factsheet

Age UK
The new force combining Age Concern and Help the Aged

Factsheet 15 ● April 2015

Income Tax

Inside this factsheet

- basic information about Income Tax for older people
- tax rates
- types of taxable income
- types of non-taxable income
- tax allowances
- examples of how tax bills are worked out

The figures in this factsheet are correct for the 2015/16 tax year, which runs from 6 April 2015 to 5 April 2016.

The information in this guide applies only to individuals who are domiciled and resident in the UK.

Section 11 has details of how to order other Age UK factsheets and information materials and the telephone numbers for Age UK Advice.

If you need more detailed advice or representation, it is often best to find a local service offering this. Age UK Advice can give you contact details for a local Age UK, or you could contact one of the independent organisations listed in section 10.

Inside this factsheet

1 Recent developments

- The tax rates for 2015/16 are listed in section 3 of this factsheet.
- The tax allowances for 2015/16 are listed in section 5 of this factsheet.

2 What is Income Tax?

Income Tax is tax on your taxable income. Your taxable income has to be over a certain level to be taxed. There are allowances and reliefs you may be able to claim on your taxable income that could reduce your Income Tax bill.

3 How much tax do you pay?

To check whether you have to pay Income Tax, and if so how much, you need to know:

- what types of income are taxed
- what allowances you are entitled to, and
- the current tax rates.

After taking into account any income that is not taxable and your allowances, your income will be taxed at the rates outlined below.

Taxable income in 2015/16	**Rate of tax**
£0 to £5,000	Starting rate for savings 0%
£0 to £31,785	20% (basic rate)
£31,786 to £150,000	40% (higher rate)
Over £150,000	45% (additional rate)

4 What is counted as taxable income?

Most types of income will be added together to calculate how much tax you must pay. Some forms of income are not taxable and are not taken into account when calculating whether you have to pay tax.

Income that would be taxed includes:

- earnings from employment and self-employment
- interest from savings (excluding ISAs – Individual Savings Accounts)
- personal and company pensions
- retirement annuity
- State Pension
- Contribution-based ESA
- income from shares (dividends)
- rental income
- income paid to you from a trust.

Income that is not taxable includes:

- DLA and PIP
- Attendance Allowance
- Incapacity Benefit for the first 28 weeks of incapacity
- Income-related ESA
- Working Tax Credit
- Pension Credit
- Winter Fuel Payments and Christmas Bonus
- Council Tax Support and Housing Benefit
- War Disablement Pension
- War Widow's/Widower's Pension.

5 Allowances for 2015/16

Your tax allowance(s) represents the amount of income you can receive without paying tax. Everyone, except for those on very high incomes, is entitled to a personal allowance and some people are entitled to other allowances as well. You cannot be ‘paid’ any unused allowance.

The main allowances are listed below and then described. The higher allowances for people of born before 6 April 1938 may be reduced if their gross income is more than £27,700 as explained later.

Civil Partnerships were introduced in December 2005. Same sex couples who register a civil partnership are now treated in the same way as married people for Income Tax purposes.

Allowances for 2015/16		
Personal allowance	Born after 5 April 1938	£10,600
	Born before 6 April 1938	£10,660
Married Couple’s Allowance	One or both born before 6 April 1935	£8,355
Minimum amount of Married Couple’s Allowance		£3,220
Blind person’s allowance		£2,290
Income limit for age-related allowance		£27,700

5.1 Personal allowance

This is available to everyone regardless of whether you are a man, woman, married, single or have a civil partner (except those with an income of £100,000 or more). There are two levels of allowances, which depend on your age and, for the higher levels, your total income.

You cannot transfer the personal allowance between husbands and wives or civil partners (but read carefully the section below on the new Married Allowance).

The higher allowances are reduced if your gross income is more than £27,700 but they will not be reduced to less than the basic personal allowance for someone born after 5 April 1938 (except for those with income exceeding £100,000). For every £2 of income over the £27,700 limit you will lose £1 of the allowance. Your allowance will be reduced to the basic allowance of £10,600 when your income reaches £27,820 (if you were born before 6 April 1938). The income limit applies separately to the income of a husband and wife and both partners in a civil partnership.

