Broadcast

Nunn Hayward

FACTSHEET: TAX ON INTEREST FROM SAVINGS

SPECIAL ISSUE

01753 888211
www.nhllp.com

Many clients are confused by the special rules that govern tax payments due, if at all, on interest received from savings. Banks now pay interest gross, without deduction of tax, and so any interest received on savings' interest is potentially taxable.

Savings in this context includes regular savings accounts, bonds or fixed rate savings accounts and interest from peer-to-peer lending or similar savings schemes.

This Broadcast sets out the main reliefs that apply for 2024-25.

The Personal Savings Allowance (PSA)
Since April 2016, most taxpayers in the UK benefit from the PSA, which means that part of the interest they earn can be received tax-free, depending on their income tax bracket:

- Basic-rate taxpayers (20% band): Up to £1,000 of interest earned in savings accounts is tax-free.
- Higher-rate taxpayers (40% band): Up to £500 of interest is tax-free.
- Additional-rate taxpayers (45% band): No PSA is available, so all interest is taxable.

In which case a basic-rate taxpayer that receives £800 in interest during the year, would not pay tax on that amount because it's within their £1,000 PSA. But if a higher-rate taxpayer earned £800 in interest, they would still be within their £500 allowance, meaning only £300 would be taxable.

Starting Rate for Savings

For low-income taxpayers, there is also a **starting rate for savings**, which allows up to £5,000 of savings interest to be tax-free. This is in addition to the PSA.

However, this is only available if their other income (such as wages or pensions) is less than £17,570 in total. The more they earn from non-savings income, the smaller the starting rate band becomes. For example, if their non-savings income is £15,570, they'll be able to claim a starting rate of £2,000 on savings interest.

This rule is helpful for pensioners and those on lower incomes, who might be living off savings, as they could potentially avoid paying tax on their interest altogether.

Interest on ISA accounts

Income earned on ISA accounts is by concession tax-free. Taxpayers do not need to include ISA interest when working out their taxable income.

Declaring interest to HMRC

HMRC's PAYE system: HMRC often adjusts a tax code to account for interest earned on savings. If HMRC knows about the interest (from banks or building societies reporting it directly), they might automatically adjust the code, so the tax is collected via PAYE (Pay As You Earn) rather than through a self-assessment.

Self-assessment tax return: Taxpayers who are self-employed or need to file a self-assessment tax return for other reasons, will need to include their interest earnings on the tax return. Any tax due will be calculated and paid via the self-assessment system.

We can help

Please call us on **01753 888 211** or email **info@nhllp.com** if you need guidance with any of the issues raised in this Broadcast. We would be happy to help.