

## Explanatory Note

### Clause 2: Dividend nil rate

#### Summary

1. This measure introduces a new dividend allowance, which will apply to the first £5,000 of an individual's dividend income. The allowance will operate as a 0% tax rate inserted into the Income Tax Act 2007 (ITA 2007). The new rate will apply for tax years 2016-17 and subsequent tax years.

#### Details of the clause

2. Subsection (1) provides for the amendments of ITA 2007.
3. Subsection (2) adds "the dividend nil rate" to the list of rates at which tax is charged.
4. Subsection (3) introduces a new 0% rate for dividend income, called "the dividend nil rate".
5. Subsection (4) introduces new section 13A into ITA 2007, which provides the rules for the new 0% rate.

##### New section 13A: Income charged at the dividend nil rate

6. New section 13A(1) explains when the dividend nil rate will apply.
7. New section 13A(2) identifies the dividend income to be charged at the dividend nil rate. Where an individual receives dividend income that would otherwise be chargeable at the dividend ordinary, upper or additional rate, and the income is less than or equal to £5,000, the dividend nil rate will apply to all of the dividend income. Where the dividend income is above £5,000, the lowest part of the dividend income will be chargeable at 0%, and anything received above £5,000 is taxed at the rate that would apply to that amount if the dividend nil rate did not exist.
8. Subsections (5) and (6) amend the conditions that apply to the transferable tax allowance for married couples and civil partners.
9. Subsection (7) adds "dividend nil rate" to the list of definitions for the purposes of the Income Tax Acts.
10. Subsection (8) amends section 7 of the Taxes Management Act 1970, which governs when a person must notify HMRC of a liability to tax. The amendments continue to ensure a person need not notify receipt of dividend income when they have no liability to tax on it.
11. Subsection (9) provides for commencement.

## Background note

12. The Chancellor announced at the Summer Budget 2015 that the way that dividends are taxed is to be reformed, with a new dividend allowance replacing the existing dividend tax credit. Clause 3 repeals the dividend tax credit, and makes consequential adjustments. The clause introduces the new allowance.
13. If you have any questions about this change, or comments on the legislation, please contact Adrian Coates on 03000 586041 (email: [Adrian.Coates@hmrc.gsi.gov.uk](mailto:Adrian.Coates@hmrc.gsi.gov.uk)).