Nunn Hayward
Chartered Accountants

Nunn Hayward LLP Factsheet:

Summer Budget 2015 - Changes to taxation on dividends

The 2015 Summer Budget outlined some new proposals for taxation on dividends; here we look at this in more detail.

From 6 April 2016 the 10% dividend tax credit will be abolished and there will be a new dividend tax allowance of £5,000 a year. New rates of tax on dividend income will apply above the allowance at 7.5% for basic rate taxpayers, 32.5% for higher rate taxpayers and 38.1% for additional rate taxpayers. The effect is to increase the rate of tax on dividends above the new allowance by 7.5%.

Taxable dividend income in 2016/17 will be taxed at the special tax rates shown in the table below.

Dividend tax rates for 2016/17

Taxable dividend income*	Tax rate**	Comparable rate in 2015/16
Up to £32,000	7.5%	Nil
Between £32,000 and £150,000	32.5%	25.0%
Above £150,000	38.1%	30.6%

**Total dividend income after £5,000 exemption and any available personal allowance   **Rate applies to actual dividend received with no grossing-up*

From 2016/17 the new dividend tax rule brings in higher tax rates. A review of the total tax costs (including corporation tax) of paying dividends out of a typical owner managed company is provided below:

Overall dividend extraction tax rates (2016/17)

Owner managed companies – Overall dividend extraction tax rates (2016/17)

	Shareholder		
	Basic rate (20%) £	**Higher rate (40%) £**	**Additional rate (45%) £**
Company profits	100	100	100
CT – 20%	(20)	(20)	(20)
Post-tax profits = dividend	80	80	80
Dividend tax @7.5% / 32.5% / 38.1%*	(6)	(26)	(30.5)
Shareholder's net income	74	54	49.5
Effective tax rate (2016/17)	26%	46%	50.5%
Effective tax rate (2015/16)	20%	40%	44.5%

**Ignores £5,000 tax free dividend allowance*

Businesses that currently exploit the ability to pay gross 'tax-free' dividends of around £38,500 to spouses will now see such amounts taxed at 7.5% from 2016/17. This should still produce typical tax savings of 25% (i.e. 32.5% less 7.5%) of the dividend and hence such planning will still be worthwhile.

The 2016/17 increases in dividend tax will narrow the tax difference between bonuses and dividends, so that dividends become only marginally preferred, there is an example below:

Bonus vs. dividend comparison

Higher rate (40%) tax payer

	Bonus £'000	**Dividend £'000**
Surplus profits	100	100
Employer's NIC @13.8%	(12)	
Corporation tax @ 20%		(20)
Amount received by owner-manager	88	80
Income tax @ 40%/32.5%	(35)	(26)
Employees' NIC @ 2%	(2)	
Net cash available	51	54
Effective tax rate 2016/17	49%	46%
Comparable effective tax rate 2015/16	49%	40%

Many owner managers are likely to consider accelerating dividend payments before April 2016 to benefit from the current lower rates.

The above summary is based on our understanding of the Summer Budget announcement. We will of course update you once the draft legislation is published.

To understand more on the Summer Budget and the impact that taxation on dividends will have on you, call us to arrange a free initial consultation meeting with one of our Partners.
Please call the office on **01753 888211** or email **info@nhllp.com** to arrange a suitable time.

Nunn Hayward LLP
Sterling House
20, Station Road
Gerrards Cross
Buckinghamshire
SL9 8EL

Telephone: 01753 888211
www.nhllp.com