# Income other than earnings

Low Incomes Tax Reform Group
A voice for the unrepresented

**This factsheet provides basic information on how income other than earnings is taxed in the UK. It aims to help low income people who would like to come to the UK, or who have already arrived, to understand more about the UK tax system.**

**You should also read the factsheets about Leaving the UK and Personal Allowances. These can be found at [www.litrg.org.uk/tax-guides/migrants-and-tax/guides-and-factsheets](www.litrg.org.uk/tax-guides/migrants-and-tax/guides-and-factsheets).**

### Savings income

If you have an account with a UK bank or building society, you might get interest on the money. This is called 'savings income' for UK tax.

Depending on your total income, you might have to pay tax on that interest. The bank or building society used to deduct tax at 20% and pay it to HM Revenue and Customs on your behalf. Since 6 April 2016, your bank or building society no longer deducts tax from your interest. However, you might still have to pay tax on it and we explain the rules below.

### How do you work out tax on savings?

To work out the tax rate that applies to your savings income, you must add your savings income to the amount of earned income you receive (for example employment or self-employment income). If, when you add your savings income to your earned income (if any), it totals:

- less than the tax free personal allowance (assuming you are entitled to it), your savings income will be tax free.
- more than the tax free personal allowance but within the 0% starting rate for savings band, your savings income will be taxed at 0%, so is still tax free. See below for an explanation of the 0% starting rate for savings.
- more than the 0% starting rate for savings income band but less than your personal savings allowance, your savings income will be taxed at 0%, so is still tax free. See below for an explanation of the personal savings allowance.
- more than the personal savings allowance, the amount of savings income that exceeds your personal savings allowance is taxed at 20% if you are a basic rate taxpayer and 40% if you are a higher rate taxpayer.
- a higher rate could apply to your savings income if you have total income of more than £150,000.

### Starting rate for savings income of 0%

If you are on a low income, there is a 0% rate band of £5,000 which can sometimes apply to savings income. To work out if the 0% rate band applies to your savings income, you must add your savings income to the amount of earned income you receive (for example employment or self-employment income).

If, when added on top of your earned income, your savings income falls between £11,850 and £16,850 (2018/19), the 0% starting rate for savings will apply to your savings income, meaning it is essentially tax free. (If it falls under £11,850 then remember, it is probably covered by your personal allowance, so is tax free anyway).

If your savings income only partially falls within the starting rate for savings band, or falls outside of the starting rate for savings band, you will only have to pay tax on your savings income to the extent it exceeds your 'personal savings allowance'.



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## The personal savings allowance

Since 6 April 2016, a tax free personal savings allowance has been available on top of the 0% starting rate for savings. You have to work out how much your total taxable income is and what your highest rate of tax is to find out what level of personal savings allowance you are eligible for.

- If you are a basic rate taxpayer (that is, none of your taxable income is taxable at the higher or additional rates of tax), you have a personal savings allowance of £1,000;
- If you are a higher rate taxpayer (that is, some of your taxable income falls within the higher rate band), you have a personal savings allowance of £500;

If you are an additional rate taxpayer (that is, some of your taxable income falls within the additional rate band), you do not have any personal savings allowance. You only have to pay income tax on savings income that exceeds your personal savings allowance. If you are a Scottish taxpayer, you must consider your position in relation to the UK rates and bands for savings income.

Income that is covered by your personal savings allowance still counts as taxable income and therefore still uses up your basic rate band or your higher rate band of tax. This can affect things like the rate of tax you pay on savings income that exceeds your personal savings allowance and the rate of tax you pay on dividend income (see later).

## How do I pay any tax due on my savings income?

The personal savings allowance means most people do not need to pay tax on their savings income. Because of this, since 2016/17, banks and building societies have stopped automatically taking 20% tax from the interest earned on savings.

What this means though, is that if you *do* have tax to pay on your savings income, you need to tell HM Revenue & Customs (HMRC). (The plan is that banks and building societies will give HMRC information about any savings income directly, but to be on the safe side, we recommend you tell HMRC separately also.) If they can, HMRC will take the extra tax you owe from your wages by changing your Pay As You Earn (PAYE) code. Otherwise they may send you a bill at the end of the tax year or ask you to fill in a tax return.

You can find out more on our website: www.litrg.org.uk/tax-guides/other-tax-issues/savings-and-tax

## Have you overpaid tax on your savings income in prior tax years?

Tax used to be taken off the interest on your savings at 20% automatically by the bank. If the availability of your tax free allowances or the 0% starting rate for savings income band meant that you have overpaid tax in a tax year prior to 6 April 2016, you will need to reclaim it. To do this you need to fill in a form R40. You can find the form here: www.gov.uk/government/publications/income-tax-claim-for-repayment-of-tax-deducted-from-savings-and-investments-r40.

The time limits for claiming a refund are shown below. If you do not make a claim within the time limit you will lose out on any refund that may be due.

***Time limits for claiming back tax***

- Tax year 2014/15 (year ended 5 April 2015) – you must claim by 5 April 2019
- Tax year 2015/16 (year ended 5 April 2016) – you must claim by 5 April 2020
- Tax year 2016/17 (year ended 5 April 2017) – you must claim by 5 April 2021
- Tax year 2017/18 (year ended 5 April 2018) – you must claim by 5 April 2022

**This factsheet is intended to provide general information only and does not constitute advice.** Before taking any action, you should get appropriate immigration, benefit or tax advice from a professional adviser, which is based on your particular circumstances. We have done our best to ensure that the information in this factsheet is up to date as of April 2018. You can read our full disclaimer on our website: www.litrg.org.uk/legal.

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## Dividends

Dividends are income you get from shareholdings in companies and unit trusts.

