

# Taxation of Building Society Interest



This leaflet explains the tax treatment of the interest  
which building societies pay to their investors.  
It is based on the tax rates and allowances for the tax year 2009/10.

# Taxation of Building Society Interest

## Contents

### Questions

- 1 What are the main tax allowances?

---
- 2 How does the married couple's allowance work?

---
- 3 Are there any other allowances?

---
- 4 What are the rates of income tax?

---
- 5 How is building society interest taxed?

---
- 6 How does this work in practice?

---
- 7 How do I register to receive my interest without tax deducted?

---
- 8 How are joint accounts treated?

---
- 9 Are joint accounts held by married couples and civil partners treated in the same way?

---
- 10 How are children's accounts treated?

---
- 11 Can I register on behalf of someone who lacks the mental capacity to do so?

---

## Questions

- 12 What happens when an investor dies?  
.....
- 13 Can any other building society interest be paid without deduction of tax?  
.....
- 14 What are ISAs?  
.....
- 15 What is the Child Trust Fund?  
.....
- 16 What is SAYE?  
.....
- 17 Do I need to include my ISA and SAYE accounts on my tax return?  
.....
- 18 What if I am not ordinarily resident in the UK?  
.....
- 19 How are dividends taxed?  
.....
- 20 Where can I get further information?  
.....
- 21 How do I work out how much tax to pay?  
.....
- 22 What is The Building Societies Association?  
.....

*Throughout this leaflet the words 'payment', 'paid', 'received' etc, when used in respect of 'payment of interest', include interest credited and left to accumulate in the investor's account.*

The tax year 2009/10 starts on 6 April 2009 and finishes on 5 April 2010.

*Examples of how income tax payable is calculated are set out at the back of this leaflet.*

## 1 What are the main tax allowances?

AGE	PERSONAL ALLOWANCE 2009/10
Under 65	£6,475
65-74	£9,490
75 or over	£9,640

These allowances are given as a deduction from your income before it is liable to tax.

If you are aged 65 to 74 or 75 and over, your higher personal allowance is reduced once your income exceeds £22,900 (for 2009/10). It is reduced by £1 for every £2 that your income goes over the limit. The lowest it will go is the basic personal allowance, £6,475 in 2009/10.

In 2010/11 there will be a change to the personal allowance for those with an income of over £100,000, and an additional tax rate for those with an income of over £150,000.

The personal allowance is given to everyone - regardless of gender or marital status. A tax allowance is a way of reducing the amount of tax that you pay on your income. Some allowances (such as the personal allowance) are given as income you can receive without having to pay tax. For example, if you are a married woman you can set your personal allowance against your income from savings, or a National Insurance pension paid because of your husband's contributions, as well as your earnings. Other allowances (such as the married couple's allowance) reduce your income tax bill by up to a set amount (see Q2).

## 2 How does the married couple's allowance work?

The married couple's allowance has been abolished, except for those married couples or civil partners where at least one partner is aged 75 or over.

PERSONAL ALLOWANCE 2009/10 (relief at 10%)	
Age 75 or over	£6,965
Minimum level	£2,670

Like the personal allowance, it is reduced if your income exceeds a certain amount but you will always get the minimum married couple's allowance (10% of £2,670 in 2009/10).

For a couple who were married before 5 December 2005 the allowance goes automatically to the husband. You can then decide with your wife whether she gets the minimum amount of the married couple's allowance instead. You can also decide to split the minimum amount between you. To do this you must have notified your HM Revenue and Customs office before the start of the tax year.

(You only have to do this once.) If either you or your spouse is unable to use all the allowance you receive, the surplus can be transferred to the other partner.

For a couple who were married, or formed a civil partnership, on or after 5 December 2005 the allowance goes to the spouse or civil partner who has the higher income. If that person is unable to use all of the allowance, the surplus can be transferred to their spouse or civil partner. If one of you dies, or if you divorce or separate, you'll get married couple's allowance for the whole of that tax year.

