

Declaring Tax on Interest received

DISCLAIMER: Low Carbon Gordano Limited is not a registered Independent Financial Adviser and the following guidance is given in good faith and is not intended to be and should not be taken as advice. Members should seek independent advice if they have any concerns about their tax position.

Low Carbon Gordano Limited (LCG) is a Community Benefit Society and pays your return on investment as untaxed interest rather than a dividend with tax credit. Members who complete a self-assessment personal tax return (tax return) should therefore declare their gross interest from LCG as “Untaxed UK interest etc” on their tax return (Box 2 on the “Interest and dividends from UK banks, building societies etc” page).

Those members who do not currently complete a tax return, may still not need to do so because there are new rules about the taxing of income. From April 2016, under the new Personal Savings Allowance rules, basic rate taxpayers can now earn up to £1,000 interest tax-free and higher rate taxpayers can earn up to £500. Before this new arrangement was introduced, the basic rate tax owed on savings interest was collected by banks, building societies and organisations like LCG and passed to HMRC. From April 2016, we no longer need to do this and the responsibility has moved to HMRC. HMRC will now use this information from the relevant organisations (such as LCG) to calculate any tax owed on savings interest. Equally, if your total income (including interest) is less than £11,000 (for the tax year ending 5/4/2017) (or £11,500 from the current tax year) there is no tax liability and no need to complete a return.

If your total income is greater than this and you receive interest in excess of £1000 for basic rate tax payers, or £500 for higher rate payers, you may need to sign up with HM Revenue & Customs (HMRC) to submit tax returns annually to declare any tax due. A tax return will only be required if tax is due but has not been paid at source and has not been paid by an adjustment to your tax code.

However, HMRC should contact you if you have any tax to pay on your savings interest from your bank, building society etc. HMRC will do this in the normal way, through a tax code notice or calculation which HMRC will send in the post or on-line (note that HMRC will never use texts or emails to tell you about a tax rebate or penalty, or to ask for personal information – if you were to receive such correspondence then this would be a scam). This notice or calculation will explain the amount of tax that you owe, how to pay and where to go to learn more.

Summary on declaring tax on interest received

So, if there is tax due on your interest on LCG shares combined with other shares and interest then HMRC should be in contact with you regarding how the tax is to be paid over (as a payment or through your tax code). In that case you do not have to start to do a tax return on account of receiving LCG interest. (If you do already complete a tax return then the interest from LCG should be recorded as “Untaxed UK interest etc” on your tax return). You should not need to contact HMRC to alert them that tax is due on interest from LCG: However, if you think that tax may be due and HMRC have not contacted you then consult with a financial adviser or with HMRC direct (Income Tax queries: 0300 2003300). To assist with identifying if tax is due, additional information is given below about taxable allowances (including links to a useful website and to HMRC) and other information about tax relevant to your investment in LCG.

Personal Allowances for tax on interest

Since 6th April 2016, most people can earn interest from their savings without paying tax through:

- Personal allowance: Up to £11,000 for 2016/17 (year ending 5/4/2017) total income is tax-free, £11,500 for 2017/18 (year ending 5/4/2018).
- Personal savings allowance: £1,000 of savings interest is tax-free for basic rate tax payers, £500 for higher rate tax payers and £250 for additional rate tax payers.
- Starting rate for savings: Up to £5,000 of savings interest is tax-free for individuals on low income.

If your LCG savings income combined with any other savings income is within the above allowances then no tax is due.

However, the interplay between the above three allowances is complicated and unless you have a total income of less than £11,500 or savings income of less than £1,000 (for basic rate tax payers), then read through

<https://moneyfacts.co.uk/guides/savings/how-are-my-savings-taxed/>

to see if you need to pay tax on your income.

The following web pages on the HMRC website are also useful background to explain when tax is due, tax rates and tax-free allowances in relation to savings income from LCG and how that combines with other income to make taxable income.

<https://www.gov.uk/topic/personal-tax/income-tax>

<https://www.gov.uk/income-tax-rates>

<https://www.gov.uk/apply-tax-free-interest-on-savings>

Waived interest

If you have waived all or part of your interest payments from LCG, opting to have your money paid directly to the Community Benefit Fund or to the chosen charity for the Developing World element of our Fund (in 2017 this was “Mend the Gap”), then this waived interest does not count as income that you have received and gifted. There is no gift aid declaration needed. The interest has been paid directly from LCG to the charity in question as a charitable payment (and hence an allowable expense for LCG for tax). Waived interest payments **MUST NOT** be declared by you as part of your taxable income as you would then be declaring taxable income unnecessarily.

Taxation of dividends

You may have heard that up to £5,000 (reducing to £2,000 in April 2018) income in dividends paid against shares or equity funds invested outside an ISA can now be earned without paying tax on the dividends. However, this tax-free allowance does **NOT** apply to interest paid by LCG; as the interest paid by LCG is classed as savings interest rather than dividends.

ISA

LCG is planning to open a public bond offer in an ISA-wrapper. This will be open first to existing members of LCG and we hope to launch this in Spring 2018. Note that you don't pay tax on interest you earn from a cash ISA regardless of the amount earned in interest. You can place up to £20,000 into a cash ISA in the 2017-18 tax year (year ending 5/4/2018). Interest earned on a stocks & shares ISA is also exempt from personal income tax and capital gains tax. You don't need to declare any income or capital gains from an ISA to HMRC on your tax return.

Enterprise Investment Scheme (EIS)

LCG's public share offer for both Moorhouse Farm (2014) and Ham Lane (2015) was enhanced by being approved for the Enterprise Investment Scheme (EIS) by HMRC. This meant that qualifying UK taxpayers could claim 30% of their investment back, up to a maximum of the amount of tax that they have paid. Due to changes in UK tax legislation, investments in LCG are no longer eligible for EIS. Therefore any new share offers will not be eligible for EIS though this does not affect the eligibility of the 2014 and 2015 share offers. Tax relief should have been claimed by the LCG member in the tax year the EIS 3 certificate was issued (November 2015 and June 2016 respectively) or could have been carried back to the previous tax year.