
Dividend Tax Rises from 6 April 2026: What Property Company Shareholders Need to Revisit Now

For many landlords, incorporation has been the strategic response to a tightening personal tax environment. Rental profits are taxed at corporation tax rates, profits can be retained for reinvestment, and extraction can be timed to suit personal circumstances.

However, incorporation separates tax into two stages rather than removing it. First, corporation tax is paid on company profits. Second, dividend tax is paid when those profits are extracted. From 6 April 2026, that second stage becomes more expensive.

1. What Is Changing from 6 April 2026

From 6 April 2026, the dividend tax rates applicable to basic and higher rate taxpayers increase. The basic rate rises from 8.75% to 10.75%, and the higher rate rises from 33.75% to 35.75%. The additional rate remains unchanged.

At face value, a two-percentage-point increase may appear modest. In practice, once combined with corporation tax and layered onto existing income thresholds, the impact on net cash extracted from a property company can be materially higher than it first appears.

Importantly, this reform does not affect corporation tax payable by the company. The change sits entirely at shareholder level, applying when post-tax profits are distributed as dividends to directors and property company shareholders.

2. How Dividend Tax Works in Practice

Dividend tax does not operate in isolation. Dividends sit on top of salary, rental income and other taxable income. The rate applied depends entirely on where the dividend falls within the shareholder's overall income profile.

In practice, non-dividend income uses the personal allowance first and then consumes the basic rate band. Dividends are then layered on top of that position. After the £500 dividend allowance is applied, any remaining dividend is taxed according to the available band space.

For example, if a director has salary of £60,000, their personal allowance is fully utilised and the basic rate band is largely or entirely used by employment income. Any dividend declared on top of that salary will typically fall into the higher rate band and be taxed at 35.75% from April 2026.

By contrast, where a shareholder has little or no other income, a portion of the dividend may fall within the basic rate band and be taxed at 10.75%. The same £50,000 dividend can therefore produce very different tax outcomes depending on the shareholder's broader income position.

This stacking mechanism is why dividend planning cannot be done in isolation. The headline rate is only part of the equation. The more relevant question is: where does this dividend land within total income?

3. The Combined Corporate and Personal Cost

For property companies, dividend tax cannot be viewed in isolation. The true cost of extraction is the combined effect of corporation tax at company level and dividend tax at shareholder level. Assume a property company generates £100,000 of rental profit.

Corporation tax at 25% reduces this to £75,000 available for distribution.

If the shareholder is already a higher-rate taxpayer and declares the full £75,000 as a dividend in 2026/27:

After the £500 dividend allowance, £74,500 is taxed at 35.75%.

Dividend tax payable: £26,641.

Combined with the £25,000 corporation tax already paid, total tax on that original £100,000 profit is £51,641.

The effective combined tax rate is 51.6%.

Under 2025/26 rates, the combined rate would have been just over 50%. The difference is roughly £1,500 per £100,000 of profit extracted. On larger portfolios or repeated annual extraction, this compounds quickly.

4. What Does the Rate Increase Actually Cost? A Direct Comparison

To isolate the impact of the April 2026 change, consider a straightforward example.

Assume:

- Dividend declared: £75,000
- Shareholder already a higher-rate taxpayer
- No basic rate band remaining
- Dividend allowance £500

Position Under 2025/26 Rates	Position From 6 April 2026
Taxable dividend: £75,000 – £500 = £74,500	Taxable dividend: £74,500
Higher rate dividend tax at 33.75%: £74,500 × 33.75% = £25,144	Higher rate dividend tax at 35.75%: £74,500 × 35.75% = £26,641
Net cash received: £75,000 – £25,144 = £49,856	Net cash received: £75,000 – £26,641 = £48,359

The Difference

Additional tax due to the rate increase:

£26,641 – £25,144 = £1,497

On a £75,000 dividend, the April 2026 change reduces net cash by approximately £1,500.

That may appear modest in isolation. However:

- On £150,000 of extraction, the difference doubles.
- Across multiple years, the cumulative effect compounds.
- When layered with taper exposure, the effective cost rises further.

The headline increase is two percentage points. The real-world impact depends on scale and timing.

5. The £100,000 Threshold: Where Planning Becomes Critical

Assume salary of £95,000 and a dividend of £30,000. Total income becomes £125,000.

The income above £100,000 is £25,000. Under the personal allowance taper rules, £1 of personal allowance is lost for every £2 above £100,000. That reduces the allowance by £12,500, effectively removing it in full.

