Tax guide

Make sure you're paying the right amount

Age UK
Improving later life

AgeUKIG16

Age UK is the new force combining Age Concern and Help the Aged.

With almost 120 years of combined history to draw on, we are bringing together our talents, services and solutions to do more to enrich the lives of people in later life.

The Age UK family includes Age Cymru, Age NI and Age Scotland. There are also more than 140 local Age UKs.

Age UK is the new force combining

AGE Concern and HELP THE AGED WE WILL

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Introduction

Nobody wants to pay more tax than they have to. Being able to spot if you're overpaying can certainly be a good way to make your money go a bit further.

So Age UK and TaxHelp for Older People (TOP) have joined forces to produce this guide to help make sure that you're paying the right amount. It won't stop you paying tax that is legally due, but it will enable you to see if you are being incorrectly taxed. This also includes underpaying as well as overpaying. Though underpaying may not seem like a bad thing, it can become a major problem if Her Majesty's Revenue and Customs (HMRC) catches up with you and seeks to recover thousands of pounds. The main part of this guide covers Income Tax, but there are also sections on Inheritance Tax and Capital Gains Tax. We can't give a comprehensive account of the tax rules in a guide of this length, but more detailed information can be obtained from HMRC, which is responsible for administering these taxes (page 24).

If you need further help, the 'Useful organisations' section at the back of this guide includes contact details for Age UK, TaxHelp for Older People and other organisations that may be able to offer further assistance (pages 23–26).

All figures in this guide refer to the tax year from 6 April 2011 to 5 April 2012. As far as possible, the information in this guide is applicable across the UK.

Key

This symbol indicates where information differs for Wales, Scotland and Northern Ireland.

what next? This symbol indicates who to contact for the next steps you need to take.

Taxable income

As you probably know, not all income counts towards Income Tax. The tax rules are not necessarily the same as those for benefits or local council services. You may have to pay tax on:

- income from employment or self-employment
- pensions, including State Pension, and annuities (except war pensions)
- interest from savings accounts
- dividends from investments
- income from lettings
- some benefits like Incapacity Benefit and Employment and Support Allowance (they can be taxable or non-taxable).

You do not have to pay tax on:

- Pension Credit
- lottery or Premium Bond wins (or any other gambling wins)
- Winter Fuel Payments
- Attendance Allowance/Disability Living Allowance
- war pensions
- industrial disability
- Individual Savings Accounts (ISAs)
- some National Savings and Investments products.

HMRC or TOP can provide further information about which types of income are taxable and which are non-taxable (pages 24 and 26).

You don't have to pay income tax on capital, only on the interest or income it generates (see page 19 for information on Capital Gains Tax). So if you win £100,000 on the lottery and keep it under the mattress, it is of no concern to the tax authorities (although, of course, it's not a good idea to keep large amounts of money in the house). But if you put it in a savings account and start to get 3 per cent interest, then that interest will be taxable. However, the lump sum may affect entitlement to benefits such as Pension Credit.

Should I be paying tax?

We all have a personal tax-free allowance (unless your income exceeds around £115,000). If your total taxable income (page 3) is greater than your personal allowance (PA), then you will have to pay some tax. If not, you are a non-taxpayer.

Your PA depends partly on your age. In 2011/12 the levels for PA are:

- age 0–64: £7,475
- age 65–74: £9,940
- age 75 and over: £10,090.

The higher allowances take effect from the beginning of the tax year in which your 65th or 75th birthday falls, not from the date of your birthday, even if your birthday falls towards the end of the tax year.

If you are 65 or older, the age-related part of your PA is reduced if your income is higher than a certain amount, set at £24,000 in 2011/12. It is cut by £1 for every £2 of income above that figure.

For example, if your income were £25,000 – £1,000 over the limit – you would lose £500 worth of your age allowance. That means that at age 65, your allowance would be £9,440, not £9,940.

However, your PA cannot be reduced below the basic allowance of £7,475 unless you have a very high income of over £100,000.

Two other major allowances can affect your tax bill: the Blind Person's Allowance and the Married Couple's Allowance (see pages 6–7).

