TaxAid

Tax Health Check.

Our guide to common tax issues in the UK.

2024/25

About TaxAid.

We are a charity that supports people who need help to understand their tax and to untangle the tax problems that threaten their financial security.

Through our helpline, we listen, understand and provide a solution tailored to your circumstances. We help with issues like tax returns, appeals, tax debt and unexpected letters from HMRC. No matter how big or small the issues are, our approach is the same for everyone.

If you need our help, our contact details are on the back of this booklet or visit our website: taxaid.org.uk

Who we support.

We are tax experts – and we are in your corner. We help people who are unable to access professional tax advice elsewhere.

We support people on low incomes or who have difficult personal circumstances or hardships that make it difficult to get the help they need. Please check our website for more details and to see if you might qualify for our help.

"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. We hope that these will help you to 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
- You are still worried

remember, 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 2024 and ending on 5 April 2025.

"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 Department of Work and Pensions (DWP) 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 the payments you have received. Your lottery win could also affect some of your state benefits.

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, including pensions.
- Interest from savings accounts.
- Dividends from investments.
- Income from rental property
- Some state 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 Injuries Benefit
- X ISAs
- X Some National Savings & Investments products

Remember, these lists are not exhaustive; if in doubt contact HMRC or the relevant tax charity for further information and help.

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

Am I a taxpayer?

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 this, add together all the income you receive from different sources, using the list on page 7 and see if the total is more or less than your tax allowances (see below). If the total is less, then you are not a taxpayer; if more, then you may have some tax to pay.

The first step, therefore, is to know what your tax allowances are. For the 2024/25 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. This allows you an additional annual allowance of £3,070 for 2024/25. This means that your total allowances would be £15,640. This is made up of the Personal Allowance (£12,570) and the Blind Person's Allowance (£3,070). See page 16 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 but reduces the overall amount of tax to be paid. This is explained in more detail on page 17.

Marriage Allowance was introduced in 2015/16 and is not to be confused with the Married Couple's Allowance above. 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 does not pay tax. More details can be found on page 18.

Non-taxpayers.

If your taxable income is less than your allowances, 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 13.

If your income appears to be above your allowances, then you should also turn to page 10 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.

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

State pension is taxable and is paid without deduction of any tax. If you receive a state pension, your personal allowances have to be set against this first as there is no way of collecting tax on state pension. If there is any amount of your personal allowances left over, HMRC will use this to set against any other pension or earnings that you receive.

For example, someone with a full Personal Allowance would have the code 1257L. If you receive a state pension, this could be the position:

Personal allowance	£12,570
Less state pension	£8,814
Tax-free remaining	**£3,756**

That's £3,756 of tax-free additional income on top of your state pension you can have before any tax is deducted. So, if you have a pension from a former employer, say of £6,100 per year, the first £3,756 of this pension will not be taxed. The pension payroll will deduct tax on the remaining £2,344 at the tax rates in force, which for 2024/2025 is 20%*. So, in 2024/25 you should pay £468.80

tax (£39 per month) on that employer pension. This is calculated as £2,344 @ 20%. Your pension payroll administrator should have received a code from HMRC of 375L to tell them what to do.

How did we get 375 as the tax code? This was done simply by taking off the last digit of the spare personal allowance, so 3,756 becomes 375. The figure you see in the tax code box on your payslips is made up in this way.

*See page 38 for Scottish and Welsh rules.

If you haven't reached state pension age and don't receive a pension, your tax-free amount may well be your full Personal Allowance of £12,570. But, you might see your Personal Allowance reduced for different reasons, such as if you receive any Job Seeker's Allowance or perhaps income from a property you rent out. Your allowances could be more if you have job expenses you have to pay and which HMRC agree qualify for tax relief, such as uniform cleaning.

Most codes have a letter added to them, as in the earlier example of 1257L, where there is an L on the end. There are a number of different tax codes and we are not looking at all of these in this guide, but 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 to show that you are a Scottish taxpayer.
- In Wales from April 2019, 'C' was added to the front of the code as different tax bands were introduced if you are a Welsh taxpayer.
- The other is the 'K' code because it affects a lot of pensioners. The way K codes work is best explained by an example.

K Code Example.

