Finance Bill 2026-27

Representation from the Association of Taxation Technicians (ATT)

Clause 3: Increased property and savings rates of income tax from 2027-28

Executive Summary

Clause 3 increases income tax rates for property and savings income to 4% above the non-savings, non-property rates with effect from 6 April 2027.

The ATT is concerned that this differential in tax rates will complicate the collection via PAYE 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.

Scottish and Welsh Parliaments have the power to diverge from the rest of the UK on property income rates. However, tax relief for finance costs of a loan related to a dwelling will be available at a single rate (24%) UK-wide. Depending on the decisions taken in Scotland and Wales, this may exacerbate already existing anomalies whereby rates of relief differ from rates of tax in those nations. We recommend that consideration is given to alternative relief calculations for Scottish and Welsh taxpayers.

Changes to savings rates of income tax

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 non-dividend income, such as 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. At Budget 2025 the government announced that, with effect from 6 April 2027, the income tax rates for savings interest would be **2%** higher in each tax band than the equivalent rates applicable to PAYE income. This was legislated for in the last Finance Bill.

1.5. At Budget 2026, before this policy has taken effect, the government announced that, still with effect from 6 April 2027, the income tax rates for savings interest will be **4%** higher in each tax band than the equivalent rates applicable to PAYE income. This change is legislated for in clause 3.

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

2.1. 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, and will complicate 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 from the amount of savings interest they received only 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 £240 because the savings rate of income tax will increase to 24%. Collecting £240 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 24% now applying to their savings interest). The restriction required in their PAYE code will be £1,200 in order to collect £240 of tax from an income source which is subject to a 20% rate of income tax.

2.5. That £1,200 restriction is not readily recognisable to the taxpayer, as it differs much more significantly from the £2,000 of taxable interest they received. They would need to multiply the restriction by 20% to find the tax due on their savings interest, divide by 24% 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 of more than the Personal Savings Allowance, which has not changed since its introduction in April 2016[1]. The extended freeze on the Income Tax Personal Allowance until 2031 introduced at Budget 2025 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 taxpayer[2]. Whilst we understand measures to improve this are in train, matching issues will drive taxpayers to contact HMRC's customer support services if they do not recognise interest amounts included as restrictions in their PAYE code. This demand will only increase 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.

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[1] https://www.att.org.uk/personal-savings-allowance

[2] 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%2C%20HMRC%20is%20still%20unable%20to%20match%20BBSI%20data%20to%20customer%20records%20for%20around%20one%20in%20five%20bank%20accounts.

3. **Recommendation**

3.1. Assuming the changes to savings rates of income tax are enacted as per Clause 3, the issues above can only realistically be mitigated by providing adequate guidance and support to taxpayers.

3.2. HMRC will need to continue to enhance their services and guidance for taxpayers to help them understand this additional complexity with PAYE coding adjustments for interest income. This should include ensuring all taxpayers can view line-by-line interest details (eg via their Personal Tax Accounts) to ensure that they can check the basis of all HMRC calculations (including P800s and Simple Assessments), and access guidance on how to translate those figures into adjustments in their PAYE code. Understanding how HMRC has estimated the interest figures in codes, and how to change those estimates, would be helpful. Agents will also need access to this type of service. HMRC has done a lot of work this year to help those within Simple Assessment to understand the bank interest that has been used, but only those with six or fewer bank accounts are able to access a line by line breakdown of the figure used.

3.3. There is also likely to be additional demand for HMRC's phone and digital support services, particularly since equivalent support will also need to be provided for digitally excluded taxpayers. This support will need to be adequately funded, or risk degrading HMRC's customer service standards and reputation.

3.4. Helping taxpayers understand this issue may be complicated by the previous announcement at Budget 2025 that tax rates on savings income were to increase by 2% from April 2027. This could lead to confusion now that the relevant tax rates are to increase by 4% instead.

Proposed property income tax rates, increase in restricted finance costs relief and impact on devolved taxes

4. **Background**

1.1. Finance costs, such as mortgage interest, for a loan related to a dwelling, and associated costs of obtaining finance, are not an allowable deduction from property rental profit for tax purposes. These costs are referred to as restricted finance costs. Instead, as set out in Income Tax (Trading and Other Income) Act 2005 (s274AA), relief is given as a tax reducer based on the UK basic rate of tax (currently 20%).

1.2. A tax reducer is an amount that is deducted directly from a tax liability. For example, if your taxable income produces an initial income tax liability of £10,000, but you are entitled to a £2,000 tax reducer, your final income tax liability becomes £8,000. This differs from a tax relief/allowance deducted from income. If £2,000 were instead deducted from taxable income and you paid tax at 20%, it would save £400 of tax.

1.3. The devolved parliaments of Scotland and Wales have the power to set their own rates on all income, other than savings and dividends, but until now have not had the power to apply specific rates to distinct types of taxable income such as property rental income. The Scottish Parliament also has the power to set tax bands.

1.4. To date, the Welsh Senedd has not exercised its power to alter tax rates. However, the Scottish Parliament has used its powers to set different income tax rates and bands for Scottish taxpayers (see table 1).

