

TAX &amp; HMRC INTERMEDIATE 12 min

# How to declare a dividend

A step-by-step guide to checking distributable profits, approving the dividend, issuing vouchers, recording the entries and keeping the right paperwork.

Paying yourself a dividend is one of the most tax-efficient ways to extract profit from your UK limited company, but it must be done properly. An undocumented dividend can be reclassified by HMRC as salary, creating PAYE and National Insurance liabilities you did not plan for.

Before declaring anything, check the distributable profits test. A dividend can only be paid from accumulated realised profits less accumulated realised losses. This is a legal requirement under Section 830 of the Companies Act 2006 and is the most common source of illegal dividends in small companies. Cash in the bank is not enough. You need to look at the balance sheet, retained earnings, unpaid Corporation Tax, dividends already paid in the period, and a sensible working capital buffer. For a final dividend, use the annual statutory accounts. For an interim dividend, properly prepared management accounts are normally used.

## 6 STEPS

### 01 Hold a board meeting

Even if you are the sole director and sole shareholder, you must hold a board meeting or sign a written resolution of the sole director. The decision must be documented.

The minutes should record the date, time and place, who was present, that a quorum was confirmed, any relevant declaration of interest, which accounts were reviewed, the distributable reserves available, and the formal resolution.

For owner-managed companies, a written sole-director resolution is often the simplest route.

## 02 Pass the dividend resolution

The resolution should state whether the dividend is interim or final, the amount per share, the total dividend payable, the record date, and the payment date.

Interim dividends can usually be declared by directors. Final dividends may require shareholder approval depending on the company's articles. Numbering dividends by tax year, for example 2025/26-01, makes cross-referencing minutes, vouchers and bookkeeping much easier.

Use one reference number across the minutes, voucher and accounting software.

## 03 Issue dividend vouchers

A dividend voucher must be issued to each shareholder receiving a dividend, and the company must retain a copy.

Each voucher should include the company name and registration number, voucher date, shareholder name and address, number and class of shares, whether the dividend is interim or final, dividend per share, total amount payable, payment date, and the reference number matching the board minutes.

No tax is deducted at source. The shareholder reports and pays any dividend tax through Self Assessment where required.

Prepare one voucher per shareholder, even where the company has only one shareholder.

## 04 Record the journal entries

If declaration and payment happen on different dates, record two entries. On the declaration date, debit retained earnings and credit dividends payable. On the payment date, debit dividends payable and credit bank.

If declaration and payment happen on the same day, many owner-managed companies use one combined entry: debit retained earnings and credit bank.

In software such as Xero or FreeAgent, the common route is to debit the dividends nominal code and credit the director's loan account, then clear the director's loan account when the money is drawn.

A dividend is a distribution of profit, not a business expense. It does not reduce Corporation Tax.

## 05 Pay the dividend

Transfer the dividend amount to each shareholder's personal bank account on or after the stated payment date.

Keep the payment record with the board minutes and dividend voucher so the transaction can be traced from approval to payment.

Do not pay before the stated payment date on the voucher and minutes.

## 06 Report and pay personal tax

The company pays no additional tax when the dividend is declared, because Corporation Tax has already been paid on the profits being distributed.

The tax obligation sits with the shareholder. Dividends are reported on the shareholder's Self Assessment tax return for the tax year in which they were paid. Any tax due is usually payable by 31 January following the end of that tax year.

The first GBP 500 of dividend income is covered by the dividend allowance for 2025/26 onwards. Dividend tax rates depend on the shareholder's income tax band.

Make sure dividends are included on the shareholder's Self Assessment return.

### KEY TAKEAWAYS

Every dividend should leave a clear paper trail: board minutes or a written sole-director resolution, plus a dividend voucher for each shareholder. Board minutes must be kept for at least ten years from the meeting date under Section 248 of the Companies Act 2006.

Common mistakes include paying dividends without checking distributable profits, failing to prepare vouchers and minutes, exceeding profits part-way through the year, confusing dividends with director's loan repayments, and forgetting to report dividends on Self Assessment.