Personal Savings Allowance

A new allowance to be introduced in April 2016, which the government states will mean that 95% of savers will have no tax to pay on savings interest.

From April 2016, the government plans to radically alter how savings interest is taxed in the UK by introducing the Personal Savings Allowance. This change will have a direct effect on the amount of interest that can be earned tax free for the majority of UK savers and is more than welcome at a time where interest rates on savings remain at a record low level.

Announced in the Budget in March 2015, the government states that following the introduction of the Personal Savings Allowance, 95% of savers will not have to pay tax on the first £1,000 (or £500 for higher rate taxpayers) of interest earned on savings. This allowance is in addition to interest earned on cash ISAs.

Basic rate taxpayers will be eligible for a £1,000 tax-free Personal Savings Allowance and higher rate taxpayers will be eligible for a £500 allowance. It is worth noting that additional rate taxpayers will not be entitled to a Personal Savings Allowance.

From April 2016, banks and building societies will stop automatically deducting 20% tax from interest earned and the onus will be on savers to pay the tax on interest received above the Personal Savings Allowance level that is applicable to them. The government has stated that tax owed on interest above the Personal Savings Allowance will be collected through the PAYE system or by way of a self-assessment, if you already complete one.

The new Personal Savings Allowance means that many savers will earn a significant amount of their savings interest, if not all of it, tax free.

Key Facts

- Basic Rate Taxpayers will pay no tax on the first £1,000 of interest earned on their savings.
- The allowance for Higher rate taxpayers will be £500, meaning that no tax will have to be paid on interest up to this level.
- Additional rate taxpayers will not be entitled to a Personal Savings Allowance and will continue to pay tax on all interest earned on taxable savings accounts.
- The allowance is NOT a deduction against income, so does not reduce taxable income.
- An increase in income to either the higher rate or additional rate threshold will reduce the amount of Personal Savings Allowance and could result in an increase in the tax you will pay.
- As taxpayers reach each tax threshold, the Personal Savings Allowance will reduce, so even if, for example, your income increases to £1 over the higher rate threshold, the Personal Savings Allowance will drop by £500.
- Lower income savers can benefit from a 0% savings rate band on interest of up to £5,000, which is in **addition** to the Personal Savings Allowance.
- This means from April 2016, you won't have to pay tax on your interest if your taxable income is less than £17,000. This is made up of the £11,000 personal allowance (2016/17 tax year), £5,000 savings rate band and the £1,000 Personal Savings Allowance.
- From April 2016, 20% tax will no longer be automatically deducted from savings interest by banks and building societies.
- Tax due on interest above the Personal Savings Allowance applicable to you will be collected via the PAYE system or through self-assessment.

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