

Taxation

(Council tax England, otherwise United Kingdom)

November 2018

The tax system should be fair; demands must be affordable but the taxation system should also ensure that people do not feel penalised for having saved.



Tax in later life

Taxation is an inevitable if unpopular part of life. There is an ongoing political debate about the appropriate balance between taxation and public spending. For people in later life the taxes that have the most direct impact are council tax (rates in Northern Ireland), income tax (including the Scottish Income Tax for those living in Scotland), VAT, and National Insurance contributions (for those who are working but who have not reached State Pension age). Tax relief is an important incentive for pension saving but provides the greatest help to those who are better off.

Key statistics

6.4 million

people aged 65+ pay income tax (just over half of those aged 65+)

£1,651

is the average band D council tax bill in England.

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Council tax

The current council tax system in England is based on 1991 house prices but at present there are no plans to update these. (In Wales properties were revalued in 2003.) The average council tax bill in England in 2018-19 for a band D property in England is £1,671.ⁱ While in the 5 years up to 2015-16 council tax bills in England rose by an average of around one per cent or less, in the more recent years rises have been higher. In 2018-19 Band D bills in England went up by 5.1 per cent. One factor that has contributed to this is that, since April 2016, local authorities have been able to raise additional revenue to fund adult social care.



Council tax can be a substantial cost, but there are a number of ways that people can reduce their bills. Support includes the means-tested Council Tax Reduction system which can meet the whole bill for some low income pensioners, and discounts which cover, for example, people living alone and some carers and people with severe mental impairment. However, people do not always get the support they need: for example, research by Age UK found that 40 out of 100 local authorities contacted required claims to be made online, with some authorities not offering enough support to enable an older person who did not use the internet to make a claim.ⁱⁱ

Income tax

Just over half (53 per cent) of people aged 65+ in the UK have incomes high enough to make them liable for paying income tax and fewer than one in 20 (4.5 per cent) of people aged 65+ pay higher or additional rate income tax.¹ Many who are in the tax system have modest incomes but can face complexity because they have a number of different sources of income. A welcome simplification was the introduction of a Personal Savings Allowance in April 2016 which means that basic rate taxpayers can receive up to £1,000 savings income tax-free and do not need to declare it. However, major reforms to the rules for drawing income from private pensions have also introduced new tax complexities (see Private Pensions policy position).

1

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/694507/National_Statistics_T3_12_to_T3_15a_publication_2015_16_-_FINAL.pdf
<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-question/Commons/2017-11-30/116759/>

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Public Policy Proposals

- Overall, older people should not have to pay a higher share of their resources in taxes than people with equivalent incomes in other age groups; and in particular poorer older people should not be disproportionately affected by the tax system.
- Environmental taxes or tax increases to pay for public services should not impose an unaffordable burden on low income older people.
- The council tax system should be reformed so that it is more closely related to ability to pay. In the shorter term local authorities should promote take-up of means-tested council tax reduction and other help, and ensure that there are straightforward ways to claim support for all, including those who are not online.
- HM Revenue and Customs must ensure that the tax system works efficiently for older people and that people are not overpaying tax.
- The system of pension tax relief should be reformed to provide better and fairer financial incentives to those on low and modest incomes. This may require a reduction in the tax relief available for those on higher incomes.

Want to find out more?

Age UK has agreed policy positions on a wide range of public policy issues. Our policies cover money matters, health and wellbeing, care and support, housing and communities. There are also some crosscutting themes, such as age equality and human rights, age-friendly government and information and advice

Further information

You can read our policy positions here;
www.ageuk.org.uk/our-impact/policy-research/policypositions/
Individuals can contact us for information or advice here;
www.ageuk.org.uk/informationadvice/ or
call us on 0800 169 8787

Further information

i https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/700668/Council_tax_levels_set_by_local_authorities_in_England_2018-19_revised.pdf

ii https://www.ageuk.org.uk/globalassets/age-uk/documents/reports-and-publications/reports-and-briefings/active-communities/rb_may18_everything_is_online_nowadays.pdf