Budget 2025: state pension only income and simple assessment

Personal tax General Features

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At Budget 2025, the Chancellor announced that the government would ease the administrative burden for pensioners whose sole income is the basic or new state pension from 2027/28. Since the Budget, the Chancellor has confirmed that eligible pensioners will not have to pay income tax on amounts in excess of the personal allowance – for the duration of this Parliament. These are two quite different policy ambitions.

LITRG has delved into this matter in more detail in a blog (see tinyurl.com/bdhejx2j).

From April 2027, it is expected that the full new state pension will exceed the personal allowance for the first time. This means that even if the state pension is their only income, some state pensioners will have an income tax liability.

The announcement included in the Budget 2025 documents stated: ‘The government will ease the administrative burden for pensioners whose sole income is the basic or new State Pension without any increments so that they do not have to pay small amounts of tax via Simple Assessment from 2027-28 if the new or basic State Pension exceeds the Personal Allowance from that point.' ('Budget 2025: Strong Foundations, Secure Future' (Nov 2025) para 4.167) (see tinyurl.com/3h2wjmuh).)

However, in an interview following the Budget, the Chancellor confirmed that eligible state pensioners will not have to pay income tax on amounts that exceed the personal allowance 'in this parliament' (see tinyurl.com/4st2unah). This means that the measure goes beyond administration and appears to offer relief from tax to some pensioners. It has also raised questions about the timing of the introduction of this measure.

At the time of writing, the Chancellor had not yet appeared before the Treasury Select Committee (see tinyurl.com/yvt8e677). It is hoped that more clarification will be given shortly. In the meantime, LITRG has prepared a blog exploring a number of other areas where clarification is needed or concerns arise. These include practical questions about:

- whether the approach that will be taken to make the state pension tax-free for certain pensioners will be legislative or operational;
- the qualifying criteria that will be used to determine who can benefit from this policy; and
- administrative issues such as how HMRC will identify those who are eligible without the need for declarations from the pensioners concerned.

The blog also explores wider issues such as:

- fairness across the wider population of taxpayers on low incomes;
- the problem of creating a cliff-edge whereby those benefiting face neither a tax bill nor an administrative burden, but those just above the cliff-edge face both; and
- although at first glance, this is a possible simplification, it could create complexities for HMRC's administration and for state pensioners, some of whom may be eligible one year but not the next or vice versa.

We have suggested some possible alternative approaches which may offer a better long-term solution to the issues created by the frozen personal allowance and the rising state pension:

- increasing the personal allowance in line with the state pension;
- reintroducing age-related personal allowances; or
- bringing the state pension into PAYE.

We would encourage you to read our blog, which considers the points summarised above in more detail as well as the wider potential implications of this proposal.

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