

Paying Tax on Savings Interest

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 on it. In general, banks and building societies no longer deduct tax at source so this means the tax position for most people who have modest amounts of savings interest income (under £1,000, or £500 for higher rate taxpayers) 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, if your savings income is under £10,000, you will not need to complete a tax return.

HMRC use information provided to them directly by banks and building societies about any savings interest income you receive and can issue you with a bill to collect the tax due at the end of the tax year. Or they use this information to amend your tax code if you are employed or in receipt of a pension. 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 to you in the tax year in question.

When accounts are closed during the tax year, you should 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 must 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 over £1,000 (or £500 for higher rate tax payers), you need to contact HMRC and let them know the amount of bank interest you have so that any tax due can be collected.

HMRC receive the bank interest figures after the end of the tax year and will use this figure to see if you owe any tax for the tax year that has just finished and will also use this figure as an estimate of your interest for the following tax year. When the



end of that year comes around and they once again receive your actual interest figure, HMRC will check to see if the right figure was used. If any refund is due or if a tax bill applies it will then be issued automatically. In this case we would always recommend that you check the figures they have used with your own information of interest received.

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 (£12,570) with your salary, pensions or other income, then any remainder can be used against savings interest.

2. 0% 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 as well as the additional £1,000 PSA. However, the more you earn from other income, the lower the starting rate for savings will be. If your other income is more than £12,570 (PA) the additional 0% savings rate on £5,000 of interest will be reduced by £1 for every £1 of any other income you have over £12,570 (PA).

You will not be eligible for any of the 0% starting rate for savings if your other income is over £17,570, but you would still be entitled to the £1,000 PSA.

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 2022/23 tax year.

Where bank/building society accounts are in joint names, both account holders are entitled to their own PSA, or if applicable any excess of the Personal Allowance and again if applicable the 0% starter savings rate 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, you can contact HMRC on 0300 200 3300.

If you are over 60, you can contact Tax Help for Older People by calling the helpline on 01308 488066. The helpline is open 9.00 am to 5.00 pm Monday to Friday, excluding bank holidays. If the line is busy, or you want to call outside office hours, then please leave a message and an adviser will call you back. You can also email us at taxvol@taxvol.org.uk

Alternatively, if you are under 60, you can contact TaxAid, on the helpline number 0345 120 3779, and again please leave a message if the line is busy. This helpline is also open 9.00 am to 5.00 pm Monday to Friday, excluding bank holidays. If you would prefer to send an email enquiry, please send it to help@taxaid.org.uk

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.