



# williamsgiles

Chartered Accountants

## THE NEW RULES ON DIVIDENDS



April 2016 sees significant changes to the rules on the taxation of dividends, which could have a significant impact on the amount of tax you pay. This factsheet provides an overview of the new system, together with information and advice to help keep your tax bill to a minimum.

### RULES PRIOR TO 6 APRIL 2016

Prior to 6 April 2016, the taxation of dividends had been made complicated due to a 10% tax credit being added to the cash amount of the dividend, with the tax credit then satisfying all or part of the income tax liability on the dividend.

The practical effect of the system is that basic rate taxpayers have no further tax to pay on dividend income and a higher rate taxpayer pays an effective 25% on the cash amount of the dividend receipt. However, from 6 April 2016 this tax credit will cease, and dividend income will be taxed at new tax rates.

### CHANGES FROM APRIL 2016

A new Dividend Allowance of £5,000 per annum is being introduced from the 2016/17 tax year. This is in addition to an individual's personal allowance. The Dividend Allowance does not change the amount of income that is brought into the income tax computation. Instead it charges £5,000 of the dividend income at 0% tax – the dividend nil rate. This means that:

- The payment of low salary below the Personal Allowance will allow some dividends to escape tax as they are covered by the Personal Allowance.
- The £5,000 allowance effectively reduces the available basic rate band for the rest of the dividend.

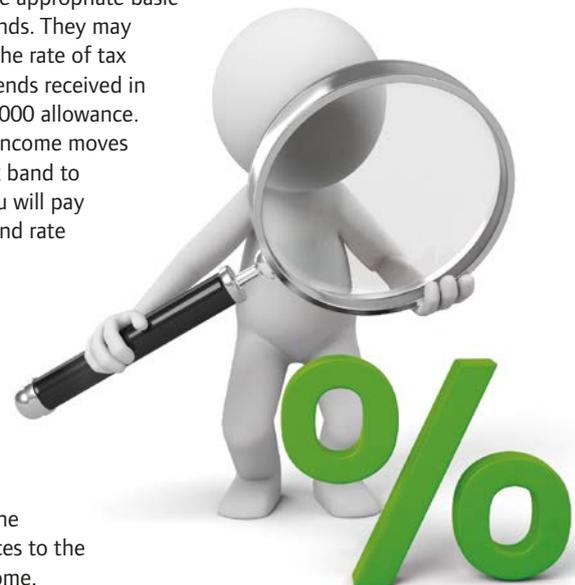
Headline rates of dividend tax are also changing. From 6 April 2016 the rates of tax on dividends over £5,000 will be:

- 7.5% on dividend income within the basic rate band (ordinary rate)
- 32.5% on dividend income within the higher rate band (upper rate)
- 38.1% on dividend income within the additional rate band (additional rate).

The Dividend Allowance will not reduce total income for tax purposes, and dividends within the allowance will still count towards the appropriate basic or higher rate bands. They may therefore affect the rate of tax payable on dividends received in excess of the £5,000 allowance. If your dividend income moves you from one tax band to another, then you will pay the higher dividend rate on that amount.

### Example one

Here is an example showing the taxable amounts after allocating the relevant allowances to the two types of income.



	Non-dividend income (£)	Dividend income (£)
	18,000	22,000
Dividend Allowance	-	5,000
Personal Allowance	11,000	-
Taxable at basic rate	7,000 (20%)	17,000 (7.5%)

As total income is £40,000 and the amount at which higher rate tax starts to apply is £43,000, the dividend income above £5,000 is taxed at 7.5%.