The rate at which relief for the married couple's allowance is given is restricted to 10%. This means that, for example, if you are a married couple where one spouse was born before 6 April 1935, the allowance is worth up to £696.50 (for 2009/10) off your income tax bill.

If you receive the married couple's allowance, HM Revenue & Customs will include it in your tax code and, if appropriate, make an adjustment to the tax code to restrict the rate of relief to 10%, which means that your tax bill will be reduced by up to the value of that allowance.

Further information is available at:

[www.hmrc.gov.uk/incometax/married-allow.htm](http://www.hmrc.gov.uk/incometax/married-allow.htm)

### 3 Are there any other allowances?

Yes - you can claim the blind person's allowance if you are certified blind and are on a local authority register of blind persons, or if you live in Scotland or Northern Ireland and are unable to perform any work for which eyesight is essential. If you can't use up some or all of your allowance, you may be able to transfer it. It works like the personal allowance and is £1,890 for 2009/10.

### 4 What are the rates of income tax?

After deducting the personal allowance and any other allowance you are entitled to, and which is given as income you can receive without having to pay tax (such as the one for blind people - see Q3), the income remaining is subject to tax. It is to this taxable income that the income tax rates apply. The income tax rates for 2009/10 are:

* STARTING RATE	10% (on taxable income up to £ 2,440)
BASIC RATE	20% (on taxable income from £0 to £37,400)
HIGHER RATE	40% (on taxable income over £37,400)

\* The 10p rate is a starting rate for savings income only. If your non-savings taxable income exceeds the starting rate limit, the 10p starting rate for savings will not be available for savings income.

The tax thresholds for 2010/11 will be announced in the 2010 Budget. There will be a change to the personal allowance for those with an income of over £100,000, and an additional tax rate for those with an income of over £150,000.

The rules for the taxation of building society interest are covered in Q5 and Q6, and the special rules for the taxation of dividends are covered in Q19.

## 5 How is building society interest taxed?

---

Most interest paid by building societies is payable after deduction of income tax at the rate of 20%. But if that is more than you are due to pay, you may make a claim to HM Revenue & Customs for repayment of tax. If you have a tax office, you should contact that office. If not, you should complete form R40:

[www.hmrc.gov.uk/forms/r40.pdf](http://www.hmrc.gov.uk/forms/r40.pdf)

The time limit for making such a claim is five years from 31 January following the 5 April end of the tax year. If you have taxable income in the starting rate band of 10% and are due to pay less tax than the amount deducted from your interest, you can also claim such a repayment.

If you are a non-taxpayer, you may be able to register with your building society to receive interest without tax deducted (see Q7).

If your income falls within the 20% basic rate band for 2009/10 you will have no more tax to pay on your interest, as the tax deducted from it at 20% will satisfy the tax due. However, if you are a higher rate taxpayer you will have to pay the extra tax due on your interest (the difference between tax deducted at 20% and the higher rate of 40%). The same system applies to most interest paid by banks to individuals.

The gross amount of interest you receive (that is, the amount before deduction of tax), the amount of any tax deducted, and the net amount of building society interest you received must be included in your self-assessment tax return. If you are a higher rate taxpayer, and you do not receive a self-assessment tax return from HM Revenue & Customs, the law says that you must tell them that you are liable to pay extra tax.

The gross amount is used in calculating income for the purposes of working out whether you are liable to pay higher rate tax or, if you are aged 65 or over, for deciding whether the age allowances apply (income limit £22,900 for 2009/10).

## 6 How does this work in practice?

The normal rule is that building society interest is payable after a deduction for income tax at the rate of 20%.

### Example

If interest of £200 is due to be paid on your account the building society will deduct £40 (being the tax at 20%) and you will receive £160. The information to be included in your annual tax return will be - gross amount of interest £200, tax deducted £40 and net interest received £160. (If you are a higher rate taxpayer, additional tax of £40 will be due.)

