age UK
Love later life

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1 State Pension

Pensions are the most common way of supporting yourself in retirement. Most people are entitled to some State Pension which is based on National Insurance (NI) contributions paid or credited during your working life. You can claim State Pension when you reach State Pension

When you receive a pension forecast, you may find the additional State Pension is reduced by an amount assumed to be provided by what your contracted-out scheme will pay. This involves complex calculations which may be difficult to understand. You have not ‘*lost*’ this amount.

It is paid either through a personal pension plan with a life insurance company or as part of a company pension (although the assumed amount and what you receive may be different). Many public-sector occupations such as the police, teachers, local authority staff, and civil servants often do not receive much above basic State Pension but do receive additional pension with their occupational pension.

Contracting out for defined contribution pension schemes was abolished in April 2012 (see section 2) and for defined benefit pension schemes in April 2016. Arrangements are in place to make sure you do not lose out if affected by these changes.

1.2 Boosting your National Insurance contributions

If there are gaps in your NI contribution record, you can usually make up a maximum of six years by paying voluntary contributions. Before paying, seek advice from the Pension Service or an independent advice agency on how much extra pension you might get. In particular, because of the changes to State Pension in April 2016, you might not receive any increase at all if you have already paid 35 years of contributions.

Contact the Pensions Service to ask how much more pension you receive for each extra year purchased. Ask about any deadlines to meet or exceptions to the six-year rule.

1.3 Claiming State Pension

You can claim State Pension up to four months before you reach State Pension age, whether you work or not. You can claim online, phone to claim or ask for a claim form. Alternatively, you can delay claiming (‘*defer*’) which can increase your State Pension when you do claim.

For details of how to claim, see www.gov.uk/state-pension/how-to-claim.

1.4 Deferring the State Pension

If you reached State Pension age **after** 5 April 2016, the enhancement for deferring is approximately 5.8 per cent a year (so long as you defer for at least nine weeks) and you do not have the option of taking a lump sum. You can only receive the State Pension at the enhanced rate.

Note, if you defer claiming your State Pension whilst claiming means-tested benefits like Universal Credit or income-related Employment and Support Allowance, you do not receive any increase to your State Pension entitlement. If you defer whilst cl5.35 Tm0 g dt0.000008871 x 70.312 Tf1 24 170.5 18540.00

If you reached State Pension age **before** 6 April 2016 and deferred claiming your State Pension, the enhancement is equal to 10.4 per cent a year. If you deferred for a year or more, you can choose to take the arrears as a taxable lump sum and your weekly pension at the basic rate in force at the time, or draw your pension at an enhanced weekly rate.

1.5 Taxation of State Pension

State Pension is taxable income but, unlike most other pensions, is not taxed at source. It is added to all taxable sources of income to determine if you are a taxpayer when you retire. If income from all your pensions and any work is less than your personal allowances, you do not pay tax on the State Pension. If, however, your total taxable income is above your allowances, tax is collected in one of two ways:

ő*Pay As You Earn*ő (PAYE) if your other sources of income are large enough to bear the tax on both themselves and the State Pension, or

annual self-assessment tax return, paying tax by 31 January the following year.

With PAYE, tax is collected by reducing your allowances by the amount of your State Pension. For example, if your allowance is £12,570 and your State Pension is £9,570, you have £3,000 spare allowance for other pensions or income. Tax is collected by reducing your allowances on other sources of income, thereby increasing the amount of tax deducted from them, rather than by taking money directly off the State Pension.

If you have a small pension that HMRC is not allowed to take more than 50 per cent in tax from, or you have no other sources of taxable income, you must ask for a self-assessment return and pay the tax each year. There are changes being made to this system. See section 7.6 to see whether your circumstances come under the new procedure.

1.6 Other entitlements at State Pension age

You may be entitled to Pension Credit for people on low incomes and moderate savings. You may also be entitled to other benefits such as Housing Benefit and Council Tax Reduction.

If you reach State Pension age during or before the week beginning the third Monday in September, you are entitled to a Winter Fuel Payment (WFP). This is paid automatically but you must claim if you have not received it before and do not receive benefits such as Pension Credit. WFP is paid to the first person in a household reaching the qualifying age. If you and your partner both reach qualifying age, it is divided between you.

