HM Revenue & Customs

Approaching retirement

A guide to tax and National Insurance contributions

IR121

Contents

Tax does not stop when you retire, no matter how old you are.

But you will not have to pay National Insurance contributions if you work past State Pension age.

Introduction

Once you retire, there could be more in the way of tax-free income because there are extra Income Tax allowances when you reach 65 and 75. But, broadly, how much tax you pay depends on your income. Just as it has always done.

This leaflet covers in general terms what most people might want to know as they get close to retiring. If you cannot find what you need, or you need more information go to **www.hmrc.gov.uk**

Retiring early

National Insurance contributions (NICs)

Once you reach the State Pension age you no longer have to pay NICS. The NICs you have paid during your working life will determine how much State Pension you are entitled to. If you retire before the State Pension age you may want to think about making some top-up contributions either to boost the amount of your State Pension or to make sure that you will get bereavement payments for widows and widowers or bereaved civil partners.

Your State Pension entitlement

If you want to find out how much State Pension you may get when you reach your State Pension age, you should get a State Pension estimate.
For information on how you can get an estimate
- go to **www.direct.gov.uk/pensions**
- if you live in the UK phone the Future Pension Centre on **0845 3000 168** (textphone **0845 3000 169**) or
- write to: The Pension Service, Future Pension Centre, Tyneview Park, Whitley Road, Newcastle upon Tyne, NE98 1BA.

Income Tax

If you retire before State Pension age, tax on company and personal pensions and retirement annuities will be dealt with through the Pay As You Earn (PAYE) system.

Anyone who is self-employed will fill in a Self Assessment tax return.

Claiming your State Pension

The Pension Service should automatically send you a State Pensions Information Booklet and invite you to claim your State Pension four months before you reach State Pension age. If you haven't received this booklet three months before you reach State Pension age, the quickest and simplest ways to claim are:
- phone the State Pension claim line on **0800 731 7898**. If you have speech or hearing difficulties you can use the textphone service on **0800 731 7339**
- download the State Pension claim form, print it out, then complete and send it to your local pension centre.

Welsh speaking customers can phone the State Pension claim line on **0800 731 7936**. If you have speech or hearing difficulties you can use the textphone service on **0800 731 7013**.

If you are eligible, you can claim your State Pension online. You will need a Government Gateway account. To find out more go to **www.direct.gov.uk/en/diol1/doitonline/statepension/dg_189286**

State Pension is not paid automatically, you must claim it. The booklet tells you what you need to do.

The amount of State Pension you are entitled to depends on the NICs you pay during your working life. To get a full basic State Pension you must have qualifying years of contributions:

- men born before 6 April 1945 usually need 44 qualifying years
- women born before 6 April 1950 usually need 39 qualifying years.
- men born on or after 6 April 1945 need 30 qualifying years
- women born on or after 6 April 1950 need 30 qualifying years.

You do not have to claim your State Pension straight away. Since 6 April 2005 if you put off claiming your State Pension for at least five weeks you can choose to receive extra State Pension (which is taxable as part of your State Pension) or if you put off claiming continuously for at least 12 months you can choose to receive a taxable lump sum payment.

A lump sum is taxed under special rules which ensure it is only taxed at the highest tax rate that applies to your other income. These rules make sure any lump sum payment does not push you into a higher tax bracket or affect any entitlement to the age-related personal tax allowances.

For more information about your options when deferring your claim to State Pension go to **www.direct.gov.uk** and enter *State Pension Deferral* in the search facility.

Changes to the State Pension age

The State Pension age is changing. Since April 2010, women's State Pension age has been increasing from 60 so that in the future it will be the same as men's. State Pension age for men and women will increase from 65 to 66 by April 2020 and further increases are likely to take place in the future. In general, these changes will only affect you if you reach State Pension age on or after 6 April 2020.

To find out the date you can claim your State Pension go to **www.direct.gov.uk/spacalculator** and use the State Pension age calculator. The Pensions Act 2008 introduced a requirement for all employers to offer a qualifying pension scheme to their workers, and to enrol all eligible workers into that scheme. To find out more about changes to State Pension go to **www.direct.gov.uk**

What we will do for you

Income Tax

The State Pension is taxable so The Pension Service will tell us when you are due to get it and how much.

If you have a company or personal pension, your pension provider should send us notification when it starts, including the annual amount you will receive. If you are not yet 65 we will check to see if you should pay tax on all of your income, including the State Pension.

