

Technical Insights – Quick reference guide

Income tax – taxation of saving and dividends

This article will provide you with a general overview of the use of the allowances and bands available to UK income tax payers. The examples demonstrate how they interact with each other and the order of taxation. Important: The availability of the allowances and bands demonstrated here will depend on the individual's personal circumstances.

Order of income

There is a specific order to follow when calculating liability to income tax:

1. Earnings, Pension, Rental income.
2. Savings income. Includes interest and offshore bond gains.
3. Dividend income.
4. Onshore bond gains.

Capital gains tax liability is calculated in reference to the income tax bands. Capital gain in excess of the annual exempt amount is added on top of all other income.

Summary of allowances and bands

Personal Allowance

Every individual has a personal allowance to income tax. This is currently £12,570. Income which falls within this band is not subject to income tax.

- Where total income exceeds £100,000; the personal allowance reduces at a rate of £1 for every £2 over.
- It is possible to adjust the order of income to use the personal allowance in the most efficient way. However, for simplicity, this guide will follow the order of income.

0% Starting rate for savings income

Where the first £5,000 of taxable income is from savings, the rate of 0% is applied. This £5,000 band reduces at a rate of £1 for every £1 of earned/pension/rental income over the personal allowance.

Personal savings allowance

Basic rate tax payers can earn £1,000 of savings income before they start paying tax. For higher rate tax payers the amount is reduced to £500. The allowance is not available for additional rate tax payers.

Dividend allowance

For all individuals, there will be no tax on the first £500 of dividends.

Tax rates

Basic rate: £0 - £37,700 @ 20% / 8.75% (dividends)

Higher rate: £37,701 - £125,140 @ 40% / 33.75% (dividends)

Additional rate: Over £125,140 @ 45% / 39.35% (dividends)

Note: Rates and bands differ for non-savings income for Scottish tax payers. These rates are not within the scope of this guide.

Example 1 – Basic rate tax payer: Earned income with savings and dividends.

Example 2 – Higher rate tax payer: Earned income with savings and dividends.

Example 3 – Basic rate tax payer: Earned income with savings and dividends and capital gains.

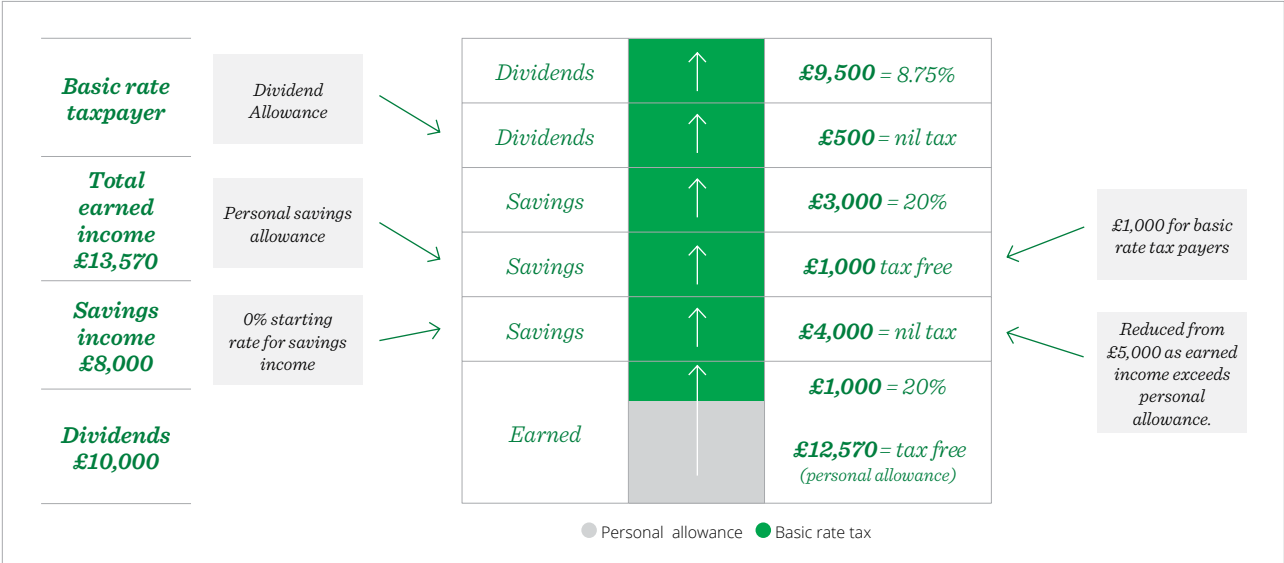
Example 4 – Basic rate tax payer: Earned income with savings, dividends and capital gains across two bands.

