Tax Health Check

TaxAid

TAX HELP FOR OLDER PEOPLE

Charities providing FREE help and advice to people with tax problems.

2022/23

AN INTRODUCTION

TaxAid and Tax Help for Older People are both charities that have been established to provide free, independent, professional help with personal tax to people on modest incomes of around £20,000 a year or less.

TaxAid

TaxAid helps those of working age and the self-employed who cannot get their problem resolved at HM Revenue and Customs and cannot afford to pay for tax advice. TaxAid gives advice via a national helpline from its office in London, primarily by telephone, email and post in addition to providing information on its website.

Tax Help for Older People

Tax Help for Older People (Tax Help) is based in Dorset where the staff handle calls from all over the UK. They either give advice via the helpline or may arrange a face to face appointment with a volunteer tax adviser at a venue convenient to the client. In cases of mobility, caring or transport difficulties, a home visit may be arranged. Although aimed at those who are aged 60+, Tax Help will still help those approaching retirement who have suffered bereavement, redundancy, ill-health etc. It is often these events that trigger the tax problems that Tax Help encounters in its clients rather than the age of the client.

Both charities use their unique experience in advising to inform government and HM Revenue and Customs in cases where the tax system is unfair or inefficient. They also train high street advice agencies to recognise the problems experienced by individuals, deal with the first steps of resolving an issue and to refer to the tax charities as necessary.

Our criteria

Our charities' constitutions require us to help those whose income makes it difficult or unrealistic to pay for tax advice and we therefore set eligibility guidelines of around £20,000 (£380 per week before tax). We will, however, be flexible where other circumstances, e.g. disability or advanced age suggest an easing of this limit.

The simplest way to contact us is to phone, although you may wish to write or send us an email. The contact details for both charities are on the back cover of this booklet.

"I can't thank you enough. The tax bill was such a worry. It is hard enough caring for my husband, and the tax bill was just one more thing to worry about and deal with. I am so grateful for what you have done."

HOW TO USE THIS GUIDE

We have designed this guide so that you can go straight to the section or sections that apply to your particular circumstances so that you may hopefully resolve the concerns or worries that you have about your own tax situation.

This guide is not designed to be read from cover to cover, but if you do read it through you will notice that there is some repetition in the sections.

If, after reading the relevant section(s) of this guide:

- we haven't answered your queries;
- there are still things you don't understand; or
- you are still worried

we are just a phone call away, so do not hesitate to call us.

All figures in the text relate to the tax year starting on 6 April 2022 and ending on 5 April 2023.

"You've taken a weight off my shoulders. I was fearful that I owed money as I don't like being in debt. Everything is now sorted. Thank you."

CONTENTS

INCOME FOR **TAX PURPOSES**

Not all income is taxable and it is useful to be clear what income is of interest to HMRC and what is not. This is not necessarily the same as what would interest the benefits people or your local council. For example, if you win £100,000 on the lottery then HMRC will pay no attention to that lump sum, but if you do not pay your full Council Tax then your local council and not HMRC will want to review your payments, and it could also affect some of your benefits.

So here is a list of the most common sources that HMRC will take an interest in:

- ✓ Earned income from employment or self-employment.
- ✓ Pensions, including state pension and annuities (but not war pensions).
- ✓ Foreign income.
- ✓ Interest from savings accounts.
- ✓ Dividends from investments.
- ✓ Income from rental property.
- ✓ Some benefits.

And here is a list of some sources that they are not interested in:

- X Pension Credit
- X Lottery or Premium Bonds wins (or any other gambling wins)
- X Winter fuel payments
- X Personal Independence Payment (previously called Disability Living Allowance)
- X Attendance Allowance
- X War pensions
- X Industrial Disability
- X ISAs
- X Some National Savings & Investments products

Remember, neither of these lists is exhaustive; if in doubt contact HMRC or the relevant tax charity for further information and help.

Money in itself does not attract tax. It is only interest or income generated by that money which is taxable. So if you put that £100,000 win on the lottery under the mattress (not that we are recommending this!), it is still of no concern to HMRC. However, as soon as you put it into a savings account and start to gain interest, then that interest may be taxable.

AM I A **TAXPAYER?**

Finding out if you are a taxpayer or not will depend on whether your taxable income is more than the personal tax-free allowances that you are entitled to. To check, add together all the sources of income you receive from the list on page 5 and see if they are more or less than your personal allowances (see below). If less, then you are a non-taxpayer; if more, then you may have some tax to pay.

The first step, therefore, is to know what your Personal allowances are:

For the 2022/23 tax year the personal allowance is £12,570.

If your annual income is over £100,000, the personal allowance is reduced by £1 for every £2 of income over this figure.

There are three other major allowances which can affect your tax bill.

Blind Person's Allowance may be claimed if you are registered blind and allows you an additional annual allowance of £2,600, e.g. £12,570 Personal allowance + £2,600 Blind Person's Allowance = £15,170. See page 10 for more details on this allowance.

Married Couple's Allowance is only available to married couples or civil partners where at least one of the couple/partners was born before 6 April 1935. It is not an allowance against income like the one above, but is rather a tax reducer. This is explained in more detail on page 10.

Marriage Allowance was introduced in 2015/16 and is not to be confused with the Married Couple's Allowance. If you are entitled to Married Couple's Allowance, you cannot claim Marriage Allowance as well. The Marriage Allowance can be claimed by a married couple or civil partnership of any age, where one partner pays basic rate tax and the other is a non-taxpayer. More details can be found on page 11.

Non-Taxpayers

If your taxable income falls below your personal allowance, then you should:

1) check your payslips, etc. to make sure that tax is not being deducted from anywhere; and,
2) read the chapter 'Saving & Investments' on page 8.

