



Dividend Strategy: Staggered Remuneration

In a recent article [here](#) we looked at the upcoming changes to the taxation of dividends. In a separate article [here](#) we looked at the changes to pensions legislation coming into force next tax year. This blog will explore the planning opportunity relating to both for those that can control their income – typically business owners.

The best way to illustrate this would be by way of an example case; if we imagine a successful business whereby the owner is able to pay themselves a healthy annual dividend income (above £200,000 p.a.) and has also been able to continually maximise their pension contributions (£40,000 p.a.) direct from the business. The business is consistently profitable and has plenty of cash on the balance sheet.

The ongoing objectives for that individual would be similar to most successful business owners – extract income from the business as tax efficiently as possible and continue to build tax efficient portfolios separate from the business – the primary target being pension. The problem they now face is that with the tax changes to dividends and the pensions annual allowance from 2016/17, the tax on their income will increase (on these figures by around 7%) and the amount they can put into pension will hugely reduce (in this case by 75% to c. £10,000 p.a.).

One way to combat this would be to look at the structure of that income. If there is scope to take a larger dividend this year offset by a smaller dividend next year and maybe even some salary it could be possible to maintain the maximum pension contribution and pay less tax. If this is repeated as a regular strategy the effects can be significant.

The aim would be to take the same total income from the business but to stagger it – one year taking a larger dividend and suffering the tax and reduced pension allowance, the following year offsetting by taking a much lower total income. If this is kept under £100,000 it could be by way of dividend and a salary, making use of the replenished personal allowance. This would result in the pensions annual allowance going back up to £40,000 which could be paid by the business.

The mechanics of this are inherently tax driven and will depend on your precise tax position.

I have included with this blog a very approximate worked example over a 4 year period, but the effect of such a strategy is shown in the below chart. This is based on an annual income of c. £211,000 and shows the tax saving of a staggered income strategy over maintaining the same level of income, also the significant difference in scope for pension contributions.



Over a four year period using a staggered approach can boost the level of tax efficient pension contributions from £70,000 to £130,000 whilst reducing the personal tax suffered on this income by £9000.

I must stress that the figures are very approximate and the calculations also assume no personal allowance or other tax changes occur. We are not tax advisers and the detail and specific income strategy would be a discussion to be had predominantly with your accountant. We are financial planners and we are tax aware - on this basis we would strongly suggest that business owners give some thought to their remuneration structure, as clearly appropriate planning could be very worthwhile – especially before the rule changes in April.

If you have any questions about the rule changes and how this could affect you please don't hesitate to contact us.

Stephen Jordan

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Business Owners - Staggered Remuneration and Pension Contributions

Current Scenario

	2015/16		2016/17		2017/18		2018/19		
Salary	£0		£0		£0		£0		£0
As no PA		£0	As no PA		£0		As no PA		£0
									£842,400 Gross Income
Dividend	£210,600		£210,600		£210,600		£210,600		£842,400
£31,785 @ 0%		£0	£5,000 @ 0%		£5,000 @ 0%		£5,000 @ 0%		£0
£118,215 @ 25%		£29,553	£31,785 @ 7.5%		£31,785 @ 7.5%		£31,785 @ 7.5%		£2,383
£60,600 @ 30.56%		£18,519	£118,215 @ 32.5%		£118,215 @ 32.5%		£118,215 @ 32.5%		£38,419
			£55,600 @ 38.1%		£55,600 @ 38.1%		£55,600 @ 38.1%		£21,183
total tax		£48,072	total tax		£61,985		total tax		£61,985
									£234,027 Total Tax
Pension	£40,000		£10,000		£10,000		£10,000		£70,000 Pension Scope

Staggered Income

	2015/16		2016/17		2017/18		2018/19		
Salary	£0		£10,600		£0		£10,600		£21,200
As no PA		£0	within PA		£0		within PA		£0
									£842,400 Gross Income
Dividend	£321,200		£89,400		£321,200		£89,400		£821,200
£31,785 @ 0%		£0	£5,000 @ 0%		£5,000 @ 0%		£5,000 @ 0%		£0
£118,215 @ 25%		£29,553	£31,785 @ 7.5%		£31,785 @ 7.5%		£31,785 @ 7.5%		£2,383
£171,200 @ 30.56%		£52,318	£52,615 @ 32.5%		£118,215 @ 32.5%		£52,615 @ 32.5%		£17,099
					£166,200 @ 38.1%				£63,322
total tax		£81,871	total tax		£19,482		total tax		£19,482
									£224,959 Total Tax
Pension	£40,000		£40,000		£10,000		£40,000		£130,000 Pension Scope

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