been reduced fro[redacted] will reduce further to £500 from **6th April 2024**.

Dividend in[redacted]x-free allowance is taxed at the following rates (applicable [redacted]

- 8.75[redacted]thin the basic rate band;
- 33.7[redacted]within the higher rate band; and
- 39.3[redacted]within the additional rate band.
- Befo[redacted]ates were 7.5%, 32.5% and 38.1% respectively.

There is mu[redacted]tion on this on HMRC's website as well as worked examples o[redacted]nce operates.

Taxable div[redacted]or example, dividend income from assets held in ISAs, which[redacted]

Note howe[redacted]and does not reduce a taxpayer's total taxable income and[redacted]can only be used for dividends.

The dividen[redacted]a paper voucher. However, an electronic voucher (i.e., one a[redacted]automatically generated by accounting software packages)[redacted]paper voucher provided the shareholders have previously a[redacted]

The vouche[redacted]

- Com[redacted]
- Nam[redacted]older;
- Tota[redacted]
- Amo[redacted]d;
- Date[redacted]
- Com[redacted]

This paperw[redacted]aintained as HMRC can require it to be produced as evidence[redacted]come that the shareholder received and that a dividend wa[redacted]paid.

6. **Waiver**

A sharehold[redacted]s right to a dividend. Although not that common, small busine[redacted]o waive their rights to dividends in order to retain money in th[redacted]

Only a shar[redacted]ntitlement to a dividend and a company cannot waive a divi[redacted]holder or involuntarily exclude a shareholder from a dividend [redacted]ny wants to pay different dividend amounts to different sh[redacted]eate different classes of shares with different dividend rig[redacted]n share re-classification.

A waiver ma[redacted]d or a series of dividends within a specified time period. The [redacted]eason why the dividend is being waived and that there is a ge[redacted]n for it, e.g. enabling the company to retain funds for a specifi[redacted]arly important as regards demonstrating to HMRC that the wa[redacted] income shifting or diverting otherwise taxable income. As [redacted]ues relating to dividends are beyond the scope of this guidanc[redacted]ver is being considered it may be sensible to seek specialist ta[redacted] legislation in order not to fall foul of the Income Tax (Tradin[redacted]005.

A waiver mu[redacted]therefore it must be signed, dated, witnessed and sent to the [redacted]ust also be received by the company before the right to the d[redacted] an interim dividend must be waived before it has been paid a[redacted]be waived before it has been approved.

You will find[redacted]er in the Simply Docs folder of documents relating to dividends[redacted]

7. **Dividends i[redacted]**

An alternativ[redacted]h is a distribution of a particular asset (or assets) to sharehold[redacted]ed a “dividend in kind” or a “dividend in specie”. It usually invo[redacted]set such as property, an investment or equipment. A company [redacted]se assets to their shareholders instead of, or, as well as a ca[redacted]pecie are often used in conjunction with an intra-group reorga[redacted] typically declare a dividend of a specified amount which it will[redacted]rring non-cash assets of equivalent value to its shareholder[redacted]

A company [redacted]the relevant authority to pay a dividend in specie and in the a[redacted]uthority; a company must pay dividends in cash. ***Article 34 o[redacted]private companies allows non-cash dividends to be paid [redacted]approval by ordinary resolution***. As with cash dividends, p[redacted]cie is subject to the provisions of Part 23 of the Companies [redacted]nd directors’ fiduciary duties. The most important common la[redacted]cannot lawfully make a distribution out of capital. Directors m[redacted]her the company will be solvent following the proposed di[redacted]onsider both the immediate cash flow implications of the distrib[redacted]ability of the company to pay its debts as they fall due. Additio[redacted]given to the value of the asset being distributed to ensure that [redacted]ribute an asset at an undervalue. In addition, if as a result of [redacted]e, a receiving shareholder will assume certain obligations [redacted]ay be necessary for the company to enter into a separate ag[redacted]older to ensure that those liabilities are effectively transferred. [redacted]d to be sought in relation to this.

There may [redacted]nsider.

The main qu[redacted]ends in specie is whether **SDLT** is payable on the transfer of th[redacted]end on whether there is chargeable consideration. If the consid[redacted]noney’s worth, for example where a dividend in a cash amoun [redacted] solved to be satisfied in specie, a debt may have been create [redacted] efore expect SDLT to be paid on the transfer. Transfers of [redacted] ompanies are unlikely to attract SDLT as section 42 of the [redacted] relief from stamp duty for transfers between associated [redacted] uld be sought from HMRC or a specialist tax adviser.

A dividend i [redacted] onsidered a supply of goods for **VAT** purposes if the compan [redacted] Again, it is important that specialist tax advice is sought in re [redacted]

You will find [redacted] lution for use at a general meeting of a company relating to th [redacted] nd which is to be satisfied otherwise than in cash in the Simpl [redacted] ents relating to dividends. We also have a set of board minut [redacted] a dividend by a company of a specified amount to be satisfied [redacted] assets of an equivalent value to its shareholders.