If your income appears to be above your personal allowance, then you should also turn to page 7 for the section on tax codes.

TAX CODES

The following is a very brief outline of what codes are for. If you have any doubts at all about your codes then you should contact HMRC or the relevant tax charity. Codes can be complicated and are the single largest cause of tax problems.

A code is the method by which HMRC tells your employer or pension provider how much, if any, tax they need to deduct from your payments. You, the taxpayer, should receive a coding notice explaining how this instruction has been worked out (you can also view your coding notices by accessing your personal tax account online) and you are expected to check it and contact HMRC if you think it is wrong.

If you are in receipt of a state pension, which is taxable, the code will normally use your allowances against that first because it is paid without deduction of tax, and then if there are any spare allowances left over, use them for any other pension or earnings. For example, with code 1257L (full Personal allowance):

Personal allowance	£12,570
Less state pension	£7,070
Tax-free remaining	**£5,500**

That's £5,500 of tax-free income you can have before any tax is deducted. So if you have a works pension of £6,100, the first £5,500 will not be taxed and then the pension payroll will deduct tax on the remaining £600 at the rates in force, which for 2022/2023 is 20%.* So you should pay £120 tax a year (£10 per month) on that works pension. Your pension payroll administrator should have received a code of 550L to tell them what to do. How did we get 550?

Simply by taking off the last digit of the spare allowances, so 5,500 becomes 550. The figures you see in the tax code box on your payslips are in fact just 10% of the amount given and your payroll will recognise that.

If you haven't reached state pension age, your tax-free amount might be your full Personal allowance of £12,570, or you might see different restrictions like Job Seeker's Allowance or perhaps rental income. It could be more if you have job expenses, e.g. uniform cleaning.

Most codes have a letter added to them, as in the example earlier of 1257L, where there is an L on the end. We will not be looking at all of the tax codes in this guide, however there are three codes that we should mention:

- In Scotland, where there are different tax bands, 'S' will be at the start of the code.
- In Wales from April 2019, 'C' was added to the front of the code as different tax bands were introduced.
- The other is the 'K' code because it affects a lot of pensioners.

See page 24 for Scottish and Welsh rules.

The K code is best explained by example

If you have a state pension of £14,070 and a personal allowance of £12,570, your state pension is £1,500 greater than your allowances and must be taxed. The tax that is due on the £1,500 will be collected by adding it on to some other pension you receive.

Say for example that as well as the state pension you also have another pension or salary which is £3,000 a year. HMRC informs your income provider that they need to include the extra £1,500 with the actual amount they are paying and deduct tax accordingly. So the income provider notionally adds the £1,500 onto the £3,000 and deducts tax as if they were in fact paying you £4,500. HMRC therefore collects your tax through that other source. The code which communicates this instruction is the K code, which is a negative code.

Ordinary codes tell the payroll that some of the income is tax-free income but K codes tell the payroll to collect more tax. So, the higher the K code, the more tax you will pay. The code for this example would be K150 (we drop the last digit of the 1,500 to be taxed). Notice the K goes in front of the figures.

It is worth getting a K code checked because they seem to create more problems for HMRC than other codes, and the second income source may not be large enough to collect all the tax that is due. HMRC are only able to take a maximum of 50% of a source of income in tax so if the tax due is more than this you will have to pay the excess at the end of the tax year.

If you have no other income or pension, or the other income is not large enough to collect all the tax due, HMRC will collect the tax due via Simple Assessment, called a PA302.. You will need to check the calculation showing the amount you owe to ensure it is correct. The tax charities can help you with this. Then you pay the tax you owe by the date they specify.

Coding notices should show every source of income you receive on one notice, including your state pension. Without a notice you cannot check how HMRC are taxing you and whether they have got it right. So if you haven't received one, contact HMRC as you are entitled to it. Remember, HMRC expect you to check it and to get in touch with them if you think anything is wrong. If you have registered online for a personal tax account you can check your income and tax codes on there. Register at www.gov.uk/personal-tax-account (see page 19 for more on personal tax accounts).

"I can understand everything that I need to do now - you have made it crystal clear. Thank you so much."

SAVINGS & INVESTMENTS

Although you may regard them as similar and a general term for your money as opposed to your income, the interest from savings and the dividends from investments are treated differently by HMRC for tax purposes.

Savings

If you have money in an account with a building society or bank, the accounts usually pay interest which is taxable. However, since 6 April 2016 the interest you receive is not taxed at source by the bank or building society. From 2017 most banks and building societies tell HMRC about your interest, but not in all cases so check your own details to be certain.

A 0% starting rate for savings interest and the personal savings allowance mean that most people don't pay tax on their interest, but it is still important to check that your tax details are correct. The rules are complicated so don't be shy in contacting HMRC, Tax Help or TaxAid if you need assistance.

The 0% rate is available for savings interest of up to £5,000 above your Personal allowance, i.e. a ceiling of £17,570 of taxable income. The personal savings allowance is available for savings interest of £1,000 (basic rate taxpayers) above your total taxable income (£500 for higher rate taxpayers).

For example, if your non-savings income was £14,070 and savings interest £1,250 you would be entitled to £3,500 of the 0% starting rate (£17,570 less £14,070). As the savings interest is lower and tax isn't taken at source you have no further tax to pay. If your non-savings income was £16,700 and savings interest was £1,250, the first £870 of interest will be covered by the 0% starting rate. However, you still have no further tax to pay because the remaining £380 is covered by the personal savings allowance. But, if your non-savings income was above £17,570 you would not be entitled to the 0% starting rate and you would be required to inform HMRC about the £250 of interest not covered by your personal savings allowance.

If you think you have overpaid tax because tax has been deducted from your interest, you can apply for a refund using form R40 (obtainable from HMRC over the phone or online), going back as far as the 2018/19 tax year.

