2 Dividend nil rate

(1) ITA 2007 is amended in accordance with subsections (2) to (7).

(2) In section 6(3)(b) (other rates: dividends), before "dividend ordinary rate," insert "dividend nil rate,".

(3) In section 8 (dividend ordinary, upper and additional rates)—

(a) in the heading, after "The" insert "dividend nil rate,", and

(b) before subsection (1) insert—

"(A1) The dividend nil rate is 0%."

(4) After section 13 insert—

"13A Income charged at the dividend nil rate

(1) Subsection (2) applies if, ignoring this section, at least some of a UK-resident individual's income would be charged to income tax at the dividend ordinary rate, the dividend upper rate or the dividend additional rate.

(2) Income tax is charged at the dividend nil rate (rather than the dividend ordinary rate, dividend upper rate or dividend additional rate) on one or more amounts of the individual's income as follows—

Step 1

Identify the amount ("D") of the individual's income which would, ignoring this section, be charged at the dividend ordinary rate.

Rule 1A: If D is more than £5,000, the first £5,000 of D is charged at the dividend nil rate (rather than the dividend ordinary rate), and is the only amount charged at the dividend nil rate.

Rule 1B: If D is equal to £5,000, D is charged at the dividend nil rate (rather than the dividend ordinary rate), and is the only amount charged at the dividend nil rate.

Rule 1C: If D is less than £5,000 but more than nil, D is charged at the dividend nil rate (rather than the dividend ordinary rate).

Step 2

If D is less than £5,000, identify the amount ("U") of the individual's income which would, ignoring this section, be charged at the dividend upper rate.

Rule 2A: If the total of D and U is more than £5,000—

(a) the first £M of U is charged at the dividend nil rate (rather than the dividend upper rate), where £M is the difference between £5,000 and D, and

(b) the amounts charged under this Rule and Rule 1C are the only amounts charged at the dividend nil rate.

Rule 2B: If the total of D and U is equal to £5,000, U is charged at the dividend nil rate (rather than the dividend upper rate), and the amounts charged under this Rule and Rule 1C are the only amounts charged at the dividend nil rate.

Rule 2C: If the total of D and U is less than £5,000 but more than nil, U is charged at the dividend nil rate (rather than the dividend upper rate).

Step 3

If the total of D and U is less than £5,000, identify the amount ("A") of the individual's income which would, ignoring this section, be charged at the dividend additional rate.

Rule 3A: If the total of D, U and A is more than £5,000, the first £X of A is charged at the dividend nil rate (rather than the dividend additional rate), where £X is the difference between—

£5,000, and

the total of D and U,

and the amounts charged under this Rule, and Rules 1C and 2C, are the amounts charged at the dividend nil rate.

Rule 3B: If the total of D, U and A is less than or equal to £5,000, A is charged at the dividend nil rate (rather than the dividend additional rate), and the amounts charged under this Rule, and Rules 1C and 2C, are the amounts charged at the dividend nil rate."

(5) In section 55B(2) (transferable allowance: conditions for entitlement to tax reduction)—

(a) in paragraph (b) (individual liable to tax only at certain rates), after "the basic rate," insert "the dividend nil rate,", and

(b) after paragraph (b) insert—

"(ba) if for the tax year the individual is liable to tax at the dividend nil rate, the individual would for that year neither be liable to tax at the dividend upper rate, nor be liable to tax at the dividend additional rate, if section 13A (dividend nil rate) were omitted,".

(6) In section 55C(1) (transferable allowance: conditions for entitlement to elect for reduced personal allowance)—

(a) in paragraph (c) (individual would be liable to tax only at certain rates), after "the basic rate," insert "the dividend nil rate,", and

(b) before the "and" at the end of paragraph (c) insert—

"(ca) where on that assumption the individual would for the tax year be liable to tax at the dividend nil rate, the individual on that assumption would for that year neither be liable to tax at the dividend upper rate, nor be liable to tax at the additional rate, if section 13A (dividend nil rate) were omitted,".

(7) In section 989 (definitions for the purposes of the Income Tax Acts), after the entry for "dividend income" insert—

""dividend nil rate" means the rate of income tax specified in section 8(A1),".

(8) In section 7 of TMA 1970 (duty to notify HMRC of liability to tax)—

(a) in subsection (6) (exception for net payments etc)—

(i) after paragraph (a) insert "or",

(ii) at the end of paragraph (b), for "; or" substitute a comma,

(iii) omit paragraph (c), and

(iv) in the words after paragraph (c), after "the basic rate" insert ", the dividend nil rate", and

(b) after subsection (6) insert—

"(6A) A source of income falls within this subsection in relation to any person and any year of assessment if for that year—

(a) all income from the source is dividend income (see section 19 of ITA 2007), and

(b) the person—

(i) is UK-resident,

(ii) is not liable to tax at the dividend ordinary rate,

(iii) is not liable to tax at the dividend upper rate,

(iv) is not liable to tax at the dividend additional rate, and

(v) is not charged to tax under section 832 of ITTOIA 2005 (relevant foreign income charged on remittance basis) on any dividend income.”

(9) The amendments made by this section have effect for the tax year 2016-17 and subsequent tax years.