Your bank rewards may be less than interesting

Not everything your bank pays you counts towards the personal savings allowance.

When the personal savings allowance (PSA) was first announced in the March 2015 Budget, it all sounded quite straightforward:

- If you were a basic rate taxpayer, you had a £1,000 allowance to set against savings income;
- If you were a higher rate taxpayer, your allowance was halved, but your potential tax saving was still the same; and
- If you were one of the 333,000 additional rate taxpayers, you had no allowance.

The reality has turned out to be rather different. For a start, the allowance is not a true allowance at all, but a nil rate band. Now another glitch has emerged as the relevant Finance Bill legislation works its way through parliament.

If you have one of those bank or building society accounts that give you regular reward payments, then those sums cannot be offset against your PSA. To be offset against the PSA, what you need the bank to pay you is interest, which counts as 'savings income', not a reward, which is an 'annual payment', not 'savings income'. Alternatively, income from fixed interest unit trusts and OEICs can be offset against the PSA. However, for the current tax year, such interest is paid after deduction of 20% tax, meaning a reclaim may be necessary. From 6 April 2017, fixed interest fund distributions will be paid gross – as bank and building society interest is in 2016/17.

It remains to be seen whether the banks and building societies that pay rewards will revise their accounts to make them more tax-friendly. In the meantime, the PSA serves as a reminder that what looks like a simple tax change is often not so.

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