5.2 Married Couple's Allowance

The Married Couple's Allowance (MCA) was abolished in April 2000 except for couples where at least one partner, it doesn't matter which, was born before 6 April 1935. Younger couples can no longer receive the allowance, but see the note below on the new Married allowance

Civil partners are now also able to qualify for the Married Couple's Allowance if at least one of them was born before 6 April 1935. The rules about the allowance changed slightly from 5 December 2005 for any couple, same sex or opposite sex, who first become entitled from that date.

For couples who married before 5 December 2005, the Married Couple's Allowance is given to the husband. If a married man has an income of over £27,700 this will first reduce his age-related allowance and then, if his income is high enough, it will reduce the Married Couple's Allowance. For every £2 of income over the limit he will lose £1 of allowance. The minimum amount that the allowance can be reduced to is £3,220.

For couples (married or civil partners) who first qualified for the Married Couple's Allowance from 5 December 2005 it is given to the partner with the higher income. The other partner can have up to £3,220 with their partner's consent. The same income rules apply as above.

Couples can agree that the minimum amount of the allowance (£3,220) is transferred or they can agree to split this amount between them. Couples who wish to change the way their Married Couple's Allowance is allocated should tell their tax office before the beginning of the tax year. They need to complete Form 18 *Transferring the Married Couple's Allowance*. If a couple do not do this, the allowance will continue to go to the higher earner.

If one of a couple's income is too low to use their allocation of the Married Couple's Allowance, HM Revenue and Customs (HMRC) can transfer the unused part to the other. Ask for form 575.

5.2.1 How MCA affects your tax bill

The Married Couple's Allowance is restricted to 10% tax relief. The allowance of £8,355 will reduce your tax bill up to a maximum reduction of £835.50 (10% of £8,355) regardless of whether you pay tax at 20%, 40% or 50%.

If you receive a Coding Notice from HMRC, you may find that your Married Couple's Allowance has been restricted to take into account the 10% relief. The amount of the restriction will depend on your income and the level of the allowance you receive.

Help: If you need further information contact HMRC on 0300 200 3300.

To take into account the 10% tax relief, Married Couple's Allowance is worked out in two steps. First the tax is calculated taking into account just the personal allowances and then the amount of tax payable is reduced by 10% of the Married Couple's Allowance.

5.2.2 Example of a married couple's tax position

Sid and Myrtle Jones are aged 80 and 74. Sid has a State Pension and occupational pensions totalling £16,400 a year and receives £1,500 a year gross interest from a savings account. Myrtle's only income is the married women's pension of about £3,600.

Myrtle's pension is below her personal allowance of £10,600 (allowance for someone of her age) so she does not have to pay tax.

Sid's tax bill is worked out like this:

Income	
Pensions	£16,400
Allowances	
Personal allowance aged 80	£10,660
Income minus personal allowance	£16,400 – £10,660 = £5,740
Tax	
£5,740 taxed at 20% = £1,148 tax to pay	

Sid's Married Couple's Allowance of £8,355 provides 10% tax relief, so reduces his bill by £835.50 (10% of £8,355).

Total tax
£1,148 – £835.50 = £312.50

The tax on Sid's pensions will normally have been deducted from his occupational pension and this will include the tax due on his state pension (see below)

5.3 Marriage Allowance

Not to be confused with the Married Couples Allowance above. If you are entitled to the MCA, you cannot claim this one as well. The Marriage Allowance can be claimed by married couples or civil partners where one partner is no more than a basic rate taxpayer and the other has unused allowances. The lower earner can transfer up to £1,060 of unused allowances to the other provided the transfer does not then bring their taxable income below £10,601. Register your interest at www.gov.uk/marriage-allowance.

Example: Melinda only earns £6,000 a year working part-time, so has £4,600 of unused PA. She can therefore transfer £1,060 to her husband Gary so long as his income does not exceed £42,465. But if Melinda earns £10,000 a year, then she can only transfer the unused £600.

5.4 Widows and widowers

There is no specific tax allowance for widowed people and surviving civil partners. But up to the end of the (tax) year of bereavement, in addition to their personal allowance, they can continue to receive the Married Couple's Allowance. They can also receive any unused part of the Married Couple's Allowance that their spouse/partner was entitled to.

