

TAX UPDATE · 2026/27

Dividend tax has gone up - here's what it means for you

If you run your own limited company and pay yourself mostly through dividends, the tax on that income rose on 6 April 2026. It's a two-point increase on the basic and higher rates, and while that doesn't sound like much, it adds up over a year. In this update I'll walk you through what's changed, what it means in real money, and a few things worth thinking about before the tax year ends on 5 April 2027.

The change also affects anyone receiving dividends from shares held outside an ISA or pension, so if you have investments as well as a business, it's worth a read.

The new rates at a glance

Where your dividends fall	2025/26	2026/27
Dividend allowance (first £500)	0%	0%
Basic rate band (ordinary rate)	8.75%	10.75%
Higher rate band (upper rate)	33.75%	35.75%
Additional rate band	39.35%	39.35%

The £500 dividend allowance hasn't changed, and the additional rate stays where it was. These rates apply across the whole of the UK, including Scotland.

What it means in pounds

Assuming you take a salary of £12,570 and the rest as dividends, here's roughly how much extra tax you'll pay for the year compared with last year's rates.

£10,000 dividends

+£190

£20,000 dividends

+£390

£30,000 dividends

+£590

£40,000 dividends

+£790

A worked example

Let's say you're a company director paying yourself a salary of £12,570 and taking £40,000 in dividends during the year. Your salary uses up your personal allowance, the first £500 of dividends is covered by the dividend allowance, £37,200 falls in the basic rate band and the last £2,300 tips into the higher rate band.

Last year's rates (2025/26)

£37,200 at 8.75%	£3,255.00
£2,300 at 33.75%	£776.25
Dividend tax	£4,031.25

This year's rates (2026/27)

£37,200 at 10.75%	£3,999.00
£2,300 at 35.75%	£822.25
Dividend tax	£4,821.25

That's **£790 more** for exactly the same dividends. Taking dividends is still usually the more tax-efficient route for most directors, but the gap has narrowed, so it's a good moment to check your mix is still right.

Things worth thinking about now

Budget for a bigger January bill

The first tax bill at the new rates is due by 31 January 2028. If your payments on account are based on last year's lower figures, the balancing payment could be larger than you're used to, so it's worth putting a little extra aside each month.

Review your salary and dividend mix

The right balance depends on your profits, your other income and your plans for the year. If you haven't looked at it since the spring, I'm happy to run the numbers with you before 5 April 2027.

Consider pension contributions

Contributions paid by your company can be an efficient way to take profit out, and dividends earned inside a pension or ISA aren't taxed at all.

A heads-up for landlords and savers

Tax rates on rental profits and savings interest are also set to rise by two points from April 2027. I'll be in touch about that nearer the time.

Questions? Just ask.

If you'd like me to look at how the new rates affect you, give me a call or drop me an email.

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