

Dividend Tax Changes - Take Action Before 5 April 2016

Many companies opt to pay a low salary to their shareholders and directors which can then be topped up by further payments of dividends. The company pays corporation tax on its profits and the shareholders then pay income tax on their dividends at an effective rate of currently 25% or 30.6%.

Overall this approach gives a lower tax charge than paying salaries that are subject to PAYE and NIC.

With effect from 6 April 2016, dividends received up to the basic rate band limit of £42,000 will be taxed at 7.5%. Dividends between £42,000 and £150,000 will be taxed at 32.5% instead of the current 25%, and the top rate of tax on dividends over £150,000 will be 38.1% instead of the current 30.6%.

To partly offset these increases a new dividend allowance is being introduced, which will exempt the first £5,000 of dividends received per person. This allowance will be available in addition to the personal allowance, meaning that from 6 April 2016 up to £16,000 in salary and dividends can be received from a company before any income tax will become payable. However beyond this amount, the new rate of 7.5% will become applicable. With the removal of the tax credit those in the higher and top rate brackets will also see their effective rates of tax rise.

Act now to secure a tax saving!

Clients should therefore consider bringing forward the payment of dividends in the current tax year, where possible, in order to maximise savings. This will accelerate the payment of tax by one year, but allows you to pay tax at the lower current rates. The figures in the tables show that significant tax savings can be realised with some simple and effective planning.

For further help and advice, please contact George Lovell or Kirsty MacDonald:

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Top rate taxpayers receiving £100k in dividends per year

No Advancement	2015/16	2016/17
Dividend received	100,000	100,000
Less tax payable	30,556	36,195
Net cash received	69,444	63,805

Advancement of £95,000	2015/16	2016/17
Dividend received	195,000	5,000
Less tax payable	59,583	-
Net cash received	135,416	5,000

Tax saved by advancing dividends = £7,168

Higher rate taxpayers receiving £50k dividends per year

No advancement	2015/16	2017/18
Dividend received	50,000	50,000
less tax payable	12,500	14,625
Total cash received	37,500	25,375

Advancement of £45,000	2015/16	2017/18
Dividend received	95,000	5,000
Less tax payable	23,750	-
Total cash received	71,250	5,000

Tax saving by advancing dividends = £3,375