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Navigating the dividend tax rises in 2026

How to safeguard your investment income from higher tax rates

From 6 April 2026, the government increased dividend tax rates by 2 percentage points. The ordinary rate rose to 10.75%, and the upper rate to 35.75%, while the additional rate remains at 39.35%. However, you don't pay tax on dividend income within your personal allowance (£12,570 for 2026/27) or your annual dividend allowance of £500.

To reduce dividend tax, maximising your ISA allowance is key. Dividends on investments held in an ISA are entirely tax-free. For the 2026/27 tax year, you can invest up to £20,000 in ISAs. This use-it-or-lose-it allowance cannot be carried forward, so systematically moving taxable investments into an ISA can shield a significant portion of your portfolio from tax increases.

EXPLORING PENSION BENEFITS AND LONG-TERM SAVING

Dividends received by pension funds are also tax-free, making pensions another effective way to protect your wealth. Contributions to pensions receive tax relief at your marginal income tax rate, boosting your savings by 20% to 45% before any returns are generated.

When drawing income from your pension, withdrawals above the tax-free lump sum (usually 25% of your pot, up to £268,275) are taxed as regular income. Proper planning ensures this strategy aligns with your timeline and minimises tax liabilities, especially when large withdrawals could push you into a higher tax bracket.

SHARING WEALTH AND DIVERSIFYING INCOME STREAMS

If you're married or in a civil partnership, you can reduce your dividend tax bill by holding income-generating investments in the name of the partner in a lower tax band. This approach ensures that both partners fully utilise their individual ISA and dividend allowances.

Diversifying income streams can also help. For example, payouts from bond funds are treated as interest and may fall within your personal savings allowance. Additionally, selling investments to realise a capital gain allows you to use your annual CGT exemption, further reducing your tax bill.

ADOPTING A TOTAL RETURN APPROACH TO INVESTING

A total return approach, which combines dividend income and capital gains, can maximise tax allowances, enhance returns and reduce volatility. High dividend yields aren't always sustainable and may signal financial distress. A total return strategy builds resilience by selecting investments expected to deliver strong overall performance within your risk capacity.

While tax-efficient investing is crucial, tax rules shouldn't be the sole driver of your decisions. Professional advice will help you build a diversified portfolio tailored to your goals, ensuring you pay no more tax than necessary. ■

LOOKING TO SHIELD YOUR WEALTH FROM RISING DIVIDEND TAXES?

We can discuss smart strategies to minimise your tax bill and maximise your investments, tailored to your financial goals. If you require further information or wish to discuss how these changes to dividend taxation could affect your personal portfolio, please contact us.