Example

In tax year 2003-04 X had income from employment £38,000 and dividends of £50,000. He claims DR of £30,000. Basic personal allowance of £4,615 has been claimed.

Based on the 2003-04 SA tax calculation X's tax liability is

	Income	Starting rate	Basic rate	Dividend ordinary rate	Higher rate	Dividend upper rate
Employment 38,000 - 4,615	33,385	1,960	31,425			
Dividends	50,000			27,115		22,885
		1,960	58,540*			22,885
		@10%	@22%	@10%		@32.5%
		£196.00	£6,913.50	£2,711.50		£7,437.62
Tax						£17,258.62

* Basic rate band extended to £58,540 (£28,540 + £30,000 (DR))

Statutory calculation of liability

	Income	Starting rate	Basic rate	Dividend ordinary rate	Higher rate	Dividend upper rate
Employment 38,000 - 4,615	33,385	1,960	28,540		2,885	
Dividends	50,000					50,000
		1,960	28,540		2,885	50,000
		@10%	@22%		@40%	@32.5%
		£196.00	£6,278.80		£1,154.00	£16,250.00
						£23,878.80
Less DR30,000 of income charged at dividend ordinary rate instead of upper rate 30,000 x 22.5% (32.5% - 10%)						£6750.00
Tax						£17,128.80

Tax saving between two methods **£129.82** (17,258.62 – 17128.80)
Reconciliation ~ £2,885 (DR set against dividends instead of non-savings income) x 4.5% = £129.82