

NOVEMBER 2026

SPOTLIGHT ON:

Tax on savings and rental income: What changes in April 2027

MAGEE GAMMON
CHARTERED ACCOUNTANTS
TAX & BUSINESS ADVISORS

WWW.MAGEEGAMMON.COM
MG@MAGEEGAMMON.COM
01233 630000



WHAT SAVERS AND LANDLORDS SHOULD DO BEFORE THE RATES RISE

Savings income is the interest you earn on bank and building society accounts, bonds and similar investments. Rental income – property income, in HMRC's terms – is the profit you make from letting land or buildings. For most people, both are currently taxed at the same 20%, 40% and 45% rates as wages and pensions. From 6 April 2027, both will be taxed at rates 4 percentage points higher.

The government's stated aim is to narrow the gap between tax on work, which attracts National Insurance, and tax on income from assets, which does not. Finance Act 2026 already contains a 2-point rise, and the Budget on 28 October 2026 added a further 2 points. Landlords also face the next stage of Making Tax Digital.

When the first rise was announced, HMRC estimated that by 2029/30 around 2.4 million landlords and 3.8 million savers would pay more tax as a result (HMRC, as at 27 November 2025). The second rise falls on the same people.

The 2026/27 tax year is the last under the current rates. Decisions you make before 6 April 2027 about where your savings sit, whose name they are in and how your property is owned can shape your tax bills for years to come.

KEY TAKEAWAYS

- Tax rates on savings interest and rental profits rise by 4 percentage points from 6 April 2027, to 24%, 44% and 49% for most taxpayers.
- Landlords' mortgage interest relief rises to 24%, which softens the increase without cancelling it.
- The planned cut to the cash ISA limit has been scrapped, so adults can still save up to £20,000 a year in cash ISAs.
- Landlords and sole traders with qualifying income over £30,000 join Making Tax Digital in April 2027.
- The 2026/27 tax year is the last at today's rates, so planning done now goes furthest.

WHAT CHANGES ON 6 APRIL 2027

From 6 April 2027, savings income and property income will each be taxed at rates 4 percentage points above those on earnings and pensions – the result of two separate 2-point rises, announced in Budget 2025 and Budget 2026. The bands themselves do not move: the personal allowance stays at £12,570 and the higher rate threshold at £50,270, both frozen until April 2031.

Tax band	2026/27	From 6 April 2027
Basic rate	20%	24%
Higher rate	40%	44%
Additional rate	45%	49%

The savings rates apply across the UK. The property rates apply in England, Wales and Northern Ireland, although the Senedd can vary them for Welsh taxpayers and Scotland follows its own rules, explained below. Tax on wages, pensions and trading profits does not change, and the Treasury expects 84% of income tax payers to be unaffected by the latest rise.

Dividends fall outside this guide, but their basic and higher rates have already risen by 2 percentage points, to 10.75% and 35.75% from April 2026.

WHICH INCOME COUNTS AS SAVINGS INCOME?

Savings income is mainly the interest you receive outside an ISA. It normally includes:

- **Bank and building society interest:** From easy-access, notice and fixed-term accounts.
- **Bond and gilt interest:** From government and corporate bonds, even though gains on gilts are free of capital gains tax.
- **Fund distributions:** Interest distributions from bond and money market funds.
- **Other interest:** Such as peer-to-peer lending interest and the income part of a purchased life annuity.

Interest inside an ISA is tax-free, Premium Bond prizes are exempt and dividends are taxed under their own rules. Banks and building societies pay interest without deducting tax and report it to HMRC, which may collect anything due through your tax code or a simple assessment bill.

YOUR SAVINGS ALLOWANCES STAY THE SAME

The allowances that let you earn some interest tax-free are not changing in April 2027:

- **Personal savings allowance:** Up to £1,000 of interest a year at 0% if you are a basic-rate taxpayer, £500 if you are a higher-rate taxpayer and nothing at the additional rate.
- **Starting rate for savings:** Up to £5,000 of interest at 0%, reduced by £1 for every £1 of other taxable income. It disappears once your income other than savings and dividends reaches £17,570, and the £5,000 limit is frozen until April 2031.

Suppose your only other income is a pension of £16,000. Your personal allowance covers £12,570, leaving £3,430 taxable, which uses up £3,430 of the £5,000 starting rate band. That leaves £1,570 of interest taxed at 0%. With the £1,000 personal savings allowance on top, your first £2,570 of interest is normally tax-free, both now and after April 2027.

Between April 2027 and April 2030, a new pension tax allowance also means that people over State Pension age whose total income, including interest, is no more than the full new State Pension will normally pay no income tax. Only interest above these allowances is affected by the higher rates.

WILL I PAY MORE TAX ON MY SAVINGS?

You will pay more only on interest above your allowances, and with interest rates where they are, many savers now go over them. With Bank Rate at 3.75% (Bank of England, as at 17 September 2026), a higher-rate taxpayer would use up the £500 allowance with around £13,300 in an account paying that rate. A basic-rate taxpayer would need around £26,700.

