HM Revenue & Customs

A guide to the Personal Savings Allowance

What's new?

From 6 April 2016, basic rate taxpayers are able to earn up to £1,000 in savings income (such as interest earned on bank or building society accounts) tax-free. Higher rate taxpayers are able to earn up to £500. This is called the Personal Savings Allowance.

What the changes mean

From April 2016, around 95% of taxpayers have no tax to pay on their savings income. They do not need to do anything – their banks or building societies have simply stopped removing tax from their savings.

Under the new rules, only additional rate taxpayers* and those with substantial amounts of savings income (more than £1,000 for basic rate taxpayers and more than £500 for higher rate) have tax to pay on their savings. This is about 5% of taxpayers (around one million people) and we will make it as easy as possible for them to pay the tax due.

For many of these savers the tax that they owe will be calculated and collected through either self-assessment returns or a simple adjustment to their tax code. We'll be writing to those who don't self-assess or pay tax through PAYE in the autumn setting out how we'll support them.

95%
of tax payers have no action to take

Savings income which is already tax-free does not count towards an individual's Personal Savings Allowance. The new allowance is in addition to existing tax reliefs and advantages – like ISAs (Individual Savings Accounts) and the 0% starting rate for savings (which is available to savers with lower earnings).

* additional rate taxpayers are those with total annual income above £150,000.

Only around 5% of people will have savings income above their Personal Savings Allowance

What people have to do

Around 95% of taxpayers have no action to take. Their savings income is within their Personal Savings Allowance and they will have no tax to pay.

We estimate that around 5% of people will have savings income above their Personal Savings Allowance and will therefore need to pay tax on this income.

Where possible we'll identify these people from the information we receive about the account interest paid from banks and building societies.

We'll then be able to support them in the following ways:

- around two in three of those with tax to pay already complete a tax return each year and will report their savings income in this way
- around one in three of those affected taxpayers do not complete tax returns. The tax they owe will be taken out of their PAYE income automatically, by an adjustment in their tax code, spread across the year. This is our normal practice where tax is owed by people who receive an income through PAYE and they will receive a coding notice. For those paying tax via PAYE, but who have a joint account, things aren't quite as straightforward but again we'll write to you in autumn setting out your options
- there will be some who have tax to pay on their savings income but: do not currently complete a tax return; have little or no PAYE income, so can't pay the tax owed through an adjustment to their tax code; or whose account isn't in their sole name.

  We'll write to this group in the autumn laying out how we'll support them to pay the tax due – such as by a direct payment.

While banks and building societies stopped deducting tax from account interest on 6 April 2016, others may continue to deduct tax from savings income they pay for a while longer. For instance, tax will continue to be deducted on interest paid by open-ended investment companies, authorised unit trusts, investment trust companies and in peer to peer lending until April 2017.

Savers can reclaim any overpaid tax from HMRC using their tax return, or by using form R40 (form R43 if living overseas). These forms are available online at GOV.UK.

What counts as savings income?

Savings income includes:

- all interest, including from banks, building societies and other account providers, such as credit unions and peer to peer lending platforms
- 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.

The following do not count towards the Personal Savings Allowance:

- interest from ISAs, which are tax-free in any case
- savings income which is covered by a saver's tax-free personal allowance or the 0% rate that applies for savers with lower earnings
- dividend distributions, which are covered separately by the new dividend allowance (see GOV.UK for details)
- account 'reward' payments that are not interest or returns on amounts saved.

How the Personal Savings Allowance works

Here are some examples to illustrate how the Personal Savings Allowance affects different people, according to their tax rate and savings income.

1 Individuals (with total taxable income under £17,000)

Those with a total annual income below £17,000 – for example, from wages, profits, pensions and savings – have no tax to pay on their savings income, even if it is above £1,000.

This is because their Personal Allowance makes the first £11,000 of their income tax-free; the 0% Starting Rate for Savings means that up to £5,000 of their savings income can also be tax-free, and the new Personal Savings Allowance gives them a further £1,000 of savings income tax-free.

