

In order to try to give you as many possible permutations of how savings are to be taxed so hopefully you can see your own situation here, we have set out a number of examples with differing situations and amounts of savings and/or dividend income.

Each example is colour coded for ease of reference. The basic way of working out the tax will be the same but the rates will differ depending on the levels of income involved.

You need first to understand tax rates so have a look at [Which tax rates apply to me](#) for a simple explanation.

What that section says is that tax is charged on taxable income such as earnings, pensions, taxable state benefits, self employed profits up to **£37,400** at the rate of **20% (called basic rate)** except income from savings.

Savings income (broadly bank and building society interest) is regarded as the part of your taxable income which is taxed next. There is a **10% starting rate for savings** on savings income only, with a limit of **£2,440**. If your taxable non-savings income (i.e. earnings and pensions etc. as mentioned above) is **more than this limit** then the 10% savings rate will **not** apply and your savings income will be taxed in full at 20%.

What this means is that if you have total income including savings of between **£9,490 and £11,930** for those aged 65-74 or between **£9,640 and £12,080** for those 75 or over - the savings rate will apply to at least part of your income. For someone who just gets the basic personal allowance of £6,475 they will get some savings taxed at 10% when their income is between **£6,475 and £8,915**. Have a look at Mr A.

However if you have used up your tax free personal allowance against your non savings income (as explained above) but your remaining non savings income is less than **£2,440** - you can use the balance of the **£2,440** against your savings income at the 10% rate. You are then taxed on the balance of your savings income at 20%. Have a look at Mrs B, Mr C and Miss D.

Unless you pay tax at the **higher rate of 40%** (because your income after allowances is over £37,400) then all your **dividends or distributions from unit trusts** (but not interest) are taxable at the **10% rate only**. They form the very last part of your income and so are taxed at your highest rate of tax. Have a look at all the examples apart from Mrs B to see how this works. The savings rate band is **not** available for dividend income.

NOTE *The examples are intended to help you work out what tax is due so they only go as far as working out what **tax you will have to pay** – we do **not** take things an extra step further by including the tax taken off through PAYE on your wages or by your bank or building society on your savings. You can work this out for yourself when you look at your own situation but remember that any overpayment in respect of the dividends would not be repayable – see [Dividends](#)*

Examples for 2009/10 (year ended 5 April 2010)

(1A) Mr A aged 66, has taxable employment/pension income of £9,490. What will his tax be if he also has:

- (i) £1,000 of savings income or
- (ii) £500 of savings income and £500 of dividends or
- (iii) or £1,000 of dividends

(1B) How would his tax be different if he has an extra £1,500 employment/pension income making £10,990 in total together with:

- (i) £1,000 of savings income or
- (ii) £500 of savings income and £500 of dividends or
- (iii) £1,000 of dividends

(1C) How would his tax be different if he has an extra £1,000 savings in addition to the £10,990 employment/pension income:

- (i) £2,000 of savings income or
- (ii) £1,000 of savings income and £1,000 of dividends or
- (iii) £2,000 of dividends

(2) Mrs B aged 63, has pension income of £9,040. What rates of tax will she pay and what is her tax bill for 2009/10?

(3A) Mr C aged 76 and married, has pension income of £12,460. What will his tax be if he also has:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1,500 of dividends or
- (iii) £3,000 of dividends

(3B) How would his tax be different if he has instead £13,460 pension together with:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1,500 of dividends or
- (iii) £3,000 of dividends

(3C) or if he had less income say £11,460 pension and again:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1,500 of dividends or
- (iii) £3,000 of dividends

(4A) Miss D aged 69, has pension income of £8,490. What will her tax be if she also has:

- (i) £3,440 of savings income or
- (ii) £1,720 of savings income and £1,720 of dividends or
- (iii) £3,440 of dividends

(4B) or if she had a larger pension of £9,990 what will her tax be if she also has:

- (i) £3,440 of savings income or
- (ii) £1,720 of savings income and £1,720 of dividends or
- (iii) £3,440 of dividends

Answers

(IA) Mr A aged 66, has taxable employment/pension income of £9,490. What will his tax be if he also has:

- (i) £1,000 of savings income or
- (ii) £500 of savings income and £500 of dividends or
- (iii) or £1,000 of dividends

	£
Earned income	9,490
Less: personal allowance	<u>(9,490)</u>
Savings income	1,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>1,000</u>

Tax due:

Earned income (covered by allowances)

Savings

Mr A has not used any of his starting rate band for savings so the whole £2,440 is available at 10% on his savings income.

