



TAXATION OF DIVIDENDS FROM 6 APRIL 2016

Changes to the taxation of dividends were announced in the 2015 Summer Budget which will come into effect from the start of the 2016/17 tax year (6 April 2016). From this date the notional 10% tax credit attaching to dividends will be abolished and with it the need to gross up net dividends when calculating an individual's tax liability. Instead all taxpayers can receive £5,000 of dividends tax free. Dividends received above this amount are taxable at the new dividend tax rates detailed below:

	2015/16	2016/17
First £5,000	10%*	0%
Within the Basic Rate band	10%*	7.5%
Within the Higher Rate band	32.5%*	32.5%
At Additional Rate	37.5%*	38.1%

*Includes 10% notional tax credit

The following examples illustrate the effect of the change from 2015/16 to 2016/17:

	Basic rate taxpayer	Higher rate taxpayer	Additional rate taxpayer
	£	£	£
Salary	8,000	8,000	8,000
Dividend	27,000	60,000	150,000
Total Tax			
Tax 15/16	nil	7,263	34,982
Tax 16/17	<u>1,425</u>	<u>10,150</u>	<u>44,423</u>
Additional Tax Due	1,425	2,887	9,441

If you receive significant dividend income there may be advantages in bringing forward dividends into the 2015/16 tax year. However the decision is not straightforward as large dividends could result in higher effective tax rates if your personal allowance is lost. The above changes therefore need to be reviewed in light of each individual's personal income circumstances.

Generally you will pay more tax on your dividend income from 6 April 2016 if your dividend income exceeds £5,000; however dividends will still be taxed at lower rates than other sources of income.

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