

UKSA

UK SHAREHOLDERS' ASSOCIATION

The independent voice of the private shareholder

From: Toby Keynes, UKSA Policy Co-ordinator

To: Alex Plant
Inland Revenue
Company Tax Division
Room S95, West Wing
Somerset House
Strand
London WC2R 1LB

31 January 1998

Dear Mr Plant

Response to 'A MODERN SYSTEM FOR CORPORATION TAX PAYMENTS' TAXATION OF SHAREHOLDERS' DIVIDENDS

Thank you for your message indicating that you might be able to consider this response provided that it was received by early on Monday 2nd February. I regret that our voluntary resources have been stretched to the limit in dealing with this and other current consultations.

I am writing on behalf of UKSA, the UK's only democratic and independent body representing private shareholders.

Our major concern is with the effects of the reform described under 6.2, whereby 'tax credits will no longer be payable to shareholders with no tax liability'.

We recognise the theoretical basis for this reform, which was to ensure that company profits distributed through dividends were subject to the same level of taxation as profits retained by the company, although we have deep reservations about its implications for savers in money-purchase pension schemes, PEPs and ISAs and about the overall increase in taxation of company profits that will result even after allowing for planned reductions in Corporation Tax.

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However, we do not believe that the government has recognised the impact of this change on the substantial numbers of retired people who rely wholly or mainly on dividend income from savings accumulated during their careers.

The main effect of the change is that, for most of these people, the existing threshold below which no tax is payable on income will effectively disappear: most dividend income will effectively be net of corporation tax, even for those living below the poverty line¹.

The poorest, whose income is less than their total tax allowances, will see a substantial and sudden reduction in their income, as their effective rate of tax on dividends will virtually double from the current 16.25% (the current corporation tax level less the current tax credit) to 30% (the proposed corporation tax level). **We understand that some 60% of single pensioners currently fall within this tax bracket.**

Those whose income is within the lower or basic rate levels will see a small reduction in the effective tax rate on their dividend income above the tax threshold, from 33% to 30%, in line with the fall in corporation tax. However, the effective tax rate on their dividend income below the tax threshold will increase substantially, from 16.25% to 30%, unless they have other taxable income against which tax credits can be offset.

We do not believe this government intended that retired people on low or very low incomes should suffer a significant increase in taxation as a result of these changes, and we ask that the proposals be reviewed in this light.

Yours sincerely

¹ For simplicity, the figures given assume that dividends are paid out of company profits all of which have been subject to corporation tax at the full rate.