If your taxable income falls below your PA, check your payslips to make sure that no one is deducting any tax from anywhere, and read the section in this guide on savings and investments (pages 12–13).

what next?

Use our online tax calculator at www.ageuk.org.uk/taxcalculator. Answer some simple questions about your income and savings to find out whether you're paying the right amount of tax.

Blind Person's Allowance

The Blind Person's Allowance (BPA) increases your tax-free allowance by £1,980.

In England and Wales, you have to be registered as a blind person with the local authority (or have made an application) to qualify for the BPA. Contact your local authority for details of the registration procedure.

You don't have to be totally without sight to meet the criteria for registration, but you do need to show that your lack of sight makes it impossible for you to perform any work for which sight is essential. In Scotland and Northern Ireland, where there is no register, you must be unable to perform any work for which eyesight is essential to qualify.

Partially sighted people do not qualify for BPA but loss of sight is often progressive. Once your eyesight has started to deteriorate, have it tested regularly in case it does become bad enough to claim the allowance.

Once the registration process is complete, phone HMRC on 0845 366 7887 and ask for the BPA – it is not added automatically. As many as 100,000 registered blind people may not have claimed the BPA so if you qualify, make sure that you take up this allowance.

If your income is too low to benefit from the BPA, you can transfer it to your spouse or civil partner regardless of the state of their eyesight. This can be very valuable if they have a higher income than you, as you can ensure that the allowance is not wasted. Contact your tax office to ask for form 575 to transfer the unused part of the allowance.

Married Couple's Allowance

You can only claim the Married Couple's Allowance (MCA) if you are a married couple or civil partners and one of you was born before 6 April 1935. If this does not apply to you, skip this section.

Unlike Personal Allowance and Blind Person's Allowance, MCA does not increase your tax-free allowance, but is deducted from your tax bill. In actual terms, it is worth 10 per cent of its face value, i.e. your bill is reduced by 10 per cent of the amount of the MCA. In 2011/12 the MCA is given at £7,295, which in practice means that up to £729 is taken off your tax bill.

For couples who married before December 2005, the MCA is given to the husband in the first instance. For couples who qualified after that date, the MCA is given to the higher earner. The other spouse/partner has the right to ask for some of the allowance to be apportioned to them.

If the first person's total tax bill is less than the full amount of the MCA, any remaining allowance can be transferred to the other person to reduce their tax bill, if he or she is a taxpayer.

There may be other ways in which couples can try to make their financial arrangements more tax efficient, for example, by putting savings into one person's name to take advantage of any unused tax-free capacity.

'I find tax complicated to understand but if I have any problems in the future, I will make sure I get expert advice again.'

Constance retired from nursing aged 60.

'I'd never paid much attention to my tax. I filled in a form when I retired to say what my income would be and assumed that the right amount was being deducted from my NHS pension. I was sent a second form to fill in so thought that the first had probably been lost.

'When I reached 65, I completed another form to see if I qualified for a higher allowance because of my age. Shortly afterwards I got a letter saying that I owed £6,000 in back taxes because my State Pension hadn't been taxed. I was shocked and very worried – I don't have that kind of money to spare.

'I asked my local Age UK what I should do and they suggested that I contact TaxHelp for Older People. I did and they arranged for me to see one of their professional advisers. When I explained the situation he thought that the tax office had made a mistake. He helped me to challenge them so that they admitted that the demand had been their error and withdrew it. He also checked that I had the right tax code for the future.

'I find tax complicated to understand but if I have any problems in the future, I will make sure I get expert advice again.'

Is my tax code correct?

Tax codes are how HMRC tells your employer or pension provider what tax to deduct before paying you under the Pay As You Earn (PAYE) system (page 14). Tax coding can be complicated and is the biggest single cause of tax problems.

Tax codes are usually made up of two or three digits and a letter. In most cases the letter is less important in understanding your tax than the number. But there is one exception that particularly affects people receiving a State Pension – the K code, which is explained on page 11.