If you have a state pension of £14,070 and allowances of £12,570, your state pension is £1,500 more than your allowances. Tax is payable on this £1,500 and the tax that is due will be collected by adding it to the amount of tax that you pay on other pension or earnings if you receive some.

If, as well as the state pension, you also have another pension or salary of £3,000 a year. HMRC informs your pension provider or employer that they need to add the £1,500 to the amount they are paying you and deduct tax from this amount. So the income provider adds the £1,500 onto the £3,000, as a 'notional' amount and deducts tax from £4,500. HMRC therefore collects the tax on the £1,500 from the amount being paid from that other source. The code which communicates this instruction is the K code.

Usually a tax code tells the payroll that some of the income is tax-free. 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). The K goes in front of the figures.

It is worth checking a K code because they seem to create more problems for HMRC than other codes. Also, the second income source may not be large enough to collect all the tax that is due. This is because HMRC can only take a maximum of 50% in tax from a source of income. So if someone has a K code and the total tax due is more than 50% of the income being paid, the pension provider or employer will be unable to deduct any tax over 50% from the payment to you. This means that you will have to pay the additional tax that has not been collected through PAYE 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 on your state pension through Simple Assessment. This is called a PA302. You will need to check the calculation that HMRC provide which shows the amount you owe to ensure it is correct. **We can help you with this.** You will have to pay the tax you owe by the date HMRC 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 a coding notice, contact HMRC as you are entitled to it. Remember, HMRC expect you to check the notice 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 31 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 and investments.

Although you may regard them as similar to other income, the interest from savings and the dividends from investments are treated differently for tax purposes by HMRC.

Savings.

If you have money in an account with a building society or bank, these accounts usually pay interest. This interest 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 the details to be certain.

There is a 0% starting tax rate for savings interest and the personal savings allowance. This means 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 or TaxAid if you need assistance.

The 0% tax rate applies to savings interest of up to £5,000 above your Personal Allowance, i.e. a total ceiling of £17,570 of taxable income. In addition, 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 was £1,250 you would be entitled to £3,500 of the 0% starting rate (£17,570 less £14,070). As your savings interest is lower than this, you have no further tax to pay. But, if your non-savings income was £16,700 and savings interest was £1,250, your total income would be £17,950. The first £870 of interest will be covered by the 0% starting rate. 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. Because your interest is £1,250, you would be required to inform HMRC about the £250 of interest not covered by your personal savings allowance of £1,000.

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 **2020/21** 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. This is 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 21).

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 company etc. 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 £500 for the 2024/25 tax year and anything over this amount will be liable to tax. (The dividend allowance was £1,000 in 2023/24 and £2,000 in 2022/23.) It is your responsibility to inform HMRC to arrange for any tax to be paid.

Some unit trust dividends are treated the same way as interest and are paid without any tax taken off. These 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.

To check whether you have any tax to pay on your dividends: add up your total taxable income, including your dividend payments. If this figure is below your allowances you won't have to pay tax on the dividend, even if it is more than £500. If your total taxable income is more than your personal allowances and you pay tax on your other income at basic rate, the first £500 of your dividend won't be taxed. Any dividend amount over £500 will be taxed at a rate of 8.75%. Higher rate taxpayers pay tax on dividends at a much higher rate.

Special rules apply to financial products which are usually called investment or insurance bonds. These are insurance-based products and are taxed at source at basic rate, if the provider is in the UK. This tax deducted cannot be refunded even if you do not pay tax. If you receive letters referring to terms such as "chargeable event gains", **call 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.

The Blind Person's Allowance.

According to the Royal National Institute for the Blind (RNIB) there are about 320,000 registered blind people in the UK, yet HMRC say that only about 30,000 people claim the Blind Person's Allowance. The allowance in 2024/25 is £3,070, 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:

- Visit your GP or optician for referral to a consultant ophthalmologist who will carry out certain tests.
- If your ophthalmologist judges that you qualify you will receive a Certificate of Vision Impairment (CVI England & Wales). In Scotland it's a CVI (Scotland) and 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 four 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 not paying tax and they do pay tax.

The Married Couple's Allowance.

