

Broadcast

FACTSHEET: WINTER FUEL CLAW-BACK

SPECIAL ISSUE

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What is changing

The Winter Fuel Payment will continue to be paid in full each winter and recipients will still receive the payment directly into their bank accounts. In fact, many readers will already have received their 2025 payments. There is no change to the actual payment date, qualifying age or basic entitlement criteria.

The change arises because the payment will now be subject to an Income Tax charge for individuals whose total income for the tax year exceeds £35,000. Total income for this purpose includes state pension, private pensions, employment income, rental profits, dividends, savings income and any other taxable amounts. If income exceeds the £35,000 threshold, the tax charge will claw back the full amount of the payment.

If the individual's income is £35,000 or below, they will not be subject to the new charge and may keep the Winter Fuel Payment in full.

How HMRC will recover the payment

HMRC will collect the tax charge either through Self-Assessment or through PAYE tax code adjustments. The recipient does not need to apply or notify HMRC separately, because the system is designed to identify affected individuals automatically.

For individuals who complete a Self-Assessment tax return, the Winter Fuel Payment will appear as a specific entry in the return. It is expected that HMRC may pre populate this figure once data sharing with the Department for Work and Pensions is in place. The Self-Assessment calculation will add the Income Tax charge based on total income. The charge will then form part of the balancing payment due by the following January.

For individuals taxed under PAYE who do not normally complete a tax return, HMRC will adjust the tax code to collect the amount due. This will happen in the same way that tax codes are adjusted for benefits in kind or previous year underpayments. A coding notice will be issued explaining the adjustment. The effect will be a reduction in monthly pension or salary payments as tax is collected throughout the year.

Who is affected

The new measure primarily affects pensioners with moderate to higher levels of income. Examples include individuals drawing a mixture of state pension and private pension, those with rental income or investment income, and those who have returned to part time employment.

Individuals with total income at or below £35,000 will not be affected. For many pensioners, state pension alone remains below the threshold, so the charge will only apply where additional income pushes the total above the limit.

Recipients of certain means tested benefits in the qualifying week for Winter Fuel Payment will remain exempt from the charge, even if their income later proves to be higher. This exemption is intended to protect households with the greatest financial vulnerability.

Illustrative example

If an individual receives a Winter Fuel Payment of £200 and their income for the tax year is £36,500, the full £200 will be clawed back through the Income Tax charge. If their income is £35,000 or below, they will retain the entire payment.

Unlike some other income related charges, this measure is not tapered. Once income exceeds the threshold, the full amount of the Winter Fuel Payment becomes repayable. This creates a cliff edge, so individuals close to the threshold may find that even a small amount of additional income results in the loss of the entire payment.

Planning considerations for clients

Clients whose income is close to the £35,000 threshold may wish to review their position during the tax year. Where appropriate, pension contributions, Gift Aid donations or other legitimate planning measures may reduce taxable income and prevent the clawback. Any planning should be considered in the wider context of retirement income and personal financial needs.

Clients should also be aware that the payment will appear in their bank account as usual, but that a later tax adjustment may recover the full amount. This means the payment may provide short term cash flow support during winter, but it should not be relied upon as net income at year end.

Those who receive coding notices should review them carefully. The inclusion of the Winter Fuel Payment charge may reduce their monthly net pension or earnings. Where changes appear incorrect, the coding notice should be queried promptly.

For Self-Assessment clients, the Winter Fuel Payment will need to be included in the information provided to advisers. Some clients may not immediately understand that this payment is now taxable or recoverable, especially if they have received it for many years without any reporting requirement.

Summary

The Budget 2025 has introduced a significant change to the Winter Fuel Payment. While the payment will continue to be made as usual, individuals with income above £35,000 will now face an Income Tax charge that recovers the full amount. This aligns the payment more closely with income based support and withdraws the benefit from higher income households.

Clients should be aware of the threshold, the possibility of a coding adjustment and the need to plan for potential clawback. Accountants will play an important role in explaining the measure, updating tax returns and ensuring that HMRC calculations are correct.

If you feel this alert could help a business colleague or family member, please feel free to share it with them.

We Can Help

For more information, please contact us, email us at info@nhllp.com or call us on **01753 888 211**.