Savings	<u>1000</u>
Tax at 10% savings rate	100

(ii)

Earned income	9,490
Less: personal allowance	<u>(9,490)</u>
Savings income/dividends	1,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>1,000</u>

Tax due:

Earned income (covered by allowances)

Savings

Mr A has not used any of his starting rate band for savings so the whole £2,440 is available at 10% on his savings income.

Savings	500	
Tax at 10% savings rate		50
Dividends	500	
Tax at 10% dividend rate		<u>50</u>
Tax payable		<u>100</u>

(iii)	£
Earned income	9,490
Less: personal allowance	<u>(9,490)</u>
Dividends	1,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>1,000</u>

Tax due:
Earned income (covered by allowances)

Savings

Dividends	1,000
Tax at 10% dividend rate	<u>100</u>

(1B) How would his tax be different if he has an extra £1,500 employment/pension income making £10,990 in total together with:

- (i) £1,000 of savings income or
- (ii) £500 of savings income and £500 of dividends or
- (iii) £1,000 of dividends

(i)	£
Earned income	10,990
Less: personal allowance	<u>(9,490)</u>
	<u>1,500</u>
Savings income	1,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>1,000</u>

Tax due:
Earned income
£1,500 @ 20% 300

Savings

Mr A will be treated as having used £1,500 of his starting rate band for savings so £2,440 – 1,500 = 940 is available at 10% on his savings income.

Savings	<u>1000</u>
Tax at 10% savings rate (£940 @ 10%)	94
Tax on balance at 20% (£60 @ 20%)	<u>12</u>
	<u>106</u>

(ii)	£
Earned income	10,990
Less: personal allowance	<u>(9,490)</u>
	<u>1,500</u>
Savings/dividend income	1,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>1,000</u>

Tax due:	
Earned income	
£1,500 @ 20%	<u>300</u>

Savings

Mr A will be treated as having used £1,500 of his starting rate band for savings so £2440 – 1,500 = 940 is available at 10% on his savings income. His dividend income is taxed at 10%.

Savings	500	
Tax at 10% savings rate		50
Dividends	500	
Tax at 10% dividend rate		<u>50</u>
Tax payable		<u>100</u>

(iii)	£
Earned income	10,990
Less: personal allowance	<u>(9,490)</u>
	<u>1,500</u>
Savings income	1,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>1,000</u>

Tax due:	
Earned income	
£1,500 @ 20%	<u>300</u>

Savings

Dividends are taxed at 10% so:

	£
Dividends	1,000
Tax at 10% dividend rate	<u>100</u>

(1C) How would his tax be different if he has an extra £1,000 savings in addition to the £10,990 employment/pension income:

- (i) £2,000 of savings income or
- (ii) £1,000 of savings income and £1,000 of dividends or
- (iii) £2,000 of dividends

(i)	£
Earned income	10,990
Less: personal allowance	<u>(9,490)</u>
	<u>1,500</u>
Savings/dividend income	2,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>2,000</u>

Tax due:

Earned income	
£1,500 @ 20%	<u>300</u>

Savings

Mr A will be treated as having used £1,500 of his starting rate band for savings so £2,440 – 1,500 = 940 is available at 10% on his savings income.

Savings	<u>2,000</u>
Tax at 10% savings rate (£940 @ 10%)	94
Tax on balance at 20% (£1,060 @ 20%)	<u>212</u>
	<u>306</u>

(ii)	£
Earned income	10,990
Less: personal allowance	<u>(9,490)</u>
	<u>1,500</u>

Savings/dividend income	2,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>2,000</u>

Tax due:

Earned income	
£1,500 @ 20%	<u>300</u>

Savings

Mr A will be treated as having used £1,500 of his starting rate band for savings so £2,440 – 1,500 = 940 is available at 10% on his savings income. His dividend income is taxed at 10%.

