Dividend Tax

Gerry Meredith-Smith and Roy Colbran

How many UKSA members are hit by the new dividend tax? And how many, if any, actually benefit from the changes? The surprise new levy is an additional tax of 7.5% on dividends paid to individuals but with an annual tax-free Dividend Allowance of £5000 for all taxpayers. For higher rate taxpayers this is to be achieved by replacing the present computation by flat rate taxes on dividends of 32.5% and 38.1%. The legislation for this will form part of the 2016 Finance Act and so we shall not know all the details of its operation until next year. It is included in the list of items to be legislated "following consultation where applicable". However, since the Treasury is hoping to raise some £2 billion a year from the new tax there is unlikely to be much in the way of concessions.

One important reason given for the new levy is to reduce the incentive for traders to self-incorporate whereby they can pay corporation tax at current low and prospectively lower rates rather than income tax (and NI contributions although these do not seem to get mentioned). Another justification for the change is simplification in that the Dividend Tax Credit is an arcane and complex feature designed over 40 years ago when tax rates were much higher.

Even so we can see no good reason for loading this additional tax onto private shareholders. The excuse is given that the new rates of tax are below the main rates of income tax but this conveniently ignores the fact that the profits have already been taxed within the company, albeit at much lower rates than in the past. Indeed low rates of corporation tax should make for higher dividends.

Moreover one can see that private shareholders with what seems to be regarded as substantial wealth (i.e. more than £140,000 in shares) are a soft target. By the way, one group who actually benefit will be higher rate taxpayers with modest portfolios who will be able to receive £5000 in dividend income before paying any tax. As a result the government can be accused of hitting pensioners reliant on basic state pensions and with modest dividend income above £5,000 whilst helping some of those with higher overall incomes.

An argument made strongly by the government is that the extensive tax reliefs for ISAs and pensions are maintained. Until now basic rate taxpayers could well think that there was no strong pressure to move their shares into ISAs. Income treatment was, by and large, neutral and many would hope the annual CGT allowance would cover any realisations. By retaining direct ownership one avoided the ISA manager's charges and the cost of selling and then buying back in the ISA as well as keeping the right to attend meetings and vote. The ability to pass on ISAs to one's spouse or civil partner on death has added to the attractions of ISAs but the new tax makes it highly desirable to hold as much as possible of your shares in your ISA. Apart from using the annual allowance to the maximum from now on, one might want to consider any other means such as transferring in any cash ISAs and buying shares with the proceeds.

Apart from those who have deliberately chosen not to put too much into their ISA, there will be a number who have not had the opportunity to do so. Among those will be people who sold their business and put the proceeds into shares to fund their retirement. Also people who have lived abroad, and so not been allowed ISAs, but are retiring to the UK. These may well be hit hard by the new regime.

It would be useful for the Policy Team to know how many UKSA members are seriously affected by the new change and whether there is any strength of feeling on the matter. If you want to comment please email to policydirector@uksa.org.uk. or write to the Secretary.

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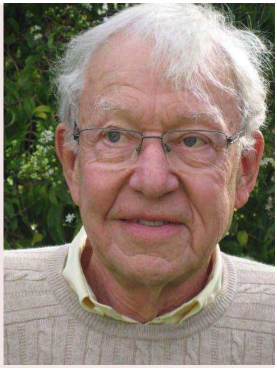

Roy Colbran

By the time you read this, shareholders in Alliance Trust should soon be receiving invitations to the London Investor Forum on September 29th. (We are told that registrations will open in early August.) From my past experience it is necessary to get in early to secure a place although maybe the change of venue will resolve this problem.

For my taste previous forums have had too much of a didactic nature and not enough about accountability. Time for questions has been short leaving most to be submitted in writing and answered on the website. As mentioned in my piece in the May edition, I have written suggesting they allow plenty of time for questions in view of all that has happened but I have not had an acknowledgment. It would be helpful if anyone registering could make the same point.

It would also be good if fellow members attending could make themselves known to one another – maybe carry a copy of Private Investor and let me know in advance at roy.colbran@zen.co.uk or 020 8654 0314