Approaching retirement

A guide to tax and National Insurance contributions

IR121

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We have a range of services for people with disabilities, including guidance in Braille, audio and large print. For details please ask at your local HMRC office or Enquiry Centre.

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Tax does not stop when you retire, no matter how old you are.

But you will not have to pay National Insurance contributions if you work past State Pension age.

Introduction

Once you retire, there could be more in the way of tax-free income because there are extra income tax allowances when you reach 65 and 75. But broadly how much tax you pay depends on your income. Just as it has always done.

This leaflet covers in general terms what most people might want to know as they start their retirement. If you cannot find what you need

- please contact us by phone. You will find us in *The Phone Book* under Inland Revenue
- visit **www.hmrc.gov.uk**
- visit one of our HM Revenue & Customs Enquiry Centres. You will find the address
  - in *The Phone Book* under Inland Revenue
  - at **www.hmrc.gov.uk/enq**

Retiring early

National Insurance contributions

Once you reach the state pension age, currently 60 for women and 65 for men, you no longer have to pay National Insurance contributions. The contributions you have paid during your working life will determine how much State Pension you are entitled to. If you retire before the State Pension age you may want to think about making some top-up contributions either to boost the amount of your State Pension or to make sure that you will get the state bereavement payments for widows and widowers or bereaved civil partners.

Get a State Pension forecast

If you are more than four months away from State Pension age, you can find out how much you will get. Contact the Pension Service.

You will need your National Insurance number.

Income Tax

Nothing changes if you retire before State Pension age. Tax on an occupational pension will be dealt with through the Pay As You Earn System.
Anyone in business will fill in a Self Assessment Tax Return.

Claiming your State Pension

Four months before you retire, the Pension Service will send you a State Pension booklet. If the booklet does not arrive you should contact the Pension Service

- Online at **www.thepensionservice.gov.uk/approachingretirement/home.asp**
- phone **0845 300 1084**
- Textphone **0845 300 2086**

Lines are open 8.00am to 8.00pm Monday to Friday

You will need your National Insurance number.

The booklet explains the choices available to you when you reach State Pension age, including

- working past State Pension age
- if you are sick or disabled
- help and advice.

State Pension is not paid automatically, you must claim it.
The booklet tells you what you need to do.

You do not have to claim your State Pension straight away. If you put off claiming your State Pension you can choose, when you finally claim, to receive any arrears as extra State Pension or, as long as you put off claiming from 6 April 2005 for at least 12 months, a one-off taxable lump sum payment.

Whilst any lump sum counts as income for tax purposes, special rules apply so that it is taxed wholly at the highest tax rate that applies to your other income. These rules make sure any lump sum payment does not push you into a higher tax bracket or affect any entitlement to the age related personal tax allowances.

You can find further details about your options when deferring your claim to State Pension

- online at **www.direct.gov.uk/Over50s/RetirementAndPensions/fs/en** or **www.thepensionservice.gov.uk/statepensiondeferral/home.asp**
- *The Guide to State Pension Deferral (SPD1)* available to download at **www.thepensionservice.gov.uk/resourcecentre/spd/home.asp**
- phone the Pension Service Orderline on **08457 31 32 33**
- textphone **0800 604 0210**

What your HM Revenue & Customs office will do for you

Income Tax

The State Pension is taxable so the Pension Service will tell us when you are due to get it and how much.

Your HM Revenue & Customs office should send you a form asking for the details of any other pensions that you receive as soon as they get the details about your State Pension.
It is important that you tell your HM Revenue & Customs office about your pensions and other income otherwise you could pay too much tax. If you do not hear from your office, please contact them and ask for the form *Pension enquiry (P161).*

Your HM Revenue & Customs office will check to see if you should pay tax on your income, including the State Pension, and make the arrangements.

Pay As You Earn tax code

If you have an occupational pension or a job you will get a *Pay As You Earn Notice of Coding* form showing a tax code number. The notes that come with the form explain how the tax code will collect the tax on your State Pension.

Self Assessment

If you fill in a Self Assessment Tax Return it will be picked up as part of your income for the year.

Paying the right tax

What's taxable and what's not

If you have income not shown in the list contact your HM Revenue & Customs office for advice.

