

Tax doesn't have to be taxing!

Ever since the Inland Revenue turned me down for a job I have loved making sure that clients pay as little tax as possible, after all the less tax they pay the more money they have to enjoy themselves.

Two things cropped up this month and I am very grateful to the reader who spotted this little gem for people who defer their state pension, especially for ladies who carry on work beyond their 60th birthday.

If one defers a State pension, one can claim an increased pension, at virtually any time in future or a lump sum and no increased pension. The lump sum is calculated assuming interest at bank of England base rate plus 2%, currently a rate of 7%!

When taken, the lump sum is treated as a separate income to your other income and taxed at your top rate of tax. This means that if we can make her a non-taxpayer for one year and she takes her deferred pension lump sum then it's tax-free!

For example assume a lady defers an £80 a week pension for three years, stops work in March and with no other income takes her lump sum in April, the next tax year. With no changes in rates the lump sum would be (£80 x 52 x 3 x 1.07% p.a.) or £13,069.

As a non-taxpayer in the new tax year, £80.00 a week is less than her allowances, the £13,069 lump sum would be tax-free saving £2,613 tax, very useful.

The Revenue have also admitted this month that it is not their responsibility to ensure you pay the correct tax, it's yours, and that that many pensioners are and have been paying too much tax for years.

It also seems that not many pensioners are aware that if you have overpaid tax it is possible to backtrack six years and reclaim it, however the Revenue will not remind you.

Apparently the average reclaim is over £1,000 and that to me pays a few winter fuel bills or pays for a very nice winter holiday.

How can you check, well it should not surprise you that good IFA's check that you pay the right tax and your tax code is correct, what is the point of investing your monies to minimise tax and then you filling in the tax form wrongly.

If you've never used an IFA now may be the perfect time to see what they can do for you, you can find one near you on-line on unbiased.co.uk. Do click through to further details it gives the individual advisers details and qualifications.