

LI: Knowledge: Managing Finances - Understanding DEDUCTIONS

LI: Skills: Numerical - Add and Subtract using a calculator

SC: Use knowledge in unfamiliar contexts

Unfortunately the salaries you see in job adverts is not how much you will end up being paid.

**Gross Pay** is your basic pay plus any additional income earned through your job eg: overtime, bonus etc.

**Net Pay** is how much pay you actually take home. **DEDUCTIONS** are taken off your gross pay.

### INCOME TAX

- This is the largest deduction from your earnings. It is a compulsory levy on earnings, by the government to pay for **social security, defence and law enforcement**.
- This was originally introduced in Britain by William Pitt the Younger, the Prime Minister in 1799. At that time it was to pay for weapons and equipment in preparation for the war against Napoleon Bonaparte.
- Most taxpayers are allowed a certain amount of tax-free income (called a personal allowance). Some people may also get other allowances and tax reliefs. You may also have some income that is not taxable. The personal allowance is currently £10,000  
Once you have subtracted any tax-free allowances from your income you pay tax at the following rates:
- **Basic rate** - Tax is payable at the basic rate of 20 per cent on taxable income up to £31,865.  
**Higher rate** - If you have taxable income of more than £31,865, you will have to pay the **higher rate** of 40 per cent tax on the amount above £31,865 up to £150,000.  
**Additional rate** - If you have taxable income of more than £150,000, you will have to pay the **additional rate** of 45 per cent tax on the amount above this level.

### NATIONAL INSURANCE

- This is the second largest deduction from your pay. This is a system of compulsory contributions from employees and employers. You and your employer pay into the scheme and it provides assistance during **sickness, unemployment and retirement**.
- The contributions you pay depend on how much you earn and whether you're employed or self-employed. You stop paying National Insurance contributions when you reach State Pension age.
- If you're employed you pay Class 1 National Insurance contributions. The rates are:
  - if you earn more than £153 a week and up to £805 a week, you pay 12% of the amount you earn between £153 and £805
  - if you earn more than £805 a week, you also pay 2% of all your earnings over £805
- You pay a lower rate if you're a member of your employer's contracted-out pension scheme.
- Your contributions are deducted from your wages by your employer.

Can you think of any other reasons why you might have money deducted from your wages?

Pension, breakages, late to work.....

### PAYE (Pay as You Earn)

PAYE (Pay As You Earn) is the system that HM Revenue & Customs (HMRC) uses to collect Income Tax and National Insurance contributions (NICs) from employees (including directors of limited companies). The tax and NICs is deducted throughout the tax year based on the employees' earnings and then paid to HMRC.

You will get a pay slip detailing all your earnings and deductions:

John Jones		NI # WL152756B	Payroll # 557-8123	Period 28-05-2013
Basic £1536.84	Overtime 1 £65.70	Overtime 2 ---	Bonus ---	Gross 1602.54
Income Tax £153.84	N.I. £112.74	Pension ---	Other Deductions ---	Total Deductions 266.58
Tax Code: 944 L				Net Pay £1335.96

**LEARN:**     **Gross Pay = Basic + Overtime + Bonus**  
                 **Total Deductions = Income Tax + NI + Pension + other**  
                 **Net pay = gross pay - total deductions**