



More detail on dividend changes

HMRC has issued a factsheet about next year's dividend tax changes.

The Summer Budget announcement of a change to the rules on dividend taxation from next April caused many furrowed brows. The situation was not helped by the very limited detail available from HMRC on the new regime and no legislation in the Finance Bill published in July.

Last month things became a little clearer when HMRC published a "Dividend Allowance Factsheet" which it developed in conjunction with the Tax Faculty of the Institute of Chartered Accountants of England and Wales. This revealed that the new £5,000 Dividend Allowance will not be a true allowance, but rather (yet another) 0% tax band. The difference may sound academic, but it is significant. It will mean, to quote the factsheet, "The Dividend Allowance will not reduce your total income for tax purposes".

To see the effect, suppose someone had income before dividends in 2016/17 of £2,000 below the starting point for higher rate tax. If they receive dividends of no more than £5,000, there will be no tax to pay on those dividends. Any dividends above £5,000 will attract 32.5% tax – the new dividend higher rate – not the new 7.5% dividend basic rate. Had the Dividend Allowance been a true allowance, then the £2,000 of unused basic rate band would have been available to use first before higher rate applied.

The news that the Dividend Allowance is not an allowance has sent some tax experts back to their spreadsheets to re-crunch their numbers. Sometimes the recalculations have resulted in higher projected tax bills, particularly for shareholder directors who use dividends to extract income from their companies, rather than drawing salary and/or bonus. If you fall into that category, you need to start thinking about your 2016/17 currency options now – and maybe planning a special dividend before 6 April 2016.

If you are an individual investor in funds or shares, you should still be reviewing your strategy for next tax year, so why not give us a call now the dust is beginning to settle?

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance. Investing in shares should be regarded as a long-term investment and should fit in with your overall attitude to risk and financial circumstances.