Shareholders and Tax on Dividends

April 2016 saw significant changes to the rules regarding the taxation of dividends which could have a significant impact on the amount of tax payable by shareholders and requirements to notify HMRC.

Prior to 6 April 2016 an individual who's income, including dividends, fell into the basic rate tax bracket, would have no additional tax to pay on the dividends and completion of a Self-Assessment Tax Return would not have been required solely due to the dividend income. There may, however, have been other criteria for a return, for example if the individual was a director, received rental income etc.

Changes from 6 April 2016

From the 2016/17 tax year individuals entitled to dividends in excess of £5000 in a tax year (reducing to £2000 from April 2018) will be required to advise HMRC of the dividends received and will have tax to pay on the excess dividends.

Individuals who receive dividends in excess of £10,000 will be required to register for Self-Assessment and complete a return.

How dividends are taxed

For the 2016/17 tax year tax is not paid on the first £5000 of dividends. Above this allowance the tax payable depends on which Income Tax band it falls into.

Tax band	Tax rate on dividends over £5000
Basic Rate	7.5%
Higher rate	32.5%
Additional Rate	38.1%

Shareholders who don't already complete a Self Assessment Tax Return

Shares in many limited companies are held by individuals who, prior to the 2016/17 tax year, were not required to notify HMRC of the dividends they received. Most commonly the director's husbands, wives or partners.

Please let us have details of any shareholders who require our assistance in dealing with their tax affairs due to the new rules, as soon as possible.

Chartered Certified Accountants
Statutory Auditors & Business Advisers

Leofric House, Binley Road, Coventry, CV3 1JN
Euston House, 12 Euston Place, Leamington Spa, CV32 4BN

Coventry +44 (0)24 7625 1333
Leamington Spa +44 (0)1926 88 88 65
Email: accts@leigh-christou.co.uk
Web: www.leigh-christou.co.uk

March 2017