CHANGES TO INVESTMENT INCOME TAX – 2016/17

Personal Savings Allowance

The following allowance has been introduced from 6 April 2016 on the interest earned on your savings:

- £1,000 per tax year for basic rate taxpayers (20%).
- £500 per tax year for higher rate taxpayers (40%).

Additional rate taxpayers (45%) will not receive a Personal Savings Allowance.

This will allow you to receive interest or other investment income up to these amounts before tax is paid on savings income. It is applied before the 0% starting rate on interest for which some individuals also qualify; i.e. those with other taxable income (after personal allowances) less than £5,000.

The Personal Savings Allowance applies to the sorts of things usually treated as interest:

- Interest from banks or building societies.
- Building society dividends (treated as interest).
- Distributions from funds (open-ended investment companies (OEICs), authorised unit trusts and offshore funds) where the payments are treated as interest for income tax purposes – i.e. where they hold more than 60% of their assets in corporate bonds and gilts.
- Payments by certain co-operative societies.
- Interest on individual corporate bonds and gilts.
- Discounts, and profits from deeply discounted securities – i.e. government securities and commercial bonds and loan stock, where, basically, the amount paid on redemption is higher than the price at which they were issued.

From 6 April 2016 banks, building societies and other interest payers will no longer withhold basic rate (20%) tax on the interest. This could mean that, whereas in the past you had no additional tax to pay, or were due a tax refund, additional tax may be payable in the future on your savings income.

Dividend Allowance

The 10% dividend tax credit has been abolished. The Dividend Allowance was introduced on 6 April 2016, and taxes the first £5,000 of dividends within the basic rate band at 0%. After that the dividends will be subject to new, higher, dividend tax rates. Dividends are taken as an individual's last slice of income (in other words, after all other income and allowances, so taxable at the highest rate):

- Basic rate tax band (previous effective rate – nil) = 7.5% on dividend income
- Higher rate tax band (previous effective rate – 25%) = 32.5% on dividend income
- Additional rate band (previous effective rate – 30.56%) = 38.1% on dividend income.

Dividends and interest received in ISAs and pensions will continue to be exempt from tax.

The effect of this, other than the first £5,000 of BR band dividends being taxed at 0%, is a real increase in tax of 7.5% in each tax band on dividends.

It may be time to consider whether the use of ISA wrappers may be useful in countering this increase in tax.

Please contact Mark Faherty at Trio, or your financial adviser, for further information in this respect as there may be other implications such as capital gains tax.