See FS1 *Help with heating costs,* FS17 *Housing Benefit,* FS19 *State Pension,* FS21 *Council Tax, and* FS48 *Pension Credit,* FS1w *Help with heating costs in Wales* and FS21w *Council Tax in Wales,* in Scotland, *Warm and Well and Council Tax and Council Tax Reduction.*

2 Occupational and private pensions

2.1 Occupational pensions

Occupational pensions, also called works pensions, are schemes run by private and public sector employers. They vary widely in the benefits provided and you can

2.3.1 Annuities

An annuity gives you a guaranteed income for the rest of your life, helping you to budget more effectively. Recent pension reforms mean it is no longer compulsory to buy an annuity with a DC pension pot at retirement. There are other options if you have a DC pension.

Some older pension plans offered a benefit called a ó*Guaranteed Annuity Rate*ô This was often a rate of 10 per cent or more fixed at the beginning of the plan, much more than the current typical 6 or 7 per cent. If you have one of these, think carefully before going for any other option.

Different types of annuity offer you different choices:

Do you want a policy covering only you (a single life annuity) or one that pays out to your spouse or civil partner when you die (a joint annuity)? Joint annuities pay a lower amount than other types of annuity because they are probably going to pay out for longer. If joint, you must decide whether to allocate half, a third, or the entire amount to the survivor. This affects the starting level of the amount you receive.

Do you want a fixed rate for life (starts at a higher amount but loses real value against inflation over time) or an increasing rate (indexed) to compete with inflation (starts at a lower amount)? Early retirement reduces the size of the annuity you can purchase as the policy covers a longer period of time and monthly payments are likely to be lower.

Shop around for the best annuity, as you do not have to buy an annuity from the company where you built up your pension, including company defined contribution schemes. It is usually a good idea to shop around using the ó*Open Market Option*ô to see what offers you get for the amount of money quoted by your pension company. Some companies are not very forthcoming about the Open Market Option. You can do the search yourself or go to a specialist broker.

You can buy an impaired life annuity if your health is poor or, for example, you smoke and are unlikely to live as long as the average man or woman. These can boost your annuity by up to 30 per cent. It is best to go to a specialist adviser as not all companies offer these

2.3.3 Treating the pot like a bank account

Using your pension pot like a bank account means you withdraw money when you need it. The technical term for this is UFPLS – ‘*Uncrystallised Funds Pension Lump Sum*’. Not all pension companies have systems in place to handle random or small withdrawals and there may be charges for accessing money in this way.

You may have tax problems with these withdrawals. Unless a Pay As You Earn (PAYE) code is given to the pension company by HMRC, withdrawals are usually taxed on an emergency code which overtaxes the payment.

Refunds of overpaid tax are either paid in the same tax year, or the following one, after HMRC has looked into it. See section 8.1 for the forms to use to make a repayment claim.

The PAYE code depends on whether HMRC can create an accurate code in year for that source of income (which is unlikely) and whether there is a total withdrawal, a one-off partial withdrawal, or if there will be further withdrawals in that tax year. Take tax advice before accessing your pension pot in this way.

2.3.4 Small pension pots

This option (known formally as ‘*trivial commutations*’) used to be available for pension pots of less than £30,000. You could withdraw it as a lump sum because the annuities they could buy were trivial.

They have now almost entirely disappeared because the new pension freedoms mean you can do whatever you like with funds in a defined contribution scheme, where the size of the pot depends entirely on the money invested in it and its investment growth.

Trivial commutations now only exist in practice for defined benefit schemes. These schemes do not accumulate pots of money specifically in your name but pay out pension benefits depending on your length of service and salary.

Regardless of the scheme, if you have isolated pots with a notional value of under £10,000, you can take them as a lump sum with 25 per cent tax-free and the remainder taxed at your marginal rate. The tax-free amount is only available if you have not yet started to receive your pension. If you have, all of it is taxed at your marginal rate.

There are tricky points on timings and limits to consider, especially if commuting more than one pot.

For more details, contact Tax Help for Older People, or see the Low Income Tax Reform Group website:
www.litrg.org.uk/pensions/pension-withdrawals/small-pensions

2.4 Early retirement

Retiring earlier than your pension scheme allows usually means a reduced pension income. In the case of early retirement because of ill-health, you can shop around to buy an ‘*impaired life*’ annuity which can pay up to 30 per cent higher than a standard annuity.

Defined benefit schemes usually enhance your pension with extra years of notional service if you retire because of ill health. There is no difference in the taxation of your pension in these cases. If you have less than twelve months to live, you normally receive the entire pot tax-free.

