

Finding the benefits



when **tax** rates **see-saw**

Dividend tax rates are on the rise

The new rules for the taxation of dividends received by individuals came into force on 6 April 2016.

This change is due to the new headline rates and the removal of the 10% notional tax credit. It means that dividends are taxed at rates that are effectively 7.5% higher than rates payable in the previous tax year. However, the first £5,000 of dividends received per year will be exempt from tax, regardless of other earnings.

Dividend tax rate	Old rate	New rate
Basic rate	Nil	7.5%
Higher rate	25%	32.5%
Upper rate	30.6%	38.1%

For many smaller businesses, dividends have always been an efficient way to reward the owners. In many cases, when the overall tax cost of the business is taken into account, this may continue – but overall the benefit is less.

Corporation tax rates are going down

The good news is that while dividend tax rates are going up, corporation tax rates are going down – which could help reduce your overall tax payable. The future corporation tax rates will be:

Tax year from 1 April	Corporation tax rate
2016	20%
2017	19%
2020	17%

If you manage your own business, you will need to look at these rate changes to make sure you can optimise your overall tax position.



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