

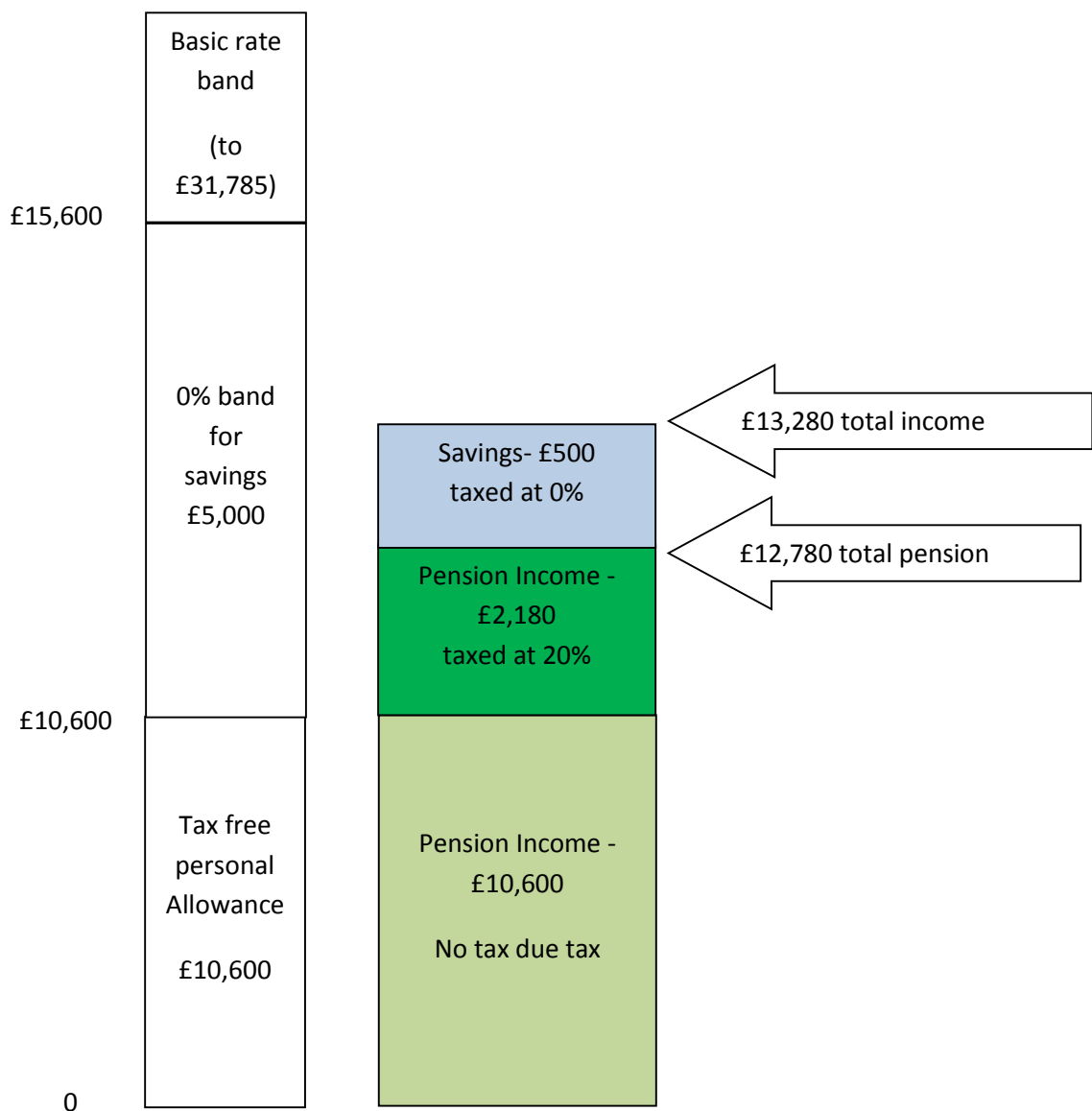
The 0% starting rate for savings income – example – 2015-16

John is aged 62. He has an occupational pension of £12,780 and bank interest of £500 (so total taxable income of £13,280).

The savings income is treated as the ‘top slice’ of his income. So his tax free personal allowance of £10,600 (born after 5 April 1948) is first set against his pension income, not his savings income (see pale green box on the chart).

John’s pension is more than £10,600 so the balance of his pension income, £2,180 (= £12,780 - £10,600) is taxed at 20% (dark green box on the chart). This extra £2,180 of pension income means that John can’t access all the 0% starting rate for savings. So if he had £5,000 of savings income, only £2,820 {5,000 - £2,180} would be taxed at 0%, the balance would be 20%.

John’s savings income of £500 is taxed as the ‘top slice’ of his income. As it all falls within the £5,000 0% band, it is taxed at 0%. (See next page below for an example of the 10% band for 2014-15).



The 10% starting rate for savings income – example – 2014-15

John is aged 62. He has an occupational pension of £12,780 and bank interest of £500 (so total taxable income of £13,280).

The savings income is treated as the 'top slice' of his income. So his tax free personal allowance of £10,000 (born after 5 April 1948) is first set against his pension income, not his savings income (see pale green box on the chart).

John's pension is more than £10,000 so the balance of his pension income, £2,780 (= £12,780 - £10,000) is taxed at 20% (dark green box on the chart). This extra £2,780 of pension income means that John can't access all the 10% starting rate for savings.

John's savings income of £500 is then taxed as follows:

- the first £100 at 10% (pale blue on chart), this uses up the remainder of the 10% starting rate for savings;
- the balance of £400 is then taxed at 20%

