HM Revenue
& Customs

The starting rate of tax for savings.

Bulletin and FAQs
19 March 2014

Changes announced at Budget 2014: Summary of changes

Starting Rate for Savings from 6 April 2015

As announced by the Chancellor at Budget 2014, from 6 April 2015 the starting rate of tax for savings income (such as bank or building society interest) will be reduced from 10 per cent to nil, and the maximum amount of taxable savings income that can be eligible for this starting rate will be increased from £2,880 to £5,000.

One of the effects of this change, when combined with changes to the tax-free personal allowance, is that savers will not be liable for tax on any interest they receive if their total taxable income for 2015-16 is less than £15,500.

This figure will be £15,660 for people born before 6 April 1938. It may also be higher for people entitled to the Married Couple's Allowance (for those born before 6 April 1935) and people entitled to the Blind Person's Allowance. In addition, a different figure may be relevant where married couples and civil partners transfer part of their personal allowance. Further details of how these will affect eligibility for the starting rate will be published nearer 6 April 2015, when this change comes into effect.

Registering for interest payments without tax deducted (Form R85) from 6 April 2015

The eligibility rules for completing a form R85 will also change from 6 April 2015, to enable more savers to register to receive interest payments without tax deducted. Currently an R85 can be completed by a saver whose total taxable income for the tax year will be below their tax-free personal allowance. From 6 April 2015, a saver who is unlikely to be liable to tax on any of their savings income in the tax year can complete an R85 and register to receive interest without tax deducted – even if they pay tax on other (non-savings) income.

In practice, this means if a saver’s total taxable income will be below the total of their tax-free personal allowance *plus* the £5,000 starting rate limit for savings, from 6 April 2015 they can register to have interest paid on their accounts without tax deducted, using form R85.

Details of what is taxable income can be found at:
http://www.hmrc.gov.uk/incometax/taxable-income.htm
HMRC will work with account providers and interested groups to communicate the new rules to affected savers in good time for the change on 6 April 2015.

Frequently asked questions

What is changing on 6 April 2015?
From 6 April 2015, many more people will no longer be liable for tax on their savings income, such as interest they receive on their bank and building society accounts. This is most likely to affect people with low overall incomes, or people whose income is mainly from their savings.

You could benefit if:

- your total taxable income in 2015-16 will be below £15,500, or
- your total taxable non-savings income in 2015-16 (such as earnings or pensions) will be below £15,500.

What counts as savings income?
This includes interest from savings accounts you hold with banks, building societies and other account providers, such as credit unions.

It also includes interest distributions from authorised unit trusts and open-ended investment companies and income which is not interest, such as the profit on government or company bonds which are issued at a discount or repayable at a premium. Other types of savings income include purchased life annuity payments and gains from certain contracts for life insurance.

What non-savings income should I take into account?
When considering your total taxable non-savings income, you should include any of the following:

- State and other pensions;
- Income from employment and profits from working for yourself;
- Payments of Jobseekers Allowance (JSA) and taxable Incapacity Benefit;
- Income from savings (other than from tax-advantaged accounts such as ISA); and
- Any other taxable income that you receive.

Further details of what is taxable income can be found at:
http://www.hmrc.gov.uk/incometax/taxable-income.htm

Will I be affected?

This depends upon:

- the total amount of taxable income you will receive between 6 April 2015 and 5 April 2016;

- how much of this is savings income; and

- your tax-free personal allowance for the tax year 2015-16.

For simplicity and illustrative purposes, in these examples we have used the tax-free allowance that will apply for most taxpayers in 2015-16 of **£10,500.** Therefore in these examples, the tax-free personal allowance (£10,500) plus the starting rate band for savings (£5,000) = **£15,500**.

However, a different figure may be relevant if you were born before 6 April 1938, or are eligible for Blind Person's Allowance or Married Couple's Allowance.

Example 1 – I expect to have both savings and non-savings income

- *If the total of your taxable income for 2015-16 will be below £15,500,* you will not be liable to pay tax on **any** of your savings income in this year.

- *If your total taxable income for 2015-16 will be more than £15,500, but your non-savings income (such as earnings or pensions) will be less than £15,500,* you will not be liable to pay tax on **part** of your savings income. This will be the amount of your savings income that - when you add it to your other taxable income - comes to £15,500.

- *If your total taxable non-savings income (such as earnings or pensions) for 2015-16 will be more than £15,500,* there will be no change and your savings income will continue to be liable to tax as currently.

Further details of what is taxable income can be found at:
http://www.hmrc.gov.uk/incometax/taxable-income.htm

Example 2 – I expect all of my income to be from savings

- *If your total savings income for 2015-16 (other than from tax-advantaged accounts such as ISAs) will be below £15,500,* you will not be liable to pay tax on **any** of your savings income.

- *If your total savings income for 2015-16 (other than from tax-advantaged accounts such as ISAs) will be more than £15,500,* you will not be liable to pay tax on £15,500 of this savings income. Your income from tax-advantaged accounts such as ISAs will remain tax-free.

Some or all of my savings income will not be liable to tax as a result of these changes. What should I do?

This depends upon whether you expect **<u>part</u>** or **<u>all</u>** of your taxable savings income to not be liable to tax:

- *If you do not expect to have to pay tax on* ***<u>any</u>*** *of your savings income from any of your accounts,* you will be able to register with your bank or building society to receive interest without tax deducted, using form R85. Details of how to register for interest to be paid without tax deducted after 6 April 2015, and the relevant R85 form, will be available in good time before these changes come into effect.

  If you register to receive interest without tax deducted and there is a change in your circumstances that means your total income was higher than you expected, you may need to pay tax that is due. If appropriate, you should tell your bank or building society that you are no longer eligible to receive interest without tax deducted.
- *If you do not expect to have to pay tax on* ***<u>part</u>*** *of your savings income,* you should not register with your bank or building society to receive interest without tax deducted using form R85. Tax will continue to be deducted from your taxable interest payments at 20 per cent, but you will be able to reclaim overpaid sums from HMRC, under Self Assessment, or using the R40 form (if you do not complete a Self Assessment return).

  If you have more than one account, you are not entitled to register only some of your accounts to receive interest without tax deducted – even if you expect the interest you get from those accounts to not be liable for tax.

I am eligible for age-related allowance, Married Couple's Allowance or Blind Person's Allowance, what rules apply to me?

A different figure to the £15,500 used in the examples above may be relevant. Further details will be available in good time for 6 April 2015, when this change to the starting rate is due to come into effect.

What if married couples and civil partners transfer part of their personal allowance for 2015-16?

A different figure to the £15,500 used in the examples above may be relevant. Further details will be available in good time for 6 April 2015, when this change to the starting rate is due to come into effect.

Why isn't this change happening until 2015?

The Government wants as many eligible people as possible to receive interest without tax deducted – and thereby to avoid any need to reclaim from HMRC. Implementation on 6 April 2015 allows the necessary lead-in time for banks, building societies and HMRC to make this happen and for as many savers as possible to become aware of the changes.

How will the rules apply until 6 April 2015?

The rules will continue to apply as currently. The starting rate of tax for savings will be 10 per cent. Basic rate tax will be deducted on interest payments, and you can make a claim for overpaid tax to HMRC by Self Assessment, or using R40 if you do not complete a Self Assessment return.