

Check Your Tax



Working out your income tax

Advice for older people

April 2009–April 2010

Help the Aged produces a range of free advice leaflets for older people

Financial leaflets

- What can you Claim?
- Check Your Tax
- Claiming Disability Benefits
- Making a Will
- Questions on Pensions
- Thinking About Money

Housing and home safety leaflets

- Care Homes
- Computers and the Internet
- Fire
- Help in Your Home
- Housing Options
- Keep Out the Cold
- Your Safety
- Your Security

Health leaflets

- Bereavement
- Better Hearing
- Better Sight
- Bladder and Bowel Weakness
- Fitter Feet
- Healthy Bones
- Healthy Eating
- Managing Your Medicines
- Protecting Yourself
- Shingles
- Staying Active and Independent
- Staying Steady

Leaflets are free of charge and available from the Information Resources Team at the address on the back page, email adviceleaflets@helptheaged.org.uk or call 020 7239 1845.

This leaflet was printed in May 2009, and the information contained in it should be correct until 5 April 2010. It includes changes announced in the Budget on 22 April 2009. Every effort has been made to ensure that the information contained in this leaflet is accurate. However, things do change, so it is always a good idea to seek expert advice on your personal situation.

If you would like this leaflet in another format, such as large print or audio tape, please contact the Information Resources Team on **020 7278 1114**.

Contents

Income tax	page 4
Your income	page 5
Your tax allowances	page 10
Do I pay tax at all?	page 17
How much tax should I pay?	page 20
Claiming tax back	page 27
Self assessment	page 28
Useful contacts	page 29

Check Your Tax was written for Help the Aged by Paul Lewis, a freelance writer on personal finance and presenter of BBC Radio 4's 'Money Box'.

Nearly all taxes including income tax, VAT, and National Insurance are now administered by Her Majesty's Revenue & Customs. You may still find the old name 'Inland Revenue' in some leaflets and phone book entries. In this leaflet we call it HM Revenue & Customs, or just the Revenue.

Child Tax Credit and Working Tax Credit are paid by HM Revenue & Customs but do not affect your tax calculation, and so are not covered in this leaflet.

The principle behind income tax is simple. If your income is more than a certain amount, you pay tax on the rest. But two hundred years of hard work by accountants, lawyers and Chancellors of the Exchequer has created a system which is now very complicated. Changes over the last few years mean that many people with very modest incomes can find it difficult to work out how much tax they have to pay and even whether they have to pay tax at all.

This leaflet explains how to work out if you have to pay any tax and, if you do, how much.

Income tax

Income tax is calculated over the tax year which runs from 6 April to the following 5 April. In the tax year, every individual is allowed a certain amount of income before tax is due. This amount is called a full **tax allowance**. This name confuses many people who think a tax allowance is an amount of money they are paid. It is not. It is simply the amount of income you are allowed to have before you start paying tax.

There is also a different kind of tax allowance for married couples and registered civil partners where at least one of you was born before 6 April 1935. This is given to you as a discount off your final tax bill. It can make the calculations more difficult.

In 2009–10:

- You pay **no tax** on the income which is within your full tax allowances.
- You normally pay basic rate tax at **20p in the pound** on the income above that. However, in some particular circumstances a limited amount of interest on savings may be taxed at **10p in the pound**. The complex details of the 10p rate are explained on page 17.

- Higher rate tax is paid if your income is very high. You will normally pay tax at **40p in the pound** on income above £43,875 a year.

Changes introduced in 2009–10 mean that people will pay less tax this year than they did in 2008–09. And falling interest rates on savings mean that many people who paid tax in 2008–09 may pay less or none at all in 2009–10.

There are three stages to working out how much tax, if any, you have to pay:

- your income
- your allowances
- the arithmetic itself.

This leaflet will take you through each stage step by step. There is a section on page 20 to write down all the information you need to do the calculation.

Your income

Tax-free income

Not all income is taxable. Some is free of tax and so does not have to be counted as part of your income when you work out your tax. There are several types of tax-free income.

Some **benefits** are tax-free. They include:

- Most of the benefits paid for illness or disability such as Attendance Allowance, Disability Living Allowance, Severe Disablement Allowance, War Pensions and Industrial Injuries Benefits are tax free. Any extra allowances paid with these benefits are also tax-free. The new Employment and Support Allowance (ESA), which began in October 2008, comes in two

parts: contribution-based and income-related. Income-related ESA is tax-free but contribution-based ESA is taxable. If you get the income-related part make sure it is not taxed. ESA is new and the tax office may make mistakes.