Taxable	Non Taxable
Pensions State Pension Private, personal and occupational pensions Retirement annuity	**State benefits** Disability Living Allowance Attendance Allowance Lump sum Bereavement Payments Pension Credit Free TV licence for over 75s Winter Fuel Payments Housing Benefit First 28 weeks of Incapacity Benefit
Interest on savings Bank & building society interest (not including ISAs and PEPs) National Savings & Investments accounts and bonds	**Interest on Savings** All ISAs and PEPs Savings Certificates Premium Bonds
Investment income Dividends (not including income from ISAs and PEPs)	**Rents** First £4,250 from a lodger (£2,125 if split between a couple)
State benefits Carer's Allowance Incapacity Benefit after week 29 Weekly Bereavement Allowance	**Tax Credits** Working Tax Credit
Rents From any second property From a lodger if more than £4,250 (£2,125 if split between a couple)	
Employment Full, part time and temporary (If you get perks or benefits ask your HM Revenue & Customs office for advice.)	
Other Pensioner bonds Trusts Self-employed income	

Income tax allowances

Your tax-free amount

Your total tax-free amount depends on
- your age, and
- your income.

Everyone gets a tax-free amount of £5,035 in the tax year ending on 5 April 2007.

Over 65

There is an extra tax-free amount for everyone over 65. But to get the full amount of this higher allowance your income must be less than £20,100 in the tax year. Beyond that there is a sliding scale depending on your income.

Tax Year 6 April 2006 to 5 April 2007	tax-free amount	
Your age by 5 April 2007	allowance for the year	allowance each week
Under 65	£5,035	£97
65 – 74	£7,280	£140
Over 75	£7,420	£142

Sharing your tax-free amount

If you do not have enough income to use up all of your tax-free amount you cannot give the surplus to someone else.

Charity Gift Aid

If your income is more than £20,100 please tell your HM Revenue & Customs office about any Gift Aid payments you make. It could increase your tax- free amount.

Blind Persons Allowance

If you are certified as blind and registered with your local authority you may be entitled to the Blind Person's Allowance. In Scotland and Northern Ireland we also accept a certificate from your ophthalmologist. If you are married or in a civil partnership and you don't have enough income to pay tax all or part of this allowance can be transferred to your spouse or civil partner.

Married Couple's Allowance

Married Couple's Allowance reduces the amount of income tax a married couple or civil partners have to pay. The amount you get depends on your ages and, for couples who married before 5 December 2005, the husband's total income from all sources. For civil partners and couples who married on or after 5 December 2005, the amount depends on the total income of the spouse or civil partner with the higher income. The allowance is given in terms of tax.

If you are married and either you or your husband or wife was born before 6 April 1935, you can claim Married Couple's Allowance. You can also claim the allowance if either you or your civil partner were born before 6 April 1935.

If you, your husband or wife or civil partner are not getting the allowance and you think you may be eligible, phone any HM Revenue & Customs office for advice.

Rates of tax - how much you pay

Once you have used up your tax-free amount you will pay tax on a sliding scale on whatever is left over.

For the tax year 2006 - 2007 the rates of tax are

- £1 - £2,150 — 10% - the starting rate
- £2,151 - £33,300 — 22% - the basic rate
- More than £33,300 — 40% - the higher rate

Should you be paying tax?

The tax year 6 April 2006 - 5 April 2007

You can work it out

First, pick your age from the table below and see how much income you can have a year, or a week, without paying tax.

Income tax allowances - your tax-free amount

Tax-free income

Your age by 5 April 2007	Annual limit	Weekly limit
Under 65	£5,035	£97
65 to 74	£7,280	£140
over 75	£7,420	£142

From the table above, enter your annual tax-free income in box 1.

Box 1 £

If you are a married man who married before 5 December 2005, or the spouse or civil partner with the higher income and you married or formed a civil partnership on or after 5 December 2005, and either you or your spouse/civil partner were born before 6 April 1935, enter £3,961 in box 2. If you are unsure whether you can claim Married Couple's Allowance phone any HM Revenue & Customs office for advice.

Box 2 £

If you are registered blind with your local authority or you are completing this form for someone who is registered enter £1,660 in box 3.

If you live in Scotland or Northern Ireland your local authority may not keep a register, if they do not please phone any HM Revenue & Customs office for advice

Box 3 £

Add up boxes 1,2 and 3 and put the total tax-free income in box 4.

Box 4 £

Your yearly income

Next, work out the income on which you could have to pay tax

State pension - the weekly entitlement x 52 (Do not include any Pension Credit or any State Pension lump sum)		£
Other pensions, for example, from a previous employer		£
Pay from employment, or profits from working for yourself		£
Jobseeker's Allowance and taxable Incapacity Benefit. (Do not include Working Tax Credit, Child Tax Credit, or social security benefits such as Child Benefit or Attendance Allowance)		£
Interest from banks and building societies - include the amount before tax was taken off. If you have a joint account just include your share. (Do not include any ISA interest)		£
Company dividends and any other income you think may be taxable, for example, rents you receive.		£
Total	Box 5	£

Now, is the figure in box 5 more than the figure in box 4?