Other inducements to cash in pensions before age 55 (or the normal retirement age for other professions) are almost certainly a scam and expose you to tax charges of up to 55 per cent, on top of losing all your pension savings to the scammer. For more scams information, see the Financial Conduct Authority website *www.fca.org.uk/scamsmart*

Note, since January 2019, it is illegal to cold-call someone about their pensions. If anyone other than your pension scheme or financial adviser telephones you out of the blue, just hang up. Do not relax your guard because scammers may call to offer a free review of your investments without mentioning the word ‘*pensions*’.

2.5 Death in service

Many occupational pension schemes offer a death in service benefit of up to four times the annual salary of the deceased. The tax position of this benefit largely depends on whether it is ‘*discretionary*’ i.e. whether the trustees of the scheme decide on who the beneficiary should be.

Although this is normally a surviving spouse or civil partner, it is not necessarily so. Ask the administrator of the scheme if you find yourself in this situation. You should also seek independent financial advice.

3 What to do about tax at retirement

At retirement, your financial circumstances usually change quite significantly. Your income

Thereafter, anything else is taxed at the basic rate. If you do not receive a coding notice (P2 ï the number printed in the bottom left-hand corner of the first page) showing all your PAYE income sources, check what is happening with HMRC. Be ready when you contact them with your NI number and details of all your income sources.

They may be unaware of a source of income, either because the income provider has not notified HMRC, or due to technical glitches in their systems. Contact Tax Help for Older People if you have problems.

You may be looking at partial retirement, continuing to do some work, employed or self-employed, while drawing some or all of your pensions. It makes no difference to the way you are taxed. All income from work and pensions is lumped together and you are taxed according to the total. If your total taxable income is, for example, £20,000, it does not matter if half is from work and half from pensions. You get a £12,570 personal allowance and the remaining £7,430 is taxed at 20 per cent.

3.5 Individual Savings Accounts (ISAs)

ISAs provide a tax-free option for savings and shares. There are six different types of ISAs into which you can save according to the different rules and your needs.

The overall maximum for the year is £20,000. If you make contributions, for example, to your grandchildren's Junior ISAs (which have an annual limit of £9,000), this does not reduce your own annual limit.

Normally ISAs fall into the estate when someone dies

4 Income Tax and working in retirement

HMRC usually allocates your personal allowances against your State Pension and other pensions, so any income from work is taxed at the basic rate or occasionally the higher rate. If you change job mid-year,

Useful tip if you think HMRC have got things wrong

Compare your State Pension with the figure which HMRC use on your coding notice. If you are confident your arithmetic is correct ï multiply 4-weekly payments by 13, not 12 ï phone HMRC to challenge. The evidence of what DWP are actually paying you is on the bank statement in front of you.

Work on annual figures. If you are paid weekly for part-time work or draw your State Pension weekly, multiply by 52. If State Pension is paid ó*monthly*ô, remember that is every four weeks, so multiply by 13.

Example 1

State Pension	£9,674
Teacherõs pension	£14,872
Personal pension	£1,790
Savings interest	£127
Total	**£26,463**

You have tax-free allowances of £12,570. You are a basic rate taxpayer, so remove savings interest from the calculation as it is lower than the PSA. Subtract your allowance from the gross taxable income of £26,336 and you have £13,766 to be taxed. At 20 per cent, you pay £2,753.20 tax on these sources of income.

Example 2

State Pension	£9,396
Savings interest	£1,285
Total	**£10,681**

Your allowances are £12,570, so your taxable income of £10,681 is £1,889 below allowances, so no tax is payable.

You do not need to notify HMRC of excess savings interest over the £1,000 PSA, because your total taxable income does not reach the level of personal allowances and you also have the £5,000 zero rated band.

The overall effect is to collect the tax due, after allowances, on the

7.1 Possible reasons for inclusion in self-assessment

You must probably complete a self-assessment return if you:

There are automatic penalties for returns filed after 31 January and surcharges for final payments more than 28 days late. Interest is charged on late payments, in addition to penalties. You can appeal against penalties but need good reasons why you failed to file or pay on time e.g. being in hospital, death in the family etc. You should try to file or pay as soon as possible after the cause of the delay has gone away.

7.5 Record-keeping

You are not asked to send in supporting evidence with your tax return, but you should keep records for at least 12 months after the payment HMRC deadline. HMRC can enquire into your return. Keep the records for five years after the deadline if you are self-employed or have income from property.