- Bereavement Payment (the £2,000 given to new widows, widowers and surviving civil partners who were under pension age when they were bereaved, or whose late partner was not receiving a State Retirement Pension).
- The Christmas Bonus – which was paid in two parts in 2008–09, £10 in December then £60 in the spring, and the Winter Fuel Payment.
- Means-tested benefits such as Pension Credit, Council Tax Benefit, Housing Benefit, Working Tax Credit, and the income-related part of Employment and Support Allowance.
- Any benefits paid for children such as Child Benefit, Guardian's Allowance, extra allowances for children paid with a State Retirement Pension or any other benefit, and Child Tax Credit.

Generally **prizes and winnings** from gambling are tax-free, including:

- your own profits from gambling on pools, racing, slot machines or bingo unless you gamble professionally
- Premium Bond prizes
- National Lottery prizes.

Some types of **investment income** are free of tax including:

- the increase in value of **National Savings Certificates**, including Index-linked Certificates; and
- all the interest or profit earned on an **Individual Savings Account (ISA)** (though any dividends paid on shares have basic rate tax already deducted and you cannot reclaim it).

For more information on ISAs, and other investment options, see our free advice leaflet, *Thinking About Money*.

Finally, **gifts** from family or friends are normally free of income tax, even if they are given regularly as a form of income. A gift must be freely given with no obligation on you to do anything in exchange. However, if you are given an object rather than money, and it has grown in value since the donor got it, the donor may have to pay capital gains tax when they give it to you. The same applies if you are given shares. And if you are given something very valuable or a lot of money, worth more than £325,000, then inheritance tax may be due if the donor dies within seven years of making the gift.

If you need to find out more about inheritance tax or capital gains tax, your local HM Revenue & Customs Enquiry Centre may be able to help. You can find their contact details in your phone book.

Taxable income

Most income is taxable. This means that you have to pay tax on it if it is more than your tax-free allowance in the year. But, to do the calculation, you have to add your income up in three parts – interest on investments or savings, income from dividends, and all other income including pensions and earnings.

Interest on investments or savings

Interest on investments or savings is normally taxable – apart from the interest earned on the tax-free investments described on page 6. Interest can be paid in two ways.

- **Gross interest**

Some interest is paid without tax being deducted from it – that is called being paid ‘gross’. But you still have to pay tax on it.

Interest paid gross includes:

- interest paid on Government stock which are also called ‘gilts’, though you can choose to have gilts paid net of basic rate tax
- the ‘dividends’ earned on any money you have saved with a credit union. These are investment income and are **not** treated like dividends on shares
- interest paid on savings accounts which are held offshore in another country. However, the country where the account is located may deduct some tax from the interest. Alternatively it may ask you for permission to inform HM Revenue & Customs about your offshore account.

● **Net interest**

Most interest is paid with tax already deducted at 20 per cent. This is called being paid ‘net of basic rate tax’. To work out your tax, you need to use the amount of the income **before** tax is deducted. You can find this figure in the statement or pass book from your bank or building society. Alternatively, you can work it out by taking the interest net of tax then dividing by four and multiplying by five. This is called ‘grossing up’.

If your income is low enough so that you pay no tax then you can claim back the tax which has been automatically deducted from your interest on investments or savings. You can claim back all of it if you pay no tax or half of it if you only pay tax on your savings interest at the lower rate of 10p in the pound – see page 17 for the details of how that works and see page 27 for details of how to claim the tax back.

With interest rates falling almost to zero your income from savings interest will almost certainly be less this year than it was last. Remember to use this year’s figure when you add up your interest on savings.

Add up any interest on investments or savings you expect to get between 6 April 2009 and 5 April 2010. Use the grossed up amount. Write the answer in the **interest on investments or savings** box on page 20.

Income from dividends

Dividends paid on any shares you own are taxed differently from other investment income. Tax is already deducted from the dividends before you get the money. That means there is no further tax to pay on them unless you pay tax at the higher rate. But if your income is too low to pay tax you can no longer reclaim the tax that has already been paid.

Add up any income you expect to get from dividends between 6 April 2009 and 5 April 2010. Divide the amount by nine and multiply by ten to work out your dividend income before tax. Write the answer in the **income from dividends** box on page 20. You won't need it for your tax calculation but you may need it to work out your tax allowances if your income is more than £22,900.

Other income including pensions and earnings

Most other income is taxable. This includes:

- An occupational, personal or stakeholder **pension** including retirement annuity contracts – also known as section 226 pensions. It will usually have tax deducted from it by the organisation which pays you. When you come to add up your income to work out your tax, use the figure **before** tax is deducted. You will find that figure on the payment document.
- All parts of the **State Retirement Pension**. A married woman's pension based on her husband's contributions is counted as **her** income when tax is worked out. However, if she is under 60, and her husband gets extra pension for her as a dependant, then that amount is counted as his income.

