

Dividend Nil-Rate

A person does not have to pay tax on the first £2,000 of dividend income, regardless of the level of non-dividend income. Tax is charged on dividends received over £2,000 at the following rates:

- 7.5% on dividend income within the basic rate band
- 32.5% on dividend income within the higher rate band
- 38.1% on dividend income within the additional rate band.

The Dividend Allowance does not reduce total income for tax purposes, and dividends within the allowance still count towards the appropriate basic or higher rate bands. They may therefore affect the rate of tax payable on dividends received in excess of the £2,000 allowance.

Example 1

This is a quite straightforward example, based on 2018-19 tax rates and allowances, showing the taxable amounts after allocating the relevant allowances to the two types of income.

	Non-Dividend Income	Dividend Income
	18,000	22,000
Dividend Allowance	-	2,000
Personal Allowance	11,000	-
Taxable at basic rate	7,000 (20%)	20,000 (7.5%)

Example 2

This example is more complicated, in that it splits the dividend allowance into two – £1,500 to use up the balance of the basic rate band and £500 to “eat into” the higher rate band.

	Non-Dividend Income	Dividend Income
	44,850	9,000
Personal Allowance	11,850	-

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**KEEN
DICEY
GROVER**
CHARTERED
ACCOUNTANTS
TEL: 01753 652098

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Dividend Allowance to basic rate limit	-	1,500
Dividend Allowance higher rate band	-	500
Taxable at basic rate	33,000 (20%)	-
Taxable at higher rate	-	7,000 (32.5%)