

Amendments 127-133 to Schedule 1: Abolition of dividend tax credits etc.

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 amendments (127-133) ensure the Schedule provisions governing the abolition of the dividend tax credit operate as intended.

Details of the amendments

Discretionary payments by trustees

3. Under the new rules trustees will pay the higher rate of tax on dividend income (38.1%) with no tax credit. The intention is that the beneficiaries get a credit for the tax so that the income is only taxed once. The amendment to section 498 of Income Tax Act 2007 (ITA 2007) governing the types of tax to be included in a trustees' tax pool will ensure this.

Dividends received by estates in administration

4. Until 6 April 2016, the credit given to a beneficiary in relation to dividend income distributed by an estate was not repayable where the beneficiary was a non-taxpayer, because it was not tax paid by the personal representative. From 6 April 2016, the credit given to the beneficiary will reflect tax actually paid, and it is appropriate to give the beneficiary credit, and to repay tax where the beneficiary is a non-taxpayer.
5. The various amendments to Chapter 6 of Part 5 of the Income Tax (Trading and Other Income Act) 2005 will ensure this.

Partnerships

6. The dividend allowance applies to different types of dividend income, all of which were previously assessed on individual partners on a tax year basis, rather than by reference to a partnership accounting period.
7. The amendment at section 856 of ITA 2007 ensures that all partnership dividend income continues to be taxable on a tax year basis.

Background note

8. 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.