If you are able to claim a repayment from HM Revenue & Customs of tax deducted from building society interest you may be able to obtain information about interest paid and the tax deducted from your passbook, or statement of account, or from a section 975 statement sent by the building society. Some building societies issue section 975 statements automatically after the end of the tax year, others issue them on request. (Strictly, the request for a statement should be in writing, but this may not always be necessary.) You do not need to send the statement, passbook or statement of account to HM Revenue & Customs with your completed repayment claim form (or tax return). All you need to do is to enter on the claim form details taken from these documents and keep them safe, in case HM Revenue & Customs asks to see them.

## 7 How do I register to receive my interest without tax deducted?

If you are resident in the UK for tax purposes and your total taxable income from all sources (including interest) is expected to be less than your personal allowances, you can register for interest to be paid without tax deducted. Before you do this, you might wish to complete the helpsheet that accompanies HM Revenue & Customs' form R85. It will help you to decide if your income is less than your personal allowances.

To register, you must use HM Revenue & Customs form R85 and send or give it to your building society. Copies of form R85 and its helpsheet are available from building society branches and HM Revenue & Customs offices:

[www.hmrc.gov.uk/helpsheets/r85-helpsheet.pdf](http://www.hmrc.gov.uk/helpsheets/r85-helpsheet.pdf)

and are also included in HM Revenue & Customs leaflet IR111 *Bank and building society interest - Are you paying tax when you don't need to?*:

<http://www.hmrc.gov.uk/LEAFLETS/ir111.pdf>

Some building societies produce their own version of the form R85. It may be used to register more than one account with the same building society.

Once you have registered to receive interest without tax deducted on your account, the registration continues in force for subsequent years until your circumstances change and you (or HMRC) cancels it. If you have registered an account for your child (see Q10), the registration continues in force until the end of the tax year in which they become 16. If your circumstances (or those of any child for whom you have registered) change, and you (or the child) become liable to pay income tax, you must notify the building society as quickly as you can to cancel the registration.

## 8 How are joint accounts treated?

---

If you have a joint account with a building society, interest paid on the account is normally divided equally for tax purposes between you and the other the joint holder.

If both you and the other joint holder of an account do not expect to be liable to tax, you should each complete a separate registration form R85. All the interest will then be paid with no tax deducted. It will help the building society if you submit all forms R85 for a joint account together.

If only you, but not the other joint holder, expect not to be liable to tax, it may still be possible for you to receive your share of the interest with no tax deducted. Check with your building society. If the building society is unable to arrange this, the person not liable to tax can claim his/ her share back from HM Revenue & Customs by completing form R40.

## 9 Are joint accounts held by married couples and civil partners treated in the same way?

---

Yes. If you and your spouse or civil partner hold investments in joint names, the income received will normally, for income tax purposes, be divided equally between you. There are special rules for certain jointly held property where it, and the income from it, belong to you and your spouse or civil partner in unequal shares. In such cases, you may make a joint declaration to HM Revenue & Customs of the actual position concerning ownership and each of you will be taxed

accordingly. Such a declaration cannot usually be made in respect of joint building society or bank accounts, because such accounts are held as joint beneficial owners. This means that you and the other owner are equally entitled to the whole account, not to a specific proportion of the account. Income from such accounts is taxed equally on you and your spouse or civil partner, as normal.

A leaflet *You and Your Joint Account* produced by the British Bankers' Association is available at:

[www.bba.org.uk/content/1/c6/01/45/51/jointacc.pdf](http://www.bba.org.uk/content/1/c6/01/45/51/jointacc.pdf)

## 10 How are children's accounts treated?

---

Children under 16 are potentially liable to income tax in their own right and have the normal personal allowance of £6,475 for 2009/10. As a parent or guardian you can register your child's account for interest with no tax deducted, or claim repayment of tax deducted from interest on such an account on your child's behalf.

You can give a child or invest on their behalf as much money as you like. But if you're a parent or step-parent and the money you give your child earns more than £100 interest a year, this interest will be taxed as if it were your own.

The £100 limit only applies to parents and step-parents. The £100 rule does not apply to grandparents or other adults.

