Topic 12: Earnings

Learning outcomes:

- Interpret legislative, regulatory and organisational requirements and procedures relevant to earnings.
- Apply the key features of income tax and National Insurance.

National Minimum Wage (NMW):

The NMW was introduced in the National Minimum Wage Act 1998. The NMW applies to most types of employed workers. It varies according to the employee's age and applies from 1 Oct in one calendar yr to 30 Sep in the following year. People must be of school leaving age to get the minimum wage. This is defined as the last Friday of June in the school year when they had their 16th birthday. Apprentices <19 or who are in their 1st year are entitled to the apprentice rate. People aged 25 and over must be paid at least the national living wage.

NMW amounts:

25 and over (living wage): £7.83
21 – 24: £7.38 18 – 20: £5.90 Under 18: £4.20
Apprentices <19 or in their first year: £3.70

Maximum Working Hours:

The Working Time Regulations were introduced in 1998 and specify the following:
(1) An employee can work a max of 48 hrs work p/w, averaged over 17wks, unless they choose to work longer. (2) An employee who works five days a week is entitled to at least 5.6wks' paid holiday p/yr. Employers can choose to include bank holidays in this figure. (3)People who work < 5 days a week are entitled to the pro rata equivalent. (4) An employee is entitled to at least 11 consecutive hours' rest in any 24-hour period. (5) If the working day is longer than 6hrs, they are entitled to a minimum 20-min rest or lunch break. (6)An employee is entitled to at least 1 day off each week.

Income Tax:

Basic rate 20%: £0 – £34,500
Higher rate 40%: £34,501 - £150,000
Additional rate 45%: £150,000 +

National Insurance:

People who work pay NI contributions if they are:
(1) aged between 16 and the state pension age.
(2) an employee earning more than £162 per week.
(3)self-employed & making a profit over £6,205 a yr.
Employees pay Class 1 contributions of 12% on earnings £162 - £892p/wk, & 2% on any earnings over £892 p/wk. Self-employed people pay Class 2 contributions at a flat rate of £2.95 p/wk; and Class 4 contributions of 9% on annual taxable profits £8,424 - £46,350.

Key terms:

Benefit	A government payment made to individuals who meet specific conditions to help them meet their living expenses.
Budget	A plan of expected incomings and outgoings over a set time period such as a month. The Budget is also the term given to the government's spending plan, which the Chancellor (see below) sets out in the House of Commons.
Chancellor of the Exchequer	The British Cabinet minister responsible for financial and economic matters and in charge of the Treasury.
Dividend	A payment of profits from a company to its shareholders, often at twice-yearly intervals, either as cash or (depending on the plan) as further shares or reacquisition of shares.
Gross interest	Interest paid without tax deducted.
HM Revenue and Customs (HMRC)	The government department that collects various taxes. Formerly the Inland Revenue.
Income	Earnings, savings and interest payments received within a certain timeframe.
Income tax	Tax paid on earnings from employment, self-employment and interest on savings.
Individual savings account (ISA)	An account that pays interest tax-free on savings up to a certain level. There are two types of ISA: cash ISAs and stocks and shares ISAs. Junior ISAs are available for people under 18.
Interest	Money either paid to an account holder by the provider, or charged to the account holder by the provider. Interest is paid on savings accounts and some current accounts and charged on borrowing, eg an overdraft. Each provider decides the rate of interest it will pay or charge, depending on the type of account and, in some cases, the credit history of the individual account holder.
Investments	Money paid into financial products; the aim is that the value of the product will grow over time and so the person will eventually receive back more money than they paid in. Investments are a way of saving over the medium or long term.
Mortgage	A loan taken out to pay for a property, usually over a long term such as 25 years.
National Insurance contributions	Money deducted from the pay of people who are employed or self-employed and used by the government to fund state pensions & other benefits.
National living wage	The minimum that people aged 25 and over must be paid p/hr by law. The national minimum wage applies to workers aged > 25.
National minimum wage	The minimum pay per hour to which workers are entitled by law. The rate depends on a worker's age and whether they are an apprentice. Workers aged 25 and over are entitled to the national living wage.
P45	A document legally required from an employer when an employee stops working for them. It summarises the employee's tax and National Insurance details for their next employer.
P60	A document prepared at the end of every tax year to show all the income tax and National Insurance contributions paid by an individual during the preceding 12 months.
Pension	An income that people receive after retiring from work. In the UK people receive a pension from the state; some people also receive pension payments from schemes run by their former employers or arrangements that they have made for themselves.
Personal allowance	The amount of income you are allowed to earn before you become liable for income tax.
Personal savings allowance	The amount of savings interest that can be earned before the saver pays tax. (Basic rate tax band - £1,000, higher rate tax band - £500, additional rate tax band – none)
Self-assessment	A method used, often by self-employed people, to calculate the amount of tax and National Insurance they need to pay.
Self-employment	Earning an income by selling your goods or services directly to a consumer, rather than being employed by somebody else & being paid a wage or salary.
Starting-rate band	An amount of savings that an individual can earn tax-free if their total income is less than the personal allowance.
Taxable income	Income on which tax must be paid – that is, after deducting allowances & any permitted expenses from the total income earned.
Tax band	A category of income on which a specific rate of tax is payable.
Tax code	A code used by a person's employer or pension provider to calculate the tax to deduct from pay or pension.
Tax paid at source	Tax deducted by the provider (on behalf of the government) from interest earned on savings. Since April 2016, providers no longer deduct income tax from savings interest at source.
Tax return	A tax form completed by people in certain situations (eg self-employed people or employed people who receive money in addition to their salary). It sets out details of income and expenditure and allows the taxpayer or HMRC to calculate the amount of tax and NI contributions owed.
Tax year	Also known as the financial year, the tax year runs from 6 April to 5 April in the following year. The tax people owe is calculated according to how much they have earned April to April rather than January to December.
Zero-hour contract	A type of employment contract that does not set out a fixed number of hours that an employee must work and be paid for. The employer is not obliged to provide work nor the employee to take work offered.

Deadlines and penalties for tax returns:

The tax year ends on 5 Apr & the deadlines are as follows: * Paper tax returns must be received by midnight on the following 31 Oct. * Online tax returns must be received by midnight on the following 31 Jan. *The final payment of tax due must be received by midnight on 31 Jan. Penalties for missing the deadline for submitting a completed tax return: *1 day - 3 months late: a fixed penalty of £100. *3 months late: £10 for each following day up to a 90-day max of £900. This is as well as the fixed penalty above. *6 - 12 months late: £300 or 5% of the tax due, whichever is the higher. This is as well as the penalties above. *12 months late: in serious cases up to 100% of the tax due instead of the £300 or 5% penalty, as well as the £1,000 in penalties above.