TAX HELP
FOR OLDER PEOPLE

May 2021

Is the tax you have paid correct?

How do you know? If you pay your tax under Pay as You Earn (PAYE) your involvement with HMRC will probably be minimal. Your employer or pension provider makes sure that HMRC are aware of your earnings, operates your tax code, takes tax from you and informs HMRC of your income and the tax taken at the end of the tax year. Generally, the computer systems run smoothly and no further action is needed. However, things do go wrong for a number of reasons, like changing jobs, receiving multiple incomes or taxable benefits, retiring and even bereavement.

HMRC spends about two months collating income and tax data following the end of the tax year. This will include all the information they receive from employers and pension administrators about income paid and tax deducted at source via the PAYE system. Once satisfied, HMRC will start a process called reconciliation where they calculate if you have paid the right tax. For most people, everything works as it should do and they don’t hear anything from HMRC. However, if there is a discrepancy, HMRC will send a calculation with either a refund or a request that you make a payment.

If you receive one of these tax calculations known as a P800 (a computer generated form) and it could be possible the information is incorrect. For example, the savings listed might be estimated, a source of income duplicated or an adjustment of tax for a previous year might be incorrect.
The tax calculation needs to be checked by using the following documents:

P60 – If you are an employee or receive a pension and tax is taken at source then the employer or pension administrator must provide you with a P60 after the tax year ends. This will show the amount of pay/pension paid for the year and the tax that was deducted.

P45 – When you leave employment or receive a lump sum pension payment that empties the pension pot you should quickly receive a P45. This will show the total pay and any tax deducted since the start of the tax year.

P11d - If you are an employee receiving non cash benefits (e.g. company car, health scheme). Your employer should provide a P11d showing the taxable value of the benefits.

P2- This is a tax coding notice sent annually by HMRC. It tells you how your tax code is a calculated, including your tax allowances, It will also show any adjustments for tax that might be owed for previous tax years.

Saving & Interest Statements- Basic rate taxpayers can have £1000 savings interest tax free each year so detailed checking of your interest is only important if you think you may exceed this. Also remember ISA interest is automatically tax free so doesn’t count at all.

Dividend Certificates – If you have company shares the dividend income may lead to a tax liability. Since 2018/19 the Dividend Allowance has been £2000 pa so if your dividend income is above this you are likely to be due to pay some tax (unless you are on a low income generally and everything is covered by the Personal Allowance plus the Dividend Allowance). A Dividend Certificate is normally provided automatically with each dividend payment.

This is not an exhaustive list of useful documents for a tax review but should be enough for most.

Check all the figures against your end of year paperwork. Are your allowances correct? Your Personal Allowance and, if eligible, the Married Couples Allowance (only available to those born before 6th April 1935) Blind Persons Allowance and Marriage Allowance. Are the adjustments correct? It’s not unusual to see a figure here when the amount has already been paid or in a payment plan.
If you are concerned contact HMRC and ask them to explain. If you fail to get a satisfactory answer speak to a tax advisor/accountant or tax charity.

We see many people with incorrect tax codes and paying the wrong amount of tax. If you are any doubt and on a low income, then please call Tax Help for Older People on 01308 488066.

This article is by Tax Help for Older People Registered Charity no 1102276 (Scotland no SC045819), offering free tax advice to older people on a low income who cannot afford professional help.