DIVIDENDS V SALARY
REVIEWING YOUR OPTIONS FOR 2026-27

Many director shareholders use a combination of salary and dividends to take income from their companies. This model still works well for a large number of small private companies. However, the Budget announcements for 2025 have narrowed the gap between the tax cost of dividends and the tax cost of salary. This means it would be sensible to revisit the balance between the two before the start of the 2026-27 tax year.

WHY A REVIEW IS SENSIBLE THIS YEAR

Dividend tax rates increase by two percentage points from April 2026. At the same time the main personal tax allowances and thresholds remain frozen. When allowances do not move in line with inflation, more people drift into higher rate bands as their income increases. A small shift in income can therefore alter the tax cost of dividends when compared with salary, and this may affect the most tax efficient way to take funds from a company.

The Corporation Tax position of the company also matters. Where profits are increasing and the company expects to fall into higher rates of Corporation Tax, the net benefit of dividends can reduce. In previous years, the difference between the effective tax cost of dividends and salary was more generous. With the changes coming in from April 2026, the difference is now much slimmer.

WHEN A REVIEW IS LIKELY TO BE BENEFICIAL

A discussion is worthwhile if any of the following apply.

- Your total income is close to the higher rate threshold, and an increased dividend may push you into a higher band.
- Your company expects higher profits in 2026 to 2027, which may increase the Corporation Tax rate that applies.
- You rely on dividends to support pension contributions or other personal commitments and want to confirm that your drawings remain efficient under the new rates.
- You are considering an increase in drawings, a change to your role in the business, or a change in working pattern.
- You have not reviewed salary versus dividend planning for some time and want reassurance that your preferred approach remains suitable.

WHAT THE REVIEW WILL NORMALLY COVER

The review usually compares three options. These are a small salary with higher dividends, a larger salary with lower dividends, and occasional bonus payments where these are appropriate. The aim is to identify the most efficient combination after taking account of Income Tax, National Insurance and Corporation Tax.

A short calculation can give clarity. For many directors, the existing arrangement will still be effective. However, there will be situations in which a small adjustment produces a better result, especially in view of the increased dividend tax rates.

NEXT STEPS

If you are a director shareholder of a private limited company and you would like us to run a comparison for 2026 to 2027, please contact the office. A quick review now can confirm whether your current approach remains optimal or whether a slight adjustment would protect more of your income in the year ahead.

If you feel this alert could help a business colleague or family member, please feel free to share it with them.