This allowance is only available to married couples or civil partners where one or both of the couple or partners was *born before 6 April 1935.* It is not an allowance against income like the Personal Allowance and the Blind Person's Allowance but reduces the tax you owe. Although the figures look significant – £11,080 for 2024/25, the allowance is only given at 10% of its face value. So it only deducts a maximum of £1,108 from your tax bill.

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

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 £1,108 wipes that out. There is unused allowance of £708, and he can transfer the surplus of his Married Couple's Allowance to his wife Kathy (provided she is a taxpayer). 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**

Ewan uses form 575 and transfers the unused £708 to Kathy and this also clears her tax bill.

The allowance reduces based on income. For every £1 of income over £37,000, the Married Couple's Allowance reduces by £2, but only down to the minimum amount. This has been set at £4,280 for 2024/25, giving a tax reduction of £428.

The Marriage Allowance

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

The Marriage Allowance can be claimed by a married couple or civil partners of any age, where one partner pays only basic rate tax and the other does not pay tax. 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. (If his income exceeded £50,270, he would be a higher rate taxpayer and not a basic rate taxpayer).

You can only transfer the fixed amount of £1,260 and you may want to consider making a transfer even when you have less than this amount of unused allowance. For example, if you only have unused allowances of £1,000, you would be better off as a couple if you transferred £1,260 to your partner as you will save £200 overall (£1,000@ 20%). But bear in mind that this will make you a taxpayer as you will have to pay tax on £260. This is because you only have unused allowances of £1,000 but you have had to transfer £1,260 to your partner, so £260 of your income will be taxed.

Confused? We can help explain these allowances, our contact details are at the end of this guide.

Pay As You Earn (PAYE).

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. You can ask for help from us 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 10) and how our tax-free allowances are distributed and tax collected on the rest. The PAYE system assumes that we will receive the same income evenly across each year from 6 April until 5 April the following year. 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 that you need to be aware of. These include taking unpaid leave, losing your job and signing on for benefits, receiving a new source of income or someone dying mid-year. Any of these can upset the assumptions on which the tax has been collected through PAYE. This may lead to an adjustment to the tax due.

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 been paid that salary for around 9 months of the year. If you receive taxable Job Seeker's Allowance for the next 3 months, this will be less than the salary you would have received had you still been working. You can see that as a result the tax you have paid may be incorrect.

In previous years HMRC would have calculated your annual income at the end of the year to see if you have overpaid or underpaid tax. However, since April 2017 HMRC have used the information they receive from your employer and the Department

for Work and Pensions (DWP) in 'real time', at the time that you are paid. When the system works well, overpaid and underpaid tax is resolved 'in year', or as it happens, so that by the end of the tax year (by 5 April) you have paid the correct amount of tax.
HMRC will continue to calculate your annual income at the end of the year. Where they don't think that you have paid the right amount of tax, 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 us for help.**

K code issues.

An issue can arise 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 (form 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**).

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, for example, in October, they will have received only part of their tax-free allowance. They are entitled to the whole of the allowance for the year, even though they passed away in October. 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.

"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."

Self-Assessment.

Self-assessment is a method of paying the right amount of tax when HMRC does not have access to your income information, for example, due to self-employment. It can also be used when HMRC holds details of all of your income but can't collect the tax under PAYE. You don't have to be well off 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 adding up of all the taxable income received during the tax year and of all the tax which you have paid. HMRC review whether you have to pay 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 rent out a property
- You have taxable untaxed interest or dividends
- You are a higher rate taxpayer

Let's use an example to show how you might come within self-assessment. You have a foreign pension of £12,970 and this is your only income. Your Personal Allowance is £12,570 so you have £400 of taxable income. This means that you owe £80 in tax - £400 @20%. After the tax year has ended you need to inform HMRC that you need to complete a tax return. If you want to make a self-assessment return on paper, you need to inform HMRC in good time so that you can make the return for 2023/24 by the deadline of 31 October 2024. If you are making the return online this must be done by 31 January 2026. 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 2025, otherwise you will incur interest and possibly late payment penalties. You should set aside the money to make the tax payment.

Depending on why you are required to file a self-assessment tax return, there are two other allowances which may be useful: a trading allowance and a property allowance. If you receive income from self-employment or from property which generates income of less than £1,000, you no longer have to tell HMRC or pay tax on it.

