



Approaching retirement

A guide to tax and
National Insurance contributions

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Customer Service

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

**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 get close to retiring. If you cannot find what you need or need further information:

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

Retiring early

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 bereavement payments for widows and widowers or bereaved civil partners.

National Insurance contributions

Get a State Pension forecast

If you are more than four months away from State Pension age and will retire before 6 April 2010, you can find out how much you will get. Call the Future Pension Centre on **0845 300 0168** and they will fill in the form with you over the phone. Lines are open from 08.00 to 20.00 Monday to Friday, and 09.00 to 13.00 on Saturday.

You will need your National Insurance number.

Income Tax

If you retire before State Pension age tax on company and personal pensions and retirement annuities will be dealt with through the Pay As You Earn (PAYE) system. Anyone who is self-employed will fill in a Self Assessment Tax Return.

Claiming your State Pension

Four months before you reach State Pension age, 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.thepensionsservice.gov.uk/approachingretirement/home.asp
- phone **0845 300 1084** (textphone **0845 300 2085**).
Lines are open 08.00 to 20.00 Monday to Friday and 09.00 to 13.00 on Saturday.

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.

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.

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.

For further details about your options when deferring your claim to State Pension go to:

- www.thepensionsservice.gov.uk/statepensiondeferral/home.asp
- www.thepensionsservice.gov.uk/resourcecentre/spd/home.asp and download *State Pension Deferral - your guide* (SPD1)

State Pension age

The State Pension age is currently 65 for men and 60 for women. The State Pension age for women will increase gradually from 2010, so that by 2020 it will be 65.

The increase in the State Pension age will not affect women born on or before 5 April 1950. Women born between 6 April 1950 and 5 April 1955 (inclusive) will have a State Pension age between 60 and 65. Women born on or after 6 April 1955 and before 6 April 1959 will have a State Pension age of 65.

The State Pension age for both men and women is to increase from 65 to 68 between 2024 and 2046.

The Pensions Act 2007

The Pensions Act 2007 and Pensions Act (Northern Ireland) 2008 introduced changes to the State Pension system. In the main these changes will only affect you if you reach State Pension age on or after 5 April 2010.

Measures in the Act will, over the coming years, make the state system more generous, fairer to women and carers and more widely available.

The Act also created the Personal Accounts Delivery Authority to advise on the introduction of a new, simple, low cost pensions savings vehicle.

You can find out more about changes to State Pension age and Pension Reform at www.thepensionsservice.gov.uk

What we 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.

We should send you a form asking for the details of any other pensions that you receive as soon as we get the details about your State Pension. It is important that you tell us about your pensions and other income otherwise you could pay too much or too little tax. If you do not hear from us, please get in touch and ask for the *Pension coding form* (P161) or download it from our website at www.hmrc.gov.uk

We will check to see if you should pay tax on your income, including the State Pension.

Pay As You Earn tax code

If you have a company, personal pension, retirement annuities, or a job you may get a PAYE Coding Notice letter showing a tax code number. The letter also explains how the tax code is calculated and how it collects tax on your State Pension.

Self Assessment

If you fill in a 2009 Self Assessment Tax Return you will need to include the total amount of State Pension you were entitled to receive from 6 April 2008 to 5 April 2009, whether or not you received that amount in the year (52 x the weekly amount).

Paying the right tax

What's taxable and what's not

If you have income not shown in the list contact us for advice.

<p>Taxable</p> <p>Pensions State Pension Personal and occupational pensions Retirement annuity</p> <p>Interest on savings Bank and building society interest (not including ISAs) National Savings & Investments accounts and bonds Pensioner Bonds</p> <p>Investment income Dividends and Unit Trust Income (not including income from ISAs and PEPs)</p> <p>State benefits Carer's Allowance Employment and Support Allowance (contributory element) Incapacity Benefit after week 29 Weekly Bereavement Allowance</p> <p>Rents From any second and subsequent property More than £4,250 from a lodger (£2,125 if split between a couple)</p> <p>Employment Full, part-time and temporary <i>(If you get perks or benefits ask us for advice.)</i></p> <p>Other Income from Trusts Self-employed income</p>	<p>Non-taxable</p> <p>State benefits Disability Living Allowance Attendance Allowance Lump sum Bereavement Payments Pension Credit Free TV Licence for over 75s Winter Fuel Payments Housing Benefit Employment and Support Allowance (income-related element) First 28 weeks of Incapacity Benefit</p> <p>Interest on savings All ISAs National Savings & Investments – Fixed Interest and or Index Linked Savings Certificates Premium Bonds</p> <p>Rents First £4,250 from a lodger (£2,125 if split between a couple)</p> <p>Tax credits Working Tax Credit</p>
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Income Tax allowances