2 Basic rate taxpayers (with annual income over £17,000)

The Personal Savings Allowance for basic rate taxpayers is £1,000, so their savings income will be tax-free up to this amount.

An individual usually qualifies as a basic rate taxpayer for the £1,000 Personal Savings Allowance if their income, including any non-ISA savings income and dividends they receive, is below £43,000.

If a basic rate taxpayer receives £800 in account interest, they won't pay tax on their interest because it's within their £1,000 Personal Savings Allowance.

£1,000

The Personal Savings Allowance for basic rate taxpayers

If their account interest (excluding any ISAs) rises to £1,100, they will need to pay tax on £100 of interest because their Personal Savings Allowance covers £1,000.

Those with savings income close to their £1,000 limit should monitor their savings income, and tell HMRC if they exceed their Personal Savings Allowance for the year. HMRC will write to savers with tax to pay in the autumn, setting out their options for paying this tax.

3 Higher rate taxpayers

The Personal Savings Allowance for higher rate taxpayers is £500, so tax is due on any non-ISA savings income over this amount.

An individual usually qualifies as a higher rate taxpayer for the £500 Personal Savings Allowance if their income, including any non-ISA savings income and dividends they receive, is between £43,001 and £150,000.

If a higher rate taxpayer receives £450 in account interest, they won't pay any tax on their interest because it's within their £500 Personal Savings Allowance.

If their account interest (excluding any ISAs) rises to £550, they will need to pay tax on £50 of interest: the amount exceeding their £500 Personal Savings Allowance.

£500

The Personal Savings Allowance for higher rate taxpayers

Those with savings income close to their £500 limit should monitor their savings income, and tell HMRC if they exceed their Personal Savings Allowance for the year. HMRC will write to savers with tax to pay, who don't complete a tax return or who aren't covered through PAYE, in the autumn setting out their options for paying this tax.

4 Additional rate taxpayers

Additional rate taxpayers (those with total annual income above £150,000) will not receive a Personal Savings Allowance. They should continue to report their savings income each year on their tax return.

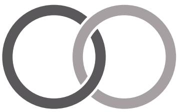
5 Taxpayers with joint accounts

Where spouses or civil partners have joint accounts, account interest is usually split equally for tax purposes. Both parties to the account should therefore count their half of the account interest towards their own Personal Savings Allowance.

If both spouses are basic rate taxpayers, half of the account interest will count towards each of the spouse's Personal Savings Allowance of £1,000.

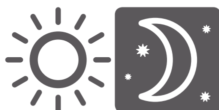
However if one spouse is a basic rate taxpayer and the other is a higher rate taxpayer, half of the interest will count towards the basic rate taxpayer's Personal Savings Allowance of £1,000 and the other half will count towards their spouse's Personal Savings Allowance of £500.

Each spouse or civil partner should monitor their savings income and let us know if this exceeds their Personal Savings Allowance for the year. We will write to those with joint accounts in the autumn setting out their options for paying any tax owed.



Joint accounts

Both parties to the account should count their half of the account interest towards their own Personal Savings Allowance



Day or night

By 2020, taxpayers will be able to register, file, pay and update their information at any time of the day or night

The future

Over the next four years we're investing £1.3 billion to transform the way that the tax system works, making it easier for people to understand their tax position and manage their tax affairs online, throughout the year and at a time to suit them.

Every taxpayer already has access to their own secure digital tax account, like an online bank account, that enables them to interact with us digitally. More services are being added each month, and we're introducing simpler ways for people to pay any tax they owe, removing the need for millions of people to complete a tax return.

Taxpayers can already see an overview of their taxes through their digital tax accounts, enabling them to check that their details are complete and correct, and to report changes.

By 2020, taxpayers will be able to register, file, pay and update their information at any time of the day or night, and at any point in the year, to suit them. This work is set out in an online booklet called Making Tax Digital.

Further information

To find out more about the Personal Savings Allowance, go to **www.gov.uk/apply-tax-free-interest-on-savings**

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HM Revenue & Customs
Corporate Communications
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