### Give advance warning

**ACTION POINTS** 

Tell your tax office a few months before you retire or draw a pension, so that it has time to adjust your tax.

#### Check your tax code

Make sure your tax code shows the right amount of state pension and other untaxed income.

#### Keep your income down

Save tax by keeping your taxable income under the limit for receiving the full age allowances.

#### Stop paying National Insurance

Still working after state pension age? You can stop paying National Insurance by giving your employer a 'certificate of age exception'.

# **TIP**

The charity TaxHelp for Older People offers free tax advice for people aged 60 or over with a household income of less than £15,000. The charity TaxAid offers free help to people of any age on low incomes.

#### Deferring state pension

You can put off drawing your state pension in return for either a higher pension later on, or a normal pension plus a lump sum. But when you do eventually start to draw your state pension, any extra pension is taxable in the normal way.

A lump sum is taxed at the top rate of tax payable on your other income, but it will not take you into a higher tax bracket and it is not taken into account when working out whether you are entitled to a higher personal allowance.

# Get the best out of life as you get older by knowing what allowances you can claim

When you retire or start to draw a pension, your tax is likely to change. Your income may fall and, from the year you reach 65, you may qualify for a higher personal allowance – which means you're allowed more income before you have to pay tax. People born before 6 April 1935 may also be eligible for married couple's allowance.

#### STATE PENSION AND BENEFITS

The state basic, additional and graduated pensions are taxable but paid without any tax deducted. If your income is high enough for tax to be due on any state pension you receive, it will be deducted from any private pension or earnings you might have, under PAYE. If you have no income taxed under PAYE, you will have to complete a tax return, but you'll be sent the short version if possible. To check how much taxable state pension you received during the tax year, ask your local Pension Service office (in the phone book) for form BR735.

#### If you continue to work

You do not have to pay National Insurance once you are over state pension age. If you are selfemployed, payments stop if you are at least this age at the start of the tax year (6 April) – tick box 3.94 in the self-employment pages of the tax return. If you are an employee, payments stop on your birthday. Give your employer a certificate of age exception – available by ticking the relevant box in the form on which you claim your state pension.

### TAX-FREE STATE BENEFITS

- £10 Christmas bonus
- attendance allowance if you need help with your personal care
- war widow's pension and compensation for wounds, illness or injuries paid to members of the forces
- > pension credit a means-tested benefit that

tops up your income to a minimum (in 2006-2007) of £114.05 a week for a single person and £174.05 for a couple, and/or an extra top-up if you have made your own retirement savings

 winter fuel payments and age-related payments to help with council tax bills.

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If you defer your pension in return for a lump sum, you can put off drawing the lump sum until the year after you start drawing your pension. This is worthwhile if you expect your tax rate to fall (when you stop work, say).

#### **PRIVATE PENSIONS**

An employer's pension or personal pension is taxable (apart from the tax-free payments shown below), and tax is usually deducted before you get it, under PAYE.

# Working out the amount of tax to be deducted

When you retire, you may be sent a pension enquiry form (P161), so that your tax office can work out your code. Your tax office gives the pension scheme a tax code for you. This tells your scheme how much tax to deduct (see p11). It will include tax due on your state pension and on other income received without tax deducted (such as National Savings & Investments income bonds).

PAYE does not apply to income that is paid from retirement annuity contracts (the old type of personal pension available before 1988), though it will do so from April 2007. Until then, tax is normally deducted from these at the basic rate. And if you have a 'purchased life annuity' (one that you buy

### **EXAMPLE**

Harry had a state pension of £7,000 and an employer's pension of £8,000 in 2005-2006. Tax came to £1,490, but the whole lot was deducted under PAYE from his employer's pension – his state pension is paid with no tax deducted. Nearly a fifth of his employer's pension went in tax, but this was correct because it included tax on his state pension.

independently rather than one you receive through a pension scheme), part of the income is normally treated as a return of your capital and is tax-free. The rest is taxable and paid with tax taken off.

#### **MONEY FROM YOUR HOME**

If you take out an equity release scheme (lifetime mortgage or home reversion scheme), the lump sum released is tax-free but any income from investing it (if you buy an annuity, for instance) is taxed in the normal way. Some lifetime mortgages release the loan in periodic payments that mimic an income but are tax-free.

#### **CARE INSURANCE**

A payout from a lifetime care insurance policy is normally tax-free so long as you took the policy out before you started to need care. Payouts from a lifetime care annuity (bought with a lump sum when you already need care) are tax-free only if they are paid direct to the care provider.

#### **INSURANCE BONDS**

Insurance bonds are often sold as a way of topping up income in retirement. You can draw a limited income each year without it affecting your tax at the time (see p38) but any withdrawals that are above the limit, or when you finally cash the bonds in, count as income and can reduce your personal allowance.

#### MAINTENANCE RELIEF

If you or your ex-spouse (or ex-civil partner) were born before 1935 and you pay maintenance under a

### TAX-FREE PRIVATE PENSION PAYMENTS

- Amounts taken as a lump sum (note, though, that there is a cap on the amount – see our chapter on pensions, p27)
- Any extra pension that you receive because you were injured or disabled at work
- 10 per cent of most foreign pensions.

