Case Study: Taxation on Dividends

How can business owners mitigate increasing dividend taxation?

Mr Wilson is a business owner who pays himself a salary up to the higher rate tax band. He takes dividend income of £50,000.

How business owners can mitigate increasing dividend taxation

If Mr Wilson invests **£50k** into a VCT, he will receive **£15k** income tax relief, which reduces the **£16,706** liability created from taking the dividend.

Current Situation

	Tax Year 2024-25
Dividend income	**£50,000**
Gross up tax credit	**-**
Dividend allowance	**£500**
Higher rate tax: 33.75% in 2024-25	**£16,706**
Less tax credit	**-**
Total tax to pay	**£16,706**
Effective tax rate	**33.4%**

Dividend income UK residents will pay tax at following rates:

8.75%
Basic Rate Taxpayers

33.75%
Higher Rate Taxpayers

39.35%
Additional Rate Taxpayers

Mr Wilson's net returns are:

£33,294
(Not invested into a VCT)

VS

£48,294
(Investing into a VCT)

Capital invested is at risk. Tax treatment is subject to change and depends on individual circumstances. Tax year 2025/26.

For further information, please contact your Business Development Manager or the Sales Team

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The opportunities described in this document are NOT suitable for all investors. Key risks are explained in the Information Memoranda/Investor Guides and should be carefully considered before submitting an application to invest.

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Tax reliefs are dependent on the VCT maintaining its qualifying status and on investors' individual circumstances. If a VCT loses its qualifying status, tax advantages will be withdrawn from that point. VCTs usually trade at a discount to their net asset value. It may be difficult to exit VCTs and they should be considered as long-term investments.

Investments will be made in small unquoted companies, which carry a higher risk than many other forms of investment. The VCT investments are likely to be illiquid and difficult to realise. The value of shares and income from them may go down as well as up, and past performance is not a reliable indicator of future performance and may not be repeated. Your capital is at risk and you may lose all the money you invest.

If you are in any doubt about the content of this document and/or what action you should take, you should seek advice from an independent financial adviser authorised under FSMA who specialises in advising on opportunities of this type.