

TOPIC 1d

How do we calculate income?

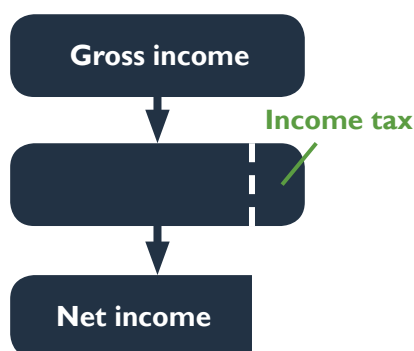
This topic helps you to:

- ▶ understand income tax and the personal allowance;
- ▶ explain National Insurance;
- ▶ understand how to read a payslip.

WHAT IS INCOME TAX?

We all have to pay tax on our income. So we have to give part of what we earn to the government.

It is worked out as a percentage of the money that we earn:



The government uses income tax to pay for services that it provides, such as education and health care.

PERSONAL ALLOWANCE

We do not have to pay tax on *all* of our earnings. The amount of money to which each person is entitled before paying tax is called the 'personal allowance'.

The personal allowance changes each year, usually increasing slightly.

FACT FIND

Visit <https://www.gov.uk/income-tax-rates/current-rates-and-allowances> and find out the latest allowance.

INCOME MINUS ALLOWANCE

Say that Jennifer earns £X.
The personal allowance is £Y.
Jennifer pays income tax on
£X - £Y

ONLINE ACTIVITY

If a person earns less in a year than the personal allowance, they pay no income tax.

Use **ACTIVITY 1D** to find out whether or not Bill, Ben and Belinda need to pay income tax.

NATIONAL INSURANCE (NI)

All employees also have to pay NI. The government uses NI to fund, for example, Jobseeker's Allowance and basic state pension (for retired people).

NI is worked out on how much people earn above a weekly minimum. The rate of NI is a percentage of a person's

earnings. People who earn less than the minimum do not pay NI.

PAY AS YOU EARN (PAYE)

Employed people pay their tax and NI via a 'deduction' when they are paid.

- ▶ The employer takes a portion for income tax and for NI from the employee's gross income.
- ▶ This leaves the employee with their *net* income (the amount they keep).



Find out more about each section of Demi's payslip from the 'PAYSLEIPS IN DETAIL' PowerPoint.

A payslip must include:

- ▶ the gross amount of earnings;
- ▶ the reasons for and amounts of all deductions;
- ▶ the net amount of earnings; and
- ▶ how the earnings are being paid.

PAYSLEIPS

An employer must give each employee a written payslip with details of the pay earned and amounts deducted.

Let's look at an example payslip:



Complete the online activities and end-of-topic quiz to expand your learning for Topic 1.

Dolby and Crane Limited			Date: 01/06/201X	
Payment period		Payment method		
01/05/201X to 31/05/201X		Credit transfer		
Tax code	Employee no	Employee name	NI number	
1100L	26	Demi Morgan	NS102030P	
PAYMENTS		DEDUCTIONS		
Description	Amount	Description	Amount	
Basic salary T	1,500.00	PAYE tax	116.67	
		NI	98.88	
Gross pay	1,500.00	Total deductions	215.55	
Net pay	1,284.45			
Taxable pay to date	3,000.00	Tax paid to date	233.34	
		NI paid to date	197.76	

T = taxable