

This guide is not intended to be a substitute for proper professional advice from your accountant or tax adviser.

#### Summer Budget 2015: Dividends

Currently all UK dividends are paid with a notional 10% tax credit, so for every £1,000 of dividend income received it is assumed that £111 in basic rate tax has already been paid (the total dividend is therefore £1,111). This is why basic rate taxpayers have no further tax liability on dividends received. This tax credit is being scrapped, so in future all dividend income will be treated as gross (i.e. untaxed) income.

#### Currently dividends are taxed as follows (2015/16 and earlier tax years):

	Net dividend (£)	Tax credit (£)	Additional tax (£)	Dividends after all tax (£)
Non-taxpayer	1,000	111	-	1,000
Basic rate taxpayer	1,000	111	-	1,000
Higher rate taxpayer	1,000	111	250	750
Additional rate taxpayer	1,000	111	306	694

#### Dividends taxation from 2016/17 tax year:

Every investor will have an annual tax-free dividend allowance of £5,000. The table below shows the amount of tax payable on dividends in excess of the dividend allowance.

	Net dividend (£)	Tax credit (£)	Additional tax (£)	Dividends after all tax (£)
Non-taxpayer	1,000	-	-	1,000
Basic rate taxpayer	1,000	-	75	925
Higher rate taxpayer	1,000	-	325	675
Additional rate taxpayer	1,000	-	381	619

#### Tax rates (now and after):

	Current scheme 2015/16		New scheme 2016/17	
	Earnings	Dividends	Earnings	Dividends
<b><u>Tax rates:</u></b>				
Basic rate	20.0%	10.0%	20.0%	7.5%
Higher rate	40.0%	32.5%	40.0%	32.5%
Additional tax	45.0%	37.5%	45.0%	38.1%
<b><u>Tax bands and allowances:</u></b>				
	<b><u>15/16</u></b>	<b><u>16/17</u></b>		
Personal allowance	10,600.00	11,000.00		
Dividend allowance	-	5,000.00		
Basic rate band	31,785.00	32,000.00		
Higher rate band	150,000.00	150,000.00		

Personal allowance goes down by £1 for every £2 that adjusted net income is above £100,000.

**Working example:****1****Currently (2015/16)****Tax-payer at different bands:**

<b>Net income from Company</b>	<b>at £38,942.10</b>	<b>at £90,795.60</b>	<b>at £158,295.60</b>
Salary	7,956.00	7,956.00	7,956.00
Dividends (net)	30,986.10	82,839.60	150,339.60
<b>Net income before tax</b>	<b>38,942.10</b>	<b>90,795.60</b>	<b>158,295.60</b>
Personal allowance	10,600.00	10,600.00	-
Taxable income*	31,785.00	89,400.00	175,000.00
*(after 'gross up of dividends )			
Income tax at 20%	-	-	1,591.20
Dividends tax at 10%	3,178.50	3,178.50	2,382.90
Dividends tax at 32.5%	-	18,724.88	38,419.88
Dividends tax at 37.5%	-	-	9,375.00
Dividends tax credit at 10%	3,178.50	8,940.00	16,704.40
<b>Net tax liability</b>	<b>-</b>	<b>12,963.38</b>	<b>35,064.58</b>
<b>Net income after tax</b>	<b>38,942.10</b>	<b>77,832.23</b>	<b>123,231.03</b>
Effective tax rate:	0%	14%	22%

**2****As of 2016/17****Tax-payer at different bands:**

<b>Net income from Company</b>	<b>at £38,942.10</b>	<b>at £90,795.60</b>	<b>at £158,295.60</b>
Salary	7,956.00	7,956.00	7,956.00
Dividends (gross)	30,986.10	82,839.60	150,339.60
<b>Gross income before tax</b>	<b>38,942.10</b>	<b>90,795.60</b>	<b>158,295.60</b>
Personal allowance	11,000.00	11,000.00	-
Dividends allowance	5,000.00	5,000.00	5,000.00
Taxable income	22,942.10	74,795.60	153,295.60
Income tax at 20%	-	-	1,591.20
Dividends tax at 7.5%	1,720.66	2,025.00	1,428.30
Dividends tax at 32.5%	-	15,533.57	38,350.00
Dividends tax at 38.1%	-	-	3,160.62
<b>Net tax liability</b>	<b>1,720.66</b>	<b>17,558.57</b>	<b>44,530.12</b>
<b>Net income after tax</b>	<b>37,221.44</b>	<b>73,237.03</b>	<b>113,765.48</b>
Effective tax rate:	4%	19%	28%

**Difference in net income after tax****-£1,720.66****-£4,595.20****-£9,465.55**