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your expert guide to contracting

How much will section 660 cost contractors?

Introduction

This article explains how Section 660 affects contractors financially.

To determine how Section 660 could affect you, use the Section 660 Calculator for an accurate and personalised calculation.

Does Section 660 apply to you?

Section 660 will apply to you if:

- You are paid via a limited company structure, AND
- You split your dividends with a spouse who owns shares in the company, AND
- The spouse does not perform any significant amount of work for the company, or bring in income.

What does Section 660 mean?

Section 660 means treating all company income as though it was earned by the main contractor.

This is the same as the contractor having full share ownership of the company with no dividend splits.

Will it affect you?

The answer is yes, but only if you are a higher rate tax payer. This is because dividend taxes only only to income above the higher rate PAYE threshold.

If you are a higher rate tax payer and you split dividends to reduce the amount of dividend tax due then it will affect you.

This situation occurs if your hourly rate is above £25 per hour (£200 per day).

Could I have an extra tax bill?

If you are investigated you may have to pay back taxes from previous years.

In the recent Arctic Systems case the revenue claimed back tax for ONLY one year. But, this is not a fixed rule, and the IR can still go back further years.

The amount of an extra tax bill (for each back year claimed) depends on how much you earn, and the dividend split.

Here are some estimates based on a 50/50 dividend split:

Hourly rate	Tax bill
Under £25	Zero
£35	£3,056
£50	£7,425
£60	£8,132

For an accurate personalised calculation use the Section 660 Calculator.

How much will my current income be affected?

Again, this depends on how much you earn, and the dividend split.

Here are some estimates based on a 50/50 dividend split:

Hourly rate	Monthly net income decrease
Under £25	Zero
£35	£254
£50	£618
£60	£677

For an accurate personalised calculation use the Section 660 Calculator.

Section 660 Calculator

You can find out a more accurate estimate of how Section 660 effects you using the Section 660 Calculator.

What should you do?

If you believe you might be affected then speak to your accountant for professional advice.

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