Banks' low Isa rates 'steal' up to £375 a year

By **Sylvia Morris**

LONG-SUFFERING savers already grappling with rock-bottom rates must also guard against another threat — lower rates on tax-free cash Isas than on savings bonds.

While savers will continue to suffer low interest rates for at least another year, banks and building societies insist on paying lower rates for tax-free cash Isa customers than for those with taxable savings bonds.

Savers can miss out on as much as £75 a year on each £10,000 saved as banks pocket some of the tax relief on cash Isas rather than pass on the full benefit.

For those who have built up £50,000 in a cash Isa since their launch 12 years ago, the loss amounts to missing out on a staggering £375 a year.

Leeds Building Society is the latest to take advantage, launching two top-rate deals last week. It pays 3.6pc fixed for one year to those in its taxable bonds but only 3.25pc to savers who pick a tax-free cash Isa.

Santander, Halifax and Britannia are also among the large institutions who pay less on tax-free accounts than on taxable bonds.

Halifax pays 4.05pc on its three-year fixed-rate bond but only 3.7pc on its Isa — a difference of £35 on each £10,000.

And in a two-year bond with Britannia, part of Co-op Bank, savers earn 3.75pc on its bond but only 3pc on its cash Isa.

Cash Isas pay interest free of tax. Other savings accounts have 20pc tax automatically deducted from the interest. By paying less interest to cash Isa savers, banks and building societies are effectively stealing tax relief given by the Government to savers, as highlighted in Money Mail's Stop! Isa Thief Campaign.

Prashant Vaze, chief economist at consumer champion Consumer Focus says: 'The Government provides tax relief on cash Isas to encourage people to save for a rainy day.

'It's clearly unacceptable these products are treated as cash-cows by some banks which offer lower rates, effectively shaving off some of the tax relief, to boost their own profits.'

Banks and building societies know savers who have built up their Isa savings over the last ten years want to carry on earning tax-free interest, so get away with paying less to these committed savers. Some providers, such as Nationwide and M&S Money — part of HSBC — play fair and pay the same rate on their fixed-rate bonds whether you take out the taxable or tax-free.

Savers are being squeezed by a combination of low interest rates and high inflation.

The rise in the cost of living is currently running at 5pc, as measured by the Retail Prices Index — much higher than rates paid on savings accounts.

Pressure group Save our Savers reckons savers have lost £50 billion to inflation in the last twelve months alone.

And the Bank of England base rate is expected to stay at its 0.5pc historic low for at least another year, experts predict, and possibly into 2013.

'We expect interest rates will remain on hold for at least the next couple of years,' says Samuel Tombs from research firm Capital Economics.

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VANISHING RETURNS

	Taxable Bond %	Cash Isa %	Annual interest loss*
ONE YEAR			
Britannia	3.4	2.75	£65
Leeds	3.6	3.25	£35
Santander	3.05	2.75	£30
TWO YEARS			
Britannia	3.75	3	£75
Halifax	3.55	3.5	£5
Santander	3.3	3.25	£5
THREE YEARS			
Halifax	4.05	3.7	£35
FIVE YEARS			
BM savings	4.5	4.25	£25

* on each £10,000 in your account