

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. From 2022/23 tax is charged on dividends received over £2,000 at the following rates:

- 8.75% on dividend income within the basic rate band
- 33.75% on dividend income within the higher rate band
- 39.35% 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 example, based on 2022/23 tax rates and allowances, shows the taxable amounts.

	Non-Dividend Income	Dividend Income
	18,000	22,000
Personal Allowance	12,570	
Taxable at basic rate (20%)	5,430	-
Taxable at 0% (dividend allowance)		2,000
Taxable at 8.75%		20,000

Example 2

This example shows a higher rate taxpayer. The Dividend Allowance uses up some of the basic rate band and so less is available to be taxed at 8.75% rather than 33.75%.

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	Non-Dividend Income	Dividend Income
	35,000	19,000
Personal Allowance	12,570	-
Taxable at basic rate	22,430	
Taxable at 0% (dividend allowance)	-	2,000
Taxable at 7.5% (up to remaining basic rate band)		13,270
Taxable at higher rate (32.5%)	-	3,730