While many people won't have to pay tax on their interest, some will. It is your responsibility to keep HMRC updated with your interest figure each tax year, so that you can pay the tax due. If tax is due on the interest HMRC will collect the tax via your tax code, but where this isn't possible you will find yourself in the self-assessment system (see page 13).

Investments

Investments, as far as this booklet is concerned, refer only to shares or unit trusts which pay dividends. These are basically a share of the profits distributed among the shareholders. Once or twice a year you will receive a notice of the dividends paid to you. There is a dividend allowance of £2,000 for 2022/23 tax year, but anything over this amount will be liable to tax. It is your responsibility to inform HMRC to arrange for any tax to be paid.

Some unit trusts' dividends are treated the same way as interest, paid without any tax taken off, so should be added to any other interest that you have – see the savings section above. Check the voucher that you receive to see what kind of dividend it is.

Check: add up your total taxable income, including your dividend payments, if the figure is below your allowances you won't have to pay tax on the dividend, even if it is more than £2,000. If your total taxable income is over your allowances, i.e. you pay tax on your other income at basic rate, the first £2,000 of your dividend won't be taxed and the remaining will be taxed at 8.75%. Higher rate taxpayers pay at a much higher percentage.

Special rules apply to financial products generally called investment or insurance bonds. These are insurance-based products and are taxed at source as if at basic rate if the provider is in the UK. This tax deduction is non- reclaimable. If you receive letters referring to terms such as "chargeable event gains", call Tax Help or TaxAid for clarification (but don't worry – it rarely has any practical significance for the average investor).

Scottish and Welsh Taxpayers

Please note that if you live in Scotland or Wales your savings and dividends are taxed according to the UK bands and rates.

"I had received so many forms over the last few months. Without the help of your tax adviser I am sure I would have sent the wrong information. Many thanks."

THE **BLIND PERSON'S ALLOWANCE**

According to the Royal National Institute for the Blind (RNIB) there are about 360,000 registered blind people in the UK, yet HMRC say that only about 30,000 people claim the Blind Person's Allowance. The allowance in 2022/23 is £2,600, and you don't have to be completely without sight to receive it.

In England & Wales the Blind Person's Allowance is not given automatically and must be claimed once the individual has registered as blind or severely sight impaired (SSI) with their local authority. For assessment as SSI you need to:

- See your GP or optician for referral to a consultant ophthalmologist who will carry out certain HMRC tests.
- If your ophthalmologist judges that you qualify you will receive a Certificate of Vision Impairment (CVI England & Wales). In Scotland it's a SCVI & in Northern Ireland a form A655.
- On receipt of the certificate contact your local authority who will ask if you wish to register with them as blind.
- Contact HMRC to receive the Blind Person's Allowance.

In Scotland or Northern Ireland you can also register for Blind Person's Allowance if you cannot do work for which eyesight is essential.

Further information on the process and other benefits of registering with your local council are on the RNIB website: www.rnib.org.uk or phone their Sight Loss Advice Helpline on 0303 123 9999.

Once registered, the Blind Person's Allowance can be backdated for tax purposes for up to 4 years. The allowance can also be transferred to your spouse/civil partner, regardless of how good or bad their eyesight is. This can be useful if you are a non-taxpayer and they pay tax.

THE **MARRIED COUPLE'S ALLOWANCE**

This allowance is only available to married couples or civil partners where at least one of the two was born before 6 April 1935. It is not an allowance against income like the Personal allowance and the Blind Person's Allowance, but is actually an allowance or reducer against the tax you owe. Although the figures look impressive – £9,415 – it is only given at 10% of its face value. So it only deducts £941.50 from your tax bill.

As an example, Ewan is married and has total pensions income of £14,570 a year. He was born in 1934, so is entitled to Married Couple's Allowance. We work out his tax liability:

Income	£14,570
Less Personal allowance	£12,570
Taxable income	**£ 2,000**

Tax due on £2,000 @ 20% = £ 400, BUT his Married Couple's Allowance of £941.50 wipes that out. In fact there is unused allowance of £541.50, but unfortunately he cannot ask for that back. What he can do is transfer the surplus of his Married Couple's Allowance to his wife Kathy, (provided she is a taxpayer) so that she can apply the unused amount to her tax. Suppose the figures were something like this:

Ewan's income	£14,570	Kathy's income	£12,970
Less Personal allowance	£12,570	Less Personal allowance	£12,570
Taxable income	£2,000	Taxable income	£400
Tax due @20%	**£400**	**Tax due @ 20%**	**£80**

Clearly Ewan only needs about two thirds of the Married Couple's Allowance to reduce his tax to nil, so he uses form 575 and transfers the unused £541.50 to Kathy; this also clears her tax bill.

MARRIAGE ALLOWANCE

This allowance should not be confused with Married Couple's Allowance in the previous section. If you are entitled to the Married Couple's Allowance, you cannot claim this one as well.

The Marriage Allowance can be claimed by a married couple or civil partners of any age, where one partner pays basic rate tax and the other is a non-taxpayer. The lower earner can transfer a fixed amount of £1,260 (10% of his or her Personal allowance) to the other.

For example, Melinda earns £6,000 a year working part-time, so has £6,570 of unused Personal allowance. She can therefore transfer £1,260 of her allowance to her husband Idris so long as his income does not exceed £50,270. As you can only transfer the fixed amount of £1,260, doing so when you have less than this amount of unused allowance will make you a taxpayer. However, you may be better off as a couple.

Confused? Both Tax Help and TaxAid can help explain these allowances, our contact details are at the end of this guide if you need guidance.

"I was very happy to find out that you can help with claiming for Marriage Allowance as I would not have been able to do it alone."

