

PAY & EMPLOYMENT RIGHTS SERVICE

PERS leaflet number 2

NATIONAL INSURANCE AND INCOME TAX

What you need to know about:

**Contributions
Benefits
Deductions**

This leaflet does not cover the self-employed.

*Community
Legal Service*



APRIL 2010

DEDUCTIONS FROM YOUR PAY

All workers must pay income tax and National Insurance (NI) contributions if they earn over a certain amount (the Earnings Threshold). These amounts usually change at the beginning of April. Once you have passed the thresholds, the amount you pay for both income tax and NI will depend on how much you earn. Your employer has a legal responsibility to deduct your tax and NI contributions from your wages and pass them on to Her Majesty's Revenue & Customs (HMRC). Details of deductions must appear on your payslip.

NATIONAL INSURANCE

Entitlements

If you earn enough (that is more than the Lower Earnings Limit) you will qualify for certain benefits and payments during periods when you are not working - Jobseekers Allowance, sickness benefits, retirement pension and so on. These are called **contributory benefits**. You also need to be earning above the Lower Earnings Limit to qualify for Statutory Sick Pay (SSP) and Statutory Maternity Pay (SMP), even though these are not contributory benefits. From April 2010, the **Lower Earnings Limit is £97 per week**.

Payments

You do not start paying NI contributions until you earn above the **Earnings Threshold**. From **April 2010** this is **£110 per week**. This means that you will pay NI contributions on your weekly earnings as follows:

Up to £110.00:	No contribution
£110.01 - £844.00:	11p in every £1
Over £844.00:	1p in every £1

Your employer will also pay a NI contribution on your behalf if you are earning over £110 per week.

Unlike income tax, your NI is worked out on each separate job you do. So, for example, in a week you might earn £65 in one job and £55 in another. Although your total week's earnings come to £120 - well above the NI Earnings Threshold - you will not qualify for contributory benefits in either job, nor will you pay NI contributions.

How about claiming benefits?

Your right to **contributory** benefits will depend on **which** benefit you claim, **when** you claim it, and **how many** contributions you have paid. It is often difficult to work out whether you will be entitled to a specific benefit and at what rate. **If you are in doubt, you should always claim.** In most cases, if you have not paid enough contributions to qualify for benefit then HMRC will write and tell you so.

What are NI credits?

Sometimes when you are not working you can be 'credited' with contributions. For example if you are sick or unemployed. It is important to remember that if you pay the full rate of contributions and become unemployed, you should 'sign on' to maintain your contribution record even if you are not eligible for benefit. You may also be able to claim credits for a range of other reasons: if you are on maternity leave or looking after your children, if you are a foster carer or if you are caring for somebody sick or disabled. Some of these are new National Insurance credits for parents and carers which replace Home Responsibilities Protection from 6 April 2010. When you reach State Pension age, complete years of Home Responsibilities Protection you have built up (up to a maximum of 22) will now be changed into Class 3 National Insurance credits.

Some young workers, students and trainees get credits too. So do some workers aged 60 or over who take early retirement. Most people who are actually in paid work cannot get these type of credits so if you work and earn below £97 a week (from 6 April 2010), you will probably not qualify for contributory benefits. **There are different types of credit and not all entitle you to claim all contributory benefits.**

Married women

If you are paying **reduced** NI contributions, you have no entitlement to contributory benefits. You will only be eligible to claim tax credits in certain circumstances, for example if you have been wrongly imprisoned or are caring for a child or someone who is sick or disabled. You may, however, be able to claim Widow's Benefit or Retirement Pension based on the contributions made by your husband. If you pay **full** contributions, you will be entitled to contributory benefits as normal.

If you are unsure about anything to do with your National Insurance contributions you can ring The National Insurance Enquiries Helpline on 0845 3021479. You can also find more information at www.hmrc.gov.uk

INCOME TAX

As with NI, income tax should be automatically deducted from your pay and detailed on your payslip. Unlike NI, the amount of tax you pay is worked out on your **total** earnings, not separately for each job you do. How much tax you pay depends on the **tax code** you are given by HMRC at the start of the tax year in April. This means that people with the same gross earnings may pay different amounts of tax because they have different tax codes.