1.5. The Scottish Parliament and Welsh Senedd do not have the power to create or alter income tax reliefs.

1.6. Finance Act 2026 (s6-8) introduced new basic, higher and additional tax rates for income tax on property income from 2027-28. The Act set the rates for England and Northern Ireland 2% higher in each tax band than the equivalent rates applicable to employment income (so 22%, 42% and 47%). It granted the Scottish Parliament and Welsh Senedd powers to set their own tax rates for property income.

1.7. Property income will be taxed after other income sources such as employment or self-employment income. This is to ensure that the personal allowance is used against income charged to lower rates first.

2. Changes introduced in Finance Bill 2026-27

2.1. Clause 3 increases the property income tax rates for England and Northern Ireland in 2027-28 by a further 2% in each case, over and above the rates set in Finance Act 2026, giving rates of 24% (basic rate), 44% (higher rate) and 49% (additional rate).

2.2. In addition, the relief for restricted finance costs will be increased from the current rate of 20% to the property basic rate of 24%. As tax reliefs are not devolved, this rate will apply to relief for both Scottish and Welsh taxpayers regardless of the tax rates their jurisdictions may set.

2.3. The Welsh Government has decided not to exercise its power to vary Welsh property income tax rates (or any other income tax rates) from those set at Westminster in 2027-28. At time of writing the Scottish Government has not yet set its tax rates (including those for property income) for 2027-28. These are expected to be set in the Scottish budget on 3 December.

2.4. Taking account of the order in which income will be taxed (see 1.7) this means that, in 2027/28, if an English, Welsh or Northern Irish taxpayer has:

- £50,000 of employment income
- £10,000 of taxable property profit

Then after deducting the personal allowance of £12,570 from the employment income:

- The remaining £37,430 of employment income will be taxed at the basic rate of 20%
- £270 of the property profits will be taxed at the property basic rate of 24%
- The remaining £9,730 of the property profits will be taxed at the higher rate of 44%

3. Consequences of proposed change

3.1. Table 1 illustrates how the income tax rate charged on property income can differ from the rate of relief for restricted finance costs. Relief at a single UK rate will match the basic rate charged only where the two rates are the same. As Scotland, and potentially Wales, can set

different income tax rates, this alignment is not guaranteed, creating anomalies between rates of tax and rates of relief.

3.2. Taxpayers in Scotland or Wales can receive relief for restricted finance costs at a rate above or below the rate charged on their property income within the equivalent UK property basic rate band, depending on their circumstances and devolved tax rates. For example, a Scottish taxpayer paying the intermediate rate of 21% currently receives relief at 20%. The Scottish Budget on 3 December 2026 will affect the extent of this mismatch. If Scotland does not introduce separate property income tax rates and its existing rates remain unchanged, the proposed UK relief rate of 24% from 2027-28 would exceed the Scottish starter, basic and intermediate rates. Some Scottish taxpayers would therefore receive relief at a *higher* rate than the rate charged on their property income. If Scotland introduces separate property income tax rates, the position will depend on the rates and bands adopted: relief would still be given at 24%, so a mismatch could remain wherever the Scottish property income tax rate differs from that rate.

4. Recommendations

4.1. We recommend that consideration is given to alternative relief structures for Scottish and Welsh taxpayers.

4.2. We propose a maximum relief rate for restricted finance costs in each jurisdiction. This would be the highest property income tax rate whose entire band falls within the UK basic rate band. Relief for property income taxed at a lower rate would be capped at that lower rate. For Scotland, the maximum would be the intermediate property rate; for the rest of the UK, it would be the basic property rate.

4.3. The proposal would better align finance cost relief with the property income tax rates in each jurisdiction, while retaining a maximum relief rate. Under the current system, relief is fixed at the UK basic rate of 20% (24% from 2027/28), although Scottish taxpayers may pay different rates within the same income band. Some taxpayers therefore receive relief at a rate above the rate they pay, while others receive relief at a lower rate. A jurisdiction-specific ceiling, with relief capped at lower rates where applicable, would aim to reduce these inequities and improve consistency and neutrality across regions. The aim would also be to make the basis for relief more transparent and easier for taxpayers to understand.

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Table 1: Comparison of 2026/27* Scottish and UK Income Tax Rates non-savings, non-dividend income up to UK Basic Rate level**

Band	Scottish Range	Scottish Rate	Rest of UK Range	Rest of UK Rate	2026/27 relief for restricted finance costs
Personal Allowance*	£0 – £12,570	0%	£0 – £12,570	0%	N/A
Scottish Starter / UK Basic Rate	£12,571 – £16,537	19%	£12,571 – £50,270	20%	20%
Scottish Basic / UK Basic Rate	£16,538 – £29,526	20%			
Scottish Intermediate/UK Basic	£29,527 – £43,662	21%			
**Part of Scottish Higher Rate	£43,663 – £50,270	42%			

* Assumes individuals are in receipt of UK personal allowance
** Scottish taxpayers pay higher rate tax from £43,663 and UK taxpayers from £50,271
*** 2027/28 Scottish rates and bands not yet available

Association of Taxation Technicians
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Note:

The Association of Taxation Technicians

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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