PAY AS YOU EARN

The intention of this chapter is to alert you to difficulties that can arise with Pay As You Earn (PAYE), when you have more than one source of income, for which you can seek help from the tax charities or HMRC.

PAYE means exactly what it says; you pay tax as you receive your income throughout the year, rather than building up the tax bill and paying it in one big chunk later on. This is the system we were talking about in the chapter on tax codes (page 7) and how our tax-free allowances are distributed and then tax collected on the rest.

The PAYE system assumes that we are going to be receiving income evenly across each year from 6 April until 5 April the following year, and PAYE collects one twelfth of the annual tax each month. If you are paid weekly, then PAYE will collect 1/52 of the tax each week.

However, there can be complications of which you need to be aware, for instance taking unpaid leave, losing your job and signing on for benefits, receiving a new source of income or dying mid-year can all upset the assumptions on which the tax has been collected to date, and it will need adjusting.

Changes in income during the year

As an example: if you lose a job paying £20,000 a year at the end of December, you will have paid tax on your income from April to December as if you were going to be earning that salary for the whole 12 months. In fact, you have only earned around 9 months of it. Assuming that you receive taxable Job Seeker's Allowance for the next 3 months, that is far lower than you were earning and you can see that the tax paid is likely to be incorrect. In previous years HMRC would have calculated your annual income at the end of the year to see if you have over or under paid tax. However, since April 2017 HMRC have used the information they receive from your employer and the benefits office in 'real time', so when it works well over and under paid tax is resolved 'in year', or as it happens, so that by the end of the year (by 5 April) the tax paid is correct.

HMRC will continue to calculate your annual income at the end of the year and where it hasn't balanced, they will send you a form called a P800 or a PA302 showing how they arrived at their calculation. You should check this form very carefully and get in touch with HMRC if you disagree. If you are still unhappy or if you don't understand, then contact the tax charities for help.

K code issues:

For example, if you receive a large State pension, which is more than the Personal allowance. This creates a K code which is allocated to your other source of income, but if this other source of income is too small to collect the tax that is due through PAYE, HMRC will issue a bill in the form of a Simple Assessment PA302 at the end of the tax year to collect the tax it could not collect (HMRC can only collect 50% of an income source in tax; this is explained in an example in the coding section). This can seem confusing when half a source of income is being deducted in tax.

It is important to check the calculation and if you agree, pay the amount due by the deadline shown.

Bereavement:

If a taxpayer passes away part way through the tax year, say, in October, which is halfway through the tax year, they will have received one half of their tax-free allowance for the year against half a year's income. They are entitled to the whole of the allowance for the year up to the date of death and so a repayment will be due to their estate. The surviving spouse or civil partner should also check to see if there is any transfer of Marriage Allowance that is available in the year of death.

SELF-ASSESSMENT

Self-Assessment is a method of paying the right amount of tax and is an alternative to PAYE. Self-Assessment is used when HMRC does not have access to your income information, for example due to self-employment. It can also be used when HMRC holds all of your income details, but can't collect the tax under PAYE. You don't have to be rich to come under self-assessment, just in receipt of income which is difficult or impossible to tax under PAYE. It can also be a way for an individual to get any overpaid tax refunded.

In essence, it is an annual totting up of all the taxable income which you have received during that year and all the tax which you have paid. Then HMRC calculate the balance to see whether you owe them more tax or they owe you a refund. Let's look at some reasons why you might come under self-assessment.

- ✓ You fail to pay a PAYE tax bill in time
- ✓ You do some self-employed work (also read the next section)
- ✓ You receive a foreign pension
- ✓ You let out a property
- ✓ You have taxable untaxed interest or dividends
- ✓ You are a higher rate taxpayer

Example: You have only a foreign pension of £12,970. Your Personal allowance is £12,570 so you have £400 of taxable income which at 20% means you owe £80. After the end of the tax year you need to inform HMRC that you need to complete a tax return. Now that the tax year has finished, on 5 April 2022, you need to inform HMRC that you want to make a self-assessment return on paper in good time so that you can make the return by 31 October 2022. If you are making the return online this must be done by 31 January 2023. Late filing can result in penalties. Whether you send in a paper return or do it online you must pay the tax you owe by 31 January 2023, otherwise you will incur interest and possibly surcharges. Whichever way you make your return, ensure that you set aside the money to make the tax payment.

There are two more useful allowances: a trading allowance and a property allowance. If you receive income from self-employment or from property which before expenses generates under £1,000 income you no longer have to tell HMRC or pay tax on it.

Provided you are registered for self-assessment HMRC will send a notice to file in April and will encourage you to file online. If you wish to file on paper and send it in by post, it is your responsibility to ask for the paper form. It is also your responsibility to notify HMRC by 5

October after the end of the tax year if you think you have any untaxed income which should be declared through self-assessment. If you ask for a paper form and your affairs are simple, they will send you a short form of only four pages, but if you have any complications such as a small pension from abroad, then you will have to complete the full return. If you need help, contact the charities in good time before the deadline (31 October for paper returns 31 January for online returns). The important thing is to keep good records; keep hold of payslips, P60s, dividend tax vouchers, interest statements and so on.

If you are registered for self-assessment but are no longer in the situation where you need to pay tax, don't ignore any notices to file as you will be charged a penalty if you don't submit a return, but contact HMRC and let them know your situation so they can stop sending notices to file.

Read the next section if you are self-employed or running a business as you'll need to complete a self-assessment tax return.

BUSINESS TAX: SELF-EMPLOYMENT

If you are receiving money from self-employment or casual employment work, this section is for you. To ensure that you pay the required tax:

Register for self-assessment with HMRC

Ideally, do this as soon as you start to trade. The law says that this must be done within 6 months of the end of the tax year in which the income starts - so for income earned in the 2022/23 tax year you must notify HMRC by 5 October 2023. You can phone HMRC's Newly Self Employed Helpline on 0300 200 3504 but registering online at www.gov.uk/set-up-self-employed is the easiest solution.

