



## **Tax on Retirement**

The golden age of retirement beckons with the promise of some well-deserved rest and relaxation! However, for some it can be a testing time when it comes to ensuring you are paying the correct amount of tax and your tax affairs may be about to become a bit more complicated.

You may have several new sources of income starting such as your State Pension, occupational or private pensions. You may decide to continue in employment, whether full or part time. Whatever decisions you make, retirement is no doubt a major change to both lifestyle and finance and it is a time when tax can go awry. Being able to identify a potential problem and knowing how to resolve it can save you a headache later on.

### **State Pension**

As we all know your State Pension age has been creeping up and the age at which you can now claim your State Pension depends on when you were born. Your entitlement is based on how many years National Insurance contributions you have made whilst at work plus any contributions that are credited to you when you have been unable to work. Once you reach State Pension age you will become exempt from paying any more National Insurance contributions but you will still be due to pay tax if your taxable income is greater than the tax allowances you are entitled to.

State Pension is taxable, just as employment income is. Tax is usually collected from employment income by the employer deducting tax using a PAYE code issued by HMRC. However the state pension is not taxed in the same way. Instead an adjustment is made to the PAYE code itself. If your state pension is lower than the annual tax free personal allowance there should be no problems. However if your state pension is higher than the personal allowance, the tax due on it should be collected by a calculation issued by HMRC, if you have no other sources of taxable income. If you have other taxable income in addition to the state pension HMRC will still try to collect the correct amount of tax through the PAYE code, but this does not always work and a calculation may be issued by HMRC after the end of the tax year if any tax remains unpaid.

If you would like to understand if your PAYE code is right and your income is below £20,000 per year then contact us on 01308 488066. If you think your tax code is wrong you can phone HMRC on 0300 200 3300.

### **Private, Occupational Pensions and Retirement Annuities**

Since April 2015 the options of how to take your pensions have changed considerably and there is now more flexibility than ever before. This does not apply to every pension scheme though and you will need to find out from your pension provider what options are available to you.

In most cases, 25% of your pot will be paid tax free and any amount over the 25% will be taxed at source. If you take a lump sum out of your pension you may find that the amount of tax deducted is not correct. Straight away take the time to find out what the tax implications will be before you take any of the money by either contacting Tax Help or seeking advice from a Tax Adviser.

### **Notifying HMRC**



You should inform HMRC of incomes starting or ending or any changes of address. You can do this in writing (keeping a copy) or by phone (note the officer's name along with the date and time of call). If there is a query later on you will have a record of what you informed them.

Your personal tax account is another available route where you can inform HMRC of some changes and the list of what you can do is increasing as it develops. You can register for your account via [www.gov.uk/personal tax account](http://www.gov.uk/personal-tax-account).

It is important to keep track of the changes in your income and the tax you pay in the year of retirement as this is the time HMRC's systems can struggle most. The PAYE system has improved a great deal but it is not perfect and mistakes do happen, make sure they are not happening to you.

This article is by Tax Help for Older People registered charity no 1102276 (Scotland no SC045819), offering free tax advice to older people on incomes below £20,000 a year. The Helpline number is 01308 488066.