Example 5 – Utilising all available allowances.

Example 6 – No earned income, savings and dividends in excess of the personal allowance.

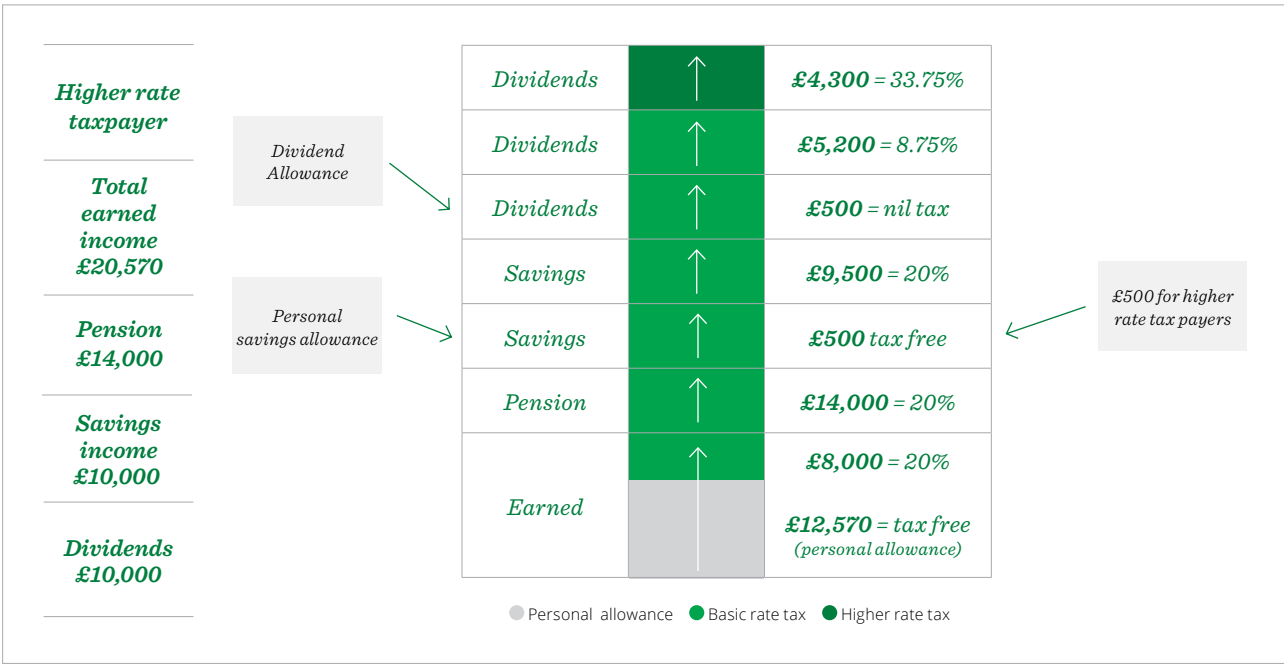
Example 1

Basic rate tax payer: Earned income with savings and dividends.