Once you have registered online HMRC will send you a 10 digit Unique Tax Reference (UTR) and will set up your account for the self-assessment online service. The UTR is usually issued about 6 weeks after registration. You are then sent an Activation Code by post which you have to use within 28 days of receipt.

If your gross untaxed income from self-employment, or casual employment such as gardening or babysitting, is less than £1,000, then the 'trading allowance' will cover this and you do not need to register. However you do still need to keep all records.

Keep good records

By law, business records must be kept for at least 6 years; that means details of income and receipts for expenditure. You do not send receipts in with your tax returns, but you may be asked by HMRC to produce them in the event of an enquiry into your tax returns. You should also keep a record of business mileage if applicable. If there are lots of transactions, it is recommended that you open a separate bank account for your business.

Save for your tax bill

In your first year of self-employment the tax on your profits is payable on 31 January, following the end of the tax year. If the amount due is more than £1,000, you may have to make a 50% payment on account for the following tax year on that date too – so the first tax bill can come as a nasty shock if you do not prepare for it. You can calculate how much your self- employed tax bill might be at: www.gov.uk/self-assessment-ready-reckoner

Submit the return

HMRC will send you a one page "Notice to file a tax return" at the end of the tax year (unless you have chosen to be notified via your online account). The deadlines for filing the returns are 31 January following the end of the tax year for online returns, but paper returns need to be filed earlier, by 31 October. Don't miss the deadlines - late filing penalties can be as much as £1,600.

To file on paper you can ask HMRC on 0300 200 3310 to send you paper forms or you can print them from the HMRC website.

When you complete your tax return online, you will be asked a series of questions to identify which sections of the return you need to complete (all taxable income needs to be reported, not just self-employment income). In the self-employment section you will report your income and expenditure figures for the year.

The online return automatically produces a calculation of taxable income: very broadly speaking this is your income less your expenditure, less your Personal allowance (£12,570 in 2022/23). Tax is then calculated on your total income. See the rates on page 24. You also pay two types of National Insurance if you're self-employed:

- ✓ Class 2 if your profits are £11,908 or more a year
- ✓ Class 4 if your profits are £11,908 or more a year

If your income is below £6,725 per year, you can still pay Voluntary class 2 NICs (there will be a tick box on the tax return to allow for this) to get credit for certain benefits such as the state pension.

If you are not sure about filing your first tax return by yourself you have the option of seeking professional advice or you can contact HMRCs Self-Assessment Helpline on 0300 200 3310 who can talk you through completion of the tax return. Alternatively contact the tax charities.

Pay the tax

If you think you won't be able to pay your tax bill in one sum by the due date, contact HMRCs Payment Support Service on 0300 200 3835 before the due date as you will incur interest and late payment surcharges in addition to the tax you owe if you don't pay on time. You will not necessarily receive a payment reminder before the due date, so note it in your diary.

If you cease trading

It is very important to let HMRC know or you will remain in the self-assessment system and continue to be issued with tax returns and charged penalties if these are not filed. Often taxpayers forget to file the tax return for the final year of trading. Notify HMRC that you have ceased trading. You can do this here: https://www.gov.uk/stop-being-self-employed

Full details and links to relevant information for the self-employed can be found at www.gov.uk/set-up-self-employed. And finally, HMRC have very useful videos and webinars for the self-employed at www.gov.uk/guidance/help-and-support-if-youre-self-employed.

PROBLEMS PAYING YOUR TAX?

Many people who are unable to pay their tax on time or who find themselves owing tax will worry about the potential consequences. The worst possible response is to ignore a letter or demand from HMRC which states that tax is due, as this will usually make things worse and can increase the amount owed. Quite often, a quick response can reduce the size of the problem.

If you fall within the PAYE system

HMRC will send you a tax calculation (called a P800) if they believe you owe tax. However, it is very important that you check that the figures on the calculation are correct. If the figures are incorrect then you should contact HMRC immediately, giving them the correct information. If the amount of tax you owe is less than £50 for that year, then the tax should be written off. If you receive a letter asking for payment for such an amount, call HMRC on 0300 200 3300 (or the number shown on the letter) and ask for the debt to be cancelled. If you agree with the P800 calculation, you should then try to understand why you did not pay enough tax before paying HMRC. This is important in working out whether you fall into one of the limited categories in which you can argue that you should not have to pay the bill.

It is possible that the underpayment has arisen due to your employer or pension payer not operating PAYE correctly. For example, they may not have applied the tax code that HMRC sent to them. If this is the case, HMRC should first seek the tax from the employer or pension payer, not from you. Alternatively, the underpayment might have arisen because HMRC failed to make timely use of information about you, which they had in their possession, this is covered by their concession ESC A19. In both cases you can ask HMRC to investigate and suspend collection until after they have done so.

How is the tax collected?

HMRC will try to collect the tax due during the tax year but if this isn't possible you will receive either a P800 or a PA302 tax calculation. If your circumstances change, for example, you start a new income like the State pension and there is tax to be collected, HMRC will try to collect it 'in year' by adjusting your tax code. If this isn't possible because it reduces another income by more than 50% or it is too late in the tax year, they may adjust your tax code in the following year as well. For larger amounts or if it isn't possible to collect it through PAYE they will send you a calculation form PA302 at the end of the tax year, which asks for payment. You normally have 3 months from the date of the calculation to make payment. After this you could be charged late payment penalties and interest.

