Explanatory Note

Clause 4 and Schedule: Deduction of Income Tax at source

Summary

1. This clause and Schedule amend Part 15 of the Income Tax Act 2007 (ITA) to remove the requirement upon deposit-takers (such as banks), building societies and other institutions to deduct sums representing income tax from the interest or other returns they pay on certain savings, investments and alternative finance arrangements. The changes have effect in relation to interest paid or credited on and after 6 April 2016.

Details of the clause and Schedule

2. Clause 4 introduces Schedule x.

3. Schedule x amends Part 15 of ITA concerning the deduction of income tax at source.

Part 1: Abolition of duty to deduct tax from interest on certain investments

4. Paragraph 1 removes section 851 of ITA, which requires deposit-takers and building societies to deduct a sum representing income tax at the basic rate from the interest they pay on certain investments.

Part 2: Deduction of tax from yearly interest: exception for deposit-takers

5. Paragraph 2 amends section 876 of ITA to provide that the duty (under section 874 of ITA) to deduct a sum representing income tax from certain payments of yearly interest will not apply to interest paid by deposit-takers on 'relevant investments' (as defined in Chapter 2 of Part 15 of ITA).

Part 3: Amendments of or relating to Chapter 2 of Part 15 of ITA 2007

6. Part 3 of the Schedule amends or omits various provisions in, or relating to, Chapter 2 of Part 15 of ITA as a consequence of changes made elsewhere in this Schedule. These changes include the removal of the duty on deposit-takers and building societies to deduct sums representing income tax from certain interest payments. Following these amendments, Chapter 2 of Part 15 of ITA will apply to determine the scope of the exception (provided at

section 876 of ITA) to the duty to deduct from certain payments of yearly interest.

7. Paragraphs 20 and 21 update section 564Q of ITA, consequential to other changes in this Schedule. These changes will also ensure that, where relevant, returns from alternative finance arrangements are treated in the same way as interest for the purposes of tax deduction.

Part 4: Deduction of tax from UK Public Revenue Dividends

8. Part 4 of the Schedule amends section 877 and Chapter 5 of Part 15 of ITA, concerning deduction of tax from payments of public revenue dividends.

9. Paragraph 27 amends section 893 of ITA to ensure that interest payments on securities issued by National Savings and Investments (the National Savings Bank) are excluded from the duty to deduct tax set out in section 892 of ITA and makes consequential amendment to section 894 of ITA.

Part 5: Commencement

10. Part 5 of the Schedule sets out commencement provisions for these amendments.

Background note

11. Deposit-takers (such as banks) and building societies, currently deduct 20% from the account interest they pay, under the Tax Deduction Scheme for Interest (TDSI). Similarly, National Savings and Investments (NS&I) currently deducts sums representing income tax at the basic rate from the interest it pays on certain bonds. For these purposes, returns on certain alternative finance arrangements are treated in the same way as interest.

12. At Budget 2015, the government announced the introduction of a new Personal Savings Allowance (PSA) from 6 April 2016. Once the PSA is implemented, most individual savers will no longer be liable for tax on any of the savings interest they receive. The government therefore also announced that, alongside the introduction of the PSA, it would end the duty on banks, building societies and other institutions (including NS&I) to deduct sums representing income tax from account interest paid or credited to customers.

13. If you have any questions about this change, or comments on the legislation, please contact Helen Williams on 03000 585204 (email: savings.audit@hmrc.gsi.gov.uk).