Provided you are registered for self-assessment, in April HMRC will send a notice to file and will encourage you to file online. If you wish to file on paper, send the return in by post, but it is your responsibility to ask HMRC 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 us in good time before the deadline** (31 October for paper returns and 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 no longer need to pay tax, don’t ignore any notices to file. You will be charged a penalty if you don’t submit a return, so contact HMRC and let them know your situation so they can stop sending you notices requiring you to file a return.

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. You should take the following steps to ensure that you pay the right amount of tax.

Register for self-assessment with HMRC.

Ideally, register with HMRC 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 2024/25 tax year you must notify HMRC by 5 October 2025. 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.

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' mentioned above will cover this. This means that you do not need to register. But, you do still need to keep all records.

Keep good records.

By law, business records must be kept for at least **6 years.** This means you must keep details of income received and the receipts for expenditure. You do not send the receipts in with your tax returns, but you may be asked by HMRC to produce them. This could be the case if they open an enquiry into your tax returns. You should also keep a record of business mileage if applicable. If your business has lots of transactions, you should consider opening 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. So, for 2024/25, the tax is payable on 31 January 2026. 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 deadline 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 your return on paper you should ask HMRC on 0300 200 3610 to send you paper forms.

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. This is your income less your expenditure, less your Personal Allowance (£12,570 in 2024/25). Tax is then calculated on your total income. See the rates on page 38.

You also pay Class 4 National Insurance Contributions (NICs) if you're self-employed and your profits are £12,570 or more each year.

If your income is below £6,725 per year, you can 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 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 us.**

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 3820 before the due date.** This is because 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 that you have ceased trading. Otherwise you will remain in the self-assessment system which means that they will continue to issue you with tax returns and will charge you penalties if these are not filed. Often taxpayers forget to file the tax return for the final year of trading.

- You can notify HMRC that you have ceased trading 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.
- HMRC have very useful videos and webinars for the self-employed at https://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 stating that tax is due. Ignoring HMRC 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. 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 HMRC should 'write off" the tax and should not collect the amount due. 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 from HMRC, before paying HMRC, you should try to understand why you did not pay enough tax. This is important as you could 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 use, within a reasonable timescale, of information they had about you. This is covered by their concession ESC A19. In both cases you can ask HMRC to investigate and suspend collection of the tax payable 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 to receive a new source of 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 increases the tax payable from another source of income to more than 50% of that income or it is too late in the tax year, they may adjust your tax code in the following year. For larger amounts of tax, or if it isn't possible to collect the tax 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, 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. 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, e.g. a Self-assessment return needs to be completed 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 self-assessment).

There are several options:

Time to Pay: If you owe tax which you cannot pay immediately, then in the first instance you may be able to use HMRC's online tool to arrange to pay the amount due in instalments https://www.gov.uk/difficulties-paying-hmrc/pay-in-instalments

To do this you will need a Government Gateway ID and password. HMRC will consider a payment plan if:

- Your tax returns are up to date and you have filed the latest tax return;
- The tax you owe is less than £30,000;
- You are within 60 days of the payment deadline; and
- Do not have any other debts or payment plans with HMRC.
- HMRC will ask about income and expenditure before agreeing to a payment plan. If it is not possible to set up a payment plan online, you will need to contact HMRC to discuss the options for payment, based on your circumstances.

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. But they are not tax experts and may not understand how the debt has arisen. Any queries about the amount itself should be raised with HMRC.

Recovery Action: If you do not agree a payment plan with HMRC, 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 £30,000 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). You do not need to pay for a

DRO. These 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 HMRC may take action to obtain a bankruptcy order.

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.

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

Inheritance Tax (IHT).

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 consider steps that could be taken to reduce exposure to IHT.

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% on this amount. Tax is charged at 40% on the value of an estate above £325,000. 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. Here is a simple example: Peter died in May 2015 and left everything to Magda. (Transfers to spouses are generally exempt from IHT.) Magda died in November, so Peter's NRB of £325,000 is added to hers, meaning the estate benefits from a £650,000 nil rate.

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 has been increased by the time that Magda 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 here and you may wish to seek professional advice.

