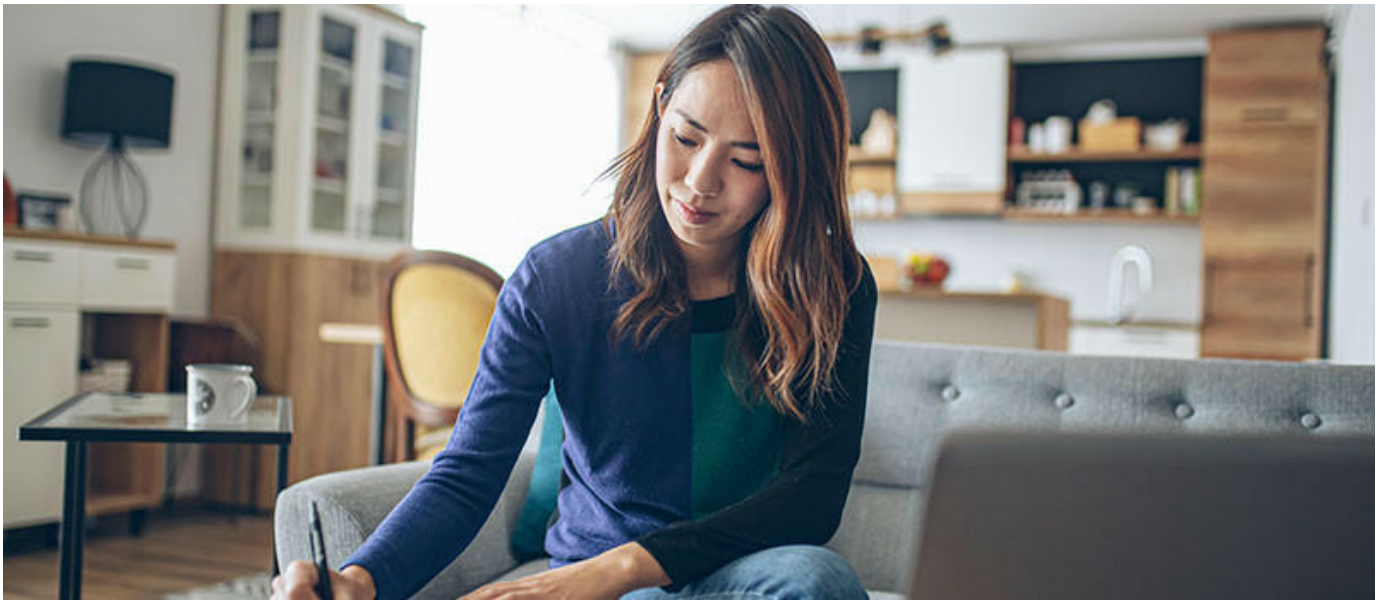
Tax treatment of payments of state pension arrears: self assessment cases

Personal tax



24 May 2023

HMRC have recently provided an update as to how self assessment customers who receive payments of state pension arrears will have any additional tax liabilities collected.

In 2020, the Department for Work and Pensions (DWP) became aware that some people had not received an automatic increase to their state pension. This prompted an exercise by DWP to identify those affected and make payments of arrears. The groups affected include certain married people or civil partners (including widows/widowers and divorcees) who reached state pension age before April 2016; and some people aged over 80, regardless of their marital status. Around 90% of those affected are women.

LITRG provides guidance on its website about the tax implications for those receiving payments of arrears under this exercise, as confirmed by HMRC (see tinyurl.com/2s4aka39). Broadly, the payment of arrears will be taxable in the tax year payment should have been received. Taxpayers will be assessed to income tax for the tax year of payment and four preceding tax years. Any payments of arrears relating to tax years before this will not be subject to income tax.

Payments of arrears under the DWP's correction exercise are not to be confused with cases where a person chose to *defer* claiming a pre-April 2016 entitlement to state pension. Pre-April 2016 deferred state pensions are subject to separate tax rules (see LITRG's website: tinyurl.com/2xez3prf).

The DWP shares information about payments to affected people directly with HMRC. For PAYE cases, HMRC automatically processes any underpayment arising and notifies the taxpayer. The process for self assessment customers has taken longer for HMRC to put in place. They have now confirmed that frpm April 2023 a dedicated team will look at the tax implications for each self assessment taxpayer receiving a payment of arrears. Such taxpayers can expect to receive a letter under a so-called 'once and done' approach. The letter will set out the calculated tax liability arising across all relevant tax years and explain what action is needed to settle their liability, including relevant contact details if taxpayers need support in paying.

Due to the delay in establishing the dedicated team for self assessment cases, we understand that HMRC are working through a backlog of around 3,000 cases, which they aim to process by the end of June 2023. HMRC intends to process all further cases within six months of receiving notification from DWP.

If members deal with any clients who receive a payment of these state pension arrears and notice any frustrations with the process, LITRG would be very interested to hear about it.

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