If you are approaching 65 we will send you claim form P161 *Age-related Personal Allowance*. The information you provide us on the form will allow us to calculate any additional personal allowance that you may be entitled to. This could reduce the amount of tax you have to pay on your income. If you do not hear from us, please get in touch and ask for form P161 *Age-related Personal Allowance* or go to **www.hmrc.gov.uk/forms/p161-man.pdf**

Pay As You Earn tax code

If you have a company, personal pension, retirement annuities, or a job you may get a PAYE Coding Notice letter showing a tax code number. The letter also explains how the tax code is calculated and how it collects tax on your State Pension.

Self Assessment

If you fill in a Self Assessment tax return you will need to include the total amount of State Pension you were entitled to receive from 6 April to 5 April for the years in question.

Paying the right tax

What's taxable and what's not

Taxable	Non-taxable
Pensions State Pension (including extra State Pension) Personal and occupational pensions Retirement annuities	**State benefits** Disability Living Allowance Attendance Allowance Lump sum Bereavement Payments Pension Credit Free TV Licence for over 75s Winter Fuel Payments Housing Benefit Employment and Support Allowance (income-related element) First 28 weeks of Incapacity Benefit
Interest on savings Bank and building society interest (not including ISAs) National Savings & Investments accounts and bonds Pensioner Bonds	**Interest on savings** All ISAs National Savings & Investments – Fixed Interest and/or Index Linked Savings Certificates Premium Bonds
Investment income Dividends and Unit Trust Income (not including income from ISAs and PEPs)	**Rents** First £4,250 from a lodger (£2,125 if split between a couple)
State benefits Carer's Allowance Employment and Support Allowance (contributory element) Incapacity Benefit after week 29 Weekly Bereavement Allowance	**Tax credits** Working Tax Credit Children's Tax Credit
Rents From any second and subsequent property More than £4,250 from a lodger (£2,125 if split between a couple)	
Employment Full, part-time and temporary *(If you get perks or benefits ask us for advice.)*	
Other Income from Trusts Self-employed income	

If you have income not shown in the list contact us for advice.

Your tax-free allowance

Income Tax allowances

Your total tax-free allowance depends on:
- your age, and
- your income.

Nearly everyone who lives in the UK gets a tax-free allowance of £8,105 in the tax year ending on 5 April 2013. The tax-free allowance is the amount of income you can receive each year without having to pay tax on it.

Personal Allowances	2011–12	2012–13
Personal Allowance	£7,475	£8,105
Personal Allowance for people aged 65 and over but under 75	£9,940	£10,500
Personal Allowance for people aged 75 and over	£10,090	£10,660
Blind Person's Allowance	£1,980	£2,100
Married Couple's Allowance	£7,295	£7,705
Income limit for those aged 65 and over	£24,000	£25,400
Minimum amount of Married Couple's Allowance	£2,800	£2,960

From the 2010-11 tax year the Personal Allowance reduces where the income is above £100,000 – by £1 for every £2 of income above the £100,000 limit. This reduction applies irrespective of age.

Aged 65 and over

There is a higher tax-free allowance for everyone aged 65 or over. These allowances are subject to an income limit of £25,400 for 2012-13. Where an individual's income is below the income limit, the full amounts shown above are due. If the income exceeds the income limit, the allowances are reduced by £1 for every £2 that the income exceeds the limit. Unless their income exceeds £100,000, an individual's entitlement is not reduced below the allowance for someone aged under 65.

Sharing your tax-free allowance

If you do not have enough income to use up all of your tax-free allowance you cannot give the surplus to someone else.

Charity Gift Aid

If your income before tax is more than £25,400 please tell us about any Gift Aid payments you make. Your Gift Aid donations could increase your tax-free allowance.

Blind Person's Allowance

If you are certified as blind and registered with your local authority you may be entitled to the Blind Person's Allowance. In Scotland and Northern Ireland we also accept a certificate from your ophthalmologist.

Married Couple's Allowance

Married Couple's Allowance does not provide a tax-free allowance, but it does reduce the amount of Income Tax a married couple or civil partners have to pay. The amount you get depends on your income. Married Couple's Allowance can be claimed if either you, your spouse or civil partner were born before 6 April 1935 and:

- you are a man or woman who married before 5 December 2005, or
- you are a man or woman who married or formed a civil partnership on or after 5 December 2005

and you were living with your spouse or civil partner for all or part of the year ending 5 April 2012.

