FINANCE BILL 2016

5 JULY 2016

PUBLIC BILL COMMITTEE BRIEFING

Dividend nil rate (Clause 5)

- **Background**: From 6 April 2016 the dividend tax credit will be replaced by a new 0% tax rate on the first £5,000 of dividend income per year. Instead of basic rate tax been deemed to have been paid, the £5,000 nil rate band will be taken into account when determining what rates of tax apply to income and capital gains and UK residents will pay tax on the gross amount over £5,000 of any dividends received, at the following rates:
    - 7.5% on dividend income within the basic rate band
    - 32.5% on dividend income within the higher rate band
    - 38.1% on dividend income within the additional rate band.

  The policy paper published on 29 June 2016 (https://www.gov.uk/government/publications/income-tax-changes-to-dividend-taxation) says that the policy objective of this measure is to "help address the incentive for some people to set up a company and make payments as dividends rather than as wages simply to reduce their tax bill, enabling the government's plan to reduce the rate of Corporation Tax.".

- **Our concerns**: This measure is stated to be aimed at taxpayers who are able to control the amount of remuneration and dividends that they can pay themselves from their private companies. However, it will affect a far wider class of investor. This is because it will not only catch those who are able to choose to pay themselves in dividends instead of salary or wages but also all PAYE taxpayers who have public company investment portfolios – including individuals who successive governments have encouraged to invest in privatization shares.

  Given that even basic rate taxpayers will have to pay tax rather than have it deducted at source, affected PAYE taxpayers will for the first time have to complete and submit a self assessment return. Many such people will need to pay someone to help them complete their return and, owing to the complexity of the new regime, take advice on how much tax to pay. This will impose compliance costs on taxpayers where none presently exist.

- **Our view**: We believe that this measure should be properly targeted so it affects only those taxpayers who can influence what dividends they receive.

- **Our recommendation:** We recommend that the measure should be restricted to dividends from non-publicly listed companies.

FURTHER INFORMATION

As part of our Royal Charter, we have a duty to inform policy in the public interest.

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