Yes ☐ No ☐

If 'yes' then look at the **tax to pay** column in the following table.

If 'no' look at the **no tax to pay** column in the following table

Paying tax or claiming it back

Type of Income	What you should do	
	Tax to pay	**No tax to pay**
Occupational pension or employment	If you are not paying tax through Pay As You Earn contact any HM Revenue & Customs office for advice.	Contact your HM Revenue & Customs office for advice about your Pay As You Earn tax code number and claiming a repayment.
Bank and building society interest	The bank or building society should be automatically taking off 20% in tax. However, if you pay tax on less than £2,150 of your income then you are only due to pay tax at the starting rate of 10%. You can claim back tax taken off your interest that is more than you need to pay. Contact any HM Revenue & Customs office for advice	Contact any HM Revenue & Customs office or your bank or building society and ask for the form *Getting your interest without tax taken off (R85)* to stop any more tax being taken off. You can ask any HM Revenue & Customs office how to claim a repayment of any tax already paid. Remember, if your income goes up you may have to pay tax.

Type of Income	What you should do	
	Tax to pay	**No tax to pay**
Annuities	The company paying the annuity will automatically take off 22% in tax. You only have to pay a 10% rate of tax on the first £2,150 of your taxable income so you may be due some tax back. You can ask any HM Revenue & Customs office for advice.	Ask any HM Revenue & Customs office for the form *Application to receive an annuity without tax taken off (R89)* to see if you can claim a repayment. And to stop any more tax being taken off.
Company dividends and company tax credits	The tax automatically taken off should cover what you need to pay. But if you have enough income to put you in the higher rate of tax bracket you must fill in a Self Assessment Tax Return.	You cannot stop paying this tax or get the tax back. You should speak to a financial adviser about your investments. It may pay to switch to a non-taxable type of saving.

Working and getting an occupational pension

Employment

Our system should pick you up. You will not have a form *Details of employee leaving work (P45)* because you are on pension, so your new employer will ask you to fill in the form *PAYE - notice of new employee (P46)*. Your employer will then send it to us. If you do not hear from us, please contact the HM Revenue & Customs office that deals with your pension.

Should you be paying tax?

If you are paying tax on your occupational pension through Pay As You Earn then you will also have to pay tax on your job. Please use the tax check on pages 8-9 to see how much income you have in a tax year. If it looks like you have enough tax allowances to give you some spare tax-free income ask your HM Revenue & Customs office to split the allowances between the two tax code numbers.

State Pension

If you have a form P45 from a previous employer, give the form to your new employer. If not, your employer will ask you to fill in the form *PAYE - notice of new employee (P46).* The State Pension is taxable so when you add it to the income from a job it may mean that you have to start paying tax. If you do have to pay tax, the HM Revenue & Customs office that deals with your employer will send you a PAYE Coding Notice with a tax code and a note explaining how it works.

Self-employed - in business

If you start working for yourself you must register as a self-employed person within three months. For advice and to register phone

- **0845 915 4515**
- textphone **0845 915 3296.**
  Lines are open 8.00am to 8.00pm Monday to Friday 8.00am to 4.00pm Saturday and Sunday (including bank holidays).

Over the State Pension age

National Insurance contributions

You do not have to pay National Insurance contributions if you are getting the State Pension, but your employer will need confirmation of this.

Please phone **0845 60 60 265** and ask for the form *Certificate of Age Exception (CA4140)*. The form tells your employer not to take National Insurance contributions from your earnings.

Under the State Pension age

The amount of State Pension you are entitled to depends on the National Insurance contributions you pay during your working life. To get a full basic State Pension you must have qualifying years of contributions,

- men must have 44 years
- women must have 39 years.

Retiring abroad

Pay tax in the UK

How much tax you pay will depend on
- which country you pay it in
- where the income comes from, and
- how much time you spend abroad.

Broadly, if you are resident in the United Kingdom (UK) you will pay UK tax on your income. If you are not resident you will pay UK tax only on income from the UK.

In basic terms, you are not resident if
- you are living in another country for at least a full tax year, 6 April to 5 April, and
- your visits back to the UK will total less than 183 days in any tax year.

European Union

There is no standard taxation in the European Union. But there are numerous tax agreements between countries so you should never have to pay the tax twice on the same income.

The State Pension, although it comes from the UK, will not be taxed in the UK. So you would have to declare the amount on any foreign tax form you might be asked to complete.