5.5 Blind person's allowance

This allowance of £2,290 can be claimed by people who are registered blind with a local authority. (You do not have to be totally without sight to be registered blind.) Any unused part of this allowance can be transferred to the blind person's spouse or civil partner. Ask for form 575. If husband and wife or both civil partners are blind, they will both get the allowance. People who are registered as partially sighted cannot get this allowance.

6 Tax on pensions and earnings

The State Pension is taxable but not taxed at source. If you also have earnings or other pensions, the amount of your State Pension will be taken into account when your tax is deducted through the Pay As You Earn (PAYE) system. Everyone who is taxed under PAYE has a tax code that enables their employer or former employer to deduct the right amount of tax. If, however, your sole income is the State Pension and it exceeds your personal allowance, you will have to pay the tax due via self-assessment.

Sometimes people think they are paying too much tax on their occupational pension or earnings because they don't realise that the State Pension uses up some or all of their tax allowance. The Pension Service should automatically provide information to HMRC about your State Pension. Check that the correct amount has been taken into account, particularly in the year that you start to draw your State Pension. If your pension has been overestimated, contact HMRC to explain, otherwise you could end up paying too much tax.

Example of tax on pensions

Maria Garcia is 70 and has a State Pension of £5,716 and an occupational pension of £6,400 a year. Her tax bill is worked out like this:

Income	
State Pension	£5,716
Occupational pension	£6,400
Total	£12,116
Allowances	
Personal allowance for someone born after 5 April 1938	£10,600
Tax	
Income minus allowance £12,116 – £10,600 = £1,516	
Total tax	
£1,516 x 20% = £303.20	

The tax will be deducted from Maria's occupational pension.

7 Tax and savings income

Income from savings and investments may be paid gross – that is without the deduction of tax – or it may be paid with tax already deducted or in some cases may be tax-free.

When income is paid gross – such as income from certain National Savings accounts – you will be due to pay tax, possibly by self-assessment, (unless your total income is too low to make you a taxpayer). If you receive income from savings with tax already deducted you may be able to claim back some or all of this tax if you have not used all your tax allowance.

Income from savings is generally taxed at 20%, 40% or 45%. If you are a basic rate (20%) taxpayer your savings income is also taxed at 20% but higher rate taxpayers have to pay at 40% and additional rate taxpayers at 45%.

So if you are a higher rate taxpayer and have had savings income paid with 20% tax deducted, you will owe an extra 20% and if you are an additional rate taxpayer, you will owe an extra 25%.

Example of tax and savings interest

Norma Watkins is 78 and has a personal tax allowance of £10,660. She has pensions totalling £18,710 and interest from a building society account. This year she expects to receive interest of about £1,200 after the deduction of 20% rate tax. This is the equivalent of £1,500 gross income. So her total gross income will be £20,210 which is more than her tax allowance, so she cannot receive interest paid gross.

If your total taxable income, including grossed-up income from savings, is more than £31,785 you will be due to pay tax on some of your income at 40%. So you may have to pay extra tax as only 20% tax will have been deducted from any savings income paid net.

7.1 Bank and building society interest

Non-taxpayers can receive bank and building society interest gross – that is, without deduction of any tax. Other people will receive interest after the deduction of 20% tax. If you expect your total gross income to be less than your allowances, you can register to have the interest paid without any tax deducted (you will need form R85 from your bank or building society). When calculating what your income will be, include the gross income you expect from the account (see section 7.2 on ‘grossing up’ below). Non-taxpayers in joint accounts can sign an R85.

With effect from 6 April 2015 a new 0% rate will be available for a band of savings interest £5,000 above the personal allowance, i.e. a ceiling of £15,600 of taxable income. The R85 process will therefore be extended to those who might benefit from the 0% rate. e.g. someone with an income of £14,600 and savings interest of £500 would be entitled to the 0% rate because his total taxable income would only be £15,100.

If, however, his income were £15,400 and savings interest of £500, his total taxable income would be £15,900 and thus over the ceiling. He would therefore have to revoke his R85, suffer the 20% tax on his savings interest but, because the first £200 would fall within the 0% band, he could reclaim the 20% tax deducted at source on that chunk of his interest.