Your tax-free allowance

Your total tax-free allowance depends on:

- your age, and
- your income.

Nearly everyone who lives in the UK gets a tax-free allowance of £6,475 in the tax year ending on 5 April 2010. This is the amount of income you can receive each year without having to pay tax on it.

Personal Allowances	2008-09	2009-10
Personal Allowance	£6,035	£6,475
Personal Allowance for people aged 65 and over but under 75	£9,030	£9,490
Personal Allowance for people aged 75 and over	£9,180	£9,640
Blind Person's Allowance	£1,800	£1,890
Married Couple's Allowance	£6,625	£6,965
Income limit for those aged 65 and over	£21,800	£22,900
Minimum amount of Married Couple's Allowance	£2,540	£2,670

65 and over

There is a higher tax-free allowance for everyone aged 65 or more. These allowances are subject to an income limit of £22,900 for 2009-10. Where an individual's income is below the income limit, the full amounts shown above are due. If the income exceeds the income limit, the allowances are reduced by £1 for every £2 that the income exceeds the limit. An individual's entitlement is not reduced below the basic tax-free allowance for someone aged 65.

Sharing your tax-free allowance

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

Charity Gift Aid

If your income before tax is more than £22,900 please tell us about any Gift Aid payments you make. Your Gift Aid donations could increase your tax-free allowance.

Blind Person's 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.

Married Couple's Allowance

Married Couple's Allowance does not provide a tax-free allowance, but it does reduce the amount of income tax a married couple or civil partners have to pay. The amount you get depends on your income. Married Couple's Allowance can be claimed if either you, your spouse or civil partner were born before 6 April 1935 and:

- you are a man or woman who married before 5 December 2005, or
- you are a man or woman who married or formed a civil partnership on or after 5 December 2005 and you were living with your spouse or civil partner for all or part of the year ending 5 April 2009.

For marriages before 5 December 2005, the allowance is claimed in the first place by the husband. For marriages and civil partnerships formed on or after 5 December 2005, the allowance is claimed by the spouse or civil partner with the higher income.

This applies unless:

- you or your spouse or civil partner has asked for half of the minimum amount of the allowance to be given to each of you, or
- both of you have asked for the whole of the minimum amount of the allowance to be given to the wife (or spouse or civil partner) with the lower income for marriages or civil partnerships on or after 5 December 2005).

The Married Couple's Allowance consists of two parts:

- the minimum amount of £2,670 for the year ended 5 April 2010, and
- an amount based on the income of you, or your spouse or civil partner.

When the two parts are added together the maximum allowance available totals £6,965 or £2,670 plus £4,295.

The allowance is given at the rate of 10% as a reduction of your tax bill, if you have one. So, a Married Couple's Allowance of £6,965 gives a maximum tax saving of £696.50 (£6,965 at 10%).

Income restriction

Just like the higher age-related levels of Personal Allowance, this allowance is subject to an income restriction. If the income of:

- the husband for marriages before 5 December 2005, or
- the spouse or civil partner with the higher income for marriages or civil partnerships on or after 5 December 2005

is over £22,900 for the year ending 5 April 2010, the allowance is reduced by £1 for every £2 of income above £22,900. The allowance is not reduced below £2,670.

The restriction is only made after the income restriction has been applied to your Personal Allowance. The restriction to the Married Couple's Allowance is reduced by any reduction already made to your Personal Allowance.

If you, your husband, wife, or civil partner are not getting the allowance and you think you may be eligible, phone us for advice.

Here is an example of how the tapering of the Married Couple's Allowances works for the tax year ending 5 April 2010.

