

Finance Bill 2025-26

Representation from the Association of Taxation Technicians (ATT)

Clause 5: Increased savings rates of income tax from tax year 2027-28

Executive Summary

Clause 5 increases the income tax rates for savings income to 2% above the non-savings, non-property rates for all taxpayers with effect from 6 April 2027.

The ATT is concerned that this differential in tax rates will complicate the collection of tax payable on savings income. Adjustments to PAYE codes to collect the tax due on even small amounts of savings interest will be harder for taxpayers to interpret and reconcile, further complicating an element of the tax system which affects millions of taxpayers and is already poorly understood.

1. Background

- 1.1. The current rates of income tax on savings income are 20% for basic rate taxpayers, 40% in the higher rate band, and 45% for those paying additional rates of income tax. These rates align with the rates for non-savings income, including the rates applicable to pension and employment income.
- 1.2. Where an employee or private pension recipient has tax to pay on savings income, that liability can be collected by HMRC making a straightforward adjustment to their PAYE code.
- 1.3. The tax rates applicable to savings interest are currently the same as those applicable to salaries and pensions. This makes the required PAYE code adjustment fairly easy for the taxpayer to check against the amount of taxable savings interest they have received.
- 1.4. Increasing the rates of tax on savings income will result in a mismatch between those rates and the tax rates which apply to employment and pension income, as follows.

2. Practical impact of increased savings rates of income tax from 2027-28

- 2.1. With effect from 6 April 2027, Clause 5 will result in the income tax rates for savings interest being 2% higher in each tax band than the equivalent rates applicable to PAYE income. This complicates the collection of tax on savings income.
- 2.2. Suppose an employee who is a basic rate taxpayer has savings interest of £2,000. Currently, tax at 20% is payable on £1,000 of that savings income, after deduction of the £1,000 Personal Savings Allowance, creating a £200 tax liability. Assuming the individual is not in Self-Assessment, that £200 will normally be collected via PAYE.
- 2.3. Under current tax rates, a £1,000 restriction will be applied to the employee's PAYE code, since the 20% tax rate applicable to their savings income is identical to the 20% tax rate deducted from their employment income via PAYE. This is reasonably simple to understand when the taxpayer checks their PAYE coding notice – a £1,000 restriction differs only from the amount of savings interest they received by the Personal Savings Allowance.

- 2.4. From April 2027, the tax due on this individual's £2,000 of savings interest (after deducting their £1,000 Personal Savings Allowance) would be £220 because the savings rate of income tax will increase to 22%. Collecting £220 of tax via PAYE will require a more complex restriction to the individual's PAYE code, since their employment income is taxed at 20% (as opposed to 22% now applying to their savings interest). The restriction required in their PAYE code will be £1,100 in order to collect £220 of tax from an income source which is subject to a 20% rate of income tax.
- 2.5. That £1,100 restriction is not readily recognisable to the taxpayer as it differs much more significantly from the £2,000 of taxable interest they received. They are expected to multiply the restriction by 20% to find the tax due, divide by 22% and then add £1,000. This is likely to lead to confusion and additional contact with HMRC, adding pressure to their customer support channels, which already attract criticism for poor service.
- 2.6. The number of people with taxable savings income has increased significantly in recent years as interest rates have increased. Many more people now receive interest over the Personal Savings Allowance, which has not changed since its introduction in April 2016. The extended freeze on the Personal Allowance until 2031 (Clause 10), will also bring more people within the charge to tax, a proportion of whom will have interest income on which tax is payable.
- 2.7. A further complication comes from HMRC's ability to match bank accounts with taxpayers in order to collect tax due on interest income, which is known to be incomplete. According to a 2025 consultation, one in five bank accounts cannot be matched to an individual taxpayer¹. We have received reports that the unreliability of data matching already drives demand to HMRC's customer support services from taxpayers who do not recognise interest amounts included as restrictions in their PAYE code. This demand on HMRC support services will only worsen when, even if bank records are correctly matched to taxpayers, the resulting restriction in their PAYE does not directly correlate with the amount of interest on which tax is due.

3. Recommendation

- 3.1. Assuming the changes to savings rates of income tax are enacted as per Clause 5, the issues above can only realistically be mitigated by providing adequate guidance and support to taxpayers.
- 3.2. HMRC will need to produce new guidance for taxpayers to help them understand this additional complexity with PAYE coding adjustments for interest income. This should include services in the Personal Tax Account, for taxpayers to view line-by-line interest details, and how those translate into adjustments in their PAYE code. Agents will also need access to this type of service.
- 3.3. There is also likely to be additional demand for HMRC's phone and digital support services.

¹ <https://www.gov.uk/government/consultations/better-use-of-new-and-improved-third-party-data/better-use-of-new-and-improved-third-party-data-to-make-it-easier-to-pay-tax-right-first-time#:~:text=Consequently%20HMRC%20is%20still%20unable%20to%20match%20BBSI%20data%20to%20customer%20records%20for%20around%20one%20in%20five%20bank%20accounts>.

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3.4. Both mitigations will need to be adequately funded, or risk degrading HMRC's customer support standards and reputation.

Association of Taxation Technicians

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Note:

The Association of Taxation Technicians

The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has over 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively