# Tax free savings allowance

From April 6 you'll be able to earn up to £1,000 a year in interest from your savings account if you're a basic rate taxpayer and pay no tax on it. What does it mean and what do you have to do if you get more than £1,000 from your savings?

## Savings interest paid tax free from April

At the moment, interest from savings is paid with tax taken off unless you ask for the interest to be paid tax free. From April 6 you'll get the interest without tax having been taken off. This is a bigger change than the fact you'll be able to get £1,000 a year in interest from savings without having to pay tax. Because if you'd have got a tax-free interest allowance from April 2016 but savings interest would have continued to be paid with tax taken off, we reckon lots of people would have lost out. The only disadvantage of this approach is that it relies on HM Revenue and Customs altering your tax code correctly (see below).

## Tax-free personal savings allowance

From April 6you'll be able to receive a certain amount of savings interest without having to pay tax on it. It's called your personal savings allowance.

- You can get up to £1,000 a year in interest from savings tax free if you're a basic rate taxpayer.
- You can get up to £500 a year in interest from savings tax free if you're a higher rate (40%) taxpayer.
- You get no interest from savings tax free if you're an additional rate (45%) taxpayer.

## What counts as savings income?

The changes to the rules don't just affect interest from bank and building society savings. Here's a list of savings and investment products you can have, which you can get interest from tax free, up to the limits outlined above.

- Bank and building society accounts.
- National Savings & Investments accounts.
- Savings accounts with credit unions. Credit unions may not pay interest but may pay a dividend instead. However, this still counts towards your personal savings allowance.
- Interest payments from unit trusts, investment trusts and OEICS (which stands for open ended investment companies).
- Income from government bonds (UK government bonds are called gilts).
- Income from company bonds (often called 'corporate bonds).
- Income payments from purchased life annuities. These are not the same as pension annuities although they work in the same way. The payment you get is a mixture of your capital being paid back and interest. The interest part counts towards your personal allowance.

## How much savings could you have tax free?

Interest rates are really low at the moment, so you'd need to have quite a lot of money in savings to reach the £1,000 threshold (if you're a basic rate taxpayer).

- If you have £50,000 in savings paying 2% interest, you'd earn £1,000 in interest after a year and wouldn't have to pay any tax on the interest if you're a basic rate taxpayer. If you're a higher rate taxpayer, you could only have £25,000 in savings paying the same interest rate to get the interest tax free.

- If you have £66,666 in savings paying 1.5% in interest, you'd earn £999 in interest after a year and wouldn't have to pay any tax on the interest if you're a basic rate taxpayer. If you're a higher rate taxpayer, you could only have £33,333 in savings paying the same interest rate to get the interest tax free.

**Paying tax on extra interest**

If you earn more in interest than your personal savings allowance, you'll pay the extra tax in one of two ways:

- If you're employed: the extra tax will be taken by adjusting your PAYE tax code.
- If you're self employed: you'll have to declare the savings interest on your self-assessment tax return.

The government gov.uk website says that banks and building societies will give HM Revenue and Customs the information they need about how much savings interest someone receives. You can read more information about your personal savings allowance on the Gov.uk website.