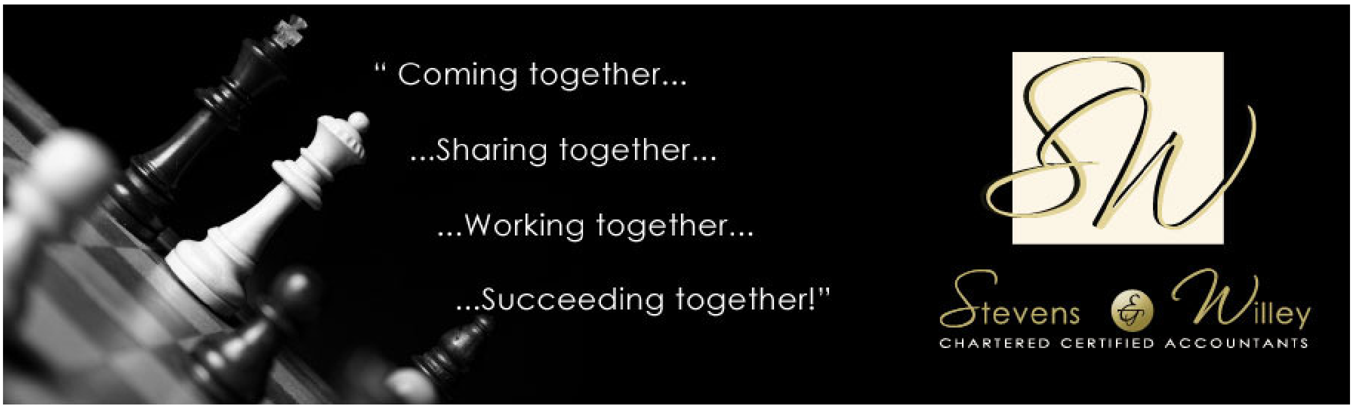

New Dividend Regime – 2016/2017

What is happening?

Previously dividend income had a system of tax credits meaning the net dividend was 'grossed up' for tax purposes by 10/9 and the 10% tax credit was treated as notional tax paid at source. Tax Credit on dividends was never recoverable, but <u>unless</u> your total income from all sources took you into higher rates tax bands, additional tax was not payable on this income.

However the new regime means that everyone is entitled to a Dividend Tax Allowance which charges £5,000 of dividend income at 0% tax, and the complexities of the notional tax credit regime, as above, have been disbanded but instead three new rates of taxation are applied to dividends above £5,000 depending upon whether the taxpayer is a basic rate, higher rates or additional rate payer. The following tax rates will be applied to dividends over and above the first £5,000 as follows:-

Basic Rate	7.5%
Higher Rate	32.5%
Additional Rate	38.1%

The New Dividend Tax Regime affects the majority of Company Directors.

Who is going to be affected?

Anyone who receives over £5,000 of UK dividends. In particular, taxpayers who are company directors and trade through a Limited Company, extracting their income as a combination of dividends and low salary. <u>This new tax regime will affect the majority of our company director clients</u>.

When does it start?

It comes into force on **6 April 2016**, and therefore, individual tax returns for the year ended **5 April 2017 will be affected**. Any resulting tax liability will be payable by **31 January 2018**.

How much will it cost me?

It will vary considerably for each taxpayer, but shown overleaf are a few examples of typical income levels and the tax due on them in 2015/16 and 2016/17 under the new regime. It is not practicable to give more examples and we reommend that **you contact us for a bespoke illustration and tax forecast**.

New Dividend Regime – 2016/2017 - Continued

Examples of a typical Director's Income and income tax in 2015/16 compared to same net income in 2016/17 and taxation under the new regime:-

	Example 1	**Example 2**	**Example 3**	**Example 4**
Directors Salary (from Company)	£ 8,100	£ 8,100	£ 8,100	£ 8,100
Net Dividends (from Company)	£24,000	£30,000	£46,000	£24,000
Total Net Income (from Company)	£32,100	£38,100	£54,100	£32,100
Other Untaxed Income				
Rental Income/State Pension	£ nil	£ nil	£ nil	£ 5,000
Net Private Pension Contributions	£ nil	£ nil	£ 4,000	£ nil
Income Tax on Net Income in 2015/16	**£ nil**	**£ nil**	**£2,660.88**	**£ 500.00**
Income Tax on Net income in 2016/17	**£1,207.50**	**£1,657.50**	**£4,382.50**	**£1,845.00**

How much will it cost me?

As you can see, the income tax payable in 2016/17 is substantially more than in 2015/16 for the same level of income extracted from the company.

In addition to the increased income tax liability, which for the year ended 5 April 2017 will fall due for payment in full by 31 January 2018, where your tax liability exceeds £1,000, HM Revenue & Customs will also require you to make payments on account of your 'estimated' tax liability for the year ended 5 April 2018, based on the tax due in 2016/17, in two equal instalments due in January and July 2018.

Therefore, using example 2 above, the £1,657.50 tax will fall due for payment on 31 January 2018, but in addition a further £828.75 will be payable on 31 January 2018 and £828.75 on 31 July 2018. The total payable on 31 January 2018 will therefore be £2,486.25 (£1,657.50 plus £828.75).

What can we / you do to minimize the tax:-

1. Make full use of your basic rate tax band in 2015/16, by maximizing the dividends you draw from the company in this tax year, obviously restricted to the available profits from the company.
2. Consider making a personal pension contribution, especially if your net income is going to exceed the basic rate band.
3. Consider gifting a share to your spouse, if they are not already a shareholder in your Company, to make use of their Annual Dividend Allowance. * *This has other implications and further advice MUST be sought.*
4. Consider gifting a share to your adult dependent's, if they are not already shareholder(s) in your Company, to make use of their Annual Dividend Allowance(s). * *This has other implications and further advice MUST be sought. In particular, it may give rise to a Capital Gains Tax liability.*
5. Plan for the future by setting aside funds during the year in preparation of the forecast tax that will be due.
6. **Either make an appointment to come and see us, or telephone the partner** who deals with your tax affairs, to get your personal tax forecast and discuss any other tax minimization options that may be available to you.