For marriages before 5 December 2005, the allowance is claimed in the first place by the husband. For marriages and civil partnerships formed on or after 5 December 2005, the allowance is claimed by the spouse or civil partner with the higher income.

This applies unless:

- you or your spouse or civil partner has asked for half of the minimum amount of the allowance to be given to each of you, or
- both of you have asked for the whole of the minimum amount of the allowance to be given to the wife (or spouse or civil partner) with the lower income for marriages or civil partnerships on or after 5 December 2005.

The Married Couple's Allowance consists of two parts:

- the minimum amount of £2,960 for the year ending 5 April 2013, and
- an amount based on the income of you, or your spouse or civil partner.

When the two parts are added together the maximum allowance available totals £7,705 or £2,960 plus £4,745.

The allowance is given at the rate of 10% as a reduction of your tax bill, if you have one. So, a Married Couple's Allowance of £7,705 gives a maximum tax saving of £770.50 (£7,705 at 10%).

Income restriction

Just like the higher age-related levels of Personal Allowance, this allowance is subject to an income restriction. If the income of:

- the husband for marriages before 5 December 2005, or
- the spouse or civil partner with the higher income for marriages or civil partnerships on or after 5 December 2005

is over £25,400 for the year ending 5 April 2013, the allowance is reduced by £1 for every £2 of income above £25,400. The allowance is not reduced below £2,960.

The restriction is only made after the income restriction has been applied to your Personal Allowance. The restriction to the Married Couple's Allowance is reduced by any reduction already made to your Personal Allowance.

If you, your husband, wife, or civil partner are not getting the allowance and you think you may be eligible, phone us for advice.

Here is an example of how the tapering of the Married Couple's Allowance works for the tax year ending 5 April 2013.

The claim to Married Couple's Allowance is made by the husband aged 78.

Income			£37,500
less income restriction			£25,400
Excess			£12,100
Personal Allowance (75+)		£10,660	
less excess of £12,100 x 1/2 =	£6,050 (restricted to give basic allowance)	£2,555	
Personal Allowance due		**£8,105**	
Married Couple's Allowance		£7,705	
less excess of £12,100 x 1/2 =	£6,050		
minus reduction made from Personal Allowance	£2,555	£3,495	
Married Couple's Allowance		***£4,210**	

*This means your tax liability will be reduced by 10% of £4,210 which is £421.

Rates of tax - how much you pay

For the tax year 2012-13 the rates of tax, after deducting **any** personal allowances, are:

- £0 to £34,370 20%
- £34,371 to £150,000 40%
- over £150,000 50%

Should you be paying tax?

The tax year 6 April 2012 – 5 April 2013

You can work it out

First, pick your age from the table on the next page and see how much income you can have a year, or a week, without paying tax.

If you are in any doubt, or this table does not match your circumstances, please contact us for advice.

Income Tax allowances – your tax-free allowance

Tax-free income

Your age by 5 April 2013	Annual limit	Weekly limit
Under 65	£8,105	£155.87
65 to 74	£10,500	£201.92
over 75	£10,660	£205.00

Where your annual income exceeds £25,400, reduce the annual limit by £1 for every £2 above this amount. Do not reduce your annual tax-free income below £8,105.

From the table above, enter your annual tax-free income in box 1.

Box 1 £

If you are registered blind with your local authority or you are completing this form for someone who is registered enter £2,100 in box 2.

If you live in Scotland or Northern Ireland your local authority may not keep a register and you may have a certificate from an ophthalmologist (eye specialist).

Box 2 £

Add up boxes 1 and 2, and put the total tax-free income in box 3.

Box 3 £

Your yearly income

Next, work out the income on which you could have to pay tax. All the figures should show income before tax has been taken off.

State Pension - the weekly entitlement x 52 (Do not include any Pension Credit or any State Pension lump sum)	£
Other pensions, for example, from a previous employer	£
Pay from employment, or profits from working for yourself	£
Jobseeker's Allowance, Employment and Support Allowance (contributory element) and Taxable Incapacity Benefit. (Do not include Working Tax Credit, Child Tax Credit, or state benefits such as Child Benefit or Attendance Allowance)	£
Interest from banks and building societies - include the amount before tax was taken off. If you have a joint account just include your share. (Do not include any ISA interest)	£
Company dividends and any other income you think may be taxable, for example, rents you receive.	£
Total Box 4	£

Now, is the figure in box 4 more than the figure in box 3? If yes, you may have a tax liability. See *Rates of tax - how much you pay*, on page 11. Then deduct any Married Couple's Allowance that you are entitled to (see pages 9 and 10).