Suppose you earn £70,000 and keep £60,000 in an easy-access account paying 4%. Your £2,400 of interest, less the £500 allowance, leaves £1,900 taxable:

- **2026/27:** Tax of £760 (£1,900 at 40%), assuming the same interest.
- **2027/28:** Tax of £836 at 44%, assuming the same interest.

In this example, moving £20,000 into a cash ISA would take £800 of interest out of tax each year – worth £352 a year at 44%.

Timing can also make a difference. Interest is normally taxed when it is paid or credited, so a fixed-term bond that pays all its interest on maturity after 5 April 2027 will be taxed at the new rates. A large single payment of interest can also push you into a higher band for that year and cut your personal savings allowance.



CASH ISA LIMITS STAY AT £20,000

The planned cut to the cash ISA limit will not go ahead. Regulations made in September 2026 would have capped cash ISA subscriptions at £12,000 a year for under-65s from April 2027, but the Budget on 28 October 2026 reversed this. Adults of any age can still pay up to £20,000 a year into cash ISAs, within an overall ISA limit frozen at £20,000 until April 2031. Regulations confirming the change are due in November 2026.

With savings rates rising to 24%, 44% and 49%, that allowance is worth more than before. Interest earned inside an ISA is tax-free and does not use up your personal savings allowance, so moving taxable savings into an ISA each year is often the simplest protection against the new rates. Couples can each use their own allowance, and money already in an ISA stays sheltered.

RENTAL INCOME COVERED BY THE NEW RATES

The property rates apply to profits from UK and overseas property you let in your own name, including as a partner in a partnership. That normally includes:

- **Residential and commercial lets:** These include furnished holiday lets, which have been taxed as ordinary property income since April 2025.
- **Rooms let to lodgers:** Rent-a-room relief still covers up to £7,500 a year of gross rent, with anything taxable above that charged at the new rates.

Property income distributions from real estate investment trusts and property funds are also taxed at the property rates. The £1,000 property allowance is unchanged, even though the separate trading allowance rises to £3,000 from April 2027. Losses brought forward from earlier years can still be set against future property profits.

Two things sit outside the new rates. Rental profits made by a limited company are subject to corporation tax instead, and gains on selling a property remain subject to capital gains tax.

MORTGAGE INTEREST RELIEF RISES TO 24%

Individual landlords cannot deduct mortgage interest and other finance costs on residential property from their rental profits. Instead, they normally receive a tax reduction at the basic rate – 20% now, rising to 24% from April 2027, in line with the new property basic rate. The higher relief offsets part of the rate rise, but higher-rate and additional-rate landlords will still pay 44% or 49% on their profits while getting relief at 24%.

Suppose you earn £60,000 and make a rental profit of £20,000 before mortgage interest of £8,000:

- **2026/27:** Tax on £20,000 at 40% is £8,000, less a £1,600 reduction (20% of £8,000), giving £6,400.
- **2027/28:** Tax on £20,000 at 44% is £8,800, less a £1,920 reduction (24% of £8,000), giving £6,880.

In this example the landlord pays £480 more each year at the new rates. A basic-rate landlord with £12,000 of profit and £4,000 of mortgage interest would pay £320 more.

YOUR PERSONAL ALLOWANCE WILL COVER OTHER INCOME FIRST

From April 2027, your personal allowance and other general reliefs must be set against other income, such as earnings, pensions and trading profits, before they can reduce property, savings or dividend income. Until then, the law lets them fall wherever they give the lowest bill. For wages and rent this makes no practical difference today, because both are taxed at the same rates. Once rental profits move to higher rates, the new rule stops the allowance being steered towards them. Property income will also be taxed after your other income but before savings and dividends.

For many people the new order changes nothing, but it can cost more where modest earnings sit alongside rental profits.

Suppose you earn £10,000 from a part-time job and make a rental profit of £15,000. From April 2027, £10,000 of your allowance must cover the salary, leaving £2,570 to set against the rent. The remaining £12,430 of profit is taxed at 24%, giving a bill of £2,983.20. If the allowance could still be set against the rent first, the bill would be £2,583.20. In 2026/27, the same £12,430 of taxable income costs £2,486 at 20%.

DO THE NEW RATES APPLY IN SCOTLAND AND WALES?

Savings income is taxed at UK rates everywhere, so Scottish and Welsh savers face the same 24%, 44% and 49% rates. Property income is different, because income tax on it is partly devolved:

- **Scotland:** Rental profits are taxed at the Scottish income tax rates, and will stay that way unless the Scottish Parliament uses a new power to set separate property rates. The Scottish Budget for 2027/28 is due on 3 December 2026.
- **Wales:** The 24%, 44% and 49% rates are the starting point, but the Senedd can now set its own Welsh property rates. The Welsh Government's draft Budget for 2027/28 is due on 17 November 2026.
- **Northern Ireland:** The same property rates apply as in England.