If you are already in the Self-Assessment system

You will receive a tax calculation, SA302. As above, check the figures carefully and if you don't agree contact HMRC as soon as possible and ideally before the tax becomes due. The amount demanded may be wrong, and you may not agree with the amount of tax shown on your Statement of Account, or demanded by HMRCs Debt Management and Banking section (DMB). There could be a simple error – such as failure to credit a payment you have made and which can be sorted out by a phone call to the telephone number shown on your Statement of Account. If paperwork needs to be completed in order to bring your tax affairs in order, you can ask for your debt to be put on hold while you do this.

If you cannot afford to pay (PAYE or SA) there are several options:

– **Time to Pay.** If you owe tax which you cannot pay immediately, then in the first instance you should try and seek agreement with DMB to pay your tax by instalments. You will need to complete all outstanding tax returns before DMB will consider giving you time to pay. The maximum time to pay you will normally be allowed is 12 months (typically less for VAT and employer's PAYE debts).

– **Debt Collection Agencies.** Sometimes you may be contacted by a Debt Collection Agency on behalf of HMRC. Debt Collection Agencies have broadly the same powers as HMRC to agree time to pay of up to 12 months, however they are not tax experts, and may not understand how the debt has arisen. Any queries about the amount should be raised with HMRC.

– **Recovery Action.** If you fail to agree a payment plan with DMB, then recovery action is likely to be taken. Recovery action may include legally taking control of goods, removal of funds from your bank account (called Direct Recovery of Debt – England, Wales and Northern Ireland), court action in the Magistrates' Court or County Court, or bankruptcy proceedings.

– **Debt Relief Order.** If you have few assets and debts of under

£20,000 then you may want to apply for a debt relief order (DRO). This procedure has a lower cost, is more informal, and has less publicity than bankruptcy. It was introduced in England and Wales for people who have more modest debts, have little or no disposable income and no assets to repay what they owe (a similar scheme exists in Scotland). DROs cost £90 and are administered by "authorised intermediaries" (e.g. many are Citizens Advice money advisers).

– **Bankruptcy.** If you owe HMRC more than £5,000, and have been unable to reach an agreement with HMRC for time to pay and HMRC has not been able to recover the money by other means, such as taking control of goods, or by a Court Judgment then your file may be passed to the HMRC Enforcement and Insolvency Office (EIO) for bankruptcy action.

– **Individual Voluntary Arrangements.** Bankruptcy can sometimes be avoided by entering into an Individual Voluntary Arrangement (IVA) with your creditors. This is an arrangement to pay your debts over a period of time. Usually you will pay back less than the full amount owed, by agreement with your creditors. The agreement may last 5 years or more and must be approved by over 75% of your creditors (by value of the amounts owed).

The most important thing is not to ignore the debt.

Further information can be found on the TaxAid website or for PAYE and non-business debt you can contact Tax Help or visit the website. Details can be found at the end of this guide.

INHERITANCE TAX

This section is a short explanation of Inheritance Tax (IHT), and how the residence nil rate band, may affect married couples or civil partners. We will not go into reducing IHT or using trusts to get around it.

The first £325,000 of an estate is exempt from IHT. This is called the nil rate band (NRB) because tax is charged at 0%. Thereafter tax is charged at 40%. With effect from 9 October 2007 it became possible for any unused NRB of the first spouse or civil partner to die to be passed on to the survivor. This means that on the second death, the estate could benefit by up to double the NRB in force at the time. A simple example: Peter died in May 2015 and left everything to Magda. Transfers to spouses are generally exempt. She died in November, so his £325,000 is added to hers, meaning the estate benefits from £650,000 nil rate. Let's take it a stage further; if Magda dies in June 2025 when perhaps the NRB has gone up to £350,000, the estate benefits from £700,000 nil rate because Peter's NRB is valued at the rates in force when Magda dies, not the value of the NRB when he died in the earlier tax year.

A word of warning: in the above example Peter left everything to Magda. Suppose though that his estate was worth £200,000 and on his death he left £65,000 to his son. That £65,000 uses 20% of Peter's NRB, so when his wife dies she will only be entitled to 80% of his NRB, i.e. £260,000, giving her a £585,000 NRB in total. If the standard NRB is higher in the year she dies her effective NRB would be 180% of that higher figure.

A new residence nil rate band (RNRB) was introduced in April 2017 which means that from 6 April 2020 a further £175,000 may be available if the deceased's residence is inherited by direct descendants. It includes adopted, fostered and step children. It doesn't have to be the deceased's main residence when they die but they must have lived in it as a residence at some point while they owned it. The rules can become complicated and professional advice should always be sought.

CAPITAL GAINS TAX

A capital gain can arise between the value of an asset when buying or acquiring it and its value when selling or disposing of it. We are only going to mention one important aspect of capital gains tax (CGT).

For the tax year 2022/23 you have an annual exempt amount of £12,300. If the gain is greater than this, you may have a liability to CGT and should take professional advice. If lower, then you have no need to worry. Acquiring an asset includes being given it, just as disposing of it includes giving it away. The value is the market value at the time, so if you inherit a house from a relative its value is that at the date of the death and if you subsequently sell it, any gain will be the difference between that value and the price for which you sell it (less buying and selling costs).

The important exception for most people is the sale of their own house in which they have been living; there is generally no CGT on this sale. You can buy and sell houses that you use as your main home without tax worries. This does not apply to holiday homes which you may own or houses you let out. Also if you have gaps in your periods of residence or let it out, perhaps when working abroad, there are special rules and you will need advice. The most common question we get on this subject is about the sale of the house when an elderly person goes into residential care. If that was their main dwelling, then it is exempt from CGT on sale, however the rules on the period of ownership once you have left the house have changed and you should seek professional advice.

If you think you may have a taxable gain you should take advice well before the sale completes as you will have to complete a return and pay the tax within 60 days of completion.