For example, aged 67 you have a PA of £9,940 and your State Pension is £6,000 a year. Take that away from your PA and you still have £3,940 of your tax-free allowance left. If you have a work pension of £5,000, the first £3,940 will not be taxed and then the pension payroll will deduct tax on the remainder (page 14). The pension payroll should have received a code of 394P to tell them what to do. The number in the code represents the available tax-free allowance, with the last digit removed. The payroll then multiplies this by 10 to get back to the £3,940 tax-free amount to allow.

You should receive a separate coding notice for each private or work pension you have, and for most jobs, but not for the State Pension. The notice explains how the code has been worked out. It is your responsibility to check it and call the office number on the tax notice if you think it is wrong. Ask if you do not receive a notice for any of your income sources.

State Retirement Pension and tax

State Retirement Pension is taxable income, but is paid without any tax being deducted. The tax code that you are allocated for other income will usually treat your State Pension as having counted towards your tax-free personal allowance – and then pass any remaining allowances on to your other pension or earnings.

If your State Pension is greater than your personal allowance, there will be some tax due on it. If you have a private or work pension, HMRC can instruct the pension provider to collect the outstanding tax due on your State Pension, along with the tax due on the private or work pension.

For example, if your State Pension is £1,000 above your personal allowance, and you have a personal pension of £3,000, HMRC will instruct the pension provider to deduct tax as if they were paying you £4,000.

This is done by assigning a code that has the letter K followed by a number (e.g. K99). Where ordinary codes say what amount of tax-free income is left, K codes indicate that you should be treated as having more taxable income than that provider is actually paying you. The higher the number in the code, the more taxable income you will be treated as having. If you are assigned a K code it is worth getting it checked.

If your State Pension is greater than your personal allowance but you do not have any other income, read the section on self-assessment (page 15).

Savings and investments

Savings include money held in accounts with banks and building societies and fixed-term bonds that produce income. The interest on these (or income from bonds) is taxable and that tax is usually deducted at source by the bank or other financial institution at a flat rate of 20 per cent. Higher-rate taxpayers have to pay a further 20 per cent later on.

If you are not a taxpayer, then you can sign form R85 so that the interest can be paid without deduction of tax. You can get an R85 form from the bank or building society and complete one for each account that you hold. If you have a joint account and only one of you is a non-taxpayer, that person can still sign the R85 and receive their share of the interest without tax taken off.

To decide whether you are eligible for gross interest, you must add up all your taxable income (page 3). You need to add up your gross income before tax, not the net income you have received after tax. If you are unsure, seek further advice from TaxHelp for Older People (page 26).

If your circumstances change and you become a taxpayer again, you must cancel your R85s. This could happen if a spouse or partner dies and the survivor inherits their pensions; if you release equity from your house and invest the money; or even when interest rates change.

Even if you are a taxpayer, you might be eligible to pay a reduced rate of tax on your savings. In 2011/12 up to £2,560 of savings interest can be taxed at 10 per cent instead of 20 per cent – but only if your income is less than your total allowances plus £2,560. Tax is still deducted at 20 per cent and you have to reclaim the excess. If your income is no more than £2,000 or £3,000 above your PA, ask HMRC for further information (page 24).

Dividends

Different rules apply to shares or unit trusts that pay dividends. A dividend is basically a share of the profits distributed among the shareholders.

Once or twice a year you will receive a notice of the dividends paid, saying that a tax credit has been accounted for. In effect, you have paid 10 per cent tax on the dividend and have no further tax to pay (unless you are a higher-rate taxpayer). Non-taxpayers cannot reclaim this tax credit. You should include the total dividend in your taxable income when you are doing your calculations to see whether you are a taxpayer. Keep the voucher with your tax papers in case you need to complete any forms for HMRC.

what next?

If you need independent financial advice, visit www.unbiased.co.uk to find a local adviser.

How to pay: Pay As You Earn

Pay As You Earn – PAYE – is the system for paying tax as you earn income, using tax codes.