If you have not previously registered to receive interest gross but think that you may have overpaid tax, you can apply for a refund using form R40, claiming up to four previous years. If you are due to pay tax on some but not all of your interest, you cannot register to have the interest paid gross but can apply for a refund as explained below.

Action: Contact the national claims helpline on 0300 200 3313 for more information.

7.2 'Grossing up' and claiming a rebate

In some circumstances people who have received savings income with 20% deducted will be due for a refund, while in other situations people may owe extra tax, depending on their total gross income. To check that you have paid the right amount of tax you will need to add up your total gross income.

Any income paid with tax already deducted will be net income so you must gross it up to give you the equivalent amount of gross income. For example, if you received £800 income after the deduction of 20% tax during the year, then this would be the equivalent of £1,000 gross income. To work out your gross income divide the amount of interest you received by 0.8. Alternatively divide the income you receive by 4 and then multiply the answer by 5.

If you have received dividends from shares or distributions from a unit trust, the rules are different. You will receive a 'tax credit' of 10% which is non-refundable. It will, however, count towards the total tax you pay.

Overpaid tax can be claimed back for the current year and up to four previous years. But non-taxpayers with dividend income can no longer claim back tax credits for dividends paid after April 1999.

Action: If you think you have overpaid tax, contact the national claims Helpline on 0300 200 3313.

7.3 Gift Aid

Many older people make regular payments to charities under the 'Gift Aid' scheme.

The gross amount of any Gift Aid donations you make reduces the level of your income when calculating your tax bands. The receiving charity reclaims 20% tax on your donation, so a £100 Gift Aided donation is worth £125 to the charity. If you are a basic rate taxpayer, it makes no difference to you, but if you are a higher rate taxpayer, you should reclaim the extra 20% via your self-assessment tax return.

8 Transferring savings

When one person in a marriage or civil partnership does not have enough income to use up their personal allowance, they could consider transferring their savings to their partner to reduce their overall tax bill.

Transferring savings may also be a good idea if one partner would otherwise lose the additional age-related allowances because they have an income of £27,700 or more. If assets are transferred between husband and wife or civil partners as an outright gift, any income from these savings will be taxed as the income of the person who received the savings.

Income from joint assets will normally be split 50/50. If you own the asset unequally, it may be possible to be taxed on your actual share by making a joint declaration. Contact HMRC for more information.

Transferring assets may reduce a couple's tax, but there could be disadvantages. For example, if a husband has given all his savings to his wife and she enters a care home, those savings could affect the amount of financial help she gets towards the fees from The Pension Service or local authority.

Example

Dhiren and Gareshma Bhatia are aged 67 and 63. Dhiren has an occupational pension totalling £15,000 a year, a state pension of £6,500 and receives £2,000 a year gross interest from a savings account. Gareshma's only income is the married women's pension of about £3,600.

Gareshma's income is below her personal allowance of £10,600 so she does not have to pay tax.

Dhiren's pension income of £21,500, on the other hand, will attract a tax of £2,180 at 20% as well as suffering £400 tax on his savings interest. Total tax £2,580.

If Dhiren transfers the savings account to Gareshma, his tax bill will be just the £2,180 Even with an extra £2,000 income from the savings Gareshma's total income will be less than her personal allowance of £10,600 so she will still not pay tax. Household saving £400.

Action: You should consider your wider circumstances before transferring any assets, and consider taking professional advice on the arrangements which will best meet your needs.

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9 The tax return and self-assessment

If you pay tax through PAYE and your tax affairs are straightforward, you will not normally be sent a tax return. But you will probably be sent one if you are self-employed, a higher rate taxpayer, have income above £27,700 or receive untaxed income, a foreign pension or simply a large State Pension. The tax return, which is usually issued in early April, looks back at your income for the past tax year.

Self-assessment started in April 1997 but many older taxpayers do not need to fill in tax returns so they are not generally affected. However, since April 1996 all taxpayers have been obliged by law to keep records of their income and capital gains for at least 22 months.

Under self-assessment, if you need to fill in a tax return you will be sent either a letter or the basic form and maybe one or more supplementary pages, which cover particular types of income such as employment, self-employment or income from land or property. You will also receive a guide to completing the form and a tax calculation guide. You can complete the forms and let HMRC calculate the tax due, or you can calculate the tax yourself.