- **Other taxable benefits:**
 - Bereavement Allowance
 - Jobseeker's Allowance
 - Carer's Allowance
 - any extra amount you get with these benefits for a dependent wife, husband or civil partner
 - Statutory Sick Pay
 - Incapacity benefit paid after the first 28 weeks of sickness is usually taxable
 - The contribution-based part of Employment and Support Allowance is taxable
- **Earnings** from work or self-employment are all taxable.

Add up all the taxable income, including pensions and earnings, you expect to get between 6 April 2009 and 5 April 2010. Write it down in the **other income including pensions and earnings** box on page 20.

Your tax allowances

The full tax allowances are:

- the personal allowance
- the blind person's allowance.

Your tax allowance does not include the married couple's allowance – which only some older people in married couples or civil partnerships can get – which works in a different way and is explained later.

The full tax allowances represent the amount of income you can have before you pay any tax.

Full tax allowances

Table 1: Full tax allowances 2009–10

Personal allowance	Amount
Age at 5 April 2010	
Under 65	£6,475
65 to 74	£9,490*
75 or more	£9,640*
Blind person's allowance	£1,890

* These allowances will be reduced if total income in the tax year exceeds £22,900. They will never fall below £6,475.

Personal allowance

The personal allowance is available to men and women, married or single. The personal allowance depends on your age. It is £6,475 if you are under 65, £9,490 if you are aged 65–74 and £9,640 if you are aged 75 or more.

These higher age-related allowances are for people who reach the relevant age at any time in the tax year. So even if your 65th or 75th birthday is on 5 April 2010, you still get that age-related allowance for the whole 2009–10 tax year.

Age-related allowances are not always applied automatically – and are normally not applied in the year you become entitled to them. So it is worth checking you are getting what you are entitled to and, in the first year, asking the Revenue to apply them.

Higher incomes

If your income in 2009–10 is above £22,900, you will lose some or all of your age-related allowance. In order to work out the reduction, you must first work out your total income. Add up interest on investments or savings, the grossed up dividend income, and other income including pensions and earnings from the boxes on page 20. Ignore any tax-free income.

Then deduct any covenants or Gift Aid payments which you pay net of tax to a charity. Before deducting them they must be converted into the equivalent amount before tax is paid. You do this by dividing by 4 and multiplying by 5. Also deduct any payments you make into a company or personal pension. Use the **gross** amount.

If your total income worked out in this way is more than £22,900 then your age-related allowance will be reduced. The reduction is £1 for every £2 income over £22,900 (but your age-related allowance will never be reduced below the £6,475 allowed to people under 65).

So the £9,490 allowance for those aged 65–74 is reduced if income exceeds £22,900 and falls to £6,475 if income is £28,930 or more. If you are 75 or more, your allowance is reduced to £6,475 if your income is £29,230 or more.

Each extra £1 of income brings your tax allowance down by 50p. That means that another 50p of income is taxed and the extra £1 income is also taxed. So an extra £1 of income creates a tax on £1.50. Tax on £1.50 is 30p. So your net income after tax only rises by 70p for each extra pound of other income. In effect, you end up paying tax at a high rate of 30p in the pound on extra income between £22,900 and the upper limit for your age-related allowance.

If your income is in this 30p zone and some of it is interest on savings it might be worth considering one of the tax-free savings schemes mentioned earlier (see pages 6–7). Any income from these schemes is ignored completely when working out your total income.

Blind person's allowance

There is a special tax allowance for blind people. The allowance is £1,890 in 2009–10 and is available to anyone who is blind but not to those who are partially sighted. The rules for qualifying are slightly different in Scotland and Northern Ireland – ask HM Revenue & Customs for advice.

If a married person is blind, but does not have enough income to use up their blind person's allowance, then it can be transferred to their spouse. If both partners are blind, they get one allowance each.

Work out your full tax allowances. Take account of the rules for reducing the age-related allowance if your income is more than £22,900. Write the answer down in the **full tax allowances** box on page 20.

Married couple's allowance

The married couple's allowance works differently from the full tax allowances. It is simply a rebate which is deducted from the tax that is due for the year **after** the rest of the calculation has been done. This rebate is one tenth of the amount of the allowance. If the amount to be deducted is more than the tax due then you pay no tax.

Who gets it?

Married couple's allowance was abolished for most couples from April 2000. But it is still available to a married couple or registered civil partners who live together where at least one spouse or partner was born before 6 April 1935. Until 2008–09 there were two rates of this allowance depending on the age of the older spouse. But from 2009–10 there is now just one rate – £6,965.