## **E** SAVE BY REDUCING INCOME

# Your income affects the age-related allowances you get

When you reach 65, you may become eligible for higher tax allowances (see the opposite page). The amount you're entitled to depends on age and total income.

If you are losing out because the amount of total income is too high, you could save tax by reducing it. So think about:

- choosing tax-free rather than taxable investments for example, by using your yearly Isa allowance and considering National Savings & Investments savings certificates
- investing for capital gains rather than income growth unit trusts, say
- paying extra pension contributions (possible up to the age of 75)
- putting off claiming your state pension if you don't need it yet (see p31)
- making gift-aid donations to charities, churches or approved sports clubs. A donation made now and carried back to last year will reduce your total income for 2005-2006.

legally binding agreement, you can claim a maintenance deduction from your tax bill.

This deduction is 10 per cent of your payments below £2,350 in 2006-2007 (£2,280 in 2005-2006). So in 2006-2007 the maximum deduction is £235 (£228 in 2005-2006).

#### SAVINGS AND INVESTMENTS

Savings interest is usually paid net but you can arrange to have it paid gross if you are a non-taxpayer (see p36). Not all banks and building societies will split interest from a joint account if only one of you is a non-taxpayer. In that case, you will have to reclaim tax on your half of the interest – use form R40.

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Non-taxpayer? If you receive savings interest with tax taken off, complete form R85 to get the interest paid before tax. If you've paid too much tax, claim a refund using form R40 (see p36).

# **AGE-RELATED ALLOWANCES**

#### How the higher personal allowance and married couple's allowance work

Everyone gets a personal allowance – an amount of income you can have tax-free each year. For 2006-2007, it is £5,035 (£4,895 in 2005-2006). But from the start of the tax year in which you reach 65, you may get a higher amount. People born before 6 April 1935 may also be eligible for married couple's allowance.

#### **HIGHER PERSONAL**

The maximum higher personal allowance people aged 65 to 74 can get is £7,280 in 2006-2007 (£7,090 in 2005-2006). For people aged 75 and over, it is £7,420 (£7,220 in 2005-2006).

You get the full amount if your total income is below a lower limit. You lose all your higher personal allowance and get just the basic allowance if it is above an upper limit. If it is between the lower and upper income limits, you get some higher personal allowance. The amount you get is reduced by £1 for every £2 of income above the lower income limit until it is reduced to the amount of the basic personal allowance – see 'Agerelated allowance entitlement', below, for the limits and what to do if this applies to you.

#### **MARRIED COUPLE'S**

If either you or your husband or wife were born before 6 April 1935, you can claim married couple's allowance as well as your personal allowance. Same-sex couples who have registered as civil partners can also claim if either partner was born before this date. You get one allowance per couple. It goes to the husband or, if you were married or registered as civil partners on or after 5 December 2005, the partner with the higher income. Couples married before 5 December can also opt for the allowance always to go to the higher-income partner.

In the year you marry or register as a civil partner, you get one twelfth of the allowance for each complete month of marriage. If you separate or divorce, you continue to get the allowance for the rest of the tax year, after which it stops unless you remarry and qualify again.

# AGE-RELATED ALLOWANCE ENTITLEMENT

Use our table to work out whether you're entitled to age-related allowances. First, find your age and then check where your income falls for the relevant tax year (for higher married couple's allowance, use the recipient's details). If it falls:

- below the lower limit, you get the full amount
- above the upper limit, you get the minimum allowance
- between the two, you get some allowance. You should use the calculator, p34, to find out how much you can get.

**Example** Freda is 66. Her income for the 2005-2006 tax year is £21,000. She is entitled to some higher personal allowance as £21,000 falls between the lower limit (£19,500) and upper limit (£23,890). Our calculator helps her work out how much she will get.

<b>INCOME LIMITS</b>	S AT A GL	ANCE		
Age	2005-2006	2006-2007		
HIGHER PERSONAL – LOWER LIMIT				
65 plus	£19,500	£20,100		
HIGHER PERSONAL – UPPE				
65 to 74	£23,890	£24,590		
75 or over	£24,150	£24,870		
HIGHER MARRIED COUPLE	'S – LOWER LIN	ЛІТ		
Recipient under 65	£19,500	£20,100		
Recipient 65 to 74	£23,890	£24,590		
Recipient 75 or over	£24,150	£24,870		
HIGHER MARRIED COUPLE'S – UPPER LIMIT				
Recipient under 65/	£26,750	£27,530		
older partner under 75				
Recipient under 65/	£26,890	£27,670		
older partner 75 or over				
Recipient 65 to 74/	£31,140	£32,020		
older partner under 75				
Recipient 65 to 74/	£31,280	£32,160		
older partner 75 or over	624 5 40	622.440		
Both of you aged 75 or over	£31,540	£32,440		

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If you're losing out on age-related allowances because your income is too high, you could reduce income by saving on tax – by making giftaid donations to charity, say. For more on this and other tips, see 'Save by reducing income', p32.