Your tax code is allocated on the basis that you will be earning steadily throughout the tax year. Depending on how often you are paid, $^1/_{12}$ of the annual tax is collected each month, or $^1/_{52}$ of the tax each week.

If your circumstances change during the tax year, the assumptions on which your tax has been calculated to that point will no longer apply and it will have to be adjusted. Any increase or reduction in your income may affect your liability for tax, for example, on retirement. You may be able to claim tax back or may have more to pay and you will have to complete a Self Assessment tax return to settle the remaining tax due.

A common problem with PAYE occurs if you only have another small pension besides your State Pension but tax is due on your State Pension (page 11). No more than 50 per cent of one income source can be taken in tax. If the tax due on your State Pension and other pension comes to more than 50 per cent of the other pension, you will have to complete a Self Assessment tax return to settle the tax due in full (pages 15–16). Contact TOP for help if you are in this situation, because it is an area where errors commonly occur.

Do I need to complete a tax return?

If you have income that is difficult or impossible to tax under PAYE, you may have to complete a tax return. This is called Self Assessment.

Your taxable income for the year and the tax you have paid so far are added up and HMRC calculates whether you owe more tax or are due a refund.

Reasons why you might have to complete a tax return include:

- self-employed work
- a foreign pension
- letting a property
- untaxed interest from a Pensioner's Guaranteed Income Bond
- you are a higher-rate taxpayer
- you have only a State Pension but it is higher than your personal allowances.

Tax returns are usually sent out in April or May for the preceding financial year. Now that HMRC is encouraging people to file their return online, you may just get a letter telling you that you have to complete a self-assessment tax return. If you want to file a paper return, ask the tax office for the form or they will assume that you will be filing online.

You should request a form if you are aware of any untaxed income to be declared. You can complete a short form if your affairs are simple. If you have to do a full return, don't panic – not all of the form will apply to you.

Your paper tax return needs to be in by 31 October, although the tax is not due until 31 January. If you need help from any of the organisations on pages 23–26, ask in good time, three or four months before the deadline. If you miss the deadline, you can still complete your return online until 31 January. This means you must have access to (and the ability to use) the internet. If you would like or have to use this method, ask your local Age UK/Age Concern* or TOP for guidance (pages 23 and 26). If you don't file by the deadline, you will automatically be fined £100, even if you don't owe any tax.

You can make the process easier by keeping good records and putting money aside throughout the year so that you do not have to find a lump sum just after Christmas.

*Many of our local partners will remain Age Concern for a while yet.

‘Age UK put me in touch with TaxHelp for Older People, who checked my pension coding notice. They found a small mistake and phoned the Revenue to ask them to correct it. This has saved me a pound a week.’

Inheritance Tax

Inheritance Tax (IHT) may be payable on a person's estate (their savings and possessions) after they die. The first £325,000 of an estate is exempt from IHT. This is called the nil-rate band because tax is charged at 0 per cent. Thereafter tax is charged at 40 per cent.

Since 9 October 2007, when a spouse or civil partner dies, any unused part of that person's nil-rate band can be passed on to the survivor. When the second person dies, their estate could benefit by up to double the nil-rate band in force at the time.

Bequests between spouses and partners are exempt from IHT. If a husband dies and leaves everything to his wife, the whole of his nil-rate band will be available to his wife's estate when she dies. This is explained in the example below.

Arthur dies in May 2011 and leaves everything to his wife Enid. If she dies in November 2011, his £325,000 nil-rate band will be added to hers, meaning that her estate has a £650,000 nil rate. If Enid does not die in the same financial year as her husband, the amount added for Arthur's nil-rate band will be the full nil-rate band for the year when she dies, not the figure at the time of Arthur's death.

Not all bequests are exempt from IHT. If Arthur left money to his children this would count towards his nil-rate band and reduce the proportion available to carry over to Enid's estate.

Capital Gains Tax

A capital gain is the increase in the value of an asset between your buying or acquiring it and selling or disposing of it. You have an annual tax-exempt amount for capital gains, which is £10,600 in 2011/12. If your total capital gains are greater than this, you may have to pay Capital Gains Tax (CGT) and should take professional advice. This is currently 18 per cent on the excess above the exempt band (28 per cent if you are a higher-rate taxpayer, or if the gain takes you into the higher-rate band). If they are lower, you have no need to worry.

