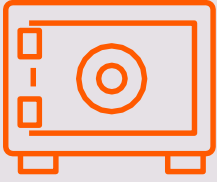


# Personal Savings Allowance



## Pay no tax on interest

Basic rate taxpayers pay no tax on the first £1,000 of interest earned on their savings



## Further help for lower income savers

Lower income savers can benefit from a 0% savings rate band on interest of up to £5,000, which is **in addition** to the Personal Savings Allowance



## Higher rate taxpayers

The allowance for higher rate taxpayers is £500, meaning that no tax will have to be paid on interest up to this level



## 20% tax no longer deducted

20% tax is no longer automatically deducted from savings interest by banks and building societies

## Tax-free Savings Interest

Introduced in April 2016, the Government stated that 95% of savers will now have no tax to pay on their savings interest.

- Additional rate taxpayers are not entitled to a Personal Savings Allowance and will continue to pay tax on all interest earned on taxable savings accounts.
- The allowance is NOT a deduction against income, so does not reduce taxable income.
- An increase in income to either the higher rate or additional rate threshold will reduce the amount of Personal Savings Allowance and could result in an increase in the tax you will pay.
- As taxpayers reach each tax threshold, the Personal Savings Allowance will reduce, so even if, for example, your income increases to £1 over the higher rate threshold, the Personal Savings Allowance will drop by £500.
- Lower income savers can benefit from a 0% savings rate band on interest of up to £5,000, which is in addition to the Personal Savings Allowance.
- This means that you won't have to pay tax on your interest if your taxable income is less than £18,500. This is made up of the £12,500 Personal Allowance (2019/20 tax year), £5,000 savings rate band and the £1,000 Personal Savings Allowance.
- Tax due on interest above the Personal Savings Allowance applicable to you will be collected via the PAYE system or through self-assessment.

# A radical change to tax on your savings interest

From 6th April 2016, the Government radically altered how savings interest is taxed in the UK by introducing the Personal Savings Allowance.

**This change has had a direct effect on the amount of interest that can be earned tax free for the majority of UK savers and is more than welcome at a time when interest rates on savings remain at a low level.**

Announced in the Budget in March 2015, the Government stated that following the introduction of the Personal Savings Allowance, 95% of savers would no longer pay tax on interest earned on savings. This allowance is in addition to interest earned on cash ISAs.

Basic rate taxpayers are eligible for a £1,000 tax-free Personal Savings Allowance and higher rate taxpayers are eligible for a £500 allowance. It is worth noting that additional rate taxpayers are not entitled to a Personal Savings Allowance.

From 6th April 2016, banks and building societies stopped automatically deducting 20% tax from interest earned and the onus is now on savers to pay the tax on interest received above the Personal Savings Allowance level that is applicable to them.

The Government stated that tax owed on interest above the Personal Savings Allowance will be collected through the PAYE system or by way of a self-assessment, if you already complete one.

The Personal Savings Allowance means that many savers now earn a significant amount of their savings interest, if not all of it, tax free.

**For further assistance, get in touch**

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