If a parent has provided funds for three separate accounts for the same child, the interest from all three needs to be added together and that total needs to be below £100. Where the total exceeds £100, then all the interest is treated as the parent's, not just the excess over £100. (These provisions do not apply to Child Trust Funds - see Q15.)

## 11 Can I register on behalf of someone who lacks the mental capacity to do so?

---

Yes. You can register for payment of interest without tax deducted on behalf of someone who lacks the mental capacity to do so, and who is not expected to be liable for income tax, if you are the spouse, parent, guardian or child (over 16) of the account holder; if you are a receiver or person appointed by any court in the UK to handle their affairs; or if you have been appointed by the Department for Work and Pensions to claim or receive benefits on their behalf. You will normally be asked to provide evidence of your appointment, such as a letter from the DWP.

## 12 What happens when an investor dies?

---

When an investor who has registered for payment of interest without tax deducted dies, all interest paid or credited to their account up to the date of death is paid without tax deducted. However, any interest paid or credited after the date of death is not income of the person who has died, but is income of their estate and so the building society has to deduct tax before crediting that interest to the account. The executor or administrator of the estate must tell the building society of the investor's death. If the executor or administrator makes payments to beneficiaries who are not taxpayers, those beneficiaries may be able to reclaim the tax from HM Revenue & Customs.

## 13 Can any other building society interest be paid without tax deducted?

---

Yes. In addition to the payment of interest with no tax deducted to eligible individuals who have registered on HM Revenue & Customs form R85 (see Q7), building societies may also pay interest with no tax deducted in certain other cases. So far as individuals are concerned the main cases are:

- on individual savings accounts (ISAs) (see Q14)
- on child trust fund (CTF) accounts (see Q15)
- on Save-As-You-Earn (SAYE) sharesave schemes (see Q16)
- if you are not ordinarily resident in the UK and have completed and submitted a NOR declaration on form R105 to your building society (see Q18)
- on qualifying time deposits (deposits for a fixed period of up to five years) of £50,000 or more

Apart from interest and bonuses on ISAs, CTFs and SAYE sharesave schemes (see below), interest paid by a building society with no tax deducted is still liable to tax in your hands, in respect of the amount by which your taxable income is not covered by your tax allowances.

## 14 What are ISAs?

---

Most building societies offer individual savings accounts. ISAs have been available since April 1999 and replaced tax-exempt special savings accounts and personal equity plans. There are two types of ISAs - a cash ISA and a stocks and shares ISA. Each has qualifying investments. All income from cash ISAs and most income

and gains from stocks and shares ISAs are exempt from UK income tax and capital gains tax. Interest on building society and bank ISA accounts is payable without deduction of tax.

ISAs are available to individuals who are aged 18 or over (or for cash ISAs, aged 16 or over) and who are both resident and ordinarily resident in the UK for tax purposes. Certain Crown employees, such as diplomats or members of the armed forces, who are working overseas and paid by the UK government, and the spouses or civil partners of such people, can also subscribe to an ISA.

Unless you are aged 50 or over by 5 April 2010, your annual investment allowance for 2009/10 is £7,200. Up to £3,600 of that allowance can be saved in cash with one provider, such as a building society. The remainder of the £7,200 can be invested in stocks and shares with either the same or another provider.

If you are aged 50 or over (or will be by 5 April 2010) you have an annual investment allowance of £10,200. Up to £5,100 of that allowance can be saved in a cash ISA with one provider, such as a building society. The remainder of the £10,200 can be invested in a stocks and shares ISA with either the same or another provider. (However, not all providers will be able to offer the higher allowance of £10,200 before 6 April 2010. You should check with your provider that it can do this.)

If you are married, or in a civil partnership, you and your spouse or civil partner each have your own annual ISA subscription limit. There is no statutory minimum holding period and no minimum subscription. For further information, please see our leaflet - *Individual Savings Accounts and You* (see Q22).

