Another non-allowance for personal savings

More details have emerged about the forthcoming personal savings allowance.

Draft clauses of the Finance Bill 2016 were issued in December, helping to keep tax aficionados amused over the festive season. They were accompanied by a raft of explanatory material, but there were still plenty of questions left unanswered.

One change to tax from 6 April did become clearer: the introduction of the new personal savings allowance (PSA). This was announced in the March 2015 Budget, but very limited information was given about how it would work in practice. The draft clauses and background notes have now told us:

- If you pay no more than basic rate tax, the allowance will be £1,000, allowing you to earn up to £1,000 of interest (and certain other savings income) in 2016/17 with no tax liability.
- If you pay *any* higher rate tax, then the allowance will be £500. This cliff edge approach will leave a small number of just-higher-rate taxpayers worse off than those with greater or smaller incomes.
- If you pay *any* additional rate tax, then the allowance will be nil – another cliff edge, but arguably with less impact.
- Despite its name, the allowance is not an allowance, but more like a 0% tax band. To quote HMRC, “income that is within an individual’s saving allowance will still count towards their basic or higher rate limits”.
- HMRC reckon that “around 95% of taxpayers will not have any tax to pay on their savings income”. If you are in the other 5% then HMRC will be introducing automatic coding out through the Pay As You Earn (PAYE) system, based on “information supplied by account providers”.

The new allowance could be worth a tax saving of up to £200 a year, but with interest rates so low, do talk to us about how – or even whether – the allowance is worth using to the full.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.