Couples who marry or register a civil partnership in the future will get the allowance as long as at least one of them was born before 6 April 1935.

The rules about which spouse or partner gets the married couple's allowance changed on 5 December 2005.

- For couples first entitled to the allowance before 5 December 2005, it is normally the husband who is entitled to the married couple's allowance.
- For couples first entitled to the allowance from 5 December 2005, it is the spouse or partner with the higher income who is entitled to the allowance.

Only one member of an entitled couple will get the married couple's allowance. However, some of the married couple's allowance can be transferred to the other spouse in two ways. These transfers are unlikely to help couples where the married couple's allowance was first claimed on 5 December 2005 or later.

Firstly, if the other spouse or partner asks before the start of the tax year, they can have £1,335 of the allowance transferred to them. They do not need the agreement of their spouse or partner. They can have £2,670 transferred to them with agreement.

It may be worth arranging the transfer if the other spouse pays tax at a higher rate, or the spouse or partner wants a share of the married couple's allowance. The full married couple's allowance cannot be transferred, only the first £2,670.

You have to ask for the transfer before the start of the tax year, so it is too late to do it for 2009–10. If you want to do it for 2010–11, then you must apply by 5 April 2010.

Secondly, if the income of the entitled spouse is too low to make use of all the married couple's allowance, then the amount

they cannot use can be transferred to the other spouse. This rearrangement can be done up to six years after the end of the tax year. Contact your local tax office for more information.

Year of marriage

Couples who marry or become civil partners during the tax year get one twelfth of the married couple's allowance for each complete 'tax month' after the date of their ceremony. 'Tax months' start on the 6th of the month.

Table 2: Full married couple's allowances 2009–10

	Allowance	Rebate (10% of allowance)
Other partner has none of it		
Value to other partner	nil	nil
Value to entitled partner	£6,965*	£696.50*
Other partner has £1,335 of it		
Value to other partner	£1,335	£133.50
Value to entitled partner	£5,630*	£563.00*
Other partner has £2,670 of it		
Value to other partner	£2,670	£267.00
Value to entitled partner	£4,295*	£429.50*
* These allowances and rebates will be reduced if the entitled partner's total income is £29,230 or more. The total married couple's allowance between both partners is reduced to £2,670 if the entitled partner's income is £37,820 or more.		

- For marriages that took place before 5 December 2005, 'entitled partner' means the husband.
- For marriages or civil partnerships that took place on or after 5 December 2005, 'entitled partner' means the spouse or civil partner with the higher income.

- ‘Other partner’ means the partner who is not the entitled partner.

Married couple’s allowance should be applied automatically but HM Revenue & Customs does make mistakes so it is always worth checking.

Higher incomes

If your income in 2009–10 is £29,230 or more then you will lose some of your married couple’s allowance. The income that counts is that of the entitled partner – the husband for marriages before 5 December 2005 and the spouse or partner with the higher income for marriages and civil partnerships which took place on or after 5 December 2005. This rule applies even if some of the allowance has been transferred to the other spouse or partner (see page 14).

Work out your total income by adding up and deducting the various amounts as described on page 20. If the entitled partner has an income above £22,900 any personal age-related allowance is reduced first. Then the married couple’s allowance is reduced if their income exceeds £29,230.

For example, a married man of 76 with a wife of 70 has his personal allowance reduced from £9,490 to £6,475 if his income is £29,230 or more. Then his married couple’s allowance of £6,965 is reduced and will be cut to the minimum £2,670 if his income exceeds £37,820. The same overall income applies even if his wife claims half, or all, of the minimum married couple’s allowance. If his income is that high and she claims it all he will get none.

If your income is in this zone where the married couple’s allowance is reduced it might be worth considering one of the tax-free savings schemes mentioned earlier (see pages 6–7). Any income from these schemes is ignored completely when working out your total income.

Work out your married couple's allowance. Remember if you marry or become civil partners in 2009–10 you only get one twelfth of the allowance for each complete tax month **after** the date of your ceremony. Take account of the rules for reducing these allowances if your income is £29,230 or more. Write the answer down in the **married couple's allowance** box on page 20.

Tax on savings interest

The way that interest is taxed can be complicated. If your income from other sources – usually pension or earnings – is more than your personal allowance plus £2,440 then your savings interest will be taxed at 20p in the pound. The amount of £2,440 – called the lower rate band for savings – is set each year by the Chancellor, in the Budget. If your other income is less than your personal tax allowance then some of your savings interest will be tax free until your income reaches your personal allowance. Above that the first £2,440 of your savings interest will be taxed at 10p and the rest (if there is more) will be taxed at 20p in the pound. If your other income is between your personal allowance and your personal allowance plus £2,440 then some of your savings interest will be taxed at 10p in the pound. The most that can be taxed at 10p is the difference between your other income and the sum of your personal allowance plus £2,440.

