



End of Year Reconciliation

This month we are looking at one of Her Majesties Revenue and Customs (HMRC) annual processes.

Each year, HMRC check whether taxpayers within the PAYE system have paid the right amount of tax. This is known as End of Year Reconciliation.

The Pay As You Earn (PAYE) system aims to deduct the right amount of tax from people during the course of the tax year, and it is based on information that employees, employers and pension companies provide to HMRC.

This includes details of how much taxable income you have received, how much tax you have paid and the value of any taxable benefits and benefits in kind you have received during the tax year. The PAYE system usually takes the right amount of tax from most people, therefore the reconciliation will 'balance' and HMRC do not contact the taxpayer. However, if the right amount of tax has not been collected during the year through the PAYE system, HMRC will get in touch with the taxpayer.

Reconciliation usually starts around the beginning of May to allow time for the information to be submitted to HMRC by the employers and pensions companies.

Tax issues arise when people move in and out of work, have fluctuating income, new income sources or they have expenses and benefits. Their PAYE deductions do not always equal the amount of tax actually due. This is because in-year changes in tax affairs, may not be reported to HMRC until some time after the event.

Very often these tax underpayments cannot be avoided, and the end of year reconciliation aims to put this right so that everyone in the PAYE system pays the correct amount of tax each year.

During the reconciliation process, HMRC will identify taxpayers who have either paid too much or not enough tax. The tax year in which the State Retirement pension commences, almost certainly will be a year where tax is underpaid. In some cases, the underpayment may be collected during the year, by extra tax being collected in the remaining months of the tax year through a revised tax code.

If you are not one of the taxpayers that are "balanced" a calculation detailed on a form called a P800 will be produced and posted to the taxpayer. The alternative is a PA302 which is used for annual tax bills where your income is such that you cannot pay the due tax in the usual PAYE method.

Often your state pension is bigger than your tax-free allowance, but your other pension is not large enough for HMRC to deduct all the tax needed. HMRC are only allowed to deduct up to half of your payment at source. This is called Simple



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Assessment and replaced self-assessment for taxpayers in these situations. The calculations will show if tax has been under or overpaid. The overpayments will be refunded under separate cover. P800s and PA302s are sent out over several months and are the end result of tax records being reconciled.

In the vast majority of cases, HMRC will collect the additional tax owed by altering tax codes and the tax underpaid in one year is collected alongside the tax due in a later tax year. However, the underpayments can be spread over three tax years if collecting the debt in one tax year causes financial hardship.

Where there is no taxable source through which the tax due can be collected, then payment direct to HMRC is needed.

As HMRC, Employers and Pension providers can make errors it is important to carefully check the information on any P800 calculation you receive, comparing it with the information you hold on P60s, P45s and payslips as applicable.

If you are over 60, 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, excluding bank holidays. If the line is 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, 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, excluding bank holidays. 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.