RCi Bank

Saving is now less taxing

The Personal Savings Allowance and what it means for you

January 2019

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The Personal Savings Allowance is the biggest wave of change for UK savers in a generation and we want our customers to be as well-informed as possible. So we've teamed-up with independent specialist advisors savingschampion.co.uk to bring you this simple, unbiased and free guide.

Jean-Louis Labauge, CEO, RCI Bank

Saving is now less taxing

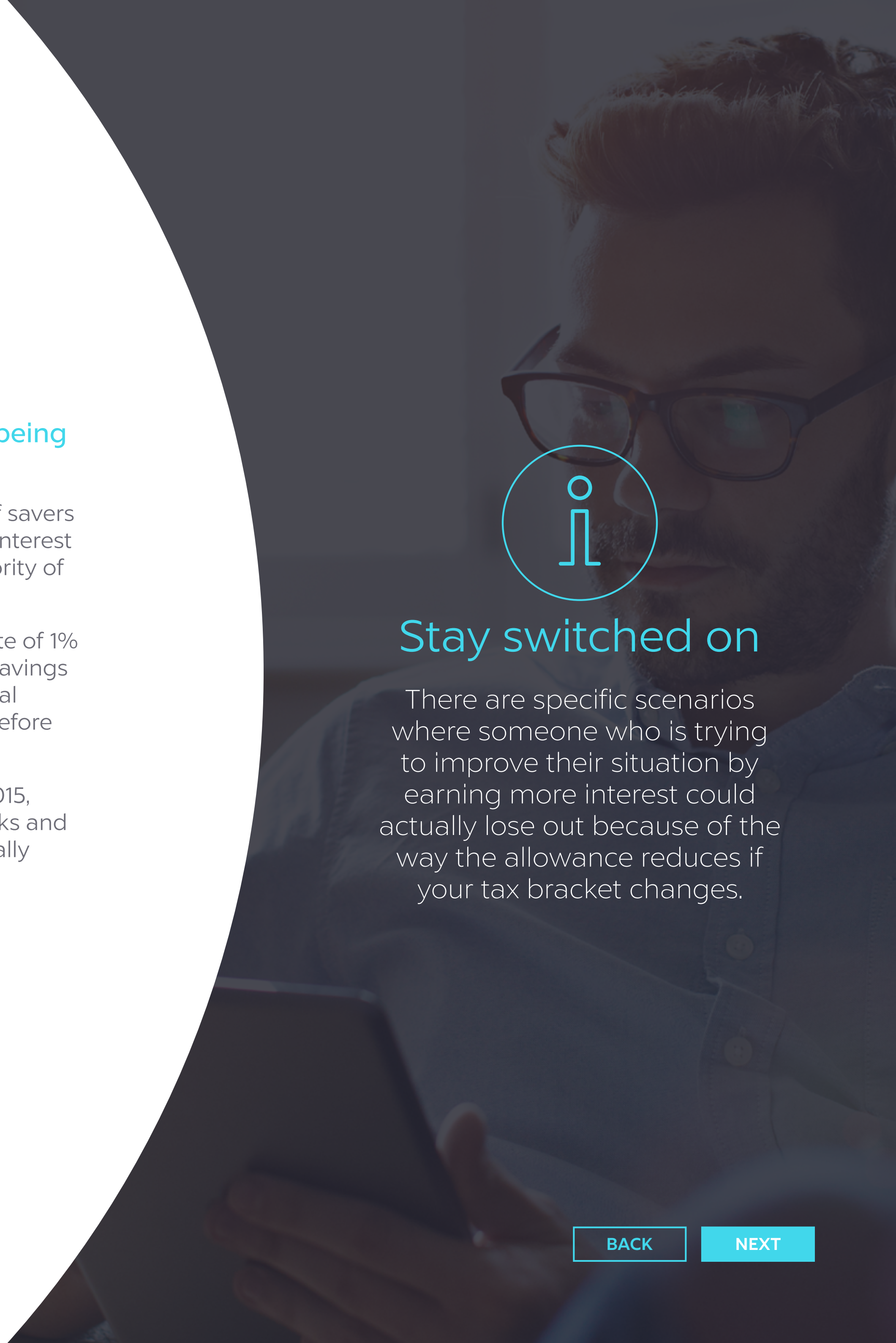
On 6 April 2016 one of the biggest changes for savers in a generation is being introduced, the new Personal Savings Allowance.

- Basic rate taxpayers can earn up to £1,000 in savings interest tax-free per year
- Higher rate taxpayers are eligible for a £500 tax-free allowance
- Additional rate taxpayers will not be entitled to an allowance and therefore will not benefit

According to the Government, 95% of savers will no longer have to pay tax on the interest earned on savings, meaning the majority of savers will receive tax-free interest.

Savers earning an average interest rate of 1% a year could have up to £100,000 in savings before reaching the basic rate Personal Savings Allowance limit or £50,000 before reaching the higher rate limit.

Announced in the Budget in March 2015, this revolutionary change means banks and building societies will stop automatically deducting 20% tax at source from your savings accounts.



Stay switched on

There are specific scenarios where someone who is trying to improve their situation by earning more interest could actually lose out because of the way the allowance reduces if your tax bracket changes.

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Saving is now less taxing (continued)

Most savers don't need to do anything, as they are not likely to earn more than their Personal Savings Allowance. For those who do reach the limit, they still may not need to do anything. HMRC has confirmed that any tax owed will be paid via the PAYE system. Those who do a self-assessment will need to pay any tax they owe.

