



# HM Revenue & Customs

## HMRC Agent Briefing – 2016-17 Self Assessment Individual Exclusions

### What happened?

The changes arising from Personal Savings and Dividend Taxation Reform effective April 2016, mean that it is more beneficial for some customers to allocate (some of) their Reliefs and Allowances (e.g. Personal Allowance) against dividend income before savings income. If savings income is covered by the Personal Savings Allowance, Reliefs and Allowances are more beneficial if they reduce dividend income in excess of the Dividend Allowance. It may also be more beneficial to set Reliefs and Allowances against Dividends at 38.1% than against non-savings income at 20%.

HMRC implemented changes that have enabled the majority of customers with savings and dividend income to receive the most beneficial calculation. However, for a small percentage of customers, the calculation is not correct. We are sorry for the problems this has caused.

HMRC is committed to helping customers file online for 2016-17 and has been in discussions on how best to achieve this with agent representatives and software developers.

### What's been done?

We have decided to make changes to the 2016-17 calculator in-year across our systems and interfaces. These changes address the errors in the current calculator and will enable affected customers to be able to file online and receive the correct calculation.

### What will happen next?

We are planning to implement this change in October 2017 and the exact date will be confirmed as soon as it is known. We are asking commercial software developers to deliver in-year updates to align with HMRC's systems, to avoid filing error submissions. We understand that agents are very busy from October, but to ensure there is sufficient time to make the changes, this is the earliest date we could achieve. However, we will maintain the Exclusions document for filing paper returns and claiming reasonable excuse if needed.

The fix will correct Exclusions 48 to 56 and 58 to 59 which cover the majority of cases.

We will also automate the recovery of all cases where a return has already been filed, but shows the incorrect tax position for the customer. This will include all customers whether they have filed online or on paper. This recovery will include an SA302 and bespoke output to the customer to advise them of the correction.

We do not anticipate having to make any further changes. However, in the unlikely event that further changes are needed we will let you know without delay.

### What to do now

- Await the implementation of the fix in October 2017 and then file online

Or



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- Continue to file online if your current software allows you to do so

Or

- File on paper (with a covering letter identifying the Exclusion)

Please note:

If a paper return which cannot be filed online due to an Exclusion is delivered on or before 31 January of the tax year to which the return relates, HMRC will accept a reasonable excuse for not filing by the normal 31 October deadline. We will cancel an automatically generated penalty if a reasonable excuse claim accompanies the paper return or the reasonable excuse form found at [Self Assessment: reasonable excuse for not filing return online - GOV.UK](#).

## The technicalities

The Personal Savings Allowance PSA and Dividend Allowance DA allow a nil rate of tax. Dividends covered by DA still count towards the Basic, Higher or Additional Rate bands where non-savings and savings income take up some or all of Basic Rate and Higher Rate bands. This may therefore affect the rate of tax paid on dividends received in excess of the £5,000 allowance. The PSA also counts towards the Basic, Higher or Additional Rate bands but if the customer has income chargeable at the Additional Rate, their PSA will be nil.

The legislation at section 25 (2) ITA 2007 states: 'At Steps 2 and 3, deduct the reliefs and allowances in the way which will result in the greatest reduction in the taxpayer's liability to income tax'. The fact that an allowance has been split to cover different types of income (savings/dividends etc.) does not alter the order in which the income is subject to tax per s16 ITA.

The income in the SA tax calculation is allocated as follows and has not changed as a result of the introduction of the Personal Savings Allowance:

1. Non-savings income and non-savings income with notional tax.
2. Savings income (section 16 ITA 2007)
3. UK dividends, stock dividends and foreign dividends (section 16 ITA 2007)
4. Lump sum payments and Settlor Interested Trust income (section 1012 ITA 2007)
5. Gains on life policies with tax treated as paid (section 1012 ITA 2007)

## Summary

Your feedback, the questions and observations from software developers, together with our testing, have given assurance that the proposed changes to the calculator will produce the most beneficial calculation for customers.

We appreciate that there are customers who are uncertain whether their calculation is correct and whether they are affected by an Exclusion. The solution we are implementing ensures that customers can file online and be confident that if they file before the fix is implemented, we will correct the initial calculation.