## 15 What is the child trust fund?

---

The child trust fund savings account started in April 2005 and is available from a number of building societies. It aims to give children a "nest egg" they can use when they reach 18. The government makes a starting payment of £250 or £500 - in the form of a voucher - soon after the child is born, and another payment when the child is seven. Family and friends are also able to pay into the account.

Children born on or after 1 September 2002 in the UK and for whom child benefit is payable, qualify for a child trust fund. A voucher for £250 is sent automatically to the person who receives child benefit soon after the child is born. If you are in a family with lower income, your voucher will be for £500. CTFs do not affect child credits or benefits received.

Anyone can pay money into the account - you can make contributions as a parent or carer, as can others who have an interest in the child's financial well-being, such as other family members, friends, godparents or the child.

The total that can be paid into the account each year (running from one birthday to the next) is currently £1,200 - this is on top of the payment made by the government when your child is born and when they reach seven. Children from lower income families receive an additional £250 at this age.

Money paid into or interest earned by the child trust fund may not be withdrawn until the child is 18. Only the child is allowed to withdraw the money. The only exception to this is if the child is terminally ill. Children can start to make decisions about how the money is managed when they are 16.

Interest, dividends and gains on a child trust fund are exempt from UK income tax and capital gains tax.

For more information on CTFs, please see the BSA leaflet on CTFs and building societies which can be found within the consumer section of the BSA website: [www.bsa.org.uk](http://www.bsa.org.uk) or visit: [www.childtrustfund.gov.uk](http://www.childtrustfund.gov.uk)

## 16 What is SAYE?

---

A small number of building societies operate the Save-As-You-Earn share option scheme (sometimes known as "sharesave") in connection with company employee share option schemes. The bonuses or interest on these accounts are exempt from all UK income tax and capital gains tax. The SAYE sharesave scheme is a way of saving to acquire shares in the company for which you work. If your company has an HM Revenue & Customs approved SAYE share option scheme, you may be able to save up to £250 a month out of your pay for three, five or seven years. You must enter into a certified savings contract to benefit. At the end of the period a tax free bonus is paid. Those who save for five years can leave their savings on deposit for a further two years to earn an extra bonus. Your savings and the tax free bonus can either be taken out, or used to buy shares which your company has granted you when you started saving. The price of the shares can be at a discount of up to 20%.

## 17 Do I need to include my ISA and SAYE accounts on my tax return?

---

No. You do not normally need to include details of ISAs or SAYE accounts on your tax return and, provided your account meets the appropriate conditions, the interest or bonuses are completely excluded from all tax calculations.

## 18 What if I am not ordinarily resident in the UK?

---

If you are not ordinarily resident (NOR) in the UK you can complete a declaration form, except where the terms and conditions of the account do not permit it, and receive interest without tax deducted.

To give a building society authority to pay interest without tax deducted, if you are a NOR individual, you are required to complete and sign a NOR declaration and undertaking on form R105:

- that at the time when the declaration is made you are NOR in the UK, and
- that if you become ordinarily resident in the UK, the society will be notified without delay.

Once you have provided a valid declaration, the building society must pay interest without tax deducted unless it has reason to believe that you are or might be ordinarily resident in the UK.

If you are unsure of your residence status, you should consult your HM Revenue & Customs office. Further information may be found at:

[www.hmrc.gov.uk/tdsi/overseas.htm](http://www.hmrc.gov.uk/tdsi/overseas.htm)

For the above purposes, the "UK" comprises only England and Wales, Scotland and Northern Ireland; it does not include the Channel Islands or the Isle of Man.