Naturally if the proceeds are then invested to pay for the care, the interest will be subject to income tax rules, but that is a different matter.

"Thank you so very much for your incredibly quick and useful reply. I can now make a much better and informed decision."

YOUR **PERSONAL TAX ACCOUNT (PTA)**

Your PTA is a secure online service provided by HMRC that allows you to manage your personal tax affairs. Your PTA is a way to view the information HMRC hold about your income, tax, benefits and National Insurance. There are a range of services available with more being added all the time. Some of the more useful features include:

- ✓ checking your income and tax codes
- ✓ completing and filing your tax return
- ✓ claiming a refund
- ✓ claiming allowances like Marriage Allowance
- ✓ paying the tax you owe
- ✓ telling HMRC of a change of address checking and managing your Tax Credits
- ✓ viewing your National Insurance record
- ✓ viewing your State pension Forecast
- ✓ tracking forms you have submitted online
- ✓ telling HMRC if you think something is wrong
- ✓ checking/updating work benefits,
  like a company car or medical insurance

Accessing your PTA online is dependent on HMRC having enough information about you to be able to identify you.

To access your personal tax account: Accessing your PTA for the first time should take no more than 15 minutes online. You will need to obtain a Government Gateway ID first. You will need to have an email address before registering. Gather together your National Insurance number, a valid UK passport and/or UK photo driving licence and a P60 or a payslip. Go to https://www.gov.uk/personal-tax-account .When you are ready click on the green 'Start Here' button and follow the screen prompts.

Need help? Contact the tax charities for support, or HMRC online services on 0300 200 3600.

"I would like to say thank you. I have accessed my account and claimed my refund. Your help to navigate it all was invaluable."

PAPERWORK & FORMS

Changes to your circumstances can mean you find yourself dealing direct with HMRC to a greater or lesser extent. This may be because you have become self-employed, and/or no longer have an employer and payroll office dealing with HMRC with your PAYE information, or could be because of your changing financial circumstances. This section looks at some of the most common forms you may receive or be asked to complete by HMRC.

P2 – PAYE coding notice

You may not be familiar with this form if you have previously been employed. HMRC send out notices of coding every year to pensioners but they generally do not send them to people with simple affairs where there has been no change to the individual's allowances beyond any annual indexation. You can however request that they send you one every year, so that you can check whether you are being given the right allowances and that your employer/pension provider is using the correct code. It is especially important when you have more than one source of income apart from your state pension, because all too often the PAYE system fails to cope with this situation.

The P2 should make clear what allowances are being given against each source of income, as well as how much state pension they are taxing or any restrictions to collect underpayments. If you think anything is wrong or you do not understand it, you should contact HMRC and get it explained or corrected. Otherwise HMRC will assume that all is well, and if the code turns out to be incorrect they may, at a later stage, want you to pay tax arrears on the grounds that you should have known your tax was wrong.

R40 – Tax repayment form

This is an important form if you have overpaid tax on savings interest or PPI (Payment Protection Insurance). For instance, you may only be liable for tax on your savings at 0% but have had tax deducted from some of your interest and want to reclaim the overpayment. You can request this form by calling 0300 200 3313 option 1 or downloading it from the HMRC website. You need one form for each year for which you wish to make a claim, up to a maximum of four previous years. On this form you list all your sources of taxable income and the tax you have already paid, so that HMRC can work out how much you should have paid and therefore how much to repay you.

Self-Assessment

If you need to file a tax return, HMRC will encourage you to file online. If you wish to file on paper you have to contact HMRC and ask for an SA100 or SA200 form; HMRC will decide which one they want you to complete. If you choose to file on paper you need to do this by the 31 October after the end of the tax year.

- SA100 – The self-assessment tax return form: When HMRC cannot collect tax from your income sources you may find yourself having to complete an annual tax return. On the SA100, you enter all the information required for HMRC to collect the right amount of tax: your various incomes, your claims for reliefs and allowances, expenses, pension contributions, etc. You may have to ask for additional pages if you have, say, capital gains, rental income or a foreign pension or are self-employed The onus is on you to tell HMRC if you think you need to complete a tax return. If HMRC have issued you with a tax return, you must complete it, but if you believe you do not need to complete a return, contact HMRC and ask for it to be cancelled. Do not simply ignore it.

- SA200 – The short tax return form: This is a simplified four page return for people whose tax affairs are reasonably straightforward. HMRC will decide if you are able to use this. You might need to request a long return (SA100) if the short one doesn't cater for your needs, e.g. you receive a foreign pension. The form should be completed and sent back by 31 October for HMRC to prepare the tax calculation. Payments of tax and interest charges are the same as for the full Self-Assessment tax return form.

P800 – Tax Calculation

This form is only issued if either HMRC owe you money or if you owe more than £49.99. It is created at the end of the tax year and sent out during the summer months.

It is important that you check the figures carefully and contact HMRC if you disagree with them. If you owe money you may be able to challenge it.

PA302 Simple Assessment – Notice to Charge

Where HMRC already know about your income but cannot collect the tax due on it under the PAYE/P800 process mentioned above, they will issue a Simple Assessment. You will be asked to pay the amount due by the 31 January after the end of the tax year.

The following forms, P50z, P53z and P55, are only used when claiming back tax 'in year'.

P50z – Claim back tax when you've taken all your money from your pension pot (defined contribution)

If you pay your tax under PAYE you can claim the overpaid amount back during the tax year. Your scheme provider should provide you with a P45 showing details of the payment. You may have to send this form to HMRC when you claim a repayment.

If you have no other income or just receive your State pension, use form P50Z.

However, if you have other PAYE income, use form P53z.

P53z – Claim back tax when you've taken all your money from your pension pot (defined contribution) AND you have other PAYE income

You can use this form to reclaim tax on a flexible access pension payment provided that:

- you have used up all your pension fund
- you have received a P45 from your pension provider
- and you have other PAYE income.

