HM Revenue & Customs

Qualifying Time Deposits: Deduction of Tax at Source

Who is likely to be affected?

Building societies, banks and other deposit-takers who offer investment products which are Qualifying Time Deposits (QTDs).

Individuals who make QTD investments on or after 6 April 2012.

General description of the measure

QTDs are investments which, among other conditions, require a single deposit of at least £50,000 and do not permit any withdrawals during their term, which can be any period up to 5 years. Interest, dividends and similar amounts paid by providers on QTD balances are subject to income tax.

From 6 April 2012, any QTD provider who operates the Tax Deduction Scheme for Interest (TDSI) will be required to deduct sums representing income tax at the basic rate from interest, dividends or similar payments they make in respect of QTD investments opened or made after this date.

This measure will align tax collection arrangements for QTDs with those already in operation for many comparable savings or investment products.

Policy objective

To simplify tax collection arrangements for QTDs, and by doing so:

- collect more of the tax due on savings income;
- reduce burdens on individual taxpayers; and,
- align tax collection arrangements for QTDs with those for many comparable products.

Background to the measure

This measure was announced at Budget 2011. Since then, HM Revenue & Customs (HMRC) have informally consulted on implementation issues. This was mainly through discussions with financial providers and their representatives. However, HMRC also published a general invitation to comment in a TDSI Bulletin, which was sent to all building societies, banks and other deposit-takers, and made more generally available on the HMRC website.

In addition to the responses provided during the discussions mentioned above, a formal representation was submitted to HMRC by a representative group.

No respondents raised any significant objections in principle to the proposed measure. Some concerns were raised about the proposed 6 April 2012 effective date for the change, although this was not reported to be unachievable. More generally, the importance of clarity around this effective date was emphasised, in order that QTD providers could plan for the change with certainty.

A number of technical issues were raised around the treatment of payments processed at or around the time at which the measure will have effect. HMRC will publish guidance for QTD providers ahead of the effective date of the measure.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2012, and will apply only to QTDs opened or made on or after this date.

Current law

Chapter 2 of Part 4 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) provides that income tax is chargeable on interest, dividends and similar amounts. This is subject to an exemption for income from individual investment plans (Individual Savings Accounts) and other tax-advantaged products, as set out in Part 6 of ITTOIA.

QTD investments are not exempt from charges to income tax under ITTOIA. Income tax is therefore due on interest, dividends and similar amounts payable in respect of a QTD.

As regards the collection of this tax, Chapter 2 of Part 15 of the Income Tax Act 2007 (ITA) requires deposit-takers and building societies to deduct sums representing income tax from payments of interest on 'relevant investments'. The current mechanism for deduction of this tax and payment to HMRC is TDSI.

Section 866 of ITA defines QTDs, and, at subsection (1), provides that these are not 'relevant investments'. This means that there is no requirement on a QTD provider to deduct sums representing income tax from any interest they pay on QTD balances. This interest is therefore paid gross, and QTD investors are required to make separate arrangements to pay any tax due to HMRC.

Proposed revisions

Legislation will be introduced in Finance Bill 2012 so that from 6 April 2012, any new QTDs will be 'relevant investments'. This means that QTD providers who operate TDSI will be required to deduct sums representing income tax from payments of interest on these QTDs.

Summary of impacts

Exchequer impact (£m)	2011-12	2012-13	2013-14	2014-15	2015-16
	-	negligible	+35	+40	+40
	These figures were set out in Table 2.1 of Budget 2011 and have been certified by the Office of Budget Responsibility. More detail can be found in the policy costings document published alongside the Budget.				
Economic impact	This measure has no significant economic impact. The Exchequer effect arises from advancing the collection of tax already due rather than introducing any new liability.				
Impact on individuals and households	An estimated 30,000 individuals hold a QTD, although the measure will only affect those individuals who intend to invest in a QTD on or after 6 April 2012. No individual will be liable for additional tax on interest or other savings income as a result of this measure, although there may be a change to the time at which this tax is paid. For most basic rate taxpayers who are affected, ongoing compliance burdens will be reduced, as they will no longer be required to notify HMRC of the interest received on their QTD. Some basic rate taxpayers may be				