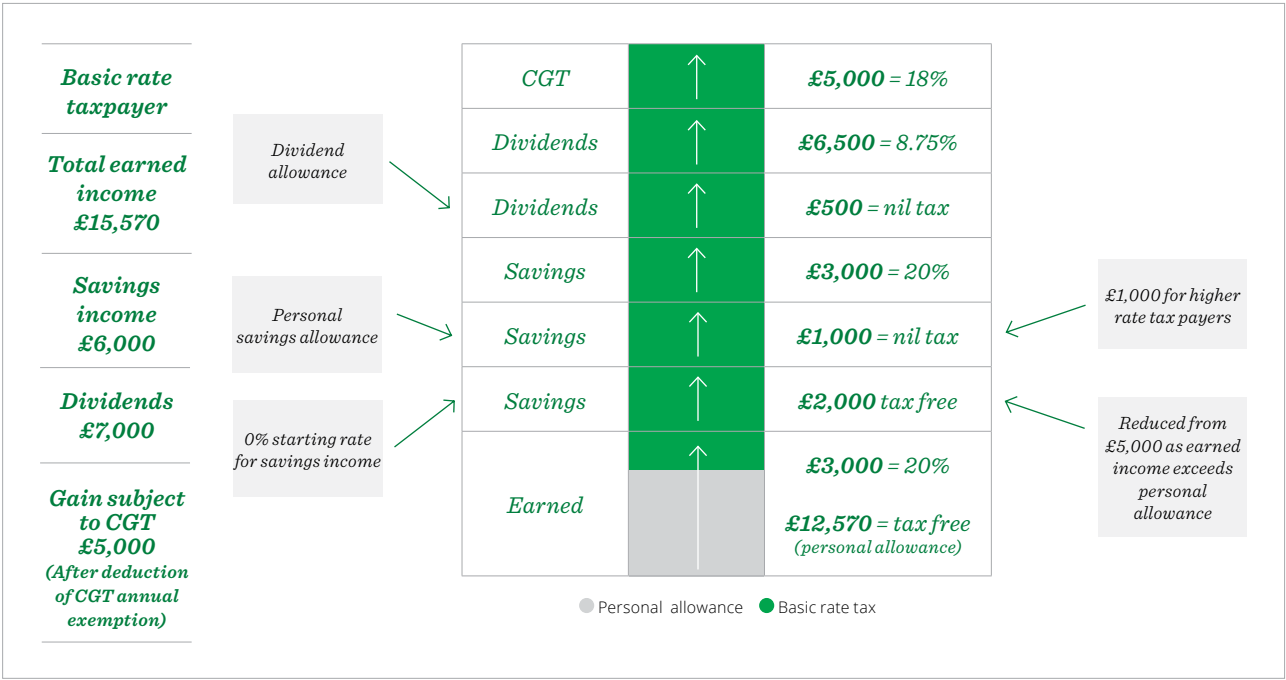
Example 2

Higher rate tax payer: Earned income with savings and dividends.



