Considerations for New Dividend Tax Treatment

BROWN WITHEY LLP

BROWNWITHEY.COM

Considerations (1)

- Corporate tax rates have fallen to 20%, are expected to be 19% from 1 April 2017 and 18% from 1 April 2020.
- Notional tax credits on dividends are abolished from 1 April 2016 and all tax will be paid through self assessment.
- A new dividend allowance of £5,000 is introduced from 6 April 2016 so the first £5,000 of dividend income is taxed at 0% but does not reduce total taxable income.
- Dividend income will still be treated as the top slice of income so personal allowances are used first.
- Dividends within pensions and ISAs will be unaffected by the new rules.

BROWN WITHEY

6th Floor, 48 Gracechurch Street, London EC3V 0EJ
e: info@ brownwithey.com w: brownwithey.com
T : +44 (0) 20 7183 3427

Considerations (2)

- The new dividend rates from 2016/17 once the 0% tax allowance has been exceeded will be:
  - Basic rate taxpayers 7.5%
  - Higher rate taxpayers 32.5%
  - Additional rate taxpayers 38.1%
- Where dividends provide a National Insurance Contributions saving, they are still likely to be the most tax effective means of withdrawing value in 2016/17.
- Calculations will be different for those companies undertaking activities qualifying for special corporate tax rules such as R & D so bespoke advice must be sought.

Considerations (3)

- The new rates increase the effective rate of tax on dividends for company owners where they are higher rate tax payers and dividend income is not covered by the £5,000 allowance.
- The net dividend will no longer be increased by the tax credit to determine the gross: The dividend received will be the gross for tax.
- Individual circumstances will vary and must each be separately calculated.

BROWN WITHEY

6th Floor, 48 Gracechurch Street, London EC3V 0EJ
e: info@ brownwithey.com w: brownwithey.com
T : +44 (0) 20 7183 3427

Conclusion

- The case for every person will need to be looked at individually for salary vs. dividend.
- As far as possible, dividend income should be received in a pension (SIPP) or ISA wrapper, unless the income is less than £5,000 p.a.
- Dividends can be withdrawn tax-free from ISAs up to any amount.
- Married couples or Civil Partners should consider spreading taxable portfolios between themselves to ensure the largest tax saving in terms of allowances and rate bands.
- Consider dividend yields where total sheltering is not possible and shelter the highest in ISAs.
- Dividends from venture capital trusts are tax-free and might be a partial solution.

Contact Us

If you would like more information about how the new tax changes for dividends will affect you and how you can manage these tax effectively, please get in touch.

Julia Montague Jones - Partner

Mobile +44 (0)7880 735659

Julia@brownwithey.com