	required to contact HMRC to arrange a one-off adjustment of their PAYE tax code, in order that they do not overpay tax. However, we anticipate that the impact is likely to be negligible – both in terms of the number of taxpayers affected and the compliance costs for those who are affected. Higher and additional rate taxpayers will still be required to declare the interest received on their QTDs to HMRC, in order to account for additional tax due. The small number of individuals who are not liable to pay tax on savings income (for example because their total taxable income is less than their tax-free personal allowance) can claim back basic rate tax or use HMRC form R85 to receive interest gross. Any individuals eligible for the 10 per cent starting rate on savings income can submit a claim for overpaid tax. In either case, we think that the number of individuals affected is likely to be negligible.
Equalities impacts	The Government does not have evidence of the profile of QTD holders, and representatives of QTD providers have also been unable to provide us with this detail. But there is no reason to expect any equality impact for any protected characteristic.
Impact on business including civil society organisations	The measure is expected to have a negligible impact in terms of on-going administrative and one-off compliance costs for around 30 large and medium-sized retail banks and building societies which offer QTDs. Provider costs are likely to be limited to the one-off costs of changing processes, information technology systems, product literature and staff guidance; and the negligible ongoing cost of deducting tax at source under TDSI. In the long run the proposed change may reduce some provider's overall costs. For example, many providers currently deal with questions from customers about the QTD status of their products, or the tax consequences of holding a QTD. This measure will ultimately remove this burden.
Operational impact (£m) (HMRC or other)	Both the additional costs and savings for HMRC in implementing this change are anticipated to be negligible.
Other impacts	Competition assessment: This measure would align the tax arrangements for QTDs with those for similar (and competing) products. It is very unlikely that financial providers will face any adverse competition consequences as a result of the measure and no evidence to that effect has been presented. Small firms impact test: Small firms are included within the scope of this measure, although through our consultation we have not been made aware that any such firms offer QTDs. Therefore, no specific measures of amelioration for small firms have been considered.

Monitoring and evaluation

The measure will be kept under review through regular communication with affected taxpayer groups and industry representatives.

Further advice

If you have any questions about this change, please contact Simon Turner on 0151 472 6154 (email: simon.turner@hmrc.gsi.gov.uk).

1 Qualifying time deposits

(1) In section 866 of ITA 2007 (qualifying time deposits), in subsection (1), after "deposit" insert "made before 6 April 2012".

(2) The amendment made by this section is treated as having come into force on 6 April 2012.

EXPLANATORY NOTE

QUALIFYING TIME DEPOSITS

SUMMARY

1. This clause concerns the deduction of income tax from interest or similar amounts payable by building societies, banks and other deposit-takers on investments that are qualifying time deposits. It removes the exclusion of these investments from arrangements under which financial institutions deduct sums representing income tax at the basic rate from interest they pay to account holders.

DETAILS OF THE CLAUSE

2. Subsection (1) amends section 866(1) of the Income Tax Act 2007 (ITA 2007). Section 866(1) provides that an investment which is a qualifying time deposit is not a 'relevant investment' for the purposes of Chapter 2, Part 15 of ITA 2007 (concerning deduction of sums representing income tax by deposit-takers and building societies from payments of interest on relevant investments). Interest payments in respect of qualifying time deposits are therefore excluded from the tax-deduction requirements set out at Chapter 2, Part 15 of ITA 2007.

3. Subsection (1) restricts this exclusion, so it applies only to interest payments in respect of qualifying time deposits made before 6 April 2012. A qualifying time deposit made on or after 6 April 2012 will by virtue of the amendment made by subsection (1) be a 'relevant investment' for the purposes of Chapter 2, Part 15 of ITA 2007. Building societies, banks and other deposit-takers will therefore be required to deduct sums representing income tax at the basic rate from interest payments they make on these investments.

4. Subsection (2) provides that this clause will be treated as having come into force on 6 April 2012.

BACKGROUND NOTE

5. Income tax is usually due on interest that building societies, banks and other deposit-takers pay to savers and investors. There are, however, circumstances in which income tax will not be due, for example where a saving or investment product is tax-advantaged (such as an Individual Savings Account).

6. Building societies, banks and other deposit-takers usually deduct sums representing income tax from interest payable on most of their

savings or investment products. These sums are deducted at the basic rate of income tax and paid to HM Revenue & Customs under the Tax Deduction Scheme for Interest.

7. However, any interest payable on investments that are qualifying time deposits is excluded from these tax-deduction arrangements. This interest is paid gross to investors, and each investor is required to make separate arrangements to account for any tax due to HM Revenue & Customs.

8. The effect of this clause is to remove this exclusion for qualifying time deposits made on or after 6 April 2012. Building societies, banks and other deposit-takers will be required to deduct sums representing income tax at the basic rate from interest they pay on these qualifying time deposits. However, where an investor is not liable to pay tax on interest, for example because their total taxable income is less than their tax-free personal allowance, they can register with their account provider to receive interest payments gross.

9. If you have any questions about this change, or comments on the legislation, please contact Simon Turner on 0151 472 6154 (email: simon.turner@hmrc.gsi.gov.uk).