Savings	<u>1,000</u>
Tax at 10% savings rate (£940 @ 10%)	94
Tax on balance at 20% (£60 @ 20%)	<u>12</u>
	<u>106</u>

Dividends	1,000
Tax at 10% dividend rate	<u>100</u>

(iii)	£
Earned income	10,990
Less: personal allowance	<u>(9,490)</u>
	<u>1,500</u>

Savings income	2,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>2,000</u>

Tax due:	
Earned income	
£1,500 @ 20%	<u>300</u>

Savings	
Dividends	2,000
Tax at 10% dividend rate	<u>200</u>

(2) Mrs B aged 63, has pension income of £9,040 and building society interest of £2,000. What rates of tax will she pay and what is her tax bill for 2009/10?

Earned income	9,040
Less: personal allowance	<u>(6,475)</u>
	<u>2,565</u>

Savings income	2,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>2,000</u>

Tax due:	
Earned income	
£2,565 @ 20%	<u>513</u>

Savings

Mrs B is paying tax on £2,565 on her earnings which is more than the limit of £2,440 for the starting rate for savings tax band. She will be treated as having used all of the savings rate band so her savings income is taxed in full at 20%

Savings	<u>2,000</u>
Tax due at 20%	<u>400</u>

(3A) Mr C aged 76 and married, has pension income of £12,460. What will his tax be if he also has:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1500 of dividends or
- (iii) £3,000 of dividends

(3B) How would his tax be different if he has instead £13,460 pension together with:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1500 of dividends or
- (iii) £3,000 of dividends

(3C) or if he had less income say £11,460 pension and again:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1,500 of dividends or
- (iii) £3,000 of dividends

(3A) Mr C aged 76 and married, has pension income of £12,460. What will his tax be if he also has:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1500 of dividends or
- (iii) £3,000 of dividends

Married couples allowance for an individual over age 75 is £696.50 for 2009/10 but is rounded up for this example

(i)	£
Earned income	12,460
Less: personal allowance	<u>(9,640)</u>
	<u>2,820</u>
Savings/dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:

Earned income	
£2,820 @ 20%	564 (£697-564 still available)
Less: Married Couple's allowance (MCA)	<u>564</u>
Tax due	<u>0</u>

Savings

Mr C is paying tax on £2,820 on his earnings which is more than the limit of £2,440 for the starting rate for savings tax band. He will be treated as having used all of the savings rate band so his savings income is taxed in full at 20%

Savings	<u>3,000</u>
Tax @ 20%	600
Less: balance of MCA	<u>133</u>
Tax due	<u>467</u>

(ii)

Earned income	12,460
Less: personal allowance	<u>(9,640)</u>
	<u>2,820</u>

Savings/dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:

Earned income	
£2,820 @ 20%	564 (£697-564 still available)
Less: Married Couple's allowance (MCA)	<u>564</u>
Tax due	<u>0</u>

Savings

Mr C is paying tax on £2,820 on his earnings which is more than the limit of £2,440 for the starting rate for savings tax band. He will be treated as having used all of the savings rate band so his savings income is taxed in full at 20%. Dividend income is taxed at 10%

Savings	<u>1,500</u>
Tax due @ 20%	300
Less: balance of MCA	<u>133</u>
Tax due	<u>167</u>

Dividends	1,500
Tax at 10% dividend rate	<u>150</u>

(iii)

Earned income	12,460
Less: personal allowance	<u>(9,640)</u>
	<u>2,820</u>

Dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:

Earned income	
£2,820 @ 20%	564 (£697-564 still available)
Less: Married Couple's allowance (MCA)	<u>564</u>
Tax due	<u>0</u>

Dividends	3,000
Tax at 10% dividend rate	<u>300</u>

(3B) How would his tax be different if he has instead £13,460 pension together with:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1500 of dividends or
- (iii) £3,000 of dividends

