

Taxation of Dividend and Savings Income 2019/20

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We are a forward-looking firm with an emphasis on innovation, new technology and finding pioneering ways to give our clients the best possible service.

Our Norfolk-based firm is led by eight partners who are some of the most high-profile and well-respected experts in their fields locally, supported by a talented team of over ninety staff.

We have a well-earned reputation for building excellent relationships with clients and the wider business community. That has always been, and continues to be our number one priority.

Taxation of Dividends

The Dividend Allowance effectively allows the first £2,000 of an individual's dividend income to be tax free. Dividends received in excess of the allowance are subject to the following tax rates:

- + 7.5% for basic rate taxpayers
- + 32.5% for higher rate taxpayers
- + 38.1% for additional rate taxpayers

The Dividend Allowance does not reduce an individual's total income for tax purposes. Instead, the first £2,000 of taxable dividend income is taxed at 0%, but is still included in the individual's total taxable income. This has the effect of the £2,000 allowance using up some of the individual's basic rate band or higher rate band even though tax will not be charged at the rate relevant to that band.

Example:

Janet has earned income of £47,300 and receives dividends of £6,700. After deducting the personal allowance of £12,500 she has taxable income of £41,500. The personal allowance should be set against income most tax efficiently. In this case, applying £9,800 against earned income and the balance against dividend income will minimise the total tax payable. As dividend income is treated as the 'top slice', the taxable income represents £4,000 dividends and £37,500 earned income. The basic rate band of £37,500 is used up entirely of £37,500 earned income which is taxable at 20%. The remaining taxable dividend income of £4,000 is split with £2,000 taxable at 0% under the Dividend Allowance and the balance of £2,000 taxable at 32.5%.

Janet's tax liability is as follows:

Earned income	Dividend income
£37,500 at 20%	£2,000 at 0%
	£2,000 at 32.5%

Taxation of Savings Income

The Personal Savings Allowance depends on the individual's highest rate of tax, as follows:

- + £1,000 for basic rate taxpayers
- + £500 for higher rate taxpayers
- + £nil for additional rate taxpayers

Similarly to the Dividend Allowance, the Personal Savings Allowance does not reduce the individual's total income for tax purposes, but utilises part of the basic and/or higher rate tax bands.

Starting Rate for Savings - Savings income is taxable at 0% to the extent that an individual's other taxable income is less than £5,000. The £5,000 is restricted by non-savings taxable income so that none of the band will be available if that income is above their personal allowance (& blind person's allowance if claimed) plus the £5,000 starting rate.

The two allowances work together and are dependent on the individual's total taxable income.

The easiest way to establish if you qualify is to add up your non-savings income, if it is below or within your personal allowance plus £5,000 then the Starting Rate for Savings will apply.

If this doesn't cover all of your savings income, then apply the Personal Savings Allowance. To determine which rate to use add up all of your taxable income including savings income. If it's £50,000 or less then use £1,000, if between £50,001 and £150,000, use £500.

Example:

Peter has pension income of £15,500 and interest of £4,200. After deducting his personal allowance of £12,500 he has taxable income of £7,200. As savings income is treated as the 'top slice', the £7,200 represents £3,000 pension income and £4,200 savings income. The starting rate band is restricted to £2,000 (£5,000 less £3,000). As he is a basic rate taxpayer he is entitled to £1,000 Personal Savings Allowance.

Peter's tax liability is as follows:

Pension income	Savings income
£3,000 at 20%	£2,000 at 0%
	£1,000 at 0%
	£1,200 at 20%

None of these allowances apply to personal representatives, trustees or companies.

For those who do not currently file a Self Assessment tax return it is important to note that savings income or dividends over the allowances will be taxable at the appropriate rate and it is the individual's responsibility to inform HMRC.

For further information you can contact our experts:

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Disclaimer We believe the information herein to be correct at the time of going to press, but we cannot accept any responsibility for any loss occasioned to any person as a result of action or refraining from action as a result of any item herein.

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