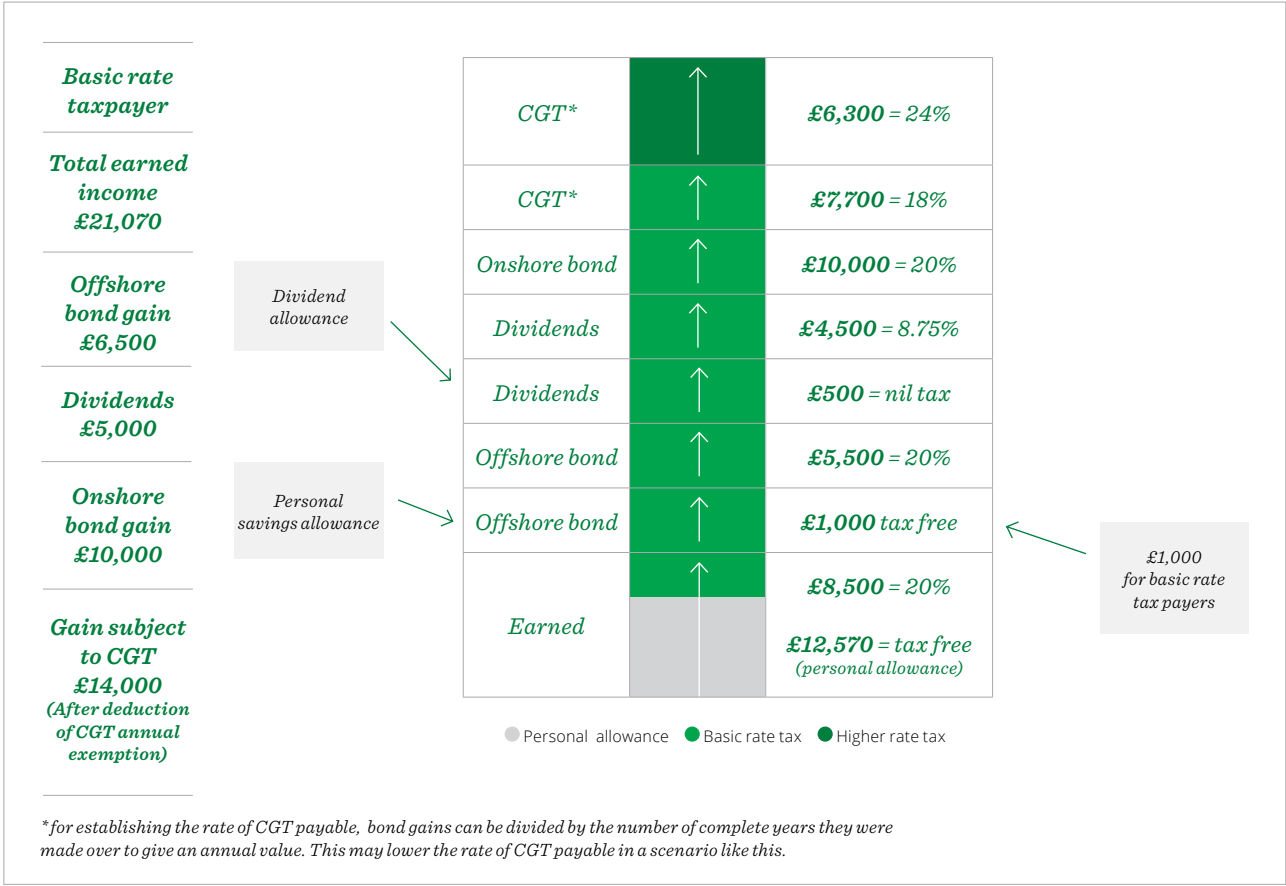
Example 3

Basic rate taxpayer: Earned income with savings, dividends and capital gains.



