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How to take dividends from a limited company

In this guidance, Integro Accounting talk you through dividends: How they work, the benefits, the restrictions and whether paying yourself through dividends is right for your business.

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There are many pros and cons to setting up your own limited company. However, what is often seen as the biggest advantage of setting up this way is that you can legitimately pay less personal tax than if you were a sole trader.

While you'll pay Corporation Tax at 19% (the current level), many directors and shareholders choose to pay themselves with a small salary and a dividend which is more tax efficient.

In this guidance, [Integro Accounting](#) talk you through dividends: How they work, the benefits, the restrictions and whether paying yourself through dividends is right for your

business.

So, lets start with the basics. What are dividends?

A dividend is a payment of profit from a limited company to a shareholder. This is the money remaining in a company after all business expenses and liabilities, including tax and VAT, have been paid.

Who are dividends for?

Dividends are paid to shareholders of the company – for the purpose of this article we will assume there is one shareholder, i.e. you the freelancer. For ordinary shares, the amount of dividends a shareholder can receive is based on the percentage of shares that they own. For example, if you own three quarters of the company's shares you'll receive 75% of each dividend.



How do you issue dividends?

Whether you are the sole shareholder, or have multiple shareholders, when issuing dividends, you need to record this through your company. There are certain steps you need to follow when doing this:

1. You will need to hold a 'board meeting' to agree on a dividend declaration and a record of the meetings minutes.
2. A dividend voucher needs to be recorded and a copy kept on records for the business and to the shareholder/s. This can be sent by email, paper, or generated by any number of accounting software packages. There is no standard template for this information, however the details that need to be included are:
 - the date
 - company name
 - name and address of the relevant shareholder
 - the total number of shares owned
 - the total dividend payable
 - the director's signature.

One thing to note, is that you do not HAVE to pay yourself dividends. You can just simply leave the profit in the company's bank account if you choose to. Your accountant can always guide you on what is best for you and your business.

What are the thresholds for dividends and the tax applied?

For the 2026-27 tax year, there is a tax-free dividend allowance of £500. This means you can take up to £500 in dividends in this period before you must pay any income tax on it. This is in addition to your personal tax-free allowance of £12,570.

Adding these two allowances together, if your combined salary and dividend income exceeds £13,070, only then will you need to pay tax.

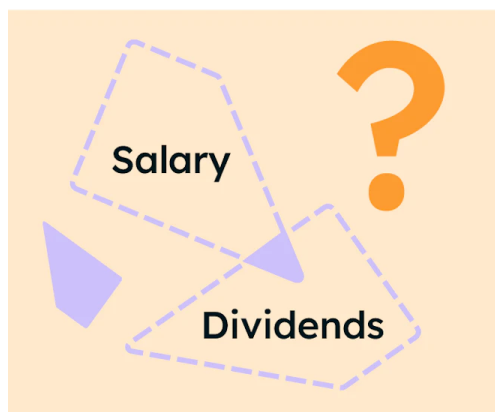
The amount that you pay will depend on your tax band:

- Basic-rate taxpayers will pay 10.75% (i.e. if you receive dividends over the personal allowance and up to a value of £37,700)
- Higher-rate taxpayers will pay 35.75% (i.e. if you receive dividends over £37,701 and less than £150,000)
- Additional-rate taxpayers will pay 39.35% (i.e. if you receive dividends over £150,000)

Are there any restrictions as to when you should and should not take dividends?

In brief, no. One of the benefits of being a limited company owner is you can make decisions about when to pay dividends, as well as how much to pay. In fact, you can distribute dividends as often as you want to, assuming the profits are available in the company.

Being able to decide when, and how much, to pay dividends is one of the perks of being a freelancer with a limited company and will help you in tax planning. Working closely with your accountant will enable you to maximise on the benefits paying yourself in dividends brings. And remember, you are in control of when funds are taken from the business and can therefore make it as tax efficient as possible.



Why is it recommended to pay yourself through a combination of salary and dividends?

As a company owner you can choose to pay yourself through PAYE (salary) or dividends, but it is often the combination of the two that will be the most beneficial to you. Taking a

low salary and a higher dividend is usually the most tax effective combination for the following reasons:

- You don't pay National Insurance on dividends.
- Depending on how many dividends you pay yourself, you can minimise your personal tax liability.
- Taking a salary triggers a national insurance record for your state pension
- Your company can claim the cost of your salary when it calculates its corporation tax making a saving for the business
- You can pay yourself in dividends up to the level of post-tax profit in your company

In conclusion, the combination of drawing a small salary and dividends is most likely the most-tax efficient way to work for you.

It is also worth remembering that the real benefit comes from the fact that you can control when funds are removed from the business and the timing of the tax. Work with your accountant to ensure you have the correct structure in place to maximise on this benefit and you will be running a smooth, tax efficient business. For further advice on dividends, visit here for more information: [Contractors Guide to Dividends – How does it work?](#)

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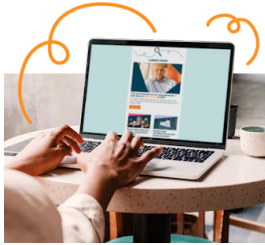
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