## 19 How are dividends taxed?

---

Most people have no tax to pay on dividends from UK and most foreign stocks and shares, as the tax credit of 10% (in the tax year 2009/10) satisfies their tax liability in full. (In practice, all building society dividends qualify for tax credits). But if you are liable to tax at the higher rate, you will have additional tax to pay - at 32.5% (in the tax year 2009/10; 42.5% in 2010/11) of the value of the dividend plus the tax credit, but you can use the 10% tax credit against this liability. If you are a non-taxpayer, you are not able to claim payment of the tax credit. More information may be found at: [www.hmrc.gov.uk/taxon/uk.htm](http://www.hmrc.gov.uk/taxon/uk.htm)

## 20 Where can I get further information?

If you are not sure whether you can register to receive interest with no tax deducted, if you need help with working out your taxable income, or if you are in any doubt as to whether you are entitled to a repayment of tax, contact your nearest HM Revenue & Customs office or HMRC enquiry centre for help. The address is in the telephone book under "HM Revenue & Customs". Or you will find information, with worked examples, on the HM Revenue & Customs website at:

[www.hmrc.gov.uk/tdsi/key-info.htm](http://www.hmrc.gov.uk/tdsi/key-info.htm)

HMRC provides a number of helpful booklets and leaflets, including:

- IR111 - *Bank and building society interest – Are you paying tax when you don't need to?*

Leaflet IR111 explains the tax treatment of interest paid by building societies and banks. It gives information to help you decide if you can register for interest without tax deducted, and includes a registration form R85, worked examples and a helpsheet. It also explains how you can claim repayment of tax from HMRC, if more tax has been deducted from your building society interest than you are due to pay for the year.

[www.hmrc.gov.uk/leaflets/ir111.pdf](http://www.hmrc.gov.uk/leaflets/ir111.pdf)

Copies of the repayment claim form R40 are available from any tax office or HMRC enquiry centre.

<http://search2.hmrc.gov.uk/kbroker/hmrc/forms/viewform.jsp?formId=818>

Other booklets and leaflets which you may find useful include:

- HMRC 6 - *Residence, Domicile and the Remittance Basis*  
[www.hmrc.gov.uk/cnr/hmrc6.pdf](http://www.hmrc.gov.uk/cnr/hmrc6.pdf)
- *Approaching retirement - A guide to tax and National Insurance Contributions*  
[www.hmrc.gov.uk/leaflets/ir121.pdf](http://www.hmrc.gov.uk/leaflets/ir121.pdf)

These booklets and leaflets are available from the HMRC website and are free of charge from any tax office or HMRC enquiry centre.

There is also a special HMRC telephone helpline on how to get your interest with no tax deducted, help with the form R85 and how to claim tax back - **0845 980 0645**

Further information about employee share schemes may be found:

[www.hmrc.gov.uk/shareschemes/index.htm](http://www.hmrc.gov.uk/shareschemes/index.htm)

## 21 How do I work out how much tax to pay?

---

There are many guides available, especially on the internet. You might wish to try:

[www.hmrc.gov.uk/incometax/check-right-tax.htm](http://www.hmrc.gov.uk/incometax/check-right-tax.htm)

[www.direct.gov.uk/en/MoneyTaxAndBenefits/Taxes/BeginnersGuideToTax/IncomeTax/GettingyourIncomeTaxright/index.htm](http://www.direct.gov.uk/en/MoneyTaxAndBenefits/Taxes/BeginnersGuideToTax/IncomeTax/GettingyourIncomeTaxright/index.htm)

## 22 What is The Building Societies Association?

---

The Building Societies Association is the trade association for mutual lenders and deposit takers including all building societies in the UK. Further information about the Association and our members, including the leaflets listed below, is available at: [www.bsa.org.uk](http://www.bsa.org.uk)

- *Individual Savings Accounts and You*
- *The Child Trust Fund and Building Societies*
- *Taxation of Building Society Interest*
- *Lost Savings? – how Building Societies can help you find your lost savings*

This leaflet explains the tax treatment of the interest which building societies pay to their investors. It is based on the tax rates and allowances etc for the tax year 2009/10.

The general information in this leaflet should not be relied on as a guide to specific action, for which you should seek appropriate advice.

This publication is issued by  
The Building Societies Association  
York House, 23 Kingsway, London WC2B 6UJ

ISBN: 978-1-869839-91-8

*This leaflet is correct at the time of printing (December 2009).*