From **April 2010** most people aged under 65 will be entitled to a Personal Tax Allowance of **£6,475 per year**. (Those aged 65-74 have an allowance of £9,490). You will not pay any income tax if you earn less than the Personal Tax Allowance. Some people, such as people with disabilities, are entitled to additional tax allowances.

There are three tax bands as shown below. People earning more than the personal allowance tax threshold but less than the higher rate tax threshold are “basic rate taxpayers”. People who earn more than the higher rate tax threshold pay more tax for income above this figure (“higher rate taxpayers”). From April 2010 an additional rate will apply to earnings above £150,000 (additional rate).

From April 2010 most workers pay 20p in the £1 for the first **£37,400 of taxable earnings** (earnings over tax-free threshold) and 40p in the £1 for taxable earnings between **£37,401 and £150,000**.

For taxable earnings **above £150,000** tax will be paid at 50p in the pound.

From April 2010 the personal tax allowance threshold will reduce by £1 for every £2 of earnings over £100,000.

Most people are currently taxed as follows;

Earnings below £6,475 per year (personal allowance tax threshold)	no income tax
Earnings between £6,475 - £43,875 (basic rate band)	20p for each £1 earned within this band
Earnings between £43,875 - £100,000 (higher rate tax threshold)	40p for each £1 earned within this band
Earnings between £100,000 and £150,000 (higher rate tax threshold, reduced personal allowance)	40p for each £1 earned within this band, reduced personal allowance
Earnings over £150,000 (additional rate tax threshold)	50p for each £1 earned within this band

Some example calculations

These are examples of the average amount of **net pay** (that is the amount you get 'in your hand') you will receive for given amounts of **gross pay** (the total pay you receive before stoppages). *They are based on someone with the normal personal tax allowance who receives this amount of pay in the first week of a new tax year. They may be different for someone on a different tax allowance, someone starting a new job in the middle of a tax year, or receiving tax credits through the payroll.*

Gross pay of **£100.00 per week** Net pay of **£100.00 per week**
(No stoppages as gross pay below both NI and tax thresholds)

Gross pay of **£150.00 per week** Net pay of **£140.50 per week**
(NI is 11% of £40= **£4.40**, tax is 20% of £25 = **£5.10**, total stoppages **£9.50**)

Gross pay of **£200.00 per week** Net pay of **£175.00 per week**
(NI is 11% of £90 =**£9.90**, tax is 20% of £75 =**£15.10**, total stoppages **£25.00**)

Gross pay of **£250.00 per week** Net pay of **£209.50 per week**
(NI is 11% of £140=**£15.40**, tax is 20% of £125=**£25.10**, total stoppages **£40.50**)

Gross pay of **£300.00 per week** Net pay of **£244.00per week**
(NI is 11% of £190=**£20.90**, tax is 20% of £175=**£35.10**, total stoppages **£56.00**)
See the back of this leaflet for more calculations.

Working Tax Credit and Child Tax Credit

Most people with relatively low earnings will be able to claim one or more of these tax credits, including single people and those families without children, to top up their income. There are additional payments for lone parents; for help with childcare; for people with disabilities; and for people who work over 30 hours per week. For more information about whether you qualify, contact the Tax Credit helpline on 0845 300 3900, your local Citizens Advice Bureau (CAB), HMRC or Jobcentre Plus.

What if something goes wrong?

You can tell how much tax and NI you are paying by looking at the deductions on your payslip. All employees, regardless of the number of hours they work, have the right to receive an **itemised payslip** from the first pay day after they start work.

Cash in hand payments are illegal. If you collude with your employer to receive payments in this way, you could be liable for any outstanding NI and income tax payments. If you are worried about whether or not income tax and NI are being deducted at the right level, you can contact your local HMRC office. If you do this to query what your employer is doing, every effort will be made not to mention your name. If payments have not been properly deducted you will not usually be liable to pay them if you were unaware of the error. If you do have to make up missed contributions, you can ask to pay by instalments.

This leaflet is intended as a guide and is not a full statement of the law. Please seek advice before taking any action. PERS has a complaints and comments procedure. Please contact us for a copy if you wish to make a complaint or comment about our services.

