New Dividend Regime from 2016/17

Introduction

At the Summer Budget 2015 George Osborne announced the new dividend tax regime that will be introduced from 6 April 2016. The new rules will not pose any issues for the majority of UK taxpayers, but will present a major change for owners of their own business. The changes will directly affect those remunerated by way of salary and dividends and those considering incorporating their business. The changes are not yet included in tax legislation but HMRC have issued guidance.

What are the changes?

- Basic rate dividends increase from an effective tax rate of 0% to 7.5%
- Higher rate dividends increase from an effective tax rate of 25% to 32.5%
- Additional rate dividends increase from an effective tax rate of 30.6% to 38.1%
- The notional tax credit will be abolished – therefore each taxpayer benefits from a little more income in each tax band on their dividends
- A tax free dividend allowance of £5,000
- Your savings income exemption and savings allowance are not available against dividends
- Rates of corporation tax are gradually being reduced; from 1 April 2017 corporation tax will be 19% and from 1 April 2020 it will be 18%

Income	2015/16	2016/17
1st £5,000 tax free	Only in Basic Rate Band	Yes
Notional tax credit?	Yes	No
Basic rate	0%	7.5%
Higher rate	25%	32.5%
Additional rate	30.6%	38.1%

The tax implications of the new rules are extremely varied and depend on your personal circumstances. Here is a brief example of how you might be affected:

A limited company making £90,000 profit with two shareholders (assuming no other sources of income, salaries to utilise personal allowance and dividends from available reserves) would likely be taxed at the rates in the table overleaf.

	2015/16	2016/17
Corporation Tax	£13,760	£13,600
Tax on dividends	£0	£3,330
NIC's	£610	£706
Total Tax	£14,370	£17,636

In this scenario the total tax would be £3,266 more, a large amount!

Effect on remuneration

The effect of the changes on remuneration will depend on what salary and dividend is received, but the following table shows a couple of examples, assuming no other sources of income, comparing the tax on the dividend in 2015/16 and 2016/17:

	2015/16	2016/17
£20,000 salary, £10,000 dividend	£0	£375
£20,000 salary, £50,000 dividend	£7,463	£10,125
Personal allowance salary, dividends to basic rate	£0	£2,025

Other considerations

- Speak to your accountant about how this affects you
- Potential to vote more dividends in 2015/16 before the tax rates rise (needs careful planning)
- More thought required to dividend planning in 2016/17
- This all adds further complexity to incorporations
- Dividend income received by pension funds and on shares held in an ISA will continue to be tax free, so now is a good time to speak to your financial adviser

Summary

The rules are complex and will affect different people in many different ways; we therefore recommend you speak to Armstrong Watson as soon as possible to identify how the changes affect you and your business.

Contact Us

To find out more about the New Dividend Regime, contact us:

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