Explanatory Note

Clause 1: Savings allowance, and savings nil rate etc

Summary

1. This clause introduces a new nil rate of tax for savings income (such as interest) within an individual's savings allowance. Each individual will have an annual savings allowance of £1,000, unless they have any higher-rate income for the year (in which case their allowance will be £500) or any additional-rate income (in which case their allowance will be nil). The clause will have effect for savings income paid or credited on and after 6 April 2016.

Details of the clause

2. Subsection (2) adds the new savings nil rate to the rates of income tax listed in section 6 of the Income Tax Act 2007 (ITA).
3. Subsection (3) amends section 7 of ITA to set the new savings nil rate.
4. Subsection (5) introduces new section 12A and new section 12B of ITA.

Section 12A Savings income charged at the savings nil rate

5. New Section 12A provides the basis for calculating how much of an individual's savings income is eligible for the new savings nil rate, with reference to their savings allowance.

Section 12B Individual's entitlement to a savings allowance

6. New Section 12B determines the amount of an individual's savings allowance for a tax year - which may be £1,000, £500 or nil - with reference to whether they have any higher-rate or additional-rate income in the year. Subsection (8) of this new section defines higher-rate and additional-rate income for these purposes. This new section also enables HM Treasury to make regulations that change the amount of savings allowance, and includes provisions in relation to such regulations.
7. Subsection (6) of the clause provides that the income ordering rules at section 16 of ITA will apply for the purposes of determining the extent to which an individual's income is savings income, and therefore potentially eligible for the savings nil rate.
8. Subsection (7) amends section 17 of ITA (concerning repayment claims) to allow such claims to be made where tax has been paid on income that is chargeable at the savings nil rate.

9. Subsection (8) amends sections 55B and 55C of ITA (concerning the transferable tax allowance for married couples and civil partners) to take account of the savings nil rate within the eligibility conditions for a tax reduction, where the other party to a marriage or civil partnership has elected to reduce their personal allowance.

10. Subsection (9) updates section 745 of ITA to clarify the exemption from income tax for income treated as arising to an individual as a result of certain transactions relating to the transfer of assets abroad. This amendment is consequential to the reduction of the starting rate of savings to 0% from April 2014.

11. Subsections 10 to 15 provide consequential amendments to ITA and other legislation to take into account the savings nil rate and savings allowance. Subsection (13) amends section 669 of the Income Tax (Trading and Other Income) Act 2005 (ITTOIA) to provide that income subject to the savings nil rate is included for the purposes of calculating a reduction in the residuary income of an estate.

12. Subsections 16 to 20 provide for the commencement of the provisions within this clause and also set out powers for HM Treasury to amend, repeal or revoke other tax legislation in consequence of this clause.

Background note

13. At Budget 2015, the government announced the introduction of a new Personal Savings Allowance (PSA). This change enables most individuals to receive up to £1,000 of savings income (such as interest on a bank or building society account) tax-free each year. However, where an individual has any higher-rate income in the year, their PSA will be £500, and individuals with additional-rate income in the year will have a PSA of nil. The PSA provides a new nil rate for savings income in addition to the 0% starting rate for savings which has applied since 6 April 2014, or the tax-advantages that apply for ISA savings.

14. Alongside the PSA, banks, building societies and National Savings and Investments (NS&I) will cease to deduct income tax from the interest they pay on savings accounts.

15. Savings income is defined at section 18 of ITA and includes a number of different types of payments, such as interest; certain purchased life annuity payments; profits from deeply discounted securities; gains from certain contracts for life insurance and certain accrued income profits.

16. 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).