

## Keep on Checking.....

**This article is by Tax Help for Older People (TOP) registered charity no 1102276, offering free tax advice to older people on incomes below £17,000 a year. The Helpline number is 0845 601 3321 or geographical 01308 488066**

Last month we discussed the 2011/12 tax rates and allowances and we promised some more examples. People often call our charity because a friend has told them that they shouldn't be paying that much tax, our incomes are the same so it must be wrong. Our experience shows that you have to check very carefully because your age, marital status, eyesight and type of income can make a huge difference to the final tax to be paid to HMRC and in the way that it is collected. The following examples using the proposed 2012/13 rates will give a taste of the issues that can affect your tax.

- 1 A person 66yrs old who only has their state pension of £13,500pa has a personal allowance, PA (tax free amount) of £10,500 leaving £3000 to pay tax on at 20%, £600. Sound easy until you consider that they do not have any way of paying it because the state pension cannot be taxed at source under Pay As You Earn (PAYE). This person has to complete a self assessment each year and pay the tax in a lump sum by the 31st January after the end of the tax year.
- 2 Whereas another person also 66yrs old who has the same income comprising of state pension £5300 and company pension £8200 will owe the same amount of tax but it can be paid under PAYE. This is done by removing their state pension from their PA. £10,500 less £5300 leaves £5200 tax free allowance. Knocking off the final digit and adding a letter creates a code 520P which is sent to the pension provider who will remove £5200 from the pension income before calculating the tax to be paid.
- 3 If the person above has a state pension of £12,050 and 3 small pensions instead, say a) £500, b) £550 and c) £ 400 then the code of 520P will need to be split as no pension is large enough to pay the £600 tax. Pension providers are only allowed to take 50% of a pension which adds to the fun.
- 4 If we then consider the same income as example 2 but the person is 79yrs old registered blind and married, it becomes more complicated. This time the PA will be £10,660 (75 and over) plus the married person's allowance of £3853 restricted to 10% of its face value, giving tax-free income of £14513. This makes the person a non-taxpayer. But... the married couples allowance hasn't been fully used and the blind person's allowance has not been used at all. Both of these allowances can be transferred to the spouse, so it is important to check if this is possible.

You will be realizing by now that tax really can be quite taxing. If you are unsure of anything it is worth asking someone who does understand and is able to explain it all clearly.