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With the dividend allowance now cut to just £500, the number of taxpayers paying tax on dividend income for 2024/25 is expected to be double what it was three years ago.

Previously set at £2,000, the dividend allowance was reduced to £1,000 for 2023/24, and to £500 from 2024/25 onwards. This reduction has had the biggest impact on basic rate taxpayers. Just under 700,000 basic rate taxpayers paid tax on dividend income for 2022/23, but this number will leap to nearly 1.7 million for the current tax year.

Tax liability

A modest share portfolio of just over £10,000 yielding 5% will now use up the dividend allowance, leaving the investor with a tax liability notifiable to HMRC. Consider this:

- Notification requires either contacting the HMRC helpline, asking HMRC to collect tax through a tax coding change (if employed), or completing a self-assessment tax return.
- With a basic rate of 8.75% on dividend income, the amount of tax due will often be frustratingly low given the inconvenience involved.

The average amount of tax due from basic rate taxpayers is estimated to be £385 for the current tax year; down from £780 three years ago.

Even worse will be where an investor opts for script dividends. These are still taxable despite no cash being received, so tax will have to be funded from other sources.

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At the same time as the dividend allowance has been cut, the level of dividend payouts by companies has generally recovered to pre-Covid levels.

Mitigation

If dividend income exceeds the £500 allowance, some mitigating steps might be possible. The obvious move is to make full use of Independent Savings Account allowances for some current, and all future, share investments. Another approach would be to invest for capital growth rather than dividend income. Making use of the dividend allowance of a spouse, partner or an adult child by spreading a share portfolio across the family is another possibility.

HMRC's guide to tax on dividends can be found [here](#).

We can help

For further information on this, please call us on **01753 888 211** or email info@nhllp.com. We would be happy to help.