Do I pay tax at all?

The level of income at which you start paying tax is called your **tax threshold**. For unmarried people and married couples or civil partners who were both born on 6 April 1935 or later, it is easy to work out your tax threshold. If your income is no more than your personal allowance then you don't have to pay any tax. If you get the blind person's allowance, add that to your personal allowance and the total gives your tax threshold.

However, this method does not work if you get the married couple's allowance. In that case your threshold depends on two things. How much income you have and how much of that is from savings. If the income on top of your full tax allowances is from interest from savings you will have a different tax threshold than if it is from earnings or a pension.

Table 3: Tax thresholds 2009–10

Person who doesn't get married couple's allowance

Age	Threshold
Less than 65	£6,475
65–74	£9,490
75 or more	£9,640

Full Married Couple's Allowance adds

	Standard	Savings*
Any age	£3,482	£4,702

Totals for person who gets full married couple's allowance

	Standard	Savings*
Entitled partner's age		
Under 65	£9,957	£11,177
65–74	£12,972	£14,192
75 or more	£13,122	£14,342

* Only applies if non-savings income is no more than your personal tax allowance (PTA). If non-savings income is more than your PTA plus £2,440 use the standard threshold. If non-savings income is between these two amounts, your threshold will be between the two.

- Add £1,890 to your threshold if you get the blind person's allowance.

- These figures assume that the entitled partner claims all the married couple's allowance.
- All figures are rounded down to the nearest pound.
- If you marry or become a civil partner during the tax year, remember you will get less than the full married couple's allowance and your threshold will be different.

For example, a married man aged 72 with a wife aged 75 or more works out his tax threshold – the income at which he starts paying tax – by adding his personal tax allowance of £9,490 plus:

- £4,702 if this extra income is all from savings; or
- £3,482 in all other cases.

And for a married man aged 76 the tax threshold – the income at which he starts paying tax – is his personal tax allowance of £9,640 plus:

- £4,702 if this extra income is all from savings; or
- £3,482 in all other cases.

In some cases the threshold can be between these two amounts.

It is important to know your tax threshold:

- If your income is below your tax threshold you do not have to pay tax and need not worry about doing the calculations!
- If you are part of a couple and one partner pays tax but the other does not, then it may be worth moving savings from the taxpayer's name to the other partner's name so that the income escapes tax. The non-taxpaying partner should try to bring their income up to their tax threshold but no further.

Work out your tax threshold. Write it down in the **tax threshold** box on page 20.

How much tax should I pay?

Interest on investments or savings (S):

Income from dividends:

Other income including pensions and earnings (P):

Full tax allowances (A):

Married couple's allowance:

Tax threshold:

If your income added up from the first three boxes is higher than your tax threshold, then you will have to pay tax.

Working out your tax is quite tricky and you may need to use a calculator. This calculation only works if your total income is less than £43,875 a year. If it is more than that you will have to pay tax at 40p in the pound on the excess and some extra tax on any dividends you get.

In each step there is a question indicated by ●. The answer is always 'yes' or 'no'. Follow the instructions according to whether your answer is 'yes' or 'no'.

Step 1

Add P to S

$P + S =$

- Is P+S smaller than your full tax allowances (A)?
(If it is equal then answer 'yes'.)

Yes: You have no tax to pay. Go to step 8 and put 0 (zero) in the box T at the start of that step (reflecting the fact you have no tax to pay).

No: Go to step 2

Step 2

Add A and £2,440

$$A + £2,440 =$$

- Is P bigger than the answer to $A + £2,440$?
(If it is equal then answer 'yes'.)

Yes: Take the figure you worked out in step 1 for $P + S$ and subtract A.

Multiply the answer by 0.2.

Take that figure to Step 6. Call it X.

No: Go to step 3

Step 3

- Is P smaller than A? (If it is equal then answer 'yes'.)

Yes: Go to step 4

No: Go to step 5

Step 4

Take the figure for $P + S$ from step 1 and take the figure for $A + £2,440$ from Step 2

- Is $P + S$ smaller than $A + £2,440$? (If it is equal then answer 'yes'.)

Yes: Add P to S and subtract A. Multiply the result by 0.1. Take that figure to Step 6. Call it X.

No: Add P to S, subtract A, then subtract £2,440. Multiply the result by 0.2. Add £244. Call the answer X and take it to Step 6.