Married couples allowance for an individual over age 75 is £696.50 for 2009/10 but is rounded up for this example

(i)	£
Earned income	13,460
Less: personal allowance	<u>(9,640)</u>
	<u>3,820</u>

Savings income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:	
Earned income	
£3,820 @ 20%	764
Less: Married Couple's allowance (MCA)	<u>697</u>
Tax due	<u>67</u>

Savings

Mr C is paying tax on £3,820 on his earnings which is more than the limit of £2,440 for the starting rate for savings tax band. He will be treated as having used all of the savings rate band so his savings income is taxed in full at 20%

	£
Savings	<u>3,000</u>
Tax due @ 20%	<u>600</u>

(ii)	
Earned income	13,460
Less: personal allowance	<u>(9,640)</u>
	<u>3,820</u>

Savings/dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:	
Earned income	
£3,820 @ 20%	764
Less: Married Couple's allowance (MCA)	<u>697</u>
Tax due	<u>67</u>

Savings

Mr C is paying tax on £3,820 on his earnings which is more than the limit of £2,440 for the starting rate for savings tax band. He will be treated as having used all of the savings rate band so his savings income is taxed in full at 20%

	£
Savings	<u>1,500</u>
Tax due @ 20%	<u>300</u>

Dividends	1,500
Tax at 10% dividend rate	<u>150</u>

(iii)	£
Earned income	13,560
Less: personal allowance	<u>(9,640)</u>
	<u>3,820</u>

Dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:	
Earned income	
£3,820 @ 20%	764
Less: Married Couple's allowance (MCA)	<u>697</u>
Tax due	<u>67</u>

Dividends	3,000
Tax at 10% dividend rate	<u>300</u>

(3C) or if he had less income say £11,460 pension and again:

- (i) £3,000 of savings income or
- (ii) £1,500 of savings income and £1,500 of dividends or
- (iii) £3,000 of dividends

Married couples allowance for an individual over age 75 is £696.50 for 2009/10 but is rounded up for this example

(i)	£
Earned income	11,460
Less: personal allowance	<u>(9,640)</u>
	<u>1,820</u>

Savings income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:	
Earned income	
£1,820 @ 20%	364 (£697-364 still available)
Less: Married Couple's allowance (MCA)	<u>364</u>
Tax due	<u>0</u>

Savings

Mr C is paying tax on £1,820 on his earnings which is less than the limit of £2,440 for the starting rate for savings tax band. He will be treated as having used part (2,440 – 1,820) of the band leaving £620 available to use against his savings.

	£
Savings	<u>3,000</u>
Tax due	
£620 @ 10%	62
£2,380 @ 20%	<u>476</u>
	538
Less: balance of MCA	<u>333</u>
Tax due	<u>205</u>

(ii)	£
Earned income	11,460
Less: personal allowance	<u>(9,640)</u>
	<u>1,820</u>

Savings/dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:	
Earned income	
£1,820 @ 20%	364 (£697-364 still available)
Less: Married Couple's allowance (MCA)	<u>364</u>
Tax due	<u>0</u>

Savings

Mr C is paying tax on £1,820 on his earnings which is less than the limit of £2,440 for the starting rate for savings tax band. He will be treated as having used part (2,440 – 1,820) of the band leaving £620 available to use against his savings. Dividend income is taxed at 10%. MCA comes off savings income first.

Savings	<u>1,500</u>
Tax due	
£620 @ 10%	62
£2,380 @ 20%	<u>476</u>
	538
Less: balance of MCA	<u>333</u>
Tax due	<u>205</u>

Dividends	1,500
Tax at 10% dividend rate	<u>150</u>

(iii)	£
Earned income	11460
Less: personal allowance	<u>(9,640)</u>
	<u>1,820</u>

Dividend income	3,000
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,000</u>

Tax due:	
Earned income	
£1,820 @ 20%	364 (£697-364 still available)
Less: Married Couple's allowance (MCA)	<u>364</u>
Tax due	<u>0</u>

Savings

Dividend income is taxed at 10%.

