

Budget 2009



BN21

22 April 2009

TAXATION OF PERSONAL DIVIDENDS

Who is likely to be affected?

1. Individuals in receipt of dividends from non-UK resident companies.

General description of the measure

2. Legislation will be introduced in Finance Bill 2009 to make changes to the system of taxation for individuals who own foreign shares.
3. Individuals in receipt of dividends from UK resident companies are entitled under current law to a non-payable dividend tax credit. Since 6 April 2008, individuals with shareholdings of less than 10 per cent in non-UK resident companies have also been entitled to a non-payable tax credit.
4. From 22 April 2009, individuals with shareholdings of 10 per cent or more in receipt of dividends from non-UK resident companies will become entitled to a non-payable tax credit, subject to certain conditions.

Operative date

5. These changes will have effect on and after 22 April 2009.

Current law and proposed revisions

6. Dividends received by individual shareholders are currently taxed at rates of 10 per cent for basic rate and 32.5 per cent for higher rate taxpayers.
7. When dividends from UK resident companies are charged to tax, shareholders are entitled to a non-payable tax credit of one ninth of the distribution under the provisions of section 397(1) of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA). Because tax is charged on the gross dividend received, including the tax credit, this lowers the effective rate on these dividends at the personal level to 0 per cent and 25 per cent.
8. Section 397A of ITTOIA, introduced by the Finance Act 2008, extended the non-payable tax credit of one ninth of the distribution to individuals in receipt of dividends from non-UK resident companies, if they own less

than a 10 per cent shareholding in the distributing non-UK resident company and the company is not an offshore fund.

9. Legislation in Finance Bill 2009 will amend section 397A of ITTOIA to extend further eligibility for the non-payable tax credit to individuals in receipt of dividends from non-UK resident companies where the individual owns a 10 per cent or greater shareholding in the distributing non-UK resident company. The tax credit will only be available if the source country is a “qualifying territory”. A territory is a “qualifying territory” if there is a double taxation agreement with the UK, with a non-discrimination article. Regulations will permit HM Treasury to vary the list of qualifying and non-qualifying territories.
10. The legislation will include anti-avoidance measures, including a targeted anti-avoidance rule to counter the use of conduit structures designed to secure the tax credit for dividend income originating other than in a qualifying territory, to ensure that these new rules are not subject to abuse.
11. The new rules for offshore funds paying dividends for all investors are covered in BN22.

Further advice

12. If you have any questions about this change, please contact Andrea Pierce on 020 7147 2591 (email: andrea.pierce2@hmrc.gsi.gov.uk). Information about Budget measures is available on the HM Revenue & Customs website at www.hmrc.gov.uk