

Clause 5 and Schedule 1: Abolition of dividend tax credits etc. Amendment 138

Summary

1. Clause 5 and Schedule 1 introduce a new dividend allowance, which will apply to the first £5,000 of an individual's dividend income, operating as a 0% tax rate rather than as a deduction. The measure also introduces new rates for dividends received above the £5,000 allowance and abolishes the dividend tax credit.
2. These technical amendment (138) ensures the provisions in Schedule 1 governing the abolition of the dividend tax credit operate as intended.

Details of the amendment

First slice of trustees' dividend income

3. Under the new rules trustees will pay tax at the dividend ordinary rate on dividend income within the first £1,000 of the trust's income, and they will no longer receive a tax credit. Paragraph 56(6) of the Schedule is amended in order to include a change to "type 4 income" as defined by section 498 of Income Tax Act 2007. The change makes sure that all tax paid on dividend income within the first £1,000 of a trust's income goes into the tax pool.

Background note

4. The Chancellor announced at Summer Budget 2015 proposed reforms to the way dividends are taxed, with a new dividend allowance replacing the existing tax credit. Schedule 1 introduced by clause 5 repeals the dividend tax credit, and makes consequential amendments.
5. The amendment ensures that the clause and schedule meet the policy aims and does not affect the costing or impacts of the measure.