Since 6 April 2016, there has been a tax-free dividend allowance. The dividend allowance means that people do not have to pay tax on the first £2,000 of their dividend income in 2018/19. Beyond the allowance, dividends are taxed at 7.5% and 32.5% on basic and higher rate taxpayers respectively. If you are a Scottish taxpayer, UK rates and bands apply to your dividend income.

As your taxable dividend income is treated as being taxed after your earned income and your savings income, the tax rates that apply to your taxable dividend income depend on how much earned income and savings income you have. You can find out more on our website: www.litrg.org.uk/tax-guides/other-tax-issues/savings-and-tax

The position is more complex for non-UK dividends. You can find more information on the **GOV.UK website**: www.gov.uk/tax-foreign-income

Prior to 6 April 2016, UK dividend income used to come with a tax credit of 10%. This meant that if your dividend income fell within the basic rate band, you did not have to pay any further tax on it as the tax due was offset by the 10% tax credit. Unfortunately, if your dividends fell under your personal allowance and so were not taxable at all, you could not claim back the UK tax credit on your dividends.

## Individual Savings Accounts (ISAs)

ISAs are tax-free savings and investment accounts. You can use them to save cash, invest in stocks and shares or both. The maximum you can put into an ISA is £20,000 in the tax year 2018/19. You can invest the total in in any of the different types of ISA, for example, cash or stocks and shares, or in a mixture.

The interest or dividends you receive from an ISA are free from income tax, and any profits from investments are free of capital gains tax. You do not have to declare any income from ISAs.

To pay into an ISA you must be:

- resident in the UK, or a Crown employee, for example a diplomat or member of the armed forces, or the husband, wife or civil partner of a Crown employee,
- 16 years old or over for a cash ISA,
- 18 years old or over for a stocks and shares ISA.

An ISA must be in your name alone; you cannot have a joint ISA.

## Rents or letting income from property

If you rent out a property to someone when you are in the UK, the rents are not taxed before you get them, but they may be taxable. If you pay tax under Pay As You Earn (PAYE), you can ask HMRC to collect any tax that you owe on your rents using the PAYE system – if the rental profit is less than £2,500 and the gross rental income (before taking off expenses) is less than £10,000 a year. Otherwise you will have to declare the income in a self assessment tax return.

You can claim certain expenses that you pay for against the rents you receive; and you only pay tax on the 'net' amount. A few of the expenses you can claim are property repairs, decorating, Council Tax and water charges, insurance, advertising, mortgage interest, and legal and professional costs. If you replace furniture, furnishings, household appliances or kitchenware in the property, you can claim relief for the cost.

If you make a loss, you can only offset it against rents on other properties you let or carry it forward to set against future profits from renting.

From April 2017 there is a £1,000 property allowance, which means you may not have to tell HMRC about or pay tax on your rental income, if the total before expenses is less than or equal to £1,000 in the tax year.

You can find more information about renting out a property and the property allowance on the **LITRG website** at: www.litrg.org.uk/tax-guides/other-tax-issues/property-income.

*Form NRL1*

If you are leaving the UK and will be not resident in the UK (and therefore taxable on UK source income only), but keeping a rental property in the UK, the Non-resident Landlord Scheme means that there should be a deduction of 20% tax from your rental income before you get it.

However, you can apply to HMRC to have your UK rent paid to you with no deduction of tax by completing form **NRL1**. You can find the form here: https://www.gov.uk/government/publications/non-resident-landlord-application-to-receive-uk-rental-income-without-deduction-of-uk-tax-individuals-nrl1i. The approval does not mean that your rental income is exempt from tax but it does mean that you will be allowed to self-assess any tax due. If you do not apply to have your UK rent paid to you with no deduction of tax, you will still need to file a UK self assessment tax return.

For more information on the Non-resident Landlord Scheme go to: www.gov.uk/tax-uk-income-live-abroad/rent.

***Rent-a-room relief***

If you have a lodger who rents a furnished room in your home and the annual rents are below £7,500 or – for letting by a couple – £3,750 each, it is tax free. This is known as rent-a-room relief.

If the income you receive each year is more than £7,500 you may have to pay tax under PAYE or through self assessment. You can pay tax on any extra income above the £7,500 amount, without taking into account any expenses you may have incurred. Or you can pay tax using the normal rules outlined above – income less expenses.

You can find more information about rent-a-room relief on the LITRG website at: www.litrg.org.uk/tax-guides/other-tax-issues/property-income.

**What if I make money by selling things online or doing odd jobs for people?**

If you regularly sell items online or make money by doing odd jobs for people – in the 'gig economy' for example – then the starting point is that your income is probably trading income, and as such, it is taxable.

From 6 April 2017, however, if you have trading income of less than £1,000 in a tax year, you do not have to tell HM Revenue and Customs about it or pay tax on it. If your trading income is more than £1,000, you can choose whether to calculate your taxable profit in the usual way or by simply deducting the £1,000 trading allowance.

You can find out more about the trading allowance on the **LITRG website** at: www.litrg.org.uk/tax-guides/self-employment/working-out-profits-losses-and-capital-allowance/how-do-i-work-out-my


**More information**

You can find out more detail about some of the topics in this factsheet on our website:

www.litrg.org.uk/tax-guides/other-tax-issues/savings-and-tax

www.litrg.org.uk/tax-guides/other-tax-issues/property-income

**Getting help with your tax**

You can find out where to get help with your tax situation in the '**getting help section**' of our website at www.litrg.org.uk/getting-help.

**This factsheet is intended to provide general information only and does not constitute advice.** Before taking any action, you should get appropriate immigration, benefit or tax advice from a professional adviser, which is based on your particular circumstances. We have done our best to ensure that the information in this factsheet is up to date as of April 2018. You can read our full disclaimer on our website: www.litrg.org.uk/legal.