

The Dividend Tax Allowance (effective April 2016)

How will the new tax treatment work?

The first £5,000 of dividend income in each tax year will be tax-free. Sums above that will be taxed at 7.5% for basic-rate taxpayers, 32.5% for higher-rate taxpayers and 38.1% for additional-rate taxpayers.

How does this differ from before?

Under the old system, basic-rate taxpayers pay no tax on their dividend income, while higher-rate taxpayers pay an effective rate of 25% and additional-rate taxpayers pay 30.56%.

Will everyone be worse off under the new tax rules?

No. While it's true that many will pay more, such as basic-rate taxpayers who receive more than £5,000 in dividends, there are others, such as higher-rate taxpayers with £5,000 or less in dividend income, who will gain. Currently they pay 25% on the whole sum, while under the new regime there will be no tax to pay, thanks to the £5,000 allowance.

What if some of my dividend income is within the tax-free personal allowance?

Dividend income is still eligible for the personal allowance. So if next year you had £16,000 in dividend income only, the first £11,000 would be covered by the personal allowance and the other £5,000 by the new dividend allowance. As a result, you would pay no tax.