

Personal Savings Allowance

Taking over 90% of taxpayers out of paying tax on interest from savings

One of the biggest Budget giveaways was the announcement of the introduction from April 2016 of a tax-free Personal Savings Allowance, which will take over 90% of taxpayers out of paying tax on interest from savings and allowing basic-rate taxpayers £1,000 tax-free a year, £500 for higher-rate tax payers and nothing for 45% tax payers.

At Budget 2014, the Chancellor had already announced that from April 2015, savers wouldn't have to pay tax on interest if their taxable income is less than £15,600.

This latest announcement means from April 2016, savers won't have to pay tax on savings interest if their taxable income is less than £16,800. To be eligible for the £1,000 tax-free Personal Savings Allowance, your taxable income needs to be less than £42,700 a year. To be eligible for the £500 tax-free Personal Savings Allowance, your taxable income needs to be between £42,701 and £150,000 a year.

HOW MUCH TAX-FREE INTEREST COULD YOU RECEIVE?

Example 1 Earn £20,000 income a year + £250 in interest from April 2016

You won't have to pay tax on your interest, as it is within your £1,000 Personal Savings Allowance.

Example 2 Earn £20,000 income a year + £1,500 in interest

You won't need to pay any tax on your interest up to £1,000, but you will still need to pay tax on the £500 interest you have earned over your Personal Savings Allowance.

Example 3 Earn £60,000 income a year + £250 in interest

You won't have to pay tax on your interest, as it is within your £500 Personal Savings Allowance.

Example 4 Earn £60,000 income a year + £1,100 in interest

As a higher-rate tax payer, you won't have to pay tax on your interest up to £500, but you will still need to pay tax on the £600 interest you have earned over your Personal Savings Allowance.

From April 2016, banks and building societies will stop automatically taking 20% in income tax from the interest earned on your non-ISA savings.

BUDGET 2015 ACTION POINT

The allowance does put the compliance onus on taxpayers. If you become a higher-rate taxpayer, it's your responsibility to pay the additional tax due.

ARE YOUR FINANCIAL PLANS STILL ON TRACK AFTER BUDGET 2015?

There may have been a number of key announcements in Budget 2015 that will impact on your financial plans. If you would like to review your current situation to ensure that your plans are still on track, please contact us.

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