Step 5

Take the figure for $P + S$ from step 1

Take the figure for $A + £2,440$ from Step 2

- Is $P + S$ smaller than $A + £2,440$? (If it is equal then answer 'yes'.)

Yes: Now you must work out two figures

Figure 1: Subtract A from P

$$P - A =$$

Multiply the answer by 0.2.

That is figure 1

Figure 2: Multiply S by 0.1

That is figure 2

Add figure 1 and figure 2. Call the answer X and take it to Step 6.

No: Now you must work out two figures

Figure 1: Subtract A from P

$$P - A =$$

Multiply the answer by 2, add S and then subtract $£2,440$.

Multiply the answer to all that by 0.2.

That is figure 1

Figure 2: Add A to $£2,440$

and subtract P

$$A + £2,440 - P =$$

Multiply that by 0.1. That is figure 2

Add figure 1 and figure 2. Call the answer X and take it to Step 6.

Step 6

You should have brought a number here called X. That is your tax so far:

- Are you entitled to any married couple's allowance?

Yes: I do get some married couple's allowance.

Go to step 7

No: I don't get married couple's allowance.

X is the amount of tax you should have paid in 2009–10.

As it is the full amount of tax you owe, call it T. Go to step 8 and write this amount, T, in the box at the start of that step.

Step 7

Take the figure for your married couple's allowance from the box on page 20. Divide it by ten.

Call it M:

- Is X smaller than M? If it is the same answer 'yes'.

Yes: You should pay no tax. If you have savings interest you should be able to claim back some of the tax that has already been deducted from it. Go to step 8 and enter 0 in the box T at the start of that step (reflecting the fact that you have no tax to pay).

No: Subtract M from X. The answer is the amount of tax that you should have paid in 2009–10. Call this T. Go to step 8 and enter this amount into the box at the start of that step.

Step 8

Total tax owed T:

T is the tax you should have paid in 2009–10. Tax will have been deducted from your earnings or pension and from any interest on savings. If T is zero no tax should have been deducted either from your pay or pension or from interest on your savings.

If the total amount deducted in the year is more than the figure you have worked out, or if you have worked out that you should pay no tax, then ask your employer or pension provider to check your tax.

If you have paid too much tax on your interest from savings, you can claim it back. See page 27 for details of how to do that.

You have now Checked Your Tax for 2009–10.

Tax on your pension

It is possible if you are a woman aged 60–64 that your tax allowances will not be enough to cover your State Retirement Pension, including the graduated, additional and extra pension you may have added on to the basic pension. So you could end up having to pay tax on your State Retirement Pension alone.

If your pension seems likely to exceed your tax allowances, then HM Revenue & Customs should send you a short self-assessment form. You will have to pay the tax in one instalment. If that will cause you any hardship, write to your tax office.

Tax codes

Tax codes are a way of collecting the tax you have to pay from regular income such as earnings or a company or personal pension. But in some circumstances they are not accurate. So you may end up paying too little or too much tax during the tax year. If that happens, you can get your tax adjusted after the end of the tax year.

If you have earnings or a company, or personal pension, it will be taxed before you receive it. From April 2007 that has also applied to retirement annuity contracts – which were like personal pensions before 1 July 1988. The income tax office issues a tax code for you so that the tax due can be calculated. You will be sent a copy of the Notice of Coding which shows how the tax code is calculated.

The tax code is worked out as follows. Your State Retirement Pension is deducted from your tax allowances to leave the amount of income you can have before paying any tax.

For example, your personal allowance may be £9,490 and your State Retirement Pension £110.10 a week or £5,725.20 a year. £9,490 minus £5,725.20 equals £3,764.80. So you can have £3,764.80 a year on top of your State Retirement Pension without paying tax.

This figure is converted to a tax code by knocking off the last figure, making 376. The code is used to calculate the tax due. In the case above, you'd pay tax on any amount above £3,769 (it is rounded up to the nearest '9').

Your code consists of numbers and letters: for example, the code above would be 376P. The letters listed below show the tax allowance you get:

- L** Personal allowance under 65.
- P** Personal age-related allowance aged 65–74.
- V** This code will not be used from the 2009–10 tax year. If you had a V tax code in 2008–09 you will have been told that your code has changed. If you are still married it should now end in 'T'. Make sure you get the higher age allowance for those over 75 and the married couple's allowance.
- Y** Personal allowance aged 75 or more.
- T** None of these codes describes your circumstances or you have asked the tax office to keep your tax code letter secret.
- K** Is placed before the code number when your other income which has not been taxed, such as a State Retirement Pension, exceeds your allowance.

If you are entitled to the married couple's allowance, your tax code will be adjusted by a small amount to try to ensure that the correct amount of tax is deducted using tax codes. This adjustment may well give the wrong result. So it is important that anyone who gets the married couple's allowance, and has a tax code, checks that the correct tax has been deducted at the end of the year.

