Dividend Tax

Since our article on the new tax appeared in the July issue, HMRC have issued a factsheet which may be accessed at https://www.gov.uk/government/publications/dividend-allowance-factsheet/dividend-allowance-factsheet ccording to the Association of Tax Technicians this contains a nasty surprise for some people. You will remember that the first £5000 of dividends is an allowance free of the new dividend tax. Some people seem to have got the idea that this was like income received in an ISA and so did not count towards the various tax thresholds, e.g. higher rate tax. To us this seemed most unlikely bearing in mind that this was a tax-raising measure. So it is not unexpected to find clearly stated in the factsheet that dividends within the £5000 allowance still count towards your basic or higher rate bands. In fact, there still appears to be a small advantage which is not mentioned. Hitherto all dividends have been grossed up for the tax credit in considering when the thresholds are reached. So for that purpose £9000 of dividends counted as £10,000. Since there is no longer any question of grossing up this practice has to cease.

Looking at the overall position of dividends for private investors in the UK, a lot of us will remember that for many years unearned income was taxed more highly than earned income. The present situation where only earned income is subject to NI contributions means it is now the other way round. For higher rate taxpayers (and those who would be on higher rate if their ISA dividends were counted) the tax benefits of ISAs are incredibly generous. Altogether then it would be very difficult to justify any kind of campaign against the new tax and I cannot see that it is one likely to get any general sympathy. The worrying thing about it is, of course, that once it has proved to be a useful revenue raiser, future Chancellors will not be able to resist the temptation to increase the rates. Some of us will remember that VAT was 8% for a five-year period soon after it was introduced.

However, there is one aspect that possibly deserves further attention.
The latest survey from the Office of National Statistics shows that they think that 54% of UK quoted ordinary shares are now held by "Rest of the World". Most of these will presumably not be UK taxpayers. Consequently the only tax that will have been payable in the UK on dividends paid to these holders will be Corporation Tax at 19%, reducing to 18%. There is a Government website that actually says "The UK is unusual in not having an outbound dividend withholding tax" and there is no indication so far of any intention to change this. Thus it looks as though somewhere around half of all the dividends on UK ordinary shares are being paid abroad with minimal contribution to the Exchequer. This is something that our members might well like to point out to their MPs.

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