

FACTSHEET 29

What are Company Dividends and Bonuses ?

Dividends

For many small companies the directors of the company are also the only shareholders eg a husband and wife company who hold one share each in a limited company which has a total issued share capital of two shares . Limited companies can pay dividends to their shareholders from distributable reserves ; dividends are , in effect , a distribution of the company's reserves to its owners , ie its shareholders . Dividends are deemed to carry a notional tax credit of 10% and provided the individual shareholder remains a basic rate taxpayer within any given tax year then they will have no further tax to pay . If , however , that individual is a higher rate taxpayer then he will have to pay additional income tax equal to 22.5% of the gross dividend . This additional tax would require to be paid by the individual on 31 January following the end of the tax year in which the dividend is paid .

Dividends are paid to each individual shareholder according to the number of shares they hold . They do not therefore take account of the different duties and responsibilities of owner directors .

Bonuses

Bonuses are no different from directors salary in the sense that they are subject to deduction of tax under the Paye system as well as attracting an Nic liability . Paye and Nic arising on any bonus would normally require to be paid to the Collector of Taxes by the 19th of the following month . Bonuses can continue to be paid even where a company is making losses . Bonuses can be set at various levels for different directors to reflect different duties or performance levels .

Corporation Tax

Corporation tax is calculated on company profits after deduction of all salaries and bonuses but before dividends .

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Dividends or Salary

Many factors come in to play when deciding between salary or dividends or indeed the correct balance of salary and dividends . This is an area for professional advice depending on the circumstances of each individual client's case .

For further advice and before taking any action please give me a call .

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