These notes refer to the Finance Act 2012 (c.14) which received Royal Assent on 17 July 2012

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 18: Qualifying Time Deposits

Summary

1. Section 18 concerns the deduction of income tax from interest or similar amounts payable by building societies, banks and other deposit-takers on investments that are qualifying time deposits. It removes the exclusion of these investments from arrangements under which financial institutions deduct sums representing income tax at the basic rate from interest they pay to account holders.

Details of the Section

2. Subsection (1) amends section 866(1) of the Income Tax Act 2007 (ITA 2007). Section 866(1) provides that an investment which is a qualifying time deposit is not a 'relevant investment' for the purposes of Chapter 2, Part 15 of ITA 2007 (concerning deduction of sums representing income tax by deposit-takers and building societies from payments of interest on relevant investments). Interest payments in respect of qualifying time deposits are therefore excluded from the tax-deduction requirements set out at Chapter 2, Part 15 of ITA 2007.

3. Subsection (1) restricts this exclusion, so it applies only to interest payments in respect of qualifying time deposits made before 6 April 2012. A qualifying time deposit made on or after 6 April 2012 will by virtue of the amendment made by subsection (1) be a 'relevant investment' for the purposes of Chapter 2, Part 15 of ITA 2007. Building societies, banks and other deposit-takers will therefore be required to deduct sums representing income tax at the basic rate from interest payments they make on these investments.

4. Subsection (2) provides that this section will be treated as having come into force on 6 April 2012.

Background Note

5. Income tax is usually due on interest that building societies, banks and other deposit-takers pay to savers and investors. There are, however, circumstances in which income tax will not be due, for example where a saving or investment product is tax-advantaged (such as an Individual Savings Account).

6. Building societies, banks and other deposit-takers usually deduct sums representing income tax from interest payable on most of their savings or investment products. These sums are deducted at the basic rate of income tax and paid to HM Revenue & Customs (HMRC) under the Tax Deduction Scheme for Interest.

7. However, any interest payable on investments that are qualifying time deposits is excluded from these tax-deduction arrangements. This interest is paid gross to

investors, and each investor is required to make separate arrangements to account for any tax due to HMRC.

8. The effect of this section is to remove this exclusion for qualifying time deposits made on or after 6 April 2012. Building societies, banks and other deposit-takers will be required to deduct sums representing income tax at the basic rate from interest they pay on these qualifying time deposits. However, where an investor is not liable to pay tax on interest, for example because their total taxable income is less than their tax-free personal allowance, they can register with their account provider to receive interest payments gross.