The claim to Married Couple's Allowance is made by the husband aged 76.

Income		£33,500
less income restriction		<u>£22,900</u>
Excess		£10,600
Personal Allowance (75+)		£9,640
less excess of £10,600 x 1/2 =	£5,300	<u>£3,165</u>
	(restricted to give basic allowance)	
Personal Allowance due		£6,475
Married Couple's Allowance		£6,965
less excess of £10,600 x 1/2 =	£5,300	
minus reduction made from Personal Allowance	£3,165	<u>£2,135</u>
Married Couple's Allowance		£4,830

Up to the tax year ending 5 April 2010, there were two amounts of Married Couple's Allowance. There was one amount for people born before 6 April 1935 but aged below 75 in the tax year and a higher amount for people born before 6 April 1935 but aged 75 or over in the tax year. For the tax year ending 5 April 2010, everyone born on or before 6 April 1935 will be aged 75 or over during the year.

Rates of tax - how much you pay

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

For the tax year 2009-10 the rates of tax are:

- up to £37,400¹ 20% - the basic rate
- more than £37,400¹ 40% - the higher rate.

¹Should you be paying tax?

The tax year 6 April 2009 - 5 April 2010

You can work it out

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

If you are in any doubt, or this table does not match your circumstances please contact us for advice.

Income Tax allowances – your tax-free allowance

Tax-free income		
Your age by 5 April 2010	Annual limit	Weekly limit
Under 65	£6,475	£124.52
65 to 74	£9,490	£182.50
over 75	£9,640	£185.38

Where your annual income exceeds £22,900, reduce the annual limit by £1 for every £2 above this amount. Do not reduce your annual tax-free income below £6,475.

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

Box 1 £

If you are registered blind with your local authority or you are completing this form for someone who is registered enter £1,890 in box 2.

If you live in Scotland or Northern Ireland your local authority may not keep a register and you may have a certificate from an ophthalmologist (eye specialist).

Box 2 £

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

Box 3 £

Your yearly income

Next, work out the income on which you could have to pay tax. All the figures should show income before tax has been taken off.

State Pension - the weekly entitlement x 52 (Do not include any Pension Credit or any State Pension lump sum)	£	<input type="text"/>
Other pensions, for example, from a previous employer	£	<input type="text"/>
Pay from employment, or profits from working for yourself	£	<input type="text"/>
Jobseeker's Allowance, Employment and Support Allowance (contributory element) and taxable Incapacity Benefit. (Do not include Working Tax Credit, Child Tax Credit, or state benefits such as Child Benefit or Attendance Allowance)	£	<input type="text"/>
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)	£	<input type="text"/>
Company dividends and any other income you think may be taxable, for example, rents you receive.	£	<input type="text"/>
Total	Box 4	£ <input type="text"/>

Now, is the figure in box 4 more than the figure in box 3? If yes, you may have a tax liability. See rates of tax - how much you pay, on page 9. Then deduct any Married Couple's Allowance that you are entitled to (see pages 7 and 8).

Do you have to pay tax for the year ending 5 April 2010?

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 PAYE contact us for advice.	Contact us for advice about your PAYE tax code number and claiming a repayment.
Bank and building society interest	<p>The bank or building society will be automatically taking off 20% in tax.</p> <p>From the tax year ending 5 April 2009 there is a new 10% starting rate for savings. If you have an income from savings (broadly bank and building society interest) which has been taxed at source and your income is less than £2,440, then you may be entitled to a repayment of tax. You can ask us how to claim a repayment of any tax already paid. Alternatively you can phone the Registration Helpline on 0845 980 0645.</p>	<p>Contact us or your bank or building society and ask for the form <i>Getting your interest without tax taken off</i> (R85) to stop any more tax being taken off. You can ask us how to claim a repayment of any tax already paid. Alternatively, you can phone the Registration Helpline on 0845 980 0645.</p> <p>Remember, if your income goes up you may have to pay tax, and contact your bank or building society to withdraw the R85.</p>

Type of income	What you should do	
	Tax to pay	No tax to pay
<p>Purchased annuities</p> <p>Retirement annuities are taxed under PAYE (see page 4).</p>	<p>The company paying the annuity will automatically take off 20% in tax.</p>	<p>Ask us for the form <i>Application to receive an annuity without tax taken off</i> (R89) to see if you can claim a repayment. And to stop any more tax being taken off.</p>
<p>Company dividends and company tax credits</p>	<p>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.</p>	<p>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.</p>

Working and getting an occupational pension

Employment

You will not have a form *Details of employee leaving work* (P45) because you are on a pension, so your new employer will ask you to fill in the form *Employee without a form P45* (P46). Your employer will then send it to us. If you do not hear from us, please contact the HMRC office that deals with your pension.