It is also important to check that the amount deducted for your State Retirement Pension is accurate – it may not be.

If you were born between 6 April 1944 and 5 April 1945, you are old enough to get the age-related allowance for the whole of 2009–10. However, HM Revenue & Customs will not apply it from the start of the tax year unless you ask them. Contact your tax office at once if this applies to you.

If you think you have paid too much tax through PAYE, wait for your end of tax year P60 from your employer or pension provider. That should show your income and how much you have paid in the tax year. Send a copy of that to your tax office explaining what you think is wrong. Alternatively, contact one of the organisations listed on pages 29–31.

You can find out more about tax codes from <http://www.hmrc.gov.uk/incometax/codes-basics.htm>

Claiming tax back

More than one and a half million people, including many older people, have not reclaimed tax they are owed. HM Revenue & Customs says that there is £250 million waiting to be reclaimed. If you do not normally pay tax, but tax has been deducted from interest paid since April 2003, then contact your tax office to make a claim. Even if you do pay tax, and your income is within about £2,500 of your tax allowances, you should also contact your tax office as you may be able to claim back some money from previous years.

If your total income is too low to pay any tax at all, then you can register with your bank or building society and have the interest paid to you gross. If you don't register, tax will be deducted automatically at 20p in the pound. To register for interest to be paid to you gross call the **Savings Helpline** at HM Revenue & Customs on **0845 980 0645**. Alternatively, you can complete form **R85**. Your bank or local Revenue enquiry office may have a copy but the easiest way to get R85 is from the Revenue taxback website at the address given below.

Anyone who does not pay tax (or who should only pay tax on some of their investment income) can claim back tax wrongly deducted from their bank or building society interest. If you are owed more than £10 you can reclaim it at any time – you do not have to wait until after the end of the tax year. If you think you may be due a refund, you should call the **Taxback Helpline** on **0845 077 6543**. If you paid too much tax in previous years, you can claim it back to 2004–05, or 2003–04 as long as you claim it by 31 January 2010. They should send you a form called R40. You will need one form for each year you are claiming for. Alternatively, you can download the form from the Revenue taxback website (see the next page).

There is a lot more information about tax due on interest and how to reclaim overpaid tax at HM Revenue & Customs website at www.hmrc.gov.uk/taxback and www.hmrc.gov.uk/tdsi/claim-tax-back.htm HM Revenue & Customs says that many of the 2.7 million people who get Pension Credit have overpaid tax by an average of £200 each. HM Revenue & Customs is launching a campaign at people over 60 this autumn (2009) to make sure that people who have paid too much tax, get it back.

Investment income from jointly owned assets, such as a joint account in a bank or building society, is normally divided equally between the two partners. If you jointly own assets but in unequal shares, then the income can be divided unequally as long as you tell HM Revenue & Customs. If you do not say anything it will be taxed as if you owned it in equal shares. So if you have a joint account but only one partner pays tax, half the interest should be tax-free. Talk to your bank or building society to see if it can pay half the interest without tax being deducted. Otherwise you can claim it back by calling the taxback helpline or filling in R40.

Self assessment

If you were sent a tax return in April 2009, it will be based on your income and allowances for 2008–09, not the amounts in this leaflet which is for 2009–10. Many older people who fill in a self-assessment form are now sent a Short Tax Return. It is simpler to complete – though it comes with a 24 page guide – and does not help you work out the tax due. Whichever form you get, you should complete it by 31 October 2009 or you may face a £100 fine. However, the fine can never exceed the amount of tax you owe, so if you in fact owe nothing you will not be fined. You can avoid the fine by filling in your tax return online as long as you do that by 31 January 2010.

If you do get your return in by 31 October the Revenue will work out the tax you owe. That has to be paid by 31 January 2010. If the payment is late you will have to pay interest on it and if you delay beyond the end of February 2010 there will be a surcharge as well – of 5 per cent of the tax you owe. There are further penalties if you delay longer.

You must keep any documents relating to your income for at least one year after the tax on it was due on 31 January. But if you are self-employed the time limit is five years. So on 1 February 2010 you can normally destroy documents relating to the tax year 2007–08 or 2003–04 if you are self-employed. If there is an enquiry into your financial situation you must not destroy any documents until it is over. In some cases you must tell the tax office if your income changes significantly during the tax year. To find out whether you need to tell the tax office about changes to your income, call the self-assessment helpline below.

Contact your local HM Revenue & Customs Enquiry Centre for more advice. You can also get advice on self assessment in the evenings or at weekends by calling the HM Revenue & Customs **Self Assessment Helpline** on **0845 9000 444**.