The married couple's allowance gives you a reduction in your tax bill of up to 10 per cent of the allowance. The minimum allowance is £2,350 in 2006-2007, reducing your tax bill by up to £235 (£2,280 and £228 for 2005-2006).

You may qualify for higher married couple's allowance, taking the total to £6,065 in 2006-2007 (£5,905 in 2005-2006) if both partners are under 75, and to £6,135 (£5,975 in 2005-2006) if either partner is 75 or over. As with higher personal allowance, you get the full amount if the recipient's income is below a lower limit, and you get the minimum allowance only once the recipient's income is over an upper income limit. If it is between these limits, you get some higher allowance. The amount you get is reduced by £1 for every £2 of income above the lower income limit - see 'Age-related allowance entitlement', left, for the limits and what to do if this applies to you.

#### Unused allowance

If any of your married couple's allowance is unused because your tax bill is low, you can transfer the unused part to your partner. You can do this after the end of the tax year – tick the relevant box on your tax return or contact your tax office. You can apply to transfer the allowance before the start of the tax year, but you can transfer only the minimum amount (or half of it) this way. Even if you transfer the allowance, the amount is still worked out using the income of the original recipient.

### AGE ALLOWANCES CALCULATOR 2005-2006

Where income falls between the lower and upper limits (see p33), the higher personal and married couple's allowances are reduced. Use our calculator to work out how much you'll get

PART 1: YOUR TOTAL INCOME		
<ul> <li>Add together your taxable income, before tax, from the following sources.</li> <li>You can use step one of the calculator on p58 as a prompt.</li> <li>Pensions</li> <li>savings and investments</li> <li>work and any other sources</li> </ul>	A	£
<ul> <li>Add together the gross amount of any payments you make to:</li> <li>charity using the gift-aid scheme</li> <li>personal pensions and retirement annuity accounts</li> <li>qualifying loan interest (for example, on a loan to buy a stake in certain types of business)</li> </ul>	В	£
Deduct B from A. This is your 'total income'	С	£
The age allowance income limit 2005-2006	D	£19,500
Subtract D from C	E	£
PART 2: YOUR PERSONAL AGE ALLOWANCE		
<ul> <li>If E=zero or a negative figure, your personal age allowance is:</li> <li>£7,090 if you are aged 65 to 74</li> <li>£7,220 if you are aged 75 and over</li> <li>If E is greater than zero, write down your personal age allowance before any reduction (£7,090 or £7,220 depending on your age – see above)</li> </ul>	F	£
Work out E divided by 2	G	£
Subtract G from F	Н	£
If H is £4,895 or less, your personal allowance is <b>£4,895</b> .		
If H is more than £4,895, your personal allowance is <b>amount H</b>		
If you are a married man or the higher-income partner in a civil partnership AND either you or your partner was born before 6 April 1935, continue with Part 3 (see a, below). Otherwise, you have finished the calculator		
PART 3: MARRIED COUPLE'S ALLOWANCE		
<ul> <li>If amount H is more than £4,895, you've finished the calculator. Your married couple's allowance is:</li> <li>£5,905 if you are both under age 75</li> <li>£5,975 if either you or your partner is aged 75 or over</li> <li>If amount H is £4,895 or less, write down the married couple's allowance before any reduction (£5,905 or £5,975 depending on the age of you or your partner – see above)</li> </ul>	I	
Work out £4,895 minus H	J	
Subtract J from I	К	
If K is £2,280 or less, your married couple's allowance is £2,280.		
If K is more than $\pounds2,280,$ your married couple's allowance for a full year is amount K		
<b>Note</b> For working out age allowance, your 'age' is the age you reach on your birthday falling within the <b>a</b> Younger couples cannot claim married couple's allowance. The allowance is always worked out using recipient's total income even if part of the allowance is transformed to the other partner.		

WHO SHOULD USE OUR CALCULATOR

You need to use our calculator only if your income (in the case of the higher personal allowance) or the recipient's income (in the case of the married couple's allowance) falls between the lower and upper limits shown in the table on p33.

Our calculator will help you work out how much age-related allowance you are entitled to for the 2005-2006 tax year, so use the figures shown in the 2005-2006 column in the table on p33.

# MORE HELP

-	<ul> <li>HMRC booklets and leaflets</li> <li>IR10 Paying the right tax on your earnings or pension</li> <li>IR121 Income tax and pensioners</li> </ul>
	<ul> <li>DWP leaflet</li> <li>NP46 A guide to retirement pensions</li> </ul>
	<ul> <li>Websites</li> <li>Department for Work and Pensions www.dwp.gov.uk</li> <li>The Pension Service www.thepensionservice.gov.uk</li> <li>Low Income Tax Reform Group www.litrg.org.uk</li> </ul>
-	<ul> <li>Helplines</li> <li>TaxHelp for Older People 0845 601 3321</li> <li>TaxAid 0845 120 3779</li> <li>HMRC Taxback (for non- taxpayers receiving taxed savings interest) 0845 077 6543</li> </ul>

recipient's total income even if part of the allowance is transferred to the other partner