Table of Examples

(Based on tax allowance of £6,475)

Gross Annual Pay	Gross Weekly Pay	Weekly NI	Weekly Tax	Total Deductions	Net Weekly Pay	Net Monthly Pay
£6,000	£115.38	£0.59	£0.00	£0.59	£114.79	£497.43
£6,475	£124.52	£1.60	£0.00	£1.60	£122.92	£532.66
£6,500	£125.00	£1.65	£0.10	£1.75	£123.25	£534.10
£7,000	£134.62	£2.71	£2.02	£4.73	£129.89	£562.85
£8,000	£153.85	£4.82	£5.87	£10.69	£143.16	£620.35
£9,000	£173.08	£6.94	£9.71	£16.65	£156.43	£677.85
£10,000	£192.31	£9.05	£13.56	£22.61	£169.70	£735.35
£12,500	£240.38	£14.34	£23.17	£37.52	£202.87	£879.10
£15,000	£288.46	£19.63	£32.79	£52.42	£236.04	£1,022.85
£17,500	£336.54	£24.92	£42.40	£67.32	£269.22	£1,166.60
£20,000	£384.62	£30.21	£52.02	£82.23	£302.39	£1,310.35
£22,500	£432.69	£35.50	£61.63	£97.13	£335.56	£1,454.10
£25,000	£480.77	£40.78	£71.25	£112.03	£368.73	£1,597.85
£27,500	£528.85	£46.07	£80.87	£126.94	£401.91	£1,741.60
£30,000	£576.92	£51.36	£90.48	£141.84	£435.08	£1,885.35
£32,500	£625.00	£56.65	£100.10	£156.75	£468.25	£2,029.10
£35,000	£673.08	£61.94	£109.71	£171.65	£501.43	£2,172.85
£37,500	£721.15	£67.23	£119.33	£186.55	£534.60	£2,316.60
£40,000	£769.23	£72.52	£128.94	£201.46	£567.77	£2,460.35
£42,500	£817.31	£77.80	£138.56	£216.36	£600.95	£2,604.10
£43,000	£826.92	£78.86	£140.48	£219.34	£607.58	£2,632.85
£43,500	£836.54	£79.92	£142.40	£222.32	£614.22	£2,661.60
£43,750	£841.35	£80.45	£143.37	£223.81	£617.53	£2,675.98
£43,875	£843.75	£80.71	£143.85	£224.56	£619.19	£2,683.16
Higher NI & Tax Rate						
£45,000	£865.38	£80.95	£152.50	£233.45	£631.93	£2,738.37
£47,500	£913.46	£81.43	£171.73	£253.17	£660.30	£2,861.28
£48,000	£923.08	£81.53	£175.58	£257.11	£665.97	£2,885.87
£50,000	£961.54	£81.92	£190.96	£272.88	£688.66	£2,984.20

This table of examples has not been verified by a tax expert. If in doubt, check with a tax specialist or HM Revenue & Customs.

PERS LEAFLETS

This is one of a series of leaflets which look at aspects of your rights at work:

- 1 Contracts of Employment
- 2 NI and Income Tax
- 3 Statutory Sick Pay
- 4 Paid Holidays
- 5 Maternity & Paternity Rights
- 6 Redundancy
- 7 Equal Pay
- 8 Race Discrimination
- 9 Sex Discrimination
- 10 Part Timers
- 11 Dismissal
- 12 Trade Unions
- 13 Disability Discrimination
- 14 The National Minimum Wage

PERS also publishes a range of factsheets and action packs about rights at work which are available on our website at www.pers.org.uk

We are committed to making our services accessible to all. If you need this information in a different format please contact us on 01924 428030 or e-mail admin@pers.org.uk

PAY & EMPLOYMENT RIGHTS SERVICE

**Unit 14 Batley Enterprise Centre • 513 Bradford Road
Batley • WF17 8LL**

01924 428030

www.pers.org.uk

Telephone advice is available from PERS at the following times:

Monday: 10am to 1pm

Tuesday: 10am to 4pm & 5.30pm to 7.30pm

Wednesday: 10am to 4pm

Thursday: 10am to 4pm

Friday: 10am to 1pm



**PERS is an independent charity providing advice, information, training
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