markit®

4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Commentary

July 23rd 2015

UK dividends in vogue after budget boost

The recent UK budget shook up the way individuals are taxed on their dividend income. This has seen investors rush to UK dividend ETFs.

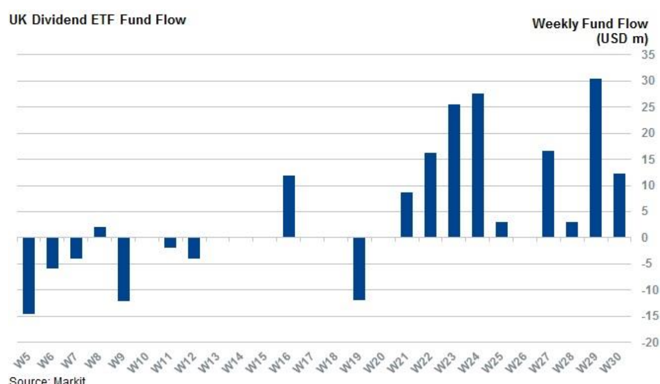
- Investors can now hold £120,000 in FTSE 350 holdings before paying any dividend tax
- UK dividend ETFs saw their largest weekly inflow in nine months in the wake of the budget
- 73 FTSE all share firms moved dividends forward last time dividend taxes changed in 2010

One of the surprise items of the recently announced UK budged was a scraping of the UK Dividend Tax Credit rule, which means that UK investors will be taxed at their marginal tax rate for any dividend income above a £5,000 p.a. threshold.

The ramifications of this deal could be attractive for small investors given that an investor can hold roughly £120,000 in UK stocks before filling up their dividend tax allowance according to the 4.2% forecasted dividend yield delivered by the FTSE 350 index.

Investors flock to dividend ETFs

Investors seem to have taken notice as the four UK focused dividend ETFs experienced some of the strongest inflow of the last nine months in the wake of the budget being announced. These four funds experienced £19.6m of inflows on the week following the budget, which takes their AUM to a new all-time high of £937m.



BlackRock appears to have been the biggest benefactor of this trend as its iShares UK Dividend UCITS ETF saw over half of the inflows, taking its AUM past the £850m mark for the first time ever.

Echoes of the past

While these developments will benefit investors with relative small holdings of UK equities, those which receive significant dividend income stand to see their tax bill rise **significantly**. This point was noted by consultancy PwC, which stated that the reform, due to come into effect in April 2016, “falls disproportionally” on owner managers. In the worst cases, investors in the top income bracket stand to see their marginal tax rate for dividends earned over £5,000 rise by 7.6% overnight.

This could see companies rush to bring dividends forward in order to get ahead of the price rise; similar to what was **seen** in the US in 2012 when US companies rushed to pay special dividends amid fears of a dividend tax increase rise.

The UK experienced a similar phenomenon in 2010 when companies hastened to pay dividends to get ahead of a rise in income tax. This saw **73** FTSE all share constituents bring forward dividend in order to make the cut off. Several firms also paid special one off payments in order to limit their shareholder’s tax bill.

This in turn could prove a boon for those ETF investors who bought into the UK dividend focused funds in recent weeks.

Simon Colvin

Analyst
Markit
Tel: +44 207 260 7614
Email: relte.schutte@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omission or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.

This report does not constitute nor shall it be construed as an offer by Markit to buy or sell any particular security, financial instrument or financial service. The analysis provided in this report is of a general and impersonal nature. This report shall not be construed as providing investment advice that is adapted to or appropriate for any particular investment strategy or portfolio. This report does not and shall not be construed as providing any recommendations as to whether it is appropriate for any person or entity to "buy", "sell" or "hold" a particular investment.