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Personal savings allowance should be increased, says former minister

Vicky Shaw, PA Personal Finance Correspondent

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The tax-free personal savings allowance should be increased as savings rates rise, according to a former government minister.

Ros Altmann, who was previously pensions minister, said rising rates will push some savers into paying tax.

The personal savings allowance is separate from Isa allowances.

Basic rate taxpayers can earn £1,000 in tax-free interest each year and higher rate taxpayers can earn £500.

Baroness Altmann said: "With low interest rates since 2008, people needed much larger amounts of savings before they would pay any tax.

"Even now, as interest rates have at last actually risen, inflation has increased by far more, so savers are still losing money in real terms on their savings.

"Interest rates are higher than they have been for years, but are still well below the rising cost of living. And savers are then hit with a tax charge that reduces their returns even further, making it less worthwhile to bother saving."



Baroness Altmann (Jonathan Brady/PA)

She said there is a "strong case" for the allowance to be increased, adding: "More savings reduces demand in the economy, which reduces price pressures. In order to help control inflation, the Bank of England needs to encourage more people to save, rather than spend all their money straight away.

"However, if people think that their savings will buy them less and less in future, they are less likely to postpone their spending."

Baroness Altmann added: "Savers have had a torrid time for years but reviving a savings culture is important.

"It is now time to start rebuilding the once-strong savings culture our country used to enjoy. Successful economies need a pool of domestic savings to provide support during difficult times which will always arise, often unexpectedly."

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