



Why am I paying more tax ...?

“My State Pension has gone up and I am worse off “ ..., although you are actually not, it just seems that way. The DWP are paying you a larger state pension and in some cases HM Revenue and Customs are taxing that increase.

A new tax year starts on 6th April 2022 which coincides with an increase of 3.1% to the basic State Pension, typically £5.50 a week if you are in receipt of the new basic state pension of £185.15 weekly.

The figures will be different for basic State Pension that was claimed before April 2016.

The amount of State Pension you get might be lower, as your entitlement to State Pension depends on your National Insurance record.

In some cases, the amount you get might be higher. If your State Pension is more than £185.15 a week, you will have a ‘protected amount’, which is usually as a result of you building up an entitlement to additional State Pension under the old system.

However, for some people despite the rise, it will appear you are paying more tax in 2022/23 and this is why...

State Pension is taxable but is paid without any tax being deducted. If it is your only taxable income and remains below £12,570 you will not be a tax payer.

You only pay income tax if your total taxable annual income is above your personal allowance of £12,750.

Although tax isn't deducted from the State Pension, it does use up some of your tax-free personal allowance.

In 2021/22 the standard tax-free personal allowance was £12,570, which means that if you receive the full new State Pension £9,339.20, you had £3,230.80 ($£12,570$ less $£9,339.20 = £3,230.80$) of your personal allowance remaining for other taxable incomes such as employment or a private or occupational pension.

As we go into 2022/23 the tax free personal allowance has not increased, it has been frozen at £12,570, which means if you receive the full new state pension of £9,672.80, you will have £2,942.20 ($£12,570$ less $£9,672.80 = £2,942.20$) of your personal allowance remaining for other taxable income streams.



Now if you are in receipt of an occupational pension or employment income it will appear that you are paying more tax than you did last year, as more tax will be deducted, because you have less tax free allowance remaining to set against your other incomes.

You are actually financially better off, as the increase in State Pension is £288.60 and the extra tax you will pay over the year will be £57.72 (Basic State Pension paid from April 2016).

If you are over 60 and have any queries about the amount of tax you are paying then you can contact Tax Help for Older People by calling the helpline on 01308 488066. The helpline is open 9.00 am to 5.00 pm Monday to Friday. If the line is really busy, or you want to call outside office hours, then please leave a message and an adviser will call you back. You can also email us at taxvol@taxvol.org.uk

Alternatively, you can contact our sister charity, TaxAid, on the helpline number 0345 120 3779, and again please leave a message if the line is busy. This helpline is also open 9.00 am to 5.00 pm Monday to Friday. If you would prefer to send an email enquiry, please send it to help@taxaid.org.uk

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.