Personal Savings Allowance Q&A Sheet

Overview

From 6 April 2016, taxpayers will have a new Personal Savings Allowance. This means that up to £1,000 of income from savings (e.g. any interest earned) will be tax-free for basic taxpayers, and up to £500 of savings income will be tax-free for higher rate taxpayers.

Currently, banks and building societies are required to take basic rate tax from their customers' savings interest. From 6 April, they will stop doing this because the vast majority of people will have no tax to pay on this income.

There is no action for most customers to take. Those with savings income below their new Personal Savings Allowance will have no tax to pay. Where possible, those with savings interest above their Personal Savings Allowance will have any tax they have to pay collected automatically by HMRC, through a change to their tax code - based on information provided by banks and building societies. Those who currently complete a Self Assessment tax return should continue to do so.

For further information about these changes, go to GOV.UK and search for Personal Savings Allowance. Full details will be added to the website in April when the new rules come into effect.

Q&As

The following questions and answers should help customers who receive account interest from banks and building societies.

What is savings income?

Savings income includes:

- interest from banks, building societies and other account providers (such as credit unions and NS&I)
- interest distributions (but not dividend distributions) from authorised unit trusts, open-ended investment companies and investment trusts
- income from government or company bonds
- some types of purchased life annuity payments and gains from certain contracts for life insurance

Does income from ISAs count towards my Personal Savings Allowance?

No, income from ISAs does not count towards your Personal Savings Allowance.

Will the changes affect savings income received before 6 April 2016?

No, changes only apply to savings income paid after 6 April 2016.

Do taxpayers need to tell account providers about other savings income or their tax rate?

No, taxpayers do not need to give any information about their tax circumstances or other savings income to their account provider.

Their total taxable income is less than £17,000, what will the changes mean for them?

From 6 April 2016, if their total taxable income - for example, from wages, profits, pensions and savings - is less than £17,000, they won't pay any tax on their savings income.

They are a basic rate taxpayer, what do the changes mean for them?

From 6 April 2016, if they are a basic rate taxpayer, up to £1,000 of their savings income will be tax-free.

For example, if they earn £20,000 a year and receive £250 in account interest, they won't pay tax on their interest because it's within their £1,000 Personal Savings Allowance.

If they earn £20,000 a year and receive £1,500 in account interest, they only need to pay tax on £500 of interest because their Personal Savings Allowance covers £1,000.

They are a higher rate taxpayer, what do the changes mean for them?

From 6 April 2016, if they are a higher rate taxpayer, up to £500 of their savings income will be tax-free.

For example, if they earn £60,000 a year and receive £250 in account interest, they won't pay any tax on their interest because it's within their £500 Personal Savings Allowance.

If they earn £60,000 a year and receive £1,100 in account interest, they only need to pay tax on £600 of interest because their Personal Savings Allowance covers £500.

They are an additional rate taxpayer, do they get a Personal Savings Allowance?

No, they will not receive a Personal Savings Allowance.

They registered their account to receive interest without tax taken off, what do they need to do now?

They do not need to do anything because from 6 April 2016 all account interest will be paid without tax taken off.

What about interest paid on PPI and other compensation payments?

Banks and building societies will still be required to take tax from any compensation interest paid. Customers may be able to claim the tax back by filling in form R40 (or form R43 if living overseas) and sending it to HMRC. These forms are available online at GOV.UK.

How do they claim back tax paid on other savings income?

From 6 April 2016, banks and building societies will pay account interest with no tax taken off. However, customers may still receive other types of savings income with tax taken off They may be able to claim this tax back by filling in form R40 (or form R43 if living overseas) and sending it to HMRC. These forms are available online at GOV.UK.

They are a basic rate taxpayer and their partner's a higher rate taxpayer; which Personal Savings Allowance applies to their joint account - £1,000 or £500?

They will both receive a Personal Savings Allowance (£1,000 for the basic rate taxpayer, £500 for their partner) which they will use against their share of the interest.

Will the Personal Savings Allowance affect the new £5,000 Dividend Allowance?

No, they are two separate allowances.

They are a business / a charity / a club / an association / a trustee / administering an estate – what will this mean for them?

Only individuals get a Personal Savings Allowance.

If they are a business, charity, club or association, they will already receive interest without tax taken off.

If they are a trustee or are administering an estate, banks and building societies will no longer deduct tax from the interest they pay, so any tax due will have to be paid through the trust/estate tax return, where appropriate.