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 from April 2016, you won't have to pay tax on your interest if your taxable income is less than £17,000. This is made up of the £11,000 personal allowance (2016/17 tax year), the £5,000 savings rate band and the £1,000 Personal Savings Allowance.

How your Personal Savings Allowance depends on your taxable income:

Taxable income	Up to £43,000	£43,001 to £150,000	£150,000 or more
Tax band	Basic rate tax 20%	High rate tax 40%	Additional rate tax 45%
Personal Savings Allowance	£1,000	£500	No allowance

How does this work in practice?

You earn
£20,000 a year
+
get £250
in account
interest

You won't pay any tax on your interest, because it's less than your £1,000 Personal Savings Allowance.

You earn
£20,000 a year
+
get £1,100
in account
interest

You won't pay tax on your interest up to £1,000. But you'll pay basic rate tax (20%) on the £100 interest over your Personal Savings Allowance.

You earn
£60,000 a year
+
get £250
in account
interest

You won't pay tax on your interest, because it's less than your £500 Personal Savings Allowance.

You earn
£60,000 a year
+
get £1,100
in account
interest

You won't pay tax on your interest up to £500. But you'll pay higher rate tax (40%) on the £600 interest over your Personal Savings Allowance.

With 95% of people no longer having to pay tax on interest they earn on their savings, this can only be a good thing. Savers will have greater freedom as they will be able to choose from the very best savings available to them, which could be a Cash ISA, a standard savings account, or even a high interest current account, all potentially tax-free. There are of course things to consider and saving just got a little more complicated, however for the majority, it'll simply mean more pounds in your pocket.

Sue Hannums, Director,
savingschampion.co.uk

Frequently asked questions

What is savings income?

According to the Government, savings income includes interest from bank and building society accounts, accounts with providers such as credit unions and some National Savings & Investments products.

It also includes interest distributions (but not dividend distributions) from authorised unit trusts, open-ended investment companies and investment trusts, income from government or company bonds and the interest element of most types of purchased life annuity payments.

What do I have to do?

The good news is that you don't need to do anything. From 6 April interest earned will be automatically paid gross (i.e. without tax deducted). For the majority of savers, any tax that may be due on your interest will be deducted via the PAYE system. HMRC will collect the tax by changing your tax code accordingly. Banks and building societies will send HMRC all the information they need.

Do I have to fill in a tax return?

If you fill in a Self-Assessment tax return, you should carry on doing this as normal.

How will I know what tax rate I am paying on my savings (from 6 April)?

If you are a basic rate taxpayer, you will pay 20% tax on any savings interest of more than £1,000. If you are a higher rate taxpayer, you will pay 40% tax on any savings interest of more than £500. If you are an additional rate taxpayer, you will pay 45% tax on all savings interest earned.

Will Cash ISAs count towards my Personal Savings Allowance?

For the purpose of calculating your Personal Savings Allowance, an ISA does not count as savings income. Your ISA allowance is in addition to this, meaning that interest earned from an ISA doesn't use any of your Personal Savings Allowance.

Need any advice?

If you think your income could breach either the higher rate or additional rate tax threshold, you could benefit from seeking advice from a tax specialist.

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Frequently asked questions (continued)

Is it still worth saving in an ISA?

As mentioned, any interest earned in a cash ISA will not count towards the new PSA as they are an additional tax-free allowance.

Savers will have greater flexibility, as they will be able to choose from the very best savings accounts available to them, which could include a cash ISA, a normal savings account, or even a high interest current account, all potentially tax-free.

However, if interest rates rise in the future, less capital will be required to fully utilise your Personal Savings Allowance, therefore many savers may prefer not to turn their back on Cash ISAs completely.

What happens if my interest pushes me into the higher rate tax band?

If you are pushed into a higher tax bracket either due to an increase in salary etc. or the gross interest earned on your savings, your Personal Savings Allowance will change to reflect your new tax status.

If you think your income could breach either the higher rate or additional rate tax threshold, you should seek advice from a tax specialist, as increasing the interest you earn on your savings could affect your Personal Savings Allowance and therefore the amount of interest that you are entitled to earn tax-free.

What happens with joint account income if you're on different tax bands?

With a joint account, the interest is usually split 50/50, so each saver will be credited with half of the interest. Therefore, each saver will pay any tax due accordingly, depending on their individual circumstances and which Personal Savings Allowance rate would be applicable.

Don't dismiss your cash ISA allowance

Although in the short term, while rates are low, opting to use the Personal Savings Allowance before using your cash ISA may be the better option, if and when rates do eventually start to rise, the amount which you save tax-free will reduce if you're only using your Personal Savings Allowance.

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The content in this guide was produced exclusively for RCI Bank customers by Savings Champion specialists.

Please note that tax advice is not offered by Savings Champion or RCI Bank.

Savings Champion is the UK's leading independent savings expert, dedicated to helping savers make the most of their savings. They offer a range of valuable, easy to use tools and services to help savers ensure their money is always held in the most competitive accounts. You can also speak directly to a savings expert if you need.

Visit www.savingschampion.co.uk or call 0800 321 3581.

Here to help, 7 days a week

Mon-Thurs 8am-8pm, Fri 8am-6.30pm, Sat 9am-5pm and Sun 10am-4pm, except bank holidays

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