# PERSONAL TAX

## 252. DIVIDEND PLANNING: GET THE PROCEDURES RIGHT

There are huge incentives for planning around when dividends should be taken from small and medium-sized limited companies where the proprietor owns and controls the business or the company is family-controlled.

Taxpayers are currently in a tax year that has a top income tax rate of 50%. This top rate of tax is not reduced to 45% until 6 April 2013. There will obviously be tax advantages in delaying dividends until the tax year 2013/14 for those paying the top rates of tax in order to benefit from the lower, 45% rate.

Tax planning around dividends can also ensure that personal allowances and basic rate income tax bands are used year on year. With the introduction of the 50% tax rate, the 40% tax rate is clearly more attractive, so one planning point is to ensure that the income reaches to the top of the 40% band but does not exceed it.

A further complication is that personal allowances are restricted if income exceeds £100,000, creating a very high marginal rate. It is fair to say that tax planning around withdrawing monies from small privately-owned businesses has never been more complicated.

Many tax advisers look on dividend tax planning as a post-balance sheet paper reconciliation to shareholders' tax returns for the best and most efficient way of extracting dividends. It is important to remember that the dividend payments must be supported by contemporaneous evidence – they cannot be "paper transactions" to sort out tax planning issues and this matter is made very clear in HMRC's *Company Taxation Manual* at CTM20095.

Make sure that the contemporaneous entries in the accounting records do tie into board minutes and the dividend vouchers are produced as part of the ongoing management of the company rather than in a retrospective tax planning exercise after the company year end and/or when the directors'/shareholders' personal tax returns are due.

The best advice is to plan ahead and not adjust retrospectively. 5 April 2013 is fast approaching and now is a good time to project forward the tax efficient dividends to be taken to make sure the transactions comply with CTM 20095.

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