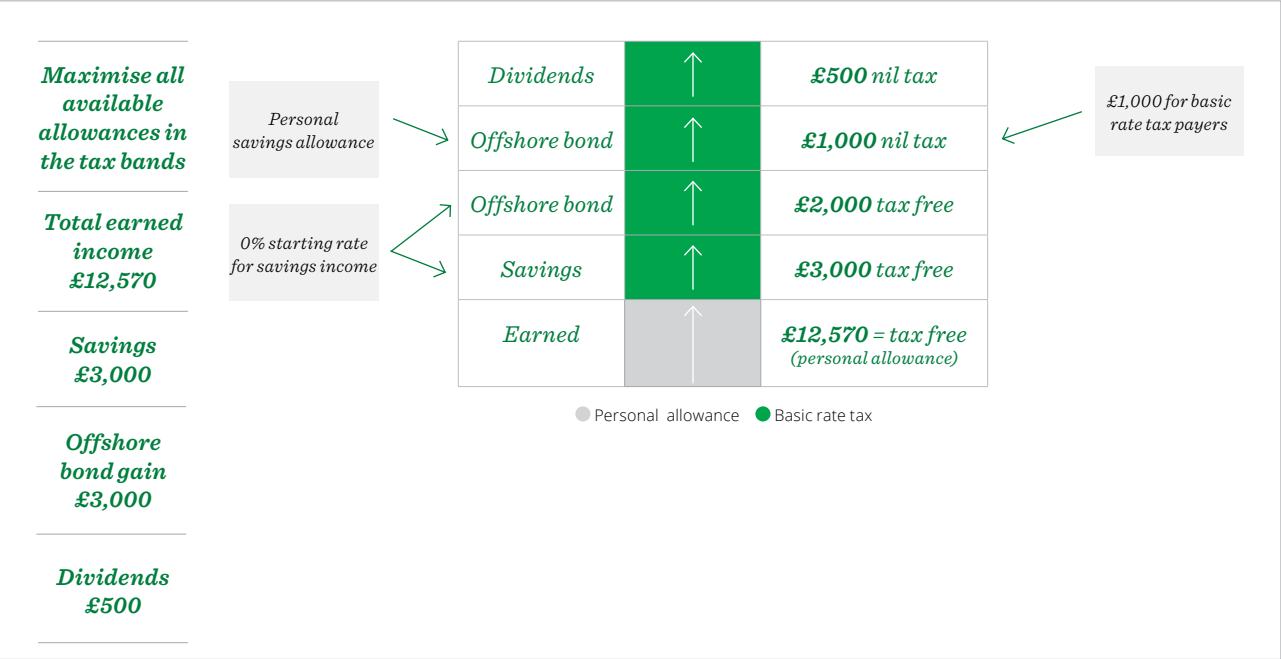
Example 4

Basic rate tax payer: Earned income with savings, dividends and capital gains. Across two bands.



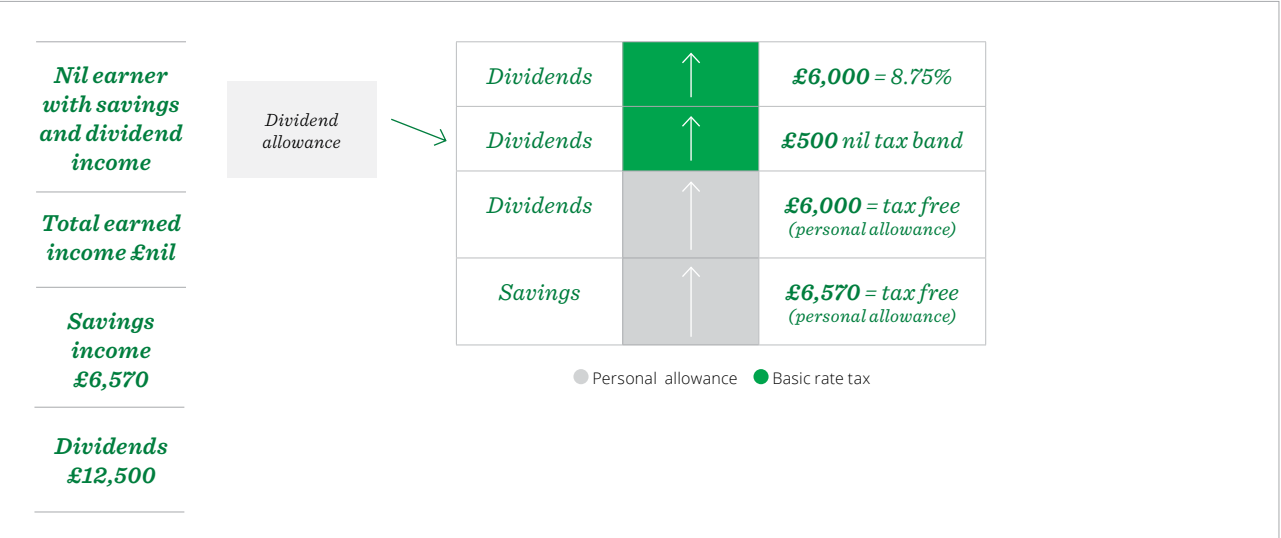
Example 5

Utilising all available allowances



Example 6

No earned income with savings and dividends



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Published: December 2024

QIP 12573/162/9382

