

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 2011/12.

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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 2011/12 starts on 6 April 2011 and finishes on 5 April 2012.

1 What are the main tax allowances?

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).

AGE	PERSONAL ALLOWANCE 2011/12
Under 65	£7,475
65-74	£9,940
75 or over	£10,090

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 £24,000 (for 20011/12). It is reduced by £1 for every £2 that your income goes over the limit.

The personal allowance reduces where the income is above £100,000 by £1 for every £2 of income above the limit. This reduction applies irrespective of age.

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.

MARRIED COUPLE'S ALLOWANCE 2011/12 (relief at 10%)	
Age 75 or over	£7,295
Minimum level	£2,800

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 £2,800 in 20011/12).

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 £729.50 (for 2011/12) 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

3 How does blind person's allowance work?

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 £1,980 for 2011/12.

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.

INCOME TAX RATES FOR 2011/12	
* STARTING RATE	10% (on taxable income up to £2,560)
BASIC RATE	20% (on taxable income from £0 to £35,000)
HIGHER RATE	40% (on taxable income from £35,001 - £150,000)
ADDITIONAL RATE	50% (on taxable income over £150,000)

* 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 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 Q20.

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

The time limit for making such a claim depends on which year you are claiming. See: www.hmrc.gov.uk/incometax/tax-free-interest.htm#3. 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 2011/12 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% or additional rate of 50%). 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 or additional 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 or additional rate tax or, if you are aged 65 or over, for deciding whether the age allowances apply (income limit £24,000 for 2011/12).

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 or additional tax of £60 if you are an additional rate taxpayer.)

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/forms/r85.pdf

www.hmrc.gov.uk/helpsheets/r85-helpsheet.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.

You may also make a 'non-written' declaration. This can be done by telephone or e-mail without an electronic signature. You provide the same information and make the same declaration as required by the paper form. The building society will make a copy declaration confirming all details and send it to you for confirmation.

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 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.

www.hmrc.gov.uk/forms/r40.pdf

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/media/article/you-and-your-joint-account

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 £7,475 for 2011/12. 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 Q16.)

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 including:

- on individual savings accounts (ISAs) (see Q14)
- on child trust fund (CTF) accounts (see Q16)
- on Save-As-You-Earn (SAYE) sharesave schemes (see Q17)
- 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 Q19)
- on qualifying time deposits (QTD) (deposits for a fixed period of up to five years) of £50,000 or more. From 6 April 2012 tax will be deducted at source on new QTD accounts.

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?

There are two types of ISAs - a cash ISA and a stocks and shares ISA. 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 a ISA.

Your annual investment allowance for 2011/12 is £10,680. Up to £5,340 of that allowance can be saved in cash with one provider, such as a building society. The remainder of the £10,680 can be invested in stocks and shares with either the same or another provider.

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 Q23).

www.bsa.org.uk/docs/consumerpdfs/6090230305.pdf

15 What are Junior ISAs?

On 26 October 2010 the Government announced that it would create a new tax-free children's savings account, called Junior ISAs. Junior ISAs are intended to provide a way for parents to save for their child's future, following the end of Child Trust Fund (CTF) eligibility from January 2011. Junior ISAs will be available from 1 November 2011 and will have the follow key features:

- All UK resident children under the age of 18 who do not have a CTF will be eligible for Junior ISAs.
- Any income or gains will be tax-free.
- Both cash and stocks and shares Junior ISAs will be available. Children will be able to hold up to one cash and one stocks and shares Junior ISA at a time (two accounts in total).
- There will be an overarching contribution limit of £3,600 per year which will be indexed by CPI from 6 April 2013 onwards.

- Accounts will be owned by the child and funds will be locked in until the child turns 18.
- Children will have the right to manage their accounts from age 16.
- Junior ISA accounts will by default become adult ISAs on the child's 18th birthday.

The £3,600 annual tax free savings is higher than the previous £1,200 annual limit for the child trust fund (although that rises to £3,600 also in November 2011).

Further information about Junior ISAs can be found at:

http://www.hm-treasury.gov.uk/fin_draft_reg_jr_isa.htm

16 What is the child trust fund?

The child trust fund is a long-term tax-free savings account for children born between 1 September 2002 and 2 January 2011 in the UK and for whom child benefit is payable.

Eligibility for the child trust fund ceased in January 2011. But accounts set up for eligible children will continue to accept deposits and benefit from tax free investment growth.

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 increases to £3,600 from 1 November 2011.

Further information about the child trust fund may be found at:

www.direct.gov.uk/en/MoneyTaxAndBenefits/ChildBenefitandChildTrustFund/ChildTrustFund/index.htm

17 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%.

18 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.

19 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. www.hmrc.gov.uk/forms/r105.pdf

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

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.

20 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 2011/12) 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 or additional rate, you will have additional tax to pay - at 32.5% (higher rate) or 42.5% (additional rate) 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

21 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

Information about the tax treatment of interest paid on building society and bank accounts can be found at: www.hmrc.gov.uk/taxon/bank.htm

Copies of the repayment claim form R40 are available from any tax office or HMRC enquiry centre. www.hmrc.gov.uk/forms/r40.pdf

Booklets and leaflets which you may find useful include:

- HMRC 6 - *Residence, Domicile and the Remittance Basis*
www.hmrc.gov.uk/cnr/hmrc6.pdf
- *Approaching retirement - A guide to tax and National Insurance Contributions*
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 at:
www.hmrc.gov.uk/shareschemes/index.htm

22 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

www.direct.gov.uk/en/MoneyTaxAndBenefits/Taxes/BeginnersGuideToTax/IncomeTax/index.htm

23 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

- *Individual Savings Accounts and You*
- *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 2011/12.

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

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