	£
Dividends	3,000
Tax at 10% dividend rate	<u>300</u>

(4A) Miss D aged 69, has pension income of £8,490. What will her tax be if she also has:

- (i) £3,440 of savings income or
- (ii) £1,720 of savings income and £1,720 of dividends or
- (iii) £3,440 of dividends

(4B) or if she had a larger pension of £9,990 what will her tax be if she also has:

- (i) £3,440 of savings income or
- (ii) £1,720 of savings income and £1,720 of dividends or
- (iii) £3,440 of dividends

(4A) Miss D aged 69, has pension income of £8,490. What will her tax be if she also has:

- (i) £3,440 of savings income or
- (ii) £1,720 of savings income and £1,720 of dividends or
- (iii) £3,440 of dividends

(i)	£
Earned income	8,490
Less: personal allowance	<u>(8,490)</u>

Miss D has not used up her allowance of £9,490 in full against her earned income so she still has £9,490-8,490 = £1,000 to set against her savings income. In addition she has not used any of her starting rate band for savings so the whole £2,440 is available at 10% on her savings income.

Savings income	3,440
Less: Personal allowance	<u>1,000</u>
Taxable income	<u>2,440</u>

Tax due:	
Earned income	Nil

Savings	
£2,440 @ 10%	<u>244</u>

(ii)	
Earned income	8,490
Less: personal allowance	<u>(8,490)</u>

Miss D has not used up her allowance of £9,490 in full against her earned income so she still has £9,490-8,490 = £1,000 to set against her savings income. In addition she has not used any of her starting rate band for savings so the whole £2,440 is available at 10% on her savings income.

Savings income	1,720
Less: Personal allowance	<u>1,000</u>
Taxable income	<u>720</u>

Tax due:	
Earned income	Nil

Savings	
£720 @ 10%	<u>72</u>

Dividends	1,720
Tax at 10% dividend rate	<u>172</u>

(iii)	
Earned income	8,490
Less: personal allowance	<u>(8,490)</u>

Miss D has not used up her allowance of £9,490 in full against her earned income so she still has £9,490-8,490 = £1,000 to set against any savings income but not dividends.

Dividends	3,440
Tax at 10% dividend rate	<u>344</u>

(4B) or if she had a larger pension of £9,990 what will her tax be is she also has:

- (i) £3,440 of savings income or
- (ii) £1,720 of savings income and £1,720 of dividends or
- (iii) £3,440 of dividends

(i)	£
Earned income	9,990
Less: personal allowance	<u>(9,490)</u>
	<u>500</u>

Savings/dividend income	3,440
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,440</u>

Tax due:	
Earned income	
£500 @ 20%	<u>100</u>

Savings

Miss D will be treated as having used £500 of her starting rate band for savings so £2,440 – 500 = 1,940 is available at 10% on her savings income.

Savings	<u>3,440</u>
Tax at 10% savings rate (£1,940 @10%)	194
Tax on balance at 20% (£1,500 @ 20%)	<u>300</u>
	<u>494</u>

(ii)	£
Earned income	9,990
Less: personal allowance	<u>(9,490)</u>
	<u>500</u>

Savings/dividend income	3,440
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,440</u>

Tax due:	
Earned income	
£500 @ 20%	<u>100</u>

Savings

Miss D will be treated as having used £500 of her starting rate band for savings so £2,440 – 500 = 1,940 is available at 10% on her savings income.

Savings	<u>1,720</u>
Tax at 10% savings rate (£1,720 @10%)	<u>172</u>

Dividends	<u>1,720</u>
Tax at 10% dividend rate	<u>172</u>

(iii)	£
Earned income	9,990
Less: personal allowance	<u>(9,490)</u>
	<u>500</u>

Savings/dividend income	3,440
Less: Personal allowance	<u>0</u>
Taxable income	<u>3,440</u>

Tax due:	
Earned income	
£500 @ 20%	<u>100</u>

Dividends	3,440
Tax at 10% dividend rate	<u>344</u>