CGT does not just apply to assets that you buy. It includes assets that you acquire as a gift or through a legacy as well. In these circumstances, any gain is calculated based on the market value of the asset at the time it came into your ownership. If you inherit a house from a relative, its value is that at the date of your relative's death and any gain will be the difference between that value and the price for which you later sell it, net of any buying or selling costs.

The most important exception for many people is that no CGT is payable on the sale of your main home, provided that you have always lived in it. This does not apply to second homes or properties that you let.

If there are gaps in your periods of residence in your main home, for example, when working abroad, special rules apply and you will need professional advice. If, of course, you move into a house that you inherit from a relative, then it becomes your main residence and attracts the relief from CGT. You will then have three years in which to sell your previous house before losing your exemption.

A common question about CGT concerns the sale of a house when someone moves into residential care. If that was their main dwelling, then it is exempt from CGT on sale. If the proceeds are then invested to pay for the care, any interest or income will be subject to Income Tax rules (see page 3).

CGT does not just apply to assets that you buy. It includes assets that you acquire as a gift or through a legacy as well.

Rates and allowances 2011/12

Personal allowances

Under 65:	£7,475
65–74:	£9,940
75 and over:	£10,090

Note: The higher-age allowance is available for the whole of the year in which the 65th birthday falls.

Blind Person's Allowance £1,980

Married Couple's Allowance £7,295

Note: Married Couple's Allowance (MCA) is only worth 10 per cent of face value and reduces tax due. It does not increase tax-free income.

The maximum income you can have before your age allowance is reduced: £24,000

Age allowances are reduced £1 for every £2 of income above threshold until reduced to the basic personal allowance of £7,475. Special rules apply to those with an income exceeding £100,000. Thereafter MCA reduces in the same way to a minimum of £2,800.

Rates and bands

First £35,000 of taxable income:	20%
From £35,001 to £150,000 of taxable income:	40%
Over £150,000:	50%

Exceptions

First £2,560 of savings interest (if other income at or below personal allowances):	10%
Otherwise standard savings rate:	20%

Note: Higher-rate taxpayers have a further 20% to pay.

Dividends tax credit:	10%

Note: Higher-rate taxpayers have a further 22.5% to pay (32.5% for 50% rate taxpayers).

Capital Gains Tax (CGT)
Above annual exemption of £10,600: 18% (higher-rate taxpayers will pay 28%)

Inheritance Tax (IHT)
Above nil-rate band of £325,000: 40%
Remember the possibility of anything up to double this figure if you are entitled to the nil-rate band of a deceased spouse or partner.

Useful organisations

Age UK

Age UK is the new force combining Age Concern and Help the Aged. We provide advice and information for people in later life through our Age UK Advice line, publications and online.

Age UK Advice: 0800 169 65 65
www.ageuk.org.uk

In Wales, contact
Age Cymru: 0800 169 65 65
www.agecymru.org.uk

In Northern Ireland, contact
Age NI: 0808 808 7575
www.ageni.org

In Scotland, contact
Age Scotland: 0845 125 9732
www.agescotland.org.uk

We produce *LifeBook*, a free and simple way to record your details, contacts, and the location of important documents. It is available both as a booklet and online. Call 0845 685 1061 for more information.

Chartered Institute of Taxation (CIOT)

The CIOT website contains an area for people looking for general tax information, seeking to employ a professional tax adviser or seeking access to free advice if they cannot afford to employ a tax adviser.

Tel: 020 7340 0550
www.tax.org.uk

Directgov

The Directgov website has information about the benefits and services for pensioners and people planning pensions.

www.direct.gov.uk/pensions

In Northern Ireland, visit NI Direct at www.nidirect.gov.uk

HM Revenue and Customs (HMRC)

For information about taxes, including Income Tax and Inheritance Tax, contact your nearest HMRC enquiry centre – you should be able to find contact details in your local phone book.