Should you be paying tax?

If you are paying tax on your occupational pension through PAYE then you will also have to pay tax on your job. Please use the tax check on pages 10 and 11 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 you can ask us 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 *Employee without a form P45* (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 from the end of the month in which you started working for yourself. For advice and to register:

- phone **0845 915 4515**
- textphone **0845 915 3296**.

Lines are open 08.00 to 20.00 Monday to Friday
08.00 to 16.00 Saturday and Sunday (including bank holidays).

National Insurance contributions

Over the State Pension age

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

Please phone **0845 302 1479** or textphone **0845 915 3296** and ask for the form *Certificate of Age Exception* (CA4140). The form tells your employer not to take National Insurance contributions from your earnings.

Paying tax in the United Kingdom

Retiring abroad

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 us for *Leaving the United Kingdom* (form P85), or you can download it from our website at www.hmrc.gov.uk

 **Helpline**

Anyone who is going to live abroad and would like more details about tax and National Insurance:

- go to www.hmrc.gov.uk or
- for advice on National Insurance phone
 - from UK **0191 225 4811**
 - from overseas **44 191 203 7010**
- for advice on tax phone
 - from UK **0845 070 0040**
 - from overseas **44 151 210 2222**.

Lines are open 07.30 to 17.00, Monday to Friday.

A brief note about Inheritance Tax

Getting older and passing things on

Inheritance Tax could be due when:

- someone dies, or
- assets, such as a house, are transferred to most types of trust or a company.

Leaving more than £325,000

The starting point for Inheritance Tax on a person's estate, in this tax year (6 April 2009 - 5 April 2010), is £325,000 or up to £650,000 for married couples and civil partners.

Broadly, a person's estate includes the total value of:

- everything owned in his or her name
- the share of anything owned jointly
- assets held in trust that give a personal benefit, for example, an income.
- most gifts made in the seven years before death
- gifts made after 18 March 1986 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 left-over pension funds.

Gifts

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

Helpline

If you would like further details please:

- go to www.hmrc.gov.uk/inheritancetax/ or
- phone our Probate and Inheritance Tax Helpline on **0845 30 20 900**.

Lines are open 09.00 to 17.00, Monday to Friday.

Further information

We recommend

The Pensioner's Guide

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 75s.

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 older people with disabilities or learning difficulties.

You can order copies of the guide:

- online, go to www.thepensionerservice.gov.uk/resourcecentre/orderform-step1.asp
- phone **0845 7 31 32 33** (textphone **0845 604 0210**).

Lines are open 07.00 to 23.00 every day.

The forms you might have to fill in

Pensions

P161 *Pension coding form*

Advises people that their current PAYE tax code may need changing because they have started to receive an occupational or personal pension or may soon be getting their State Pension and asks for information to enable HMRC to check their tax code.

Starting a job

P46 *Employee without a form P45*

Your employer will give you this if you start a job without a form P45. It asks if you are also getting a pension.

Getting tax back

R40 *Claim for repayment of tax deducted from savings and investments*

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

R85 *Getting your interest without tax taken off*

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 takes 20% tax off the interest. If you are not due to pay Income Tax, use this form to get the interest without tax taken off.

Purchased annuities

R89 *Application to receive an annuity without tax taken off*

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. Retirement annuities already have tax deducted under PAYE.

You can download the forms from our website. Go to www.hmrc.gov.uk

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 Enquiry Centres
- help with filling in forms
- for people with hearing difficulties
 - RNID 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.gov.uk/enq or
- contact us. You will find us in *The Phone Book* under *HM Revenue & Customs*.

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

Customer Information Team

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