



## **Tax Alert The Dividend Tax Changes**

This tax alert highlights the changes recently announced by the Government in connection with the taxation of dividends.

### **What are the changes?**

The Chancellor of the Exchequer, George Osborne, announced a fundamental reform to the taxation of dividends in his Summer Budget.

These changes will mean the abolition of the associated tax credit on dividends and the introduction of a £5,000 exemption for all individual taxpayers. Any dividend income above £5,000 will be taxed at the following income tax rates:

- 7.5% on dividend income within the basic rate band (currently 0%).
- 32.5% on dividend income within the higher rate band (currently 25%).
- 38.1% on dividend income within the additional rate band (currently 30.56%).

These changes mean that all individual taxpayers who receive dividends above £5,000 will pay an additional 7.5% income tax regardless of their tax bands.

Dividends received by pension funds (which are currently exempt from tax) and dividends received on shares held in an ISA will continue to be tax free.

### **Why have these changes been introduced?**

The Government views the current system as being both outdated and complex and sees these new measures as providing a modern and simplified system for taxing dividends received by individuals.

However, the Government has clearly set its sights on the owner managed business (**OMB**) community since it stated that these "*changes will also start to reduce the incentive to incorporate and remunerate through dividends rather than through wages to reduce tax liabilities*".

### **When do these changes apply?**

These new measures will come into force on 6<sup>th</sup> April 2016.

## **What are the next steps?**

Whilst the Government has issued some guidance, the draft legislation has not yet been released and will feature in the Finance Bill 2016.

Nonetheless, OMBs and those with share portfolios generating more than £5,000 should use this opportunity to review their existing arrangements and consider whether changes should be made going forward.

Those thinking about incorporating their business are well advised to fully run the numbers to see if a limited company route stacks up.

Under the current regime, a husband and wife running their business through a company can (broadly) extract profits in the form of salaries of about £10,000 each and dividends of about £30,000 each and their combined income of £80,000 would attract no income tax. However, from next year each will be liable to income tax on £25,000 of their dividends.

## **Where can I get help?**

New Quadrant Partners Limited has extensive experience advising OMBs on a range of tax issues and, in particular, advising on tax efficient profit extraction strategies.

For further information about these changes, please contact Simon Newsham at New Quadrant Partners Limited on 020 7430 7176 or email him at [simon.newsham@nqpltd.com](mailto:simon.newsham@nqpltd.com).

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