The loss of the personal allowance increases taxable income by £12,570. At 40%, this creates additional income tax of £5,028.

That additional tax arises solely because the dividend pushed total income beyond £100,000.

The dividend itself is then taxed at 35.75% on the higher-rate portion.

For the slice of income between £100,000 and £125,140, the effective marginal rate becomes:

35.75% dividend tax
plus
20% effective taper impact
resulting in an effective marginal rate of 55.75%.

When both effects are combined, the total tax cost attributable to that £30,000 dividend exceeds £15,000.

For shareholders near £100,000 of income, dividend timing becomes materially more important than the headline rate change itself.

6. One Year or Several? Why Extraction Timing Matters

Once dividend tax is layered onto corporation tax and income thresholds, the most powerful planning lever is timing.

Unlike direct property ownership, a company allows profits to be retained and extracted when appropriate. That flexibility becomes more valuable as rates increase.

The difference is not theoretical. It is mathematical.

When dividend rates increase, timing becomes more powerful than rate sensitivity itself. The ability to smooth income across tax years can often mitigate more tax than the two-percentage-point rate rise adds.

For property company shareholders, extraction should be modelled over multiple years, not decided in isolation at year end.

7. Extraction Modelling

To illustrate the extraction timing, assume the following:

- Property company has £150,000 of post-corporation tax distributable reserves.
- Shareholder already has £60,000 of salary income.
- Dividend allowance £500.
- Dividend taxed at 35.75% where it falls in the higher rate band.

Scenario A: Extract £150,000 in One Year

With £60,000 salary, the basic rate band is already largely utilised. The majority of the £150,000 dividend will fall into the higher rate band.

After the £500 dividend allowance, £149,500 is taxable at 35.75%.

Dividend tax payable:

$£149,500 \times 35.75\% = \mathbf{£53,466}$

Net cash received:

$£150,000 - £53,466 = \mathbf{£96,534}$

Scenario B: Extract £50,000 per Year Over Three Years

Each year:

After £500 allowance, £49,500 is taxable.

Dividend tax per year:

$£49,500 \times 35.75\% = £17,696$

Over three years:

$£17,696 \times 3 = £53,088$ total dividend tax

At first glance, the tax appears similar.

However, in practice:

- Income may remain below taper thresholds in some years.
- Other income may fluctuate.
- Basic rate band utilisation may differ year to year.
- Pension contributions or other planning can be integrated annually.

Even modest shifts in band positioning can reduce cumulative tax by several thousand pounds.

The advantage of a company is not simply the rate. It is control over timing.

When dividend rates increase, that control becomes more valuable.

For property company shareholders, extraction should be modelled across multiple years, not decided reactively at year end.

8. Key Takeaways

The April 2026 dividend rate rise is not simply a small percentage adjustment. For property company shareholders, it increases the cost of extraction at the point where corporation tax has already been paid and profits are finally accessed personally.

The practical impact depends far more on where a dividend sits within your overall income profile than on the headline rate itself. Once layered onto corporation tax and, in some cases, the £100,000 personal allowance taper, the combined effect can be materially higher than expected.

Dividend decisions should therefore be treated as a modelling exercise, not an administrative step. In a corporate property structure, timing and income positioning matter as much as the rate itself.

9. Practical Next Steps

Before declaring dividends in 2025/26 or 2026/27, property company shareholders should review:

1. Forecast total income across both tax years, including salary, dividends, rental income and savings.
2. Proximity to the £100,000 threshold or other income-driven triggers.
3. Whether a one-off extraction is necessary, or whether smoothing across multiple tax years would produce a better outcome.
4. The shareholding structure and whether dividends can be allocated efficiently across available tax bands.
5. Whether alternative extraction routes, such as employer pension contributions where appropriate, should form part of the strategy.

10. Talk to us

Dividend tax rises do not remove the advantages of a corporate property structure, but they do change the extraction equation.

With structured modelling and the right strategy, it is often possible to reduce unnecessary tax leakage by controlling timing, allocation and overall income positioning.

The earlier the conversation takes place, the more planning flexibility remains.

If you would like to review your property company extraction strategy for 2025/26 and 2026/27, we would be pleased to help.

You can:

- **Email:** info@drs-tax.com
- **Telephone:** 020 8059 1891
- **Submit an enquiry** via our [Contact Us](#) page
- **Book a free 15-minute consultation**