

# Year 11 | Session 1 | Resource 3\*

## Owning your income tax



The below table shows UK income tax bands and the relevant rates. The rates differ in Scotland.

- It's important to remember when calculating your taxes that the rates only apply to the chunk of your income that is in each band and not the whole amount.
- That means that if you go up into a new band, you only pay the new rate on any amount that is in the band, not on the full amount.
- Everyone starts off with a personal allowance of £12,570. As you earn more, you start to pay more tax. This is called *progressive taxation*.

Rates	Bands
Personal allowance (0%)	£0 to £12,570
Basic Rate (20%)	£12,571 to £50,270
Higher Rate (40%)	£50,271 to £125,140
Additional Rate (45%)	Over £125,140

\* People earning between £100,000 and £125,000 gradually lose their entitlement to their personal allowance. By the time they reach £125,000, the personal allowance is gone and everything they earn up to £50,270 is taxed 20%. These rates and bands can change so always check for yourself.

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### Your turn to have a go!

Choose two jobs that you're interested in and calculate the total income tax you'd need to pay for each of the two salaries.

See the worked examples below and the lesson slide to help you.

Job	Salary
Apprentice gardener	£15,000 per year
Chef	£30,000 per year
Television presenter	£37,000 per year
Accountant	£48,500 per year
Pilot	£52,600 per year
Private doctor	£69,900 per year
Head of software engineers	£98,000 per year
Estate agent	£2,120 per month

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### Worked Example 1

Jo, a hairdresser, has three years' experience and earns £20,000. She pays income tax based on the following calculation:

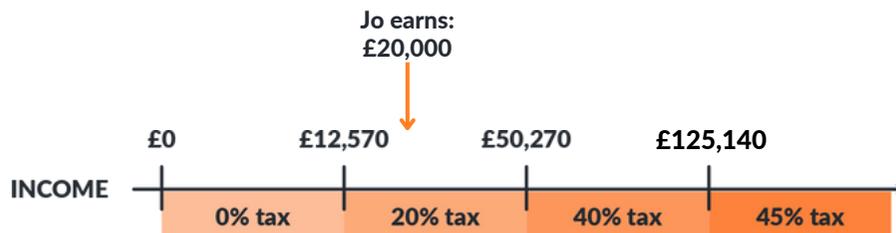
Band	What's taxable?	Tax to pay
Personal Allowance (0%) £0 to £12,570	£0 - £12,570	£0
<b>Basic Rate (20%)</b> <b>£12,571 to £50,270</b>	£20,000 - £12,571 = £7,429	£7,429 x 0.20 = £1,485.80
Higher Rate (40%) £50,271 to £125,140	No income tax paid at this rate	No income tax paid at this rate
Additional Rate (45%) Over £125,140	No income tax paid at this rate	No income tax paid at this rate
<b>Total tax</b>		£0 + £1,485.80 = <b>£1,485.80</b>

**Step 1:** Jo gets the full personal allowance which means the first £12,570 of her earning is tax free

**Step 2:** To work out how much tax Jo will pay on the rest of her earnings, subtract £12,570 from her total earnings of £20,000. Then multiply the answer by 0.20 to calculate the 20% tax.

The next two tax bands aren't applicable so we stop there and add up the total!

**Top tip!** First see which band your salary falls in using a line bar. You can then work out where you are going to stop doing the calculations.



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### Worked Example 2

Chief police inspector, Max, has 15 years' experience in London and earns £60,654 per year. He pays income tax based on the following calculation:

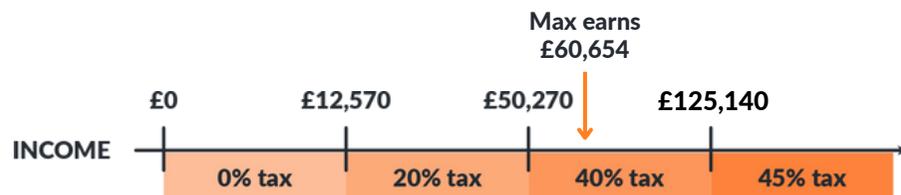
Band	What's taxable?	Tax to pay
Personal Allowance (0%) £0 to £12,570	£0 - £12,570	£0
Basic Rate (20%) £12,571 to £50,270	£50,270 - £12,571 = £37,699	$£37,699 \times 0.20 = £7,539.80$
<b>Higher Rate (40%)</b> <b>£50,271 to £125,140</b>	£60,654 - £50,271 = £10,383	$£10,383 \times 0.40 = £4,153.20$
Additional Rate (45%) Over £125,140	No income tax paid at this rate	No income tax paid at this rate
<b>Total tax</b>		$£0 + £7,539.80 + £4,153.20$ <b>= £11,693</b>

**Step 1:** The salary is above the personal allowance of £12,570 so Max pays no income tax on the first £12,570.

**Step 2:** The salary is above the basic rate of £12,571. So Max pays 20% tax on any money in the next band (£50,270-£12,571 = £37,699). We find this by calculating  $£37,699 \times 0.20$

**Step 3:** The salary is in the higher band of £50,270 to £125,140. So Max pays 40% tax on any money in this band (£60,654 - £50,271 = £10,383). We find this by calculating  $£10,383 \times 0.40$

The Additional band is not applicable so we stop there and add up the total!



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Choose two jobs on page 2 that you're interested in and calculate the total income tax you'd need to pay for each of the two salaries.

Job 1: \_\_\_\_\_

Job 2: \_\_\_\_\_

Band	What's taxable?	Tax to pay
Personal Allowance (0%) £0 to £12,570		£_____ x 0 = £0
Basic Rate (20%) £12,571 to £50,270		£_____ x 0.20 = £
Higher Rate (40%) £50,271 to £125,140		£_____ x 0.40 = £
Additional Rate (45%) Over £125,140		£_____ x 0.45 = £
<b>Total tax</b>		

Band	What's taxable?	Tax to pay
Personal Allowance (0%) £0 to £12,570		
Basic Rate (20%) £12,571 to £50,270		
Higher Rate (40%) £50,271 to £125,140		
Additional Rate (45%) Over £125,140		
<b>Total tax</b>		

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