Do you have to pay tax for the year ending 5 April 2013?

Yes ☐ No ☐

If Yes, then look at the **tax to pay** column in the following table.

If No, look at the **no tax to pay** column in the following table.

Paying tax or claiming it back

Type of income	What you should do	
	Tax to pay	**No tax to pay**
Occupational pension or employment	If you are not paying tax through PAYE contact us for advice.	Contact us for advice about your PAYE tax code number, claiming a repayment and how to stop paying tax.
Bank and building society interest	The bank or building society will automatically take off 20% in tax. There is a 10% starting rate for savings. If you have an income from savings (broadly, bank and building society interest) which has been taxed at source and after deducting your personal allowances, your income is less than £2,710, then you may be entitled to a repayment of tax. You can check to see if you are entitled to a repayment by using the checker: go to **www.hmrc.gov.uk/calcs/r85** You can ask us how to claim a repayment of any tax already paid. Alternatively, you can phone the Registration Helpline on **0845 980 0645**.	Contact us or your bank or building society and ask for the form R85 *Getting your interest without tax taken off* to stop any more tax being taken off. You can ask us how to claim a repayment of any tax already paid. Alternatively, you can phone the Registration Helpline on **0845 980 0645**. Remember, if your income goes up you may have to pay tax, and contact your bank or building society to withdraw the R85.

Type of income	What you should do	
	Tax to pay	**No tax to pay**
Purchased annuities **Retirement annuities are taxed under PAYE (see page 4).**	The company paying the annuity will automatically take off 20% in tax.	Ask us for the form R89 *Application to receive an annuity without tax taken off* to see if you can claim a repayment. And to stop any more tax being taken off.
Company dividends and company tax credits	The tax automatically taken off should cover what you need to pay. But if you have enough income to put you in the higher rate of tax bracket you must fill in a Self Assessment tax return.	You cannot stop paying this tax or get the tax back. You should speak to a financial adviser about your investments. It may pay to switch to a non-taxable type of saving.

Working and getting an occupational pension

Employment

If you have a form P45 from a previous employer, give the form to your new employer. If not, your employer will ask you to fill in the form P46 *Employee without a form P45*. Your employer will then send it to us. If you do not hear from us, please contact us by writing to HM Revenue & Customs, Pay As You Earn, PO Box 1970, Liverpool, L75 1WX.

Should you be paying tax?

You may have to pay tax on your job as well as your pension so please use the tax check on pages 12 and 13 to see how much income you have in a tax year. If it looks like you have enough tax allowances to give you some spare tax-free income you can ask us to split the allowances between the two tax code numbers.

State Pension

The State Pension is taxable so when you add it to the income from a job it may mean that you have to start paying tax. If you do have to pay tax, HMRC will send you a PAYE Coding Notice with a tax code and a note explaining how it works.

Occupational Pension

The pension provider will notify us when you start to receive a pension and will deduct any tax that is due on this income through PAYE.

Self-employed – in business

If you start working for yourself you must register as a self-employed person straightaway, as failing to do so could leave you liable to penalties in addition to any tax and NICs due. To register with HMRC, all you have to do is go to **www.businesslink.gov.uk/taxhelp** or phone the Newly Self-Employed Helpline on **0845 915 4515** and give them details about you and your business.

Retiring abroad

Paying tax in the UK

Broadly, if you are resident in the UK you will pay UK tax on your income. If you are not resident you will only pay UK tax on income from the UK.

How much tax you pay will depend on:
- whether your income comes from the UK or elsewhere
- the terms of any double taxation agreement between the UK and the country to which you retire. Double taxation (DT) agreements are designed to protect against the risk of being taxed twice where the same income is taxable in two countries. Depending on the terms of the particular DT agreement, you may be able to claim relief from UK tax, or a reduction in the amount of tax you pay in the other country
- where you are resident for tax purposes. You may become a tax resident in the country to which you retire, but in some circumstances you may also remain resident in the UK. Most DT agreements contain provisions that will decide the country of residence for the purpose of the DT agreement
- your entitlement to personal tax allowances, if your income is from the UK.

In basic terms, you are not resident in the UK if:
- you leave the UK for at least a full tax year, 6 April to 5 April, and
- your visits back to the UK will total less than 183 days in any tax year and will not average 91 days or more in a tax year over a maximum of four years.

