TAX AND NATIONAL INSURANCE

Tax is usually bad news. However the Government wants to encourage us to take more personal responsibility for our later life and it uses the tax and national insurance system to encourage us. The Government wants more of us aged 50+ to be in work; it wants us to work a little longer to help pay for the longer life span we can expect; and it wants us to save more for our retirement. How does the tax and national insurance system help? Can we find any good news for you?

When we are in work we can expect to pay tax and national insurance contributions. Our employer deducts these automatically from our pay. The national insurance contributions give us an entitlement to contribution-based state benefits such as State Retirement Pension, Jobseeker's Allowance, Statutory Sick Pay, Incapacity Benefit and Maternity Allowance.

Working Tax Credit

It is possible for the Government to pay you tax through the Tax Credit system. Child Tax Credit is intended to support families or individuals with at least one child. There is also a Tax Credit for those who are employed or self employed and receiving a low income even though they have no children. This is called Working Tax Credit and you might be entitled if you are over 25 and work at least 30 hours a week; are over 50 and returning to work at least 16 hours a week after a period on benefits; or if you are working at least 16 hours a week and are disabled or responsible for a child.

If you are thinking of returning to work or are working on a low income, Working Tax Credit could help you to get or stay in a job and make it financially worthwhile. The tax credit calculation is complex so you should find out more information at your local advice centre.

Tax relief on your pension contribution

The Government wants to encourage us to save for our company or personal pension. In order to encourage us they offer 'tax breaks' on our contributions towards a pension.

Your contributions paid into the scheme are 'fully deductible' for tax purposes. This means that, if you are a basic rate taxpayer in 2007/2008, every £100 you pay into your Pension Scheme will cost you just £78. If you are a higher rate taxpayer, the £100 contribution will cost you only £60.

In a company pension scheme, you will pay the full contribution to the scheme and receive tax relief through your payslip.

In Stakeholder and Personal Pension schemes, you will pay your contribution net of basic rate tax, and the provider will receive the balance direct from the tax authority (HMRC). If you are a higher rate taxpayer, you will need to reclaim the additional tax relief at the end of the tax year.

Case study

Example 1

Gill is a basic rate taxpayer who earns £21,000 per annum. She and her employer both contribute 6% into a Personal Pension fund. Thus in 2007/08 Gill's pension fund receives the following contributions:

Employers contribution:		
6% of £21,000 =		£1,260
Gill's contribution is:		
her own contribution	£982.80	
tax relief claimed for her by the pension provider	£277.20	
Total		£1,260
Total contribution		£2,520

Because Gill's employer is contributing and because she can claim tax relief on her own contribution, it costs her £982.80 each year, but the pension fund benefits by £2,520.

Example 2

Mary is a higher rate taxpayer who earns £36.000 per annum. She and her employer both contribute 6% into a Personal Pension fund. Thus in 2007/08 Mary's pension fund receives the following contributions:

Employers contribution:		
6% of £36,000 =		£2,160
Mary's contribution is:		
her own contribution	£1,684.80	
tax relief claimed for her by the pension provider	£ 475.20	
Total		£2,160
Total contribution		£4,320

In addition Mary will claim additional tax relief through her tax return at the end of the year amounting to £388.80.

Life Academy

50+ WORKING LIVES

GUIDANCE NOTES

Everyone, whether thay are working or not, can pay £3,600 gross into a Stakeholder, Personal or SIPP pension scheme. This means that an individual can make a contribution of £2,808 each year into a pension plan and the pension provider will reclaim tax of £792, so providing the total contribution of £3,600.

The figures shown are correct for the 2007/08 tax year. From 6 April 2008 the tax rates will change and this will make some changes to the figures although the principle remains the same.

National Insurance contributions and State Retirement Pension

Only 30% of women receive a full basic state pension compared to 85% of men. There is good news that from 6 April 2010 the number of qualifying years of national insurance contributions required for a full pension will be reduced to 30 years from the current 39 years. At the same time Home Responsibilities Protection (HRP) will be abolished but any previous qualifying years of HRP will count towards your basic state pension. It is sometimes possible and worthwhile if you have gaps in your national insurance record to purchase back years. Do get a forecast of your state pension from the Department for Work and Pensions; check you have received all the years of credit you should; and if you have gaps in your national insurance record check whether it is possible and worthwhile purchasing back years.

National Insurance contributions and tax at 60 and 65

There is good news that once you reach the State Pension Age of 60 for a woman (but due to rise from 2010) and 65 for a man, you do not have to pay National Insurance contributions if you continue working. Your employer has to pay his share but you should ensure no deductions are made from your pay. If your earnings are more than £100 a week you will have paid National Insurance contributions of 11% on your pay between £100 and £670 a week and 1% on pay above £670 a week. If you continue working after age 60/65 you will receive a pay increase!

In 2007/08 your tax free allowance up to age 65 is £5,225. At age 65 it increases to £7,550. This means that instead of starting to pay tax when your earnings exceed £5,225 you can earn £7,550 before you become liable to tax, i.e. an extra £2,325. The bad news is that the allowance of £7,550 starts to reduce if your earnings exceed £20,900 a year – but still a very worthwhile help to some people who stay on in work after age 65.

The impact of these tax and National Insurance concessions can be seen in the example below.

What you get from staying in work

Roger is aged 64 and earns £15,000 a year.

He takes home £230 a week after tax and national insurance (NI) — **£230** a week

Let's look at some options at age 65.

1. He could carry on working at 65 but not draw his pensions. — **£260** a week
   That's £30 more than when he was 64 – because he pays less tax and no NI.
2. He could knock off four hours a week. — **£230** a week
   After tax and NI this is no loss of earnings at all – and that's without drawing any pension.
3. He could drop back to working three days a week. — **£176** a week
   His income goes down by 23%, but his hours drop by 40%.
   Again that's without drawing any pension.

GUIDANCE NOTES

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