Savings income and PAYE taxpayers

Employment Tax | Personal tax

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HMRC have explained to LITRG how interest figures are placed in coding notices, P800s and simple assessments.

The numbers of PAYE taxpayers who are liable to tax on their interest but do not complete tax returns is rather low. This is as a result of low interest rates, together with the availability of the personal savings allowance (PSA) (£1,000 for taxpayers not liable above the basic rate; £500 for higher rate taxpayers). But for those taxpayers where there may be a liability, HMRC try to collect tax through coding notices or, after the end of the tax year, through a P800 or a simple assessment.

Banks and other financial institutions send HMRC interest details by 30 June following the end of the tax year. Where the accounts show a National Insurance number, they can be allocated to taxpayers easily. Otherwise, HMRC have software to try and match up names, addresses, dates of birth, etc. This is all done electronically. Where there are joint accounts, the system assumes that the interest is to be allocated equally and manual intervention will be needed if this is not the case.

Once the software has allocated the interest to taxpayers, it feeds through to their PAYE records. This generally happens between July and September. No updates to codes take place unless there is a big discrepancy between these interest figures and those for the prior year.

So, for someone who is in PAYE now, their tax code for 2021/22 would show (if needed, because they are liable to tax on the interest) their interest figure for 2019/20. That is because that was the latest figure available when that tax code was issued (probably early in 2021). Once the figures for 2020/21 are available, the tax code might be changed – but only if the difference was going to be material. There is a cost to sending out the notice – and any updated figure will still be an estimate.

HMRC can break down figures into separate bank accounts and quote account numbers, if requested to do so by the taxpayer. Space limitations mean that only one figure is shown on coding notices, etc.

The intention originally was that forms P800 would never contain estimated figures but this holds up the process so there has been some leeway. In summer 2020, for example, HMRC issued P800 calculations with estimated figures for interest where that figure was less than £300. This meant that the interest would not be taxable, due to the PSA, even if the taxpayer was in the higher rate band. The intention was to get tax refunds to people as soon as possible during the coronavirus pandemic.

We are told that HMRC's system for recording the interest is very sophisticated and allows estimates to be overruled by actual figures supplied by a taxpayer, agent etc. But it is essential that staff enter the interest figures into precisely the correct place: if they do not, then the 'new' actual figure would be included in addition to the estimated figures.

This is an area where we have seen several queries over the past few years, especially with regard to interest attributed to a deceased taxpayer. If you have evidence that HMRC's system is not operating as they have explained, please contact: gwrigley@litrg.org.uk.