



TAXbite – taxing interest and dividends

ICAEW TAX FACULTY

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Presenter



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Abbreviations

ARB – additional rate band

BRB – basic rate band

BRTP – basic rate taxpayer

HRB – higher rate band

HRTTP – higher rate taxpayer

PA – personal allowance

PSA – personal savings allowance

SRB – starting rate band

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Savings income



- Interest is generally paid gross by banks and building societies
- £5,000 starting rate band
- Personal savings allowance is in addition to starting rate band
 - £1,000 BRTP
 - £500 HRTTP
 - Nil ARTTP

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Example – basic rate taxpayer

	Non-savings income	Savings income
	£	£
Salary	12,000	
Interest		10,000
PA	(11,500)	
Taxable	500	10,000
BRB: £500 x 20%	100	
SRB: £4,500 x 0%		Nil
PSA: £1,000 x 0%		Nil
BRB: £4,500 x 20%		900

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Dividend income



- Dividends are paid gross
- Starting rate band not available
- First £5,000 of taxable dividends taxed at 0%
- Above £5,000 dividends in:
 - Basic rate band taxed at 7.5%
 - Higher rate band taxed at 32.5%
 - Additional rate band taxed at 38.1%

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Example – higher rate taxpayer

Nikkie has £12,000 of salary, £8,000 of interest and £50,000 of dividends in 2017/18

- H RTP
- PA should be allocated against NSI
- SRB is available
- PSA £500
- Dividend nil rate band available

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Example – higher rate taxpayer

	Non-savings income	Savings income	Dividend income
	£	£	£
Salary	12,000		
Interest		8,000	
Dividends			50,000
PA	(11,500)		
Taxable	500	8,000	50,000
BRB: £500 x 20%	100		
SRB: £4,500 x 0%		Nil	
PSA: £500 x 0%		Nil	
BRB: £3,000 x 20%		600	
BRB: £5,000 x 0%			Nil
BRB: £20,000 x 7.5%			1,500
HRB: £25,000 x 32.5%			8,125

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Example – the cliff edge

- Mike has salary of £44,000 interest of £1,000 and £20 of dividends in 2017/18.
- H RTP
- PA offset against NSI
- SRB is not available
- PSA £500
- Dividend nil rate band available

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Example – the cliff edge

	Non-savings income	Savings income	Dividend income
	£	£	£
Salary	44,000		
Interest		1,000	
Dividends			20
PA	(11,500)		
Taxable	32,500	1,000	20
BRB: £32,500 x 20%	6,500	Nil	
PSA: £500 x 0%		Nil	
BRB: £500 x 20%		100	
HRB: £20 x 0%			Nil

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How to avoid the cliff edge

- Basic rate tax payer = PSA of £1,000
- Receive small amount of dividends, say £20 = H RTP
- PSA now only £500
- Tax liability up by £100
- Gift aid payment could be made to reduce net income to restore PSA to £1,000
- Dividend nil rate band available

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Further support

- ICAEW Tax Faculty 'personal tax' webinar broadcast 27 July 2017 see <https://www.icaew.com/en/technical/tax/tax-faculty/tax-webinars>
- www.gov.uk guidance see <https://www.gov.uk/government/publications/personal-savings-allowance-factsheet>

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