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mha CARPENTER BOX WEALTH MANAGEMENT

Interest rates on savings

Taking an interest in interest

Saving account interest rates have started to creep up, with banks finally offering some return on cash held with them.

Bank interest is paid gross, but it is taxable if the amount you earn exceeds certain limits. You may have paid tax on some of your bank interest last year, meaning HMRC earned money from your savings!

Now may be a good time to review your savings and see if they can work harder for you.

What do I need to look for?

Basic Rate and non-tax payers can earn up to £1,000 of interest tax free using their personal savings allowance. This can potentially be more if they have unused personal allowance and/or are able to make use of the starting rate band for savings.

For higher rate tax payers, the tax free allowance is £500. Additional rate taxpayers receive no personal savings allowance.

Only the first £85,000 of cash held with a UK bank (or banks sharing one banking licence) is protected under the Financial Services Compensation Scheme.

The difference between the best and worst interest rates can be large. Banks have not traditionally rewarded customer loyalty.

How can we help?

We can advise on investments and cash management services and take all of the work out of you shopping around for better interest rates.

An initial meeting can be arranged at no cost to you, where we can discuss a range of topics and answer your questions.

How could this affect me?

In July 2018, the Financial Conduct Authority who regulate UK banks' interactions with clients launched a Discussion Paper. They expressed concerns over whether banks were taking *"advantage of the high level of consumer inertia in the easy access savings market"; "This means that longstanding customers lose out through receiving lower interest rates than more active customers who shop around and switch"*.

Whilst it is convenient to have a current account with a high street bank, larger sums held in longer term savings may provide a better return if you shop around for a better interest rate.

Along with potentially poor investment returns, a banking group that holds more than £85,000 cash for an individual cannot offer full protection in the (unlikely) event of the bank becoming insolvent.

Tax due may be reduced if assets can be held in ISAs or other tax efficient wrappers.

Where the rate of interest is lower than the rate of inflation, the future spending power of your savings will reduce.

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