Before you go

Depending on your income and how long you intend to be abroad, you might be due for a repayment of tax for the year that you go. Please ask any HM Revenue & Customs office for *Leaving the United Kingdom (form P85)*.

Anyone who is going to live abroad and would like more details about tax and national insurance
- visit **www.hmrc.gov.uk/cnr/** or
- phone **0845 0700 040**.
  Lines are open 7.30am to 5.00pm Monday to Friday.

Helpline

Getting older and passing things on

A brief note about Inheritance Tax

Inheritance tax could be due when
- someone dies or
- assets, such as a house, are transferred to a discretionary trust or a company.

Leaving more than £285,000

The starting point for Inheritance Tax on a person's estate, in this tax year (6 April 2006 - 5 April 2007), is £285,000.

Broadly, a person's estate includes the total value of
- everything owned in his or her name
- gifts made where the person continued to benefit from the gift, for example, continuing to live in a house that has been given to someone else
- certain gifts made in the seven years before death
- the share of anything owned jointly
- assets held in trust that give a personal benefit, for example, an income.

Gifts

Anything that you give during your lifetime or leave on your death to your spouse is free of Inheritance Tax. But both of you must live permanently in the UK.

If you would like further details please
- visit **www.hmrc.gov.uk/cto/iht.htm** or
- phone our Probate and Inheritance Tax Helpline on **0845 3020 900**.
  Lines are open 9.00am to 5.00pm Monday to Friday.

Helpline

Further information

We recommend

The Pensioner's Guide - Making the most of government help and advice.

This guide from the Pension Service covers the range of help and advice for pensioners from central and local government. The guide will point you in the right direction for things like

- Winter Fuel Payment
- Pension Credit
- Free TV licence for over 75's

It also includes pages of useful contacts. These include, everything from Citizens Advice, Help the Aged and the National Minimum Wage Helpline to the Anchor Trust, who offer help and advice for physically or mentally disabled older people.

To get the booklet order online

- at **www.thepensionservice.gov.uk/resourcecentre/orderform-step1.asp**
- phone **0845 60 60 265** or
- textphone **0845 60 64 064**.
  Lines are open 8.00am to 8.00pm every day

The forms you might have to fill in

Pensions

Pension Enquiry (P161)
Asks people paying tax under PAYE - 'Are you getting a pension now or approaching State Pension age?' This will help your HM Revenue & Customs office check your tax code number.

Starting a job

PAYE - notice of new employee (P46)
Your employer will give you this if you start a job without a P45. It asks if you are also getting a pension.

Getting tax back

Claim for repayment (R40)
This form asks for details of your income in a particular tax year. It also has sections where you can claim for income tax allowances such as the Blind Person's Allowance. You will have to fill it in if you ask for a repayment of tax.

Savings

Getting your interest without tax taken off (R85)
If you have some money in a bank or building society you will be paying tax on the interest unless you have filled in a form R85. The bank or building society automatically take tax off the interest. If you are not due to pay income tax, use this form to get the interest without tax taken off.

Annuities

Application to receive an annuity without tax taken off (R89)
The society or company paying your annuity will automatically take tax off before it is paid to you. If you are unlikely to have to pay income tax, use the appropriate form to ask for your annuity to be paid without tax taken off. There are conditions, but these are explained on the forms.

Customer Service

HM Revenue & Customs commitment

We aim to provide a high quality service with guidance that is simple, clear and accurate.

We will
- be professional and helpful
- act with integrity and fairness, and
- treat your affairs in strict confidence within the law.

We aim to handle your affairs promptly and accurately so that you receive or pay only the right amount due.

Putting things right

If you are not satisfied with our service, please let the person dealing with your affairs know what is wrong. We will work as quickly as possible to put things right and settle your complaint.

If you are still unhappy, ask for your complaint to be referred to the Complaints Manager.

Customers with particular needs

We offer a range of facilities for customers with particular needs, including
- wheelchair access to nearly all HMRC Enquiry Centres
- help with filling in forms
- for people with hearing difficulties:
  – BT Typetalk
  – Induction loops.

We can also arrange additional support, such as
- home visits, if you have limited mobility or caring responsibilities and cannot get to one of our Enquiry Centres
- services of an interpreter
- sign language interpretation
- leaflets in large print, Braille and audio.

For complete details please
- go online at **www.hmrc.uk/enq** or
- contact us. You will find us in *The Phone Book* under Inland Revenue.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

Issued by
HM Revenue & Customs Better Guidance Programme

Printed by The Astron Group 11/06 MMN 5008775

HM Revenue & Customs