The deadlines for filing your tax return changed in 2008/09. If you want to complete your tax return on paper, it must be filed by 31 October each year. The deadline for online filing is 31 January. Payment under either method must be made by 31 January. There is a four-page short tax return for people with simple tax affairs.

Many older people getting the State Pension, occupational pension or retirement annuity can use these short tax returns instead of the longer versions, if their tax office decides they are appropriate.

Action: For general information on self-assessment you can ring HMRC Self-Assessment Helpline on 0300 200 3310.

10 Useful organisations

Chartered Institute of Taxation (CIOT)

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

1st Floor, Artillery House, 11-19 Artillery Row, London, SW1P 1RT
Tel: 020 7340 0550 or 0844 579 6700
Website: www.tax.org.uk

Department for Work and Pensions (DWP)

The DWP is responsible for a range of benefits and services for pensioners and people planning pensions.

Website: www.gov.uk/government/organisations/department-for-work-pensions

Her Majesty's Revenue and Customs (HMRC)

For information about taxes, including Income Tax and Inheritance Tax.

Website: 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.

1st Floor, Artillery House, 11-19 Artillery Row, London, SW1P 1RT
Website: www.litrg.org.uk

Pensions Advisory Service (The) (TPAS)

TPAS is an independent voluntary organisation grant‑aided by DWP to provide information and guidance to the public on state, company, personal and stakeholder pensions.

11 Belgrave Road, London SW1V 1RB
Tel: 0300 123 1047
Website: http://www.pensionsadvisoryservice.org.uk/

Pension Service (The)

For details of state pensions, including forecasts and how to claim your pension.

Tel: 0845 60 60 265
Textphone: 0845 6060 285
State Pension Forecasting Team: 0845 3000 168
Website: www.gov.uk/browse/working/state-pension

Tax Help for Older People

A national charity that provides free professional help on personal tax to older people on low incomes who would not otherwise be able to afford it. Appointments are offered at tax surgeries in Age UKs and similar venues. Home visits are available for those with disability or other difficulties.

Unit 10, Pineapple Business Park, Salway Ash, Bridport, Dorset, DT6 5DB
Tel: 0845 601 3321 or 01308 488066 whichever is cheaper
E-mail: taxvol@taxvol.org.uk
Website: www.taxvol.org.uk

11 Further information from Age UK

Age UK Information Materials

Age UK publishes a large number of free Information Guides and Factsheets on a range of subjects including money and benefits, health, social care, consumer issues, end of life, legal, employment and equality issues.

Whether you need information for yourself, a relative or a client our information guides will help you find the answers you are looking for and useful organisations who may be able to help. You can order as many copies of guides as you need and organisations can place bulk orders.

Our factsheets provide detailed information if you are an adviser or you have a specific problem.

Age UK Advice

Visit the Age UK website, www.ageuk.org.uk, or call Age UK Advice free on 0800 169 65 65 if you would like:

- further information about our full range of information products
- to order copies of any of our information materials
- to request information in large print and audio
- expert advice if you cannot find the information you need in this factsheet
- contact details for your nearest local Age UK

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, publications, online or by calling Age UK Advice.

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

In Wales, contact:
Age Cymru: 0800 022 3444
Website: www.agecymru.org.uk

In Scotland, contact Age Scotland
by calling Silver Line Scotland: 0800 470 8090
(This line is provided jointly by Silver Line Scotland and Age Scotland.)
Website: www.agescotland.org.uk

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

Support our work

Age UK is the largest provider of services to older people in the UK after the NHS. We make a difference to the lives of thousands of older people through local resources such as our befriending schemes, day centres and lunch clubs; by distributing free information materials; and taking calls at Age UK Advice on 0800 169 65 65.

If you would like to support our work by making a donation please call Supporter Services on 0800 169 87 87 (8.30 am–5.30 pm) or visit www.ageuk.org.uk/donate

Legal statement

Age UK is a charitable company limited by guarantee and registered in England and Wales (registered charity number 1128267 and registered company number 6825798). The registered address is Tavis House, 1-6 Tavistock Square, London, WD1H 9NA. Age UK and its subsidiary companies and charities form the Age UK Group, dedicated to improving later life.

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