Chartered Certified Accountants

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# HOW MUCH INCOME TAX AND NATIONAL INSURANCE YOU SHOULD PAY - INFORMATION FOR CLIENTS
# Walsh West Certified Chartered Accountants 2021

## How much tax and NI should you pay?

As an employee, you pay Income Tax and National Insurance on your wages through the PAYE system. It's important to check you have the right tax code and are paying the right amount.

### Do you need to pay Income Tax and National Insurance?

You can earn a certain amount of income each year, called your Personal Allowance, before you need to pay any Income Tax.

In general, not everyone may get the same Personal Allowance of £12,570 for the tax year 2021/22. A tax year runs from the 6 April to the 5 April.

The personal allowance is a fixed amount set against your gross income (your income before tax or any other deductions are taken) that allows you to receive that much income free of tax in a tax year.

### Disguised Remuneration Schemes

If you were paid through a loan from your employer and have not yet paid the tax you owe in full or agreed a payment plan by September 2020, it's important you contact HMRC as soon as possible.

However, you might get a smaller personal allowance if your income is over £100,000 or if you owe tax from a previous tax year. You might also get a larger Personal Allowance if you have overpaid tax from a previous tax year.

### How much can you earn before you need to pay Income Tax?

In the UK, the tax system is based on marginal tax rates. That means it's worked out as a percentage of income you earn inside certain thresholds – you don't pay the same amount of tax on everything you earn.

As an employee:

- you pay 0% on earnings up to £12,570* for 2021/22
- then you pay 20% on anything you earn between £12,571 and £50,270
- you'll pay 40% Income Tax on earnings between £50,271 to £150,000
- if you earn £150,001 and over you pay 45% tax.

For example, if you earn £52,000 a year, you pay:

- nothing on the first £12,570
- 20% (£7,500.00) on the next £37,700
- 40% (£800) on the next £1,730.

You can use GOV.uk's tool to estimate how much Income Tax and National Insurance you should pay for the current tax year. It can help work out your take-home pay if you don't have any other deductions, for example pension contributions or student loans.

If you're self-employed, the self-employed ready reckoner tool can help you budget for your tax bill.

From 6 April 2019 income tax rates are set by the Welsh Government. These are currently the same as for England and Northern Ireland for the 2021/22 tax year.

National insurance contributions (NICs) are taken from your earned income and essentially help to build your