To find out more about:
- when someone stops being resident in the UK
- double taxation agreements
- personal tax allowances for non-residents

go to **www.hmrc.gov.uk** and look for *HMRC6* within the search facility. For a summary of the main provisions of each double taxation agreement look for *DT Digest* within the search facility.

Before you go

Depending on your income and how long you intend to be abroad, you might be due for a repayment of tax for the year that you go. Please ask us for form P85 *Leaving the United Kingdom - getting your tax right.* Or you can download it, go to **www.hmrc.gov.uk** and look for *P85* within the search facility.

Remember that relief from UK tax is not automatic - you will need to claim it.

Helpline

If you are going to live abroad and would like more details about tax and National Insurance, go to **www.hmrc.gov.uk** and look for *residency* within the search facility.
For our opening hours go to **www.hmrc.gov.uk** or phone us.

Getting older and passing things on

A brief note about Inheritance Tax

Inheritance Tax could be due when:
- someone dies, or
- assets, such as a house, are transferred to most types of trust or a company.

Leaving more than £325,000

The starting point for Inheritance Tax on a person's estate, in this tax year (6 April 2012 - 5 April 2013), is £325,000 or up to £650,000 for married couples and civil partners.

Broadly, a person's estate includes the total value of:
- everything owned in his or her name
- the share of anything owned jointly
- assets held in trust that give a personal benefit, for example, an income
- most gifts made in the seven years before death
- gifts made after 18 March 1986 where the person continued to benefit from the gift, for example, continuing to live in a house that has been given to someone else
- certain leftover pension funds.

Gifts

Anything that you give to your spouse or civil partner during your lifetime or on death is free from Inheritance Tax. But both of you must live permanently in the UK.

Helpline

If you would like more information please:
- go to **www.hmrc.gov.uk/inheritancetax/** or
- phone our Probate and Inheritance Tax Helpline on **0845 30 20 900**.
  For our opening hours go to **www.hmrc.gov.uk** or phone us.

More information

Pension and retirement leaflets

For more information about planning for your retirement go to **www.direct.gov.uk** and enter *pensions and retirement planning* in the search facility. The Pension Service also publish a series on free leaflets about the State Pension and retirement. You can order them by:
- phoning **0845 731 3233**, or textphone **0845 604 0210**.
- going to **www.direct.gov.uk** and entering pensions and retirement planning in the search facility.

The leaflets cover the following topics:
- State Pensions
- Pension Credit
- how to get extra State Pension or a lump sum payment (also known as State Pension deferral).

The forms you might have to fill in

Pensions

P161 *Age-related Personal Allowance*
Advises people that their current PAYE tax code may need changing because they are approaching or have reached age 65 and may be entitled to claim age-related Personal Allowance. This could affect the amount of tax you will need to pay.

Starting a job

P46 *Employee without a form P45*
Your employer will give you this if you start a job without a form P45. It asks if you are also getting a pension.

Getting tax back

R40 *Claim for repayment of tax deducted from savings and investments*
This form asks for details of your income in a particular tax year. It also has sections where you can claim for Income Tax allowances such as the Blind Person's Allowance. You will have to fill it in if you ask for a repayment of tax.

Savings

R85 *Getting your interest without tax taken off*
If you have some money in a bank or building society you will be paying tax on the interest unless you have filled in a form R85. The bank or building society automatically takes 20% tax off the interest. If you are not due to pay Income Tax, use this form to get the interest without tax taken off.

Self Assessment

SA200 *Short Tax Return*
If you only get a State Pension and it's more than your Personal Allowance you will be asked to complete a tax return.

You may also be asked to complete a tax return if we need to reduce your higher Personal Allowance because of your income level (see page 6).

Purchased annuities

R89 *Application to receive an annuity without tax taken off*
The society or company paying your annuity will automatically take tax off before it is paid to you. If you are unlikely to have to pay Income Tax, use the appropriate form to ask for your annuity to be paid without tax taken off. There are conditions, but these are explained on the forms. Retirement annuities already have tax deducted under PAYE.

You can download the forms from our website. Go to **www.hmrc.gov.uk**

Customer Service

Your Charter

Your rights and obligations

Your Charter explains what you can expect from us and what we expect from you. For more information go to **www.hmrc.gov.uk/charter**

Customers with particular needs

We have a range of services for people with disabilities, including guidance in Braille, audio and large print. Most of our forms are available in large print. Please contact us on any of our phone helplines if you need these services.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any right of appeal.

Issued by
Customer Information Team

HM Revenue & Customs