

# Oh dear, the head of tax at the ACCA can't calculate a ...

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Chas Roy-Chowdhury, the head of tax at the ACCA is an old sparring partner of mine. The fact that he thinks I'm a far left socialist says a lot more about Chas and where he's coming from than it says about me.

Chas also has a slight problem for someone holding his position: he seems to be a little short on the knowledge front on how the UK tax system works. He [wrote an article on Friday for the BBC](#) in which he says that if a person is paid dividends from a company they own they will pay more income tax as a result than they would pay if they were taxed as an employee on the same sum and paid NIC on it.

Unfortunately, Chas got just about all his numbers wrong. First of all, he claimed the tax due on £200,000 of income subject to PAYE would be £84,653. Unfortunately that's wrong. The real figure, (£34,370 @ 20%, £115,630 @ 40% and £50,000 at 50%) is £85,463. OK, just a transposition error out, but wrong all the same.

Then, rather more seriously, he shows he has no idea at all how dividends are taxed. His claim is that if a dividend of £200,000 is paid that first corporation tax of £40,000 is paid and the remaining £160,000 is then taxed at 32.5% and 42.5%. Oh dear Chas: time to do some homework. He ignores the fact that the recipient still has a basic rate tax allowance of £34,370. And it's also a fact Chas that the £40,000 tax paid on the £200,000 is not a tax at 100% leaving £160,000 left over to be taxed at remaining rates: it's a credit of £40,000 available to the tax payer to be offset against the total sum due on income which still is £200,000.

The result is that the tax due on £200,000 of dividend is £85,463. You can calculate the way I did above or you can use the much more complicated dividend method but the result is always the same: the tax on £200,000 of earned income is the same as the tax on £200,000 of dividend income.

What did Chas get wrong? Candidly, I'm not sure: nothing I can do can make a tax bill as high as he creates. It's a guaranteed fail for sure.

And as for whether the person in the personal service company is better off or not, well,

Chas says they aren't because he can't do his numbers. But the truth is he's also wrong to compare like with like in income terms. The contractor may well have a higher pay rate than the salaried person: it's a risk compensation and the employer can pay it as they are not paying NIC. And then they can offset expenses in the company the employee can't as the rules for employees and companies are different and not because they are fiddling. So a higher actual income may result in a lower taxable income, which is a massive saving as many of those expenses may be incurred anyway. And, in addition, there's that NIC saving to take into account to.

The result? It's likely that at a minimum the contractor will pay at least £5,000 less in tax, and save the NIC too. Chas said they'd pay £13,500 more. He got the total wrong by near enough £25,000. Thank heavens for any potential clients that Chas is not in practice. But the ACCA may be thinking it's time to find a head of tax who can do tax, or might even understand it, at least in theory.