Tel: 0845 300 0627
www.hmrc.gov.uk

Low Incomes Tax Reform Group (LITRG)

The LITRG website contains a wealth of information on matters concerning all people on low incomes and guidance on taxation as it affects them.

www.litrg.org.uk

Moneymadeclear

Provides impartial information and guidance about money to help you work out what is right for you. It produces a wide range of materials on finance-related matters. These can be downloaded from the website or ordered over the phone. They can also arrange face-to-face interviews in some areas.

Tel: 0300 500 5000
www.moneymadeclear.org.uk

Pension Service

Provides details of State Pensions, including forecasts and how to claim your pension.

Tel: 0845 60 60 265
Textphone: 0845 60 60 285
www.direct.gov.uk/pensions

Pensions Advisory Service, The (TPAS)

TPAS is an independent voluntary organisation that is grant-aided by the Department for Work and Pensions to provide information and guidance to the public on state, company, personal and stakeholder pensions.

Tel: 0845 601 2923
www.pensionsadvisoryservice.org.uk

TaxHelp for Older People (TOP)

TOP is a national charity founded in 2001. It provides free professional help on personal tax to older people on low incomes who cannot afford to pay for such advice. Appointments are offered at tax surgeries held by tax advisers in Age UKs and similar venues across the country. Home visits are also available for those who need them for reasons of disability or other difficulties.

TaxHelp for Older People
Pineapple Business Park
Salway Ash
Bridport DT6 5DB

Tel: 0845 601 3321
Email: taxvol@taxvol.org.uk
www.taxvol.org.uk

www.unbiased.co.uk

Search online for a local Independent Financial Adviser.

Can you help Age UK?

Please complete the donation form below with a gift of whatever you can afford and return to: Age UK, FREEPOST LON13041, PO Box 203, London N1 9BR. Alternatively, you can phone 0800 169 87 87 or visit www.ageuk.org.uk/donate. If you prefer, you can donate directly to one of our national or local partners. Thank you.

Personal details

Title:	Initials:	Surname:

Address:

Postcode:

Tel:	Email:

By providing your email address and/or mobile number you are agreeing to us contacting you in these ways. You may contact us at any time to unsubscribe from our communications.

Your gift

I would like to make a gift of: £

☐ I enclose a cheque/postal order made payable to Age UK

Card payment

I wish to pay by (please tick) ☐ MasterCard ☐ Visa ☐ CAF CharityCard ☐ Maestro ☐ American Express

(Maestro only)

Signature **X**

Expiry date /

Issue no. (Maestro only)

Gift Aid declaration

☐ (please tick) Yes, I want Age UK and its partner organisations* to treat all donations I have made for the four years prior to this year, and all donations I make from the date of this declaration until I notify you otherwise, as gift aid donations. I confirm I pay an amount of income tax and/or capital gains tax at least equal to the tax that the charity will reclaim on my donations in the tax year. Date: ___/___/___ (please complete). *Age Cymru, Age Scotland and Age NI

Improving later life

We will use the information you have supplied to communicate with you in line with Data Protection guidelines. Age UK (registered charity no 1128267) comprises the Charity, its group of companies and national partners (Age Cymru, Age Scotland and Age NI). If you would prefer not to hear from them or carefully selected third parties, let us know by phoning 0800 107 8977.

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Nobody wants to pay more tax than they have to. And being able to spot if you're overpaying can certainly be a good way to make your money go a bit further.

What should I do now?

For more information on the issues covered in this guide, or to order any of our publications, please call Age UK Advice free on **0800 169 65 65** or visit **www.ageuk.org.uk/moneymatters**

Our publications are also available in large print and audio formats.

The following Age UK information guides may be useful:

- *Money matters*
- *Managing your money*
- *Tracing lost money*

The Age UK Group offers a wide range of products and services specially designed for people in later life. For more information, please call **0800 169 18 19.**

If contact details for your local Age UK/Age Concern* are not in the box below, call Age UK Advice free on **0800 169 65 65.**

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