

Understanding Tax on Savings

Interest rates have increased with the result that many more people are having to pay tax on their savings. In this Guide, we look at what the various Allowances are and how you can take steps to reduce the tax due.

This Guide will just look at 'Cash' savings that generate interest. Depending upon circumstances, this interest may be tax free or may generate Income Tax charges of up to 45% (48% in Scotland).

Personal Savings Allowance

This is the amount of interest per Tax Year that an individual may earn without it being subject to Income Tax.

Interest from any source counts towards this, unless the money is held in a product recognised by HMRC as tax-exempt.

Annual Earnings	Tax Rate	Personal Savings Allowance
£17,570 - £50,270	20%	£1,000
£50,271 - £125,140	40%	£ 500
£125,140 +	45%	£ NIL

Those earning less than £17,570 may earn up to an extra £5,000 interest per year tax free:
<https://www.moneyhelper.org.uk/en/savings/types-of-savings/tax-on-savings-and-investments>

Tax-exempt Products

ISAs

The most common tax-free savings product in the UK is an ISA. A Cash ISA is just like a deposit account that you might hold with a Bank or Building Society except that the interest is paid entirely Tax Free.

Just like deposit accounts, Cash ISAs may be:

- Instant Access – you can withdraw money at any time.
- Notice Accounts – you have to give a certain amount of notice before you withdraw.
- Fixed term – usually for between 1 and 5 years.

Cash ISA main rules:

- Maximum limit on ISA contributions per Tax Year - £20,000.
- You may open only one Cash ISA a year but transfers between providers/products are allowed.
- No fixed term, unless you select one.
- Available to any UK tax resident aged 16 or over.

Junior ISAs

These work in a very similar way to Cash ISAs but are specifically only for those aged under 18. Up to £9,000 may be invested per year.

Beware though – as soon as the child turns 18, the account automatically becomes an adult ISA and they may withdraw money whenever they want.

National Savings and Investments (NS and I)

NS and I are backed by the government and so your money is safe. They offer several tax-free products such as adult and junior ISAs and also **Premium Bonds**.

Premium Bonds

Premium Bonds don't pay interest. Instead, you are entered into a monthly prize draw where prizes are between £25 and £1 million, tax-free.

- Minimum investment £25
- Maximum investment £50,000 per person
- Each £1 invested creates one entry in the monthly draw
- 4.65% annual prize rate* (variable)
- Partial or full encashment at any time

*as at December 2023

Tax Planning with Partners

If you're affected by interest on savings and have used up all the available allowances listed above, it can make sense to utilise a spouse or partner's allowances. Often, in a relationship, one partner will have a larger income and therefore tax status than the other. So, by giving money to your partner to invest, you could:

- Make use of additional tax-free allowances for products like ISAs and Premium Bonds.
- Gain an additional Personal Savings Allowance.
- Where interest on savings is due, pay at a lower rate if those savings are held in a lower-paid partner's name.

Of course, all of the above assumes that there exists substantial trust between both parties!

Useful Links

<https://www.nsandi.com/tax-free-saving>

<https://www.gov.uk/apply-tax-free-interest-on-savings>

<https://www.moneyhelper.org.uk/en/savings/types-of-savings/isas-and-other-tax-efficient-ways-to-save-or-invest>

This document deals in generalisations, is intended for information purposes only, and is not intended to provide advice. Levels and bases of taxation will vary dependent upon individual circumstances and are subject to change. Shackleton recommend that employers and individuals take specific guidance before taking any action.



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