Landlords in Scotland and Wales should review their position, including how mortgage interest relief will apply, once those Budgets are published.

TRUSTS AND ESTATES

Trustees and personal representatives face the same rises. Discretionary and accumulation trusts currently pay 45% on savings and property income, and interest-in-possession trusts and the estates of people who have died pay 20%. From 2027/28 these are expected to become 49% and 24%, although the detailed legislation has yet to be published.



DO I NEED TO USE MAKING TAX DIGITAL FROM APRIL 2027?

You will if you are a landlord or sole trader and your qualifying income for 2025/26 was more than £30,000, unless an exemption applies. Qualifying income means gross rents and self-employed turnover before expenses – for jointly owned property, your share. HMRC uses your 2025/26 tax return, due by 31 January 2027, to identify who must join, but you need to check and sign up even if no letter arrives.

Making Tax Digital requires you to keep digital records in compatible software, send HMRC a summary every quarter and file your tax return through the same software. It changes how you report, not how much tax you pay. If you join in April 2027, late quarterly updates during 2027/28 will not attract penalty points, but all four must still be sent before you can file your tax return.

Suppose you received £18,000 in rent and £14,000 from self-employment in 2025/26. Your qualifying income is £32,000, so you would need to join from 6 April 2027 even if your profits were far lower. The threshold is due to fall to £20,000 from April 2028.

SHOULD I MOVE MY PROPERTIES INTO A COMPANY?

Not necessarily. Companies pay corporation tax at 19% to 25% and can deduct mortgage interest in full, so incorporation can look more attractive as personal rates rise. But profits you draw as dividends are taxed again, at 10.75%, 35.75% or 39.35%. Moving existing properties into a company is also normally treated as a sale for capital gains tax and a purchase for stamp duty land tax, or its Welsh and Scottish equivalents.

Incorporation relief can defer the capital gain where your lettings amount to a business, but since 6 April 2026 it must be claimed rather than applying automatically. Lender consent, refinancing costs and the running costs of a company all need weighing too.

For most landlords, the higher rates alone are not a reason to incorporate. They can, however, be a good prompt to review long-term plans, particularly for higher-rate landlords with large mortgages who intend to reinvest profits rather than draw them.

> ***HMRC uses your 2025/26 tax return, due by 31 January 2027, to identify who must join, but you need to check and sign up even if no letter arrives.***

SHARING INCOME WITH A SPOUSE OR CIVIL PARTNER

Couples can often reduce tax by making sure income falls on the partner with more unused allowance or a lower tax band.

- **Savings:** Holding cash in the name of the partner with lower income can make better use of their personal savings allowance and starting rate.
- **Jointly owned property:** Income is normally split 50:50 between spouses and civil partners. Where you genuinely own the property in unequal shares, you can elect to be taxed on those shares by sending HMRC a declaration on Form 17 within 60 days of making it.

Transfers between spouses and civil partners who live together are normally free of capital gains tax. They need to be genuine, outright gifts of the asset rather than just the income, and transferring a mortgaged property can trigger stamp duty land tax or its Welsh and Scottish equivalents. Couples who are not married or in a civil partnership do not get the same capital gains tax treatment.

STEPS TO CONSIDER BEFORE 6 APRIL 2027

A short review now can make a real difference to your tax position from April 2027:

- **Use your ISA allowance:** Interest inside an ISA escapes the new rates entirely, so consider using as much of your £20,000 allowance as you can, starting this tax year.
- **Check when interest is paid:** Look at when fixed-term bonds mature and whether interest is paid annually or in one sum.
- **Consider pension contributions:** Personal contributions can extend your basic rate band and bring income back below £100,000, where the personal allowance starts to taper. Rental income does not count as earnings for pension tax relief, so landlords without earnings can normally get relief on only £3,600 gross a year.
- **Time landlord costs sensibly:** Where you have genuine flexibility, costs that fall into 2027/28 may get relief at the higher rates, but the property's needs should come first.
- **Prepare for Making Tax Digital:** Check your 2025/26 qualifying income and choose software well before April 2027.
- **Plan your cashflow:** For many self-assessment taxpayers, the full effect shows in the balancing payment due on 31 January 2029. From April 2029, anyone who makes payments on account will move to more regular in-year payments.

FINAL THOUGHTS

The first 2-point rise is already law and the Budget has added a second, so from 6 April 2027 savers and landlords alike face rates 4 points higher than today. For many people the extra cost is modest. For higher-rate landlords with large profits, or savers with substantial cash outside ISAs, it adds up – and frozen thresholds mean more people are drawn in each year.

The months before April 2027 offer a window to plan while today's rates still apply. Changes to ownership, savings or pension contributions all have wider effects, so they need checking together rather than one at a time.

If you hold significant savings or let property in your own name, contact us before 5 April 2027 so we can model your position under the new rates and agree the right steps for you.



MAGEE GAMMON
CHARTERED ACCOUNTANTS
TAX & BUSINESS ADVISORS

Henwood House, Henwood, Ashford, Kent, TN24 8DH