The dividend allowance cut – what's the damage?

One of the few surprises in the March Budget was a cut to the dividend allowance to come in 2018/19.

The dividend allowance first saw the light of day in the post-election Budget of July 2015. It was designed primarily to discourage self-employed business owners from using incorporation as a way of avoiding national insurance contributions (NICs). Ironically one of the first effects it had was to dramatically increase the government tax take on dividends. HM Revenue & Customs has provisionally estimated that £10.7 billion of dividend income was brought forward into 2015/16 to avoid the higher rates of tax that were to apply to dividends from 2016/17 onwards.

The Chancellor's announcement of a cut in the dividend allowance from the current £5,000 to £2,000 from 2018/19 will not result in any such pre-emptive surge in dividend payments, but it will add to the Exchequer's income.

While Mr Hammond justified the move on the same incorporation-deterring grounds as his predecessor, the collateral damage to ordinary investors is much greater than was Mr Osborne's announcement. The table below shows the crossover dividend levels at which investors will pay more tax in 2018/19 than they did under the old rules in 2015/16.

Taxpayer (Dividend Tax Rate)	**More tax paid than in 2015/16 if dividends exceed**		**Maximum tax increase between 2016/17 and 2018/19**
	2016/17	**2018/19**	
Basic (7.5%)	£5,000	£2,000	£225
Higher (32.5%)	£21,667	£8,667	£975
Additional (38.1%)	£25,250	£10,100	£1,143

As the dividend allowance cut is a year away, there is time to plan ways to reduce its impact. To learn more about your options, talk to us now.

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. The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.