



Paying Tax on Savings Interest

On 6th April 2016, the government introduced a new tax-free Personal Savings Allowance, PSA, with the result that the majority of savers in the UK no longer have to pay any tax on their savings income.

Basic rate taxpayers can earn up to £1,000 of interest on their savings each tax year (or £500 for higher rate taxpayers) without paying any tax. In general, banks and building societies do not deduct tax at source anymore so this means the tax position for most people who have modest amounts of savings income is simple, no tax is due and no tax return or tax repayment form needs to be completed.

If tax is due, often HMRC will be able to collect it through your tax code or by sending you a bill and then you will not need to complete a tax return.

To do this, HMRC use information provided to them directly by banks and building societies about any savings interest income you receive and use the information they have to send you a bill at the end of the tax year (a P800) and/or to amend your tax code if you are employed or in receipt of a pension to collect the tax due automatically. Therefore, if you receive a bill or have a PAYE code that includes interest from savings, you should check the bank interest figures to ensure you agree with them.

If you do not agree with the figures HMRC include in your tax bill or PAYE code, you need to tell HMRC the correct figures. The easiest way to do this is to write to HMRC (Pay As You Earn and Self-Assessment, HM Revenue and Customs, BX9 1AS) giving them the details of each account: name of the bank/building society, sort code, last four digits of the account and the amount of interest it paid in the tax year.

When accounts are closed during the tax year, you also need to tell HMRC the appropriate dates and which accounts are no longer in use. HMRC may otherwise assume you still have this account and again they may issue a tax code to collect tax on estimated interest.

However, if you normally complete a Self-Assessment tax return, then you just include the amount of savings income in the relevant section, even if it is less than the personal savings allowance (i.e. £1,000 for basic rate taxpayers and £500 for higher rate taxpayers). If HMRC have not sent you a bill or changed your code and you have bank interest, our advice is to tell HMRC to make sure no tax is due.



Understanding if you have to pay tax on your interest.

You will not pay tax on your interest if it is less than the Personal Savings Allowance (PSA). However there are a few more things that will determine whether you have to pay tax on your savings interest or not. Your total allowances for earning tax free interest will depend on:

1. Personal Allowance

If you have not used up all of your Personal Allowance (£12,500) with your salary, pensions or other income, then any remainder can be used against savings interest.

2. Starting Rate for Savings

The starting rate for tax free interest is £5,000, therefore you might also be able to get up to this amount tax free. However, the more you earn from other income, the less your starting rate for savings will be. If your other income is less than £17,500 your savings rate will go down by £1 for every £1 of any income earned over the personal allowance of £12,500.

You will not be eligible for the starting rate for savings if your other income is over £17,500, but you would still be entitled the Personal Savings Allowance.

Reminders

You don't pay tax on interest you earn from a cash ISA regardless of the amount earned in interest. You can place up to £20,000 into a cash ISA in the 2020/21 tax year.

Where bank/building society accounts are in joint names, both account holders are entitled to their own Personal Savings Allowance, to use against their share of the interest.

The PSA also applies to interest from other sources such as Payment Protection Insurance (PPI) refunds, savings and credit union accounts and income bonds.

If you would like any help to establish if you need to pay tax on your interest then contact either HMRC on 0300 200 3300 or, if on a low income, Tax Help for Older People, helpline number 01308 488066.

This article is by Tax Help for Older People Registered Charity no 1102276 (Scotland no SC045819), offering free tax advice to older people on a low income who cannot afford professional help.