7.6 Escape from self-assessment

Recently, HMRC have taken people out of the self-assessment system where their tax can be collected by other means (PAYE or deducting at source) and there is no other reason why they need an annual return. If they decide to do this with you, they will write.

If you think there is

Simple Assessment

To reduce the burden of self-assessment, HMRC is introducing a Simple Assessment procedure. This can apply if your taxable income consists only of a State Pension higher than your personal allowances or your

8 Paperwork and forms

When you retire, you will probably need to start dealing directly with HMRC. This is partly because of no longer being shielded by an employer and payroll office and partly due to changing financial circumstances. HMRC want to reduce the amount of paper contact by receiving more information electronically from employers, pension providers, banks etc. and not asking for information they already hold.

8.1 P800 – tax calculation

At the end of a tax year, HMRC do a reconciliation of the tax a PAYE taxpayer has actually paid with the tax that HMRC think you ought to have paid. If there is a discrepancy, under or over, they send you a P800 calculation explaining how they reached their conclusion as to whether you owe them tax or they owe you a repayment.

It is not a demand for tax, though it could turn into one if HMRC convert it to a Simple Assessment (form PA302)

9.3 Value Added Tax

The relevant part of VAT that may arise at retirement is its application to disability. There are two main points.

Many goods or services bought solely because of need through disability (such as items specially designed for people with disabilities) are VAT-free (zero-rated). You must sign a declaration with the supplier and you are invoiced only for the net amount. Do not pay the whole bill and then try to recover the VAT as HMRC do not refund this.

The rules can be complicated. For example, widening a doorway to enable wheelchair access is covered but building a new doorway, albeit wider, may not, if it is just a convenience for everyone in the household.

Second, VAT is reduced to five per cent for mobility aids for cases of general frailty for people over the age of 60. The rules are a little less rigorous, so putting in a handrail up the stairs may qualify. You must sort it out with the supplier first, as goods must be fitted by the supplier ï you cannot get the reduced rate on DIY items.

For more information, see factsheet 42, *Disability equipment and home adaptations*. In Wales, see Age Cymru factsheet 42w, *Obtaining disability equipment and home adaptations in Wales*. In Scotland, see the guide, *Care and Support at home: Practical Help*.

10 Rates and allowances 2024/2025

10.1 Personal allowances

Income below £100,000	£12,570
Blind Person's Allowance	£3,070
Married Couple's Allowance (either one born before 6 April 1935)	£11,080 (worth 10 per cent of face value and reduces tax due, not tax-free income)
Marriage Allowance	£1,260

Note
Once you reach an income of £37,000, the MCA reduces by £1 for every £2 over the threshold until it is down to a minimum of £4,280.

10.2 Rates and bands

First £37,700

Useful organisations

Association of Taxation Technicians
www.att.org.uk
Telephone 020 7340 0551

Leading professional body for those providing tax compliance services and related activities in the UK.

Citizens Advice
England www.citizensadvice.org.uk
Wales www.citizensadvice.org.uk/wales
Northern Ireland www.citizensadvice.co.uk
Scotland www.cas.org.uk
In England telephone 0800 144 8848
In Wales telephone 0800 702 2020
In Scotland telephone 0800 028 1456

National network of advice centres offering free, confidential, independent advice, face to face or by telephone.

Chartered Institute of Taxation (CIOT)
www.tax.org.uk
Telephone 020 7340 0550

Website contains an area for people looking for general tax information or a professional tax adviser.

Department for Work and Pensions
www.gov.uk/government/organisations/department-for-work-pensions

Information about money, tax and benefits. It also offers information about pensions and retirement planning.

Her Majesty's Revenue & Customs (HMRC)
www.gov.uk/hmrc
Telephone 0300 200 3300

Contact HMRC for more information about taxes.

Low Incomes Tax Reform Group
www.litrg.org.uk

Information on matters concerning all people on low incomes and guidance on taxation as it affects them.

MoneyHelper
www.moneyhelper.org.uk/en/pensions-and-retirement
0800 011 3797

Offer information and guidance on different types of pensions. They can help you if you want to complain about a workplace or private pension.

Pension Service (The)
www.gov.uk/browse/working/state-pension
Telephone 0800 731 0469

Our publications are available in large print and audio formats

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The evidence sources used to create this factsheet are available on request. Contact *resources@ageuk.org.uk*