

Changes to Taxation of Share Dividends

In his Summer Budget the Chancellor announced changes to the taxation of share dividends which will affect anyone receiving dividends, particularly those where the total amount exceeds £5,000.

From April 2016, a new allowance of £5,000 will be introduced and dividends in excess of this will be subject to 7.5% tax for basic rate payers, 32.5% for higher rate payers and 38.1% for additional rate payers.



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According to the Chancellor, the net result is that 85% of taxpayers will be better off or at least no worse off.

The changes are summarised in the table below:

	Current Taxation	Taxation From 2016/17
Dividend Allowance	£0	£5,000
Basic Rate Taxpayer rate	0%	7.5%
Higher Rate Taxpayer rate	32.5% on gross dividend 25% on dividend net of tax credit	32.5%
Additional Rate Taxpayer rate	37.5% on gross dividend 30.55% on dividend net of tax credit	38.1%

In practical terms the effects are as follows:

- **Basic Rate Taxpayers** - will feel the difference immediately the new rates are effective if they receive dividend income above £5,000. At present they pay no tax until they reach the higher rate threshold, whereas from 2016/17 they will pay 7.5% tax on dividends exceeding £5,000.
- **Higher Rate Taxpayers** - will be better off on dividends received below the £5,000 threshold but worse off if their total net dividends exceed £21,667, as illustrated in the following example:

Current Position: Dividend income of £21,667 x 25% = £5,416.75 tax

From 2016/17: Dividend income of £21,667 (£5,000 x 0%) + (£16,667 x 32.5%) = £5,416.77 tax

- **Additional Rate Taxpayers** - will be worse off if they receive total net dividends over £25,250 as shown below:

Current Position: Dividend income of £25,250 x 30.55% = £7,713.88 tax

From 2016/17: Dividend income of £25,250 (£5,000 x 0%) + (£20,250 x 38.1%) = £7,715.25 tax

For more information or assistance please get in touch with us on 01789 263257 or email us at justask@jjsltd.com