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## Dividends for Property Companies

### Extraction Strategy, Tax Interaction and Timing Considerations

#### 1. Why Dividend Strategy Matters More for Property Companies

For many property investors operating through a company, the focus is often on the benefits of incorporation. Corporation tax rates, the ability to retain profits, and flexibility of extraction are all commonly cited advantages.

However, the point at which many investors actually feel the tax burden is not when profits are generated, but when those profits are extracted.

Dividends are the primary method of extraction for most property companies. While the corporate structure may provide advantages on the way in, the tax cost on the way out can be significant. This is particularly true following the increase in dividend tax rates from April 2026.

The result is that dividend strategy becomes just as important as the initial decision to incorporate. Without careful planning, the combined corporate and personal tax cost can erode much of the perceived benefit.

#### 2. The Dividend Tax Position from April 2026

From April 2026, dividend tax rates increase by two percentage points. For higher-rate taxpayers, the rate rises to 35.75%, while the basic rate increases to 10.75%. The additional rate remains unchanged.

At first glance, this may appear to be a relatively modest increase. However, when combined with corporation tax, the impact becomes more significant.

Property companies typically pay corporation tax at 25% on their profits. Dividends are then paid from post-tax profits, meaning that the shareholder is taxed on income that has already been subject to corporation tax.

This layering effect is what drives the overall tax cost.

#### 3. Modelling Scenario: Combined Corporate and Personal Tax

To understand the full impact, consider a property company generating £100,000 of profit.

At company level:

Corporation tax at 25%: £25,000

Post-tax profit available for distribution: £75,000

If that £75,000 is distributed as a dividend to a higher-rate taxpayer:

Dividend tax at 35.75%: £26,812

The combined tax position is:

Corporation tax: £25,000

Dividend tax: £26,812

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Total tax: £51,812

This results in an effective combined tax rate of just over 50%.

This is the point at which many investors reassess their assumptions. The corporate structure may still be beneficial, but the extraction phase is where the overall efficiency is determined.

#### 4. Where Dividends Sit Within the Wider Income Profile

Dividend tax does not operate in isolation. The rate applied depends on where the dividend sits within the individual's overall income.

For property investors, this is particularly important because rental income, employment income and other investment income may already be using part of the available tax bands.

A dividend that appears to fall within the basic rate band in isolation may in reality be taxed at higher rates once all income sources are considered.

This is why dividend planning needs to take into account total income, rather than focusing solely on the company.

#### 5. The £100,000 Threshold: A Critical Pressure Point

One of the most significant factors affecting dividend planning is the £100,000 income threshold.

As income exceeds this level, the personal allowance is withdrawn. This creates an effective marginal tax rate of 60% within the taper range.

For property company shareholders, this can have a disproportionate impact. A dividend that pushes income beyond £100,000 does not just attract dividend tax. It also reduces the personal allowance, increasing the overall tax burden.

For example, an additional £20,000 dividend may result in:

- Dividend tax at 35.75%
- Additional income tax due to loss of personal allowance

The combined effect can push the effective marginal rate significantly higher than expected.

In many cases, this interaction has a greater impact than the headline dividend rate increase itself.

#### 6. Timing of Dividends: One Year vs Multiple Years

Dividend decisions are often made based on available cash rather than tax position. However, timing can have a material impact on the overall outcome.

Taking a large dividend in a single year may push income into higher tax bands or into the personal allowance taper. By contrast, spreading that extraction over multiple tax years can allow income to remain within more favourable thresholds.

For example, extracting £60,000 in one year may result in a significant portion being taxed at higher rates. Extracting £30,000 over two years may keep more of that income within lower bands.

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This does not reduce the total amount extracted, but it can reduce the overall tax cost.

## 7. Multi-Shareholder Planning: Using Multiple Allowances

Where property companies have more than one shareholder, there is an opportunity to allocate dividends across individuals.

This allows multiple personal allowances and tax bands to be utilised, rather than concentrating income in a single individual.

For example, a couple holding shares in a property company may be able to split dividends in a way that keeps both within lower tax bands, rather than pushing one individual into higher or additional rates.

This type of planning must be implemented carefully, particularly where shareholdings are adjusted. However, when structured correctly, it can significantly improve the efficiency of dividend extraction.

## 8. Alternative Extraction Routes: Beyond Dividends

While dividends are the most common extraction method, they are not the only option.

Employer pension contributions can provide a more tax-efficient route in certain circumstances. These contributions are deductible for corporation tax and do not trigger immediate income tax or National Insurance.

Similarly, retaining profits within the company for future investment may be preferable to extracting them in a high-tax year.

The key is to view dividends as part of a wider strategy, rather than the default approach in all cases.

## 9. Bringing It Together: Why Dividend Decisions Should Be Modelled

The consistent theme across all of these factors is that dividend decisions should not be treated as administrative.

The interaction between corporation tax, dividend tax, personal thresholds and timing means that relatively small changes can produce significantly different outcomes.

In many cases, the difference between taking a dividend now or later, or allocating it differently between shareholders, can amount to several thousand pounds of tax.

A structured, modelled approach allows these variables to be considered together, rather than in isolation.

## 10. Key Takeaways

The increase in dividend tax rates from April 2026 makes extraction from property companies more expensive, but the headline rate change is only part of the story.

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The real impact depends on how dividends interact with the individual's wider income position, particularly around key thresholds such as £100,000.

Timing, allocation and alternative extraction routes all play a role in determining the final outcome.

## 11. Talk to us

If you are extracting profits from a property company, we can help you structure that process in a way that reflects both corporate and personal tax considerations.

We can model different extraction strategies, assess the impact of timing and thresholds, and ensure that dividends are taken in the most efficient way possible.

As with all planning of this nature, the earlier the position is reviewed, the more flexibility is available.

You can:

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