Capital Gains Tax (CGT).

A capital gain can arise between the value of an asset at the time that it was bought or acquired and its value when selling or disposing of it.

There is an annual exempt amount of £3,000 for 2024/25. If the gain is greater than this, you may have a liability to capital gains tax (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 you use to see if CGT is payable is the market value. So if you inherit a house from a relative when they die, its value for CGT is the market value of the property at the date of their death. If you subsequently sell the property, any gain will be the difference between the value at the date of their death and the price you sell it for (less buying and selling costs).

The important exception for most people is the sale of the 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 in the home or you have let it out, perhaps when working abroad, there are special rules and you may 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 the house was their main home, then it is exempt from CGT on sale. But the rules on the period of ownership once the person has left the house have changed and you may need to seek professional advice.

If you think you may have a taxable gain you may want to take advice well before the sale completes. This is because you will have to complete and file a return to HMRC 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.

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 you 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.

How 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. Make sure you have your National Insurance number, a valid UK passport and/or UK photo driving licence and a P60 or a payslip as you will need to provide proof of your identity. 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 us 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 and 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 it 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 personal allowances beyond any potential annual increase. If you wish, you can request that HMRC 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. This is 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 HMRC are taxing or any reductions to your code to collect underpayments. If you think anything is wrong or you do not understand, you should contact HMRC and ask them to explain it or correct it if it is wrong. Otherwise HMRC will assume that all is well. 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 that you were paying the wrong amount of tax.

R40 – Tax repayment form.

This is an important form if you have overpaid tax on savings interest or the interest element of any PPI (Payment Protection Insurance) compensation. 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 3310 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 tax 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 tax 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 have 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, income from renting out a property you own, a foreign pension or are self-employed. You have 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 31 January after the end of the tax year.

P50Z, P53Z and P55 for 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;
- received a P45 from your pension provider; and
- 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.

"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 and Allowances 2024/25.

Personal Allowance (PA) *Note: reduces by £1 for every £2 of income over £100,000*	£12,570
Blind Person's Allowance	£3,070
Married Couple's Allowance (MCA)	£11,080
Note: MCA reduces the tax due by £1,108. It reduces by £1 for every £2 of income above £37,000 until reaching the minimum allowance of £4,280, reducing tax payable by £428.	
Marriage Allowance	£1,260
Personal Savings Allowance	
Basic rate taxpayer	£1,000
Higher rate taxpayer	£500
Additional rate taxpayer	£0
Dividend Allowance	£500
Basic rate taxpayer: 8.75%	
Higher rate taxpayer: 33.75%	
Additional rate taxpayer: 39.35%	

Rates and Bands.

Income tax – England and Northern Ireland

Basic rate:	£12,571 to £50,270 of taxable income	20%
Higher rate:	£50,271 to £125,140	40%
Additional rate:	over £125,140	45%

Income tax – Scotland

Starter rate:	£12,571 to £14,876	19%
Basic rate:	£14,877 to £26,561	20%
Intermediate rate:	£26,562 to £43,662	21%
Higher rate:	£43,663 to £75,000	42%
Advanced rate:	£75,000 to £125,140	45%
Top rate:	over £125,140	48%

Income tax – Wales

From 6 April 2019, individuals who are resident in Wales pay Welsh income tax. The income tax rates for Wales for 2024/25 are the same as those in England and Northern Ireland

Capital Gains Tax

Annual exemption	£3,000
Basic rate:	10%
Higher rate:	20%

For gains on residential property: 18% or 24%

Inheritance Tax

Inheritance tax above nil rate band of £325,000 and residence nil rate band of £175,000	40%

"They have been absolutely brilliant and have taken all the stress and worry away. I am extremely grateful for their help and assistance and highly recommend them. Thank you so much"

Contact details.

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

His 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 is a charity registered in England & Wales (No. 1062852).

0345 120 3779 (Monday to Friday 9am to 5pm)

30 Monck Street, London, SW1P 2AP

admin@taxaid.org.uk

www.taxaid.org.uk

Disclaimer: Whilst every effort has been made to ensure that the material in this document is accurate and up to date at the time of publication, we remind readers that you should check that information is accurate and up to date before making decisions affecting your financial situations.