Most pensioners are not affected by self assessment, so don't worry if you aren't sent a tax return. But if you are sent one you must complete and return it by 31 October 2009 – or complete it online by 31 January 2010 – or you may be liable to a penalty of up to £100.

Useful contacts

HM Revenue & Customs

You can get help and advice on tax issues from your local **HM Revenue & Customs Enquiry Centre**; look in your phone book under 'Revenue & Customs' (or 'Inland Revenue' in older books)

and make an appointment. The walk-in high street centres have now all closed. HM Revenue & Customs produces some leaflets on tax but many of the more useful ones have been withdrawn or are now only available online at www.hmrc.gov.uk/leaflets
There is a special section of the website for pensioners at www.hmrc.gov.uk/pensioners

You can find out what leaflets are available and order them from the orderline on **0845 9000 404**.

If you write to HM Revenue & Customs you should get a reply within 15 days or a letter telling you how long it will take to respond to your query. If you have a complaint you should raise it with the tax office concerned and get the leaflet *C/FS, Complaints and putting things right. How to complain* (also available online). Your local Citizens Advice Bureau may also be able to help.

Low Incomes Tax Reform Group (LITRG)

LITRG has a useful website www.litr.org.uk with a specific section for older people.

TaxAid

If you can't afford advice from an accountant, you can get free and independent advice on tax from the charity **TaxAid**.
Tel: **0845 120 3779** between 10am–12pm, Monday–Thursday;
web: www.taxaid.org.uk

Tax Help for Older People (TOP)

Offers independent advice from qualified tax advisers for older people with a household income below £15,000 a year.
Call **0845 601 3321** or visit its website: www.taxvol.org.uk

Professional bodies

If your tax affairs are complex then you may need the help of an accountant or tax adviser. Make sure they belong to a professional body such as those given below:

The Association of Taxation Technicians

Tel: 020 7235 2544

Web: www.att.org.uk

The Chartered Institute of Taxation

Tel: 020 7235 9381

Web: www.tax.org.uk

Institute of Chartered Accountants in England & Wales

Tel: 020 7920 8100

Web: www.icaew.com

Institute of Chartered Accountants in Scotland

Tel: 0131 347 0100

Web: www.icas.org.uk

Always ask for an indication of the fee before committing yourself.

This leaflet deals mainly with income tax. Inheritance tax may be due if someone dies leaving an estate worth more than **£325,000**. However, usually, no inheritance tax is due on property or money left to a husband, wife or registered civil partner. More information on inheritance tax is available from your local HM Revenue & Customs Enquiry Centre.

Help the Aged produces a range of free advice leaflets, including leaflets on welfare and disability benefits, pensions and money management. See the inside cover for details. A free *Will Information Pack*, which will help you to put your financial affairs in order, is also available. Contact our Wills & Legacies Department on 020 7239 1965 for a copy.

Help the Aged distributes over 3 million advice leaflets a year. This service is currently provided free of charge, thanks to the generosity of our supporters. If you found this leaflet useful and would like to make a donation, phone 020 7239 1983 quoting ref **IRT** or send a cheque or postal order, for the attention of Information Resources, to the address below.

© Paul Lewis 2009

May 2009

Age Concern England (charity number 261794) has merged with Help the Aged (charity number 272786) to form Age UK, a charitable company limited by guarantee and registered in England: registered office address 207–221 Pentonville Road, London N1 9UZ, company number 6825798, registered charity number 1128267. Age Concern and Help the Aged are brands of Age UK. The three national Age Concerns in Scotland, Northern Ireland and Wales have also merged with Help the Aged in these nations to form three registered charities: Age Scotland, Age NI, Age Cymru. ID8382 05/09 Copyright © Age UK 2009

Fighting for disadvantaged older people in the UK and overseas,

WE WILL:

COMBAT POVERTY wherever older people's lives are blighted by lack of money, and cut the number of preventable deaths from hunger, cold and disease

REDUCE ISOLATION so that older people no longer feel confined to their own home, forgotten or cut off from society

CHALLENGE NEGLECT to ensure that older people do not suffer inadequate health and social care, or the threat of abuse

DEFEAT AGEISM to ensure that older people are not ignored or denied the dignity and equality that are theirs by right

PREVENT FUTURE DEPRIVATION by improving prospects for employment, health and well-being so that dependence in later life is reduced



Head Office, 207–221 Pentonville Road, London N1 9UZ

T 020 7278 1114 F 020 7278 1116

E info@helptheaged.org.uk www.helptheaged.org.uk

HELPTHEAGED WE WILL[®]