P55 – Claim back tax when you've taken some of your money from your pension pot (defined contribution)

It is possible that you may have paid 40% tax (emergency tax rate) on your pension pot when in fact you should only have paid tax at the basic rate. This form can be used to reclaim the overpaid tax during the tax year rather than waiting until the end of the tax year.

You can use this form to reclaim tax paid on your pension pot provided that you have only taken some of your pension pot and you will not be taking further sums in the tax year. This form is only used when claiming tax back before the end of the tax year.

If you don't reclaim tax before the end of the tax year

If you haven't made a claim during the tax year HMRC should automatically look at all of your PAYE records after the end of the tax year. Where there has been a tax overpayment of any amount or an underpayment of at least £50, HMRC will send you a P800 calculation.

This should pick up on overpayments that haven't been claimed within the tax year, but, if the system fails, you may not hear from HMRC or you may get a P800 calculation that is incorrect, so you need to try to understand your situation for yourself.

P53 – Claim back tax when you've taken a trivial commutation

If you have taken a trivial commutation from a final salary pension or a small lump sum from any other type of pension it is usually taxed at 20%. Check to see that you have been taxed correctly as sometimes there is an underpayment. If you are due a refund complete form P53.

For further information on pensions please see Tax Help's "Pension Flexibility and Taxation" booklet.

"In 47 years of marriage we have always fought our own battles and generally had control of our destiny but this was beyond our control. Thanks to you we can now get on with our lives and start making plans for the future. I hope you realise how good you are at what you do."

RATES & ALLOWANCES 2022/23

Personal allowance (PA)	£12,570

Note – reduces as per MCA below for incomes over £100,000

Blind Person's Allowance	£2,600
Married Couple's Allowance (MCA)	£9,415

Note – MCA is only worth 10% of face value and reduces the tax due by £941.50. Also if your income is above £31,400 it is reduced by £1 for every £2 over until it is reduced to the minimum of £3,640.

Marriage Allowance	£1,260
Personal Savings Allowance –	
Basic rate taxpayer	£1,000
Higher rate taxpayer	£500
Additional rate taxpayer	£0
Dividend Allowance	£2,000
0% Starting Rate (see page 9) First £5,000 of savings interest (after the PA)	0%

Otherwise savings taxed at 20%, 40% and 45% accordingly

Dividends –	
Basic rate	8.75%
Higher rate	33.75%
Additional rate	39.25%

RATES & BANDS

First £37,700 of taxable income	20%
Thereafter up to £150,000	40%
£150,001 and upwards	45%

And in Scotland

First £2,162 of taxable income		19%
Next £10,956		20%
Next £17,974		21%
Thereafter up to £150,000		41%
£150,001 and upwards		46%
Capital Gains (CGT) above annual exemption of £12,300 (Gain must be added to income to apportion rates)		
	Basic rate	10%
	Higher rate	20%
Carried interest/Gains on residential property add 8% surcharge		18 or 28%

And in Wales

From 6 April 2019, people with their main residence in Wales will pay Welsh income tax, but for 2022/23 the rates will be the same as the UK	
Inheritance Tax (IHT) above nil rate band of £325,000 & above. Residence nil rate band of £175,000	40%

TO CONTACT THE TAX CHARITIES

TaxAid

T: 0345 120 3779 Monday to Friday 9am to 5pm
30 Monck Street
London,
London SW1P 2AP
E: admin@taxaid.org.uk
www.taxaid.org.uk

Tax Help for Older People

T: 01308 488066 Monday to Friday 9am to 5pm
Unit 10 Pineapple Business Park,
Salway Ash,
Bridport,
Dorset DT6 5DB
E: taxvol@taxvol.org.uk
www.taxvol.org.uk

OTHER USEFUL CONTACTS

Association of Taxation Technicians (ATT)

T: 020 7340 0551
30 Monck Street London
SW1P 2AP
E: info@att.org.uk W: www.att.org.uk

Chartered Institute of Taxation (CIOT)

T: 020 7340 0550
30 Monck Street London
SW1P 2AP
E: post@tax.org.uk W: www.tax.org.uk

Both CIOT and ATT, the professional bodies to which most qualified tax advisers belong, and can help you find a tax adviser in your area.

Her Majesty's Revenue & Customs (HMRC)

www.gov.uk
General helpline: 0300 200 3300
or the telephone number on any correspondence from them. Addresses:
To pay: HM Revenue & Customs Direct, BX5 5BD.
Anything else: PAYE & SA, HM Revenue & Customs, BX9 1AS.

Low Incomes Tax Reform Group (LITRG)

www.litrg.org.uk

LITRG has a wealth of research and information on tax as it affects people on low incomes.

Record of calls to HMRC/DWP

Date ....

Time...

Officer ....

Location ....

Issues discussed ....

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Advice given ....

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TaxAid

Registered Office:
30 Monck Street, London, SW1P 2AP
Tel: 0345 120 3779 (9:00-17:00 Monday to Friday)
Website: www.taxaid.org.uk

Charity registered in England & Wales No. 1062852

TAX HELP FOR OLDER PEOPLE

Registered Office:
Unit 10A, Pineapple Business Park, Salway Ash, Bridport, Dorset, DT6 5DB
Tel: 01308 488066 (9:00-17:00 Monday to Friday)
Email: taxvol@taxvol.org.uk Website: www.taxvol.org.uk

Charity registered in England & Wales No. 1102276
Charity registered in Scotland No. SC045819

Disclaimer

Whilst every effort is made to ensure that the material contained in this document is accurate and up to date at the time of publication, the charities remind readers of the need to check that the information is accurate and current before making decisions affecting their financial situation.