

SUBJECT: Basic Taxation Calculations

KEY-WORDS: PAYE, Taxable Income, Allowance, Percentages

LINK-WORDS: Percentages

#### NOTES

Anyone with an income above a certain amount in a year has to pay tax. This personal allowance (tax-free) is £11,000 as of 2016. Once you earn more than this then you pay tax on the extra amount only. This works in bands –

Band	Taxable income	Tax rate
Personal Allowance	Up to £11,000	0%
Basic rate	£11,001 to £43,000	20%
Higher rate	£43,001 to £150,000	40%
Additional rate	over £150,000	45%

This means you pay a different rate for each step in your income.

This is in relation to income tax only – a typical payslip might have other deductions (sums taken off what is actually paid to you) such as National Insurance and Pension contributions.

Remember that the above bands are for ANNUAL income - and for TAX purposes a year runs from the 6<sup>th</sup> of April of one year to the 5<sup>th</sup> of April of the next year.\* So, if you stop working during the year you may have paid too much tax and be owed a refund!

#### DOs

Show your workings in a table or columns – it is far easier to see what's going on.

#### EXAMPLES

If you earn £200 a week, this is  $£200 \times 52 = £10,400$  a year. So you pay no income tax.

If you earn £1500 a month, this is  $£1500 \times 12 = £18,000$  a year. So you will pay:

Band	Workings	Tax
First £11,000	Personal Allowance	£0
Up to £18,000	$(18,000 - 11,000) \times 20\%$	£1,400

So  $£1,400 \div 12 = £116.67$  will be deducted (taken away) from your monthly wage.

If you earn £10,000 per month, this is £120,000 per year. So you will pay:

Band	Workings	Tax
First £11,000	Personal Allowance	£0
Up to £43,000	$(43,000 - 11,000) \times 20\%$	£ 6,400
Up to £120,000	$(120,000 - 43,000) \times 40\%$	<u>£30,800</u>
Total tax		£37,200

So  $£37,200 \div 12 = £3,100$  will be deducted (taken away) from your monthly wage.

#### DON'Ts

Don't calculate a percentage of the WHOLE income – there is no tax on the first £11,000, so this needs to be subtracted before you calculate the percentage.

#### RELEVANT SUBJECTS

Business, Accountancy, Real life!

#### EXAMPLES and LINKS

<https://www.gov.uk/income-tax-rates/current-rates-and-allowances>

\*For WHY the tax year starts on the 6<sup>th</sup> of April – follow this link:

<http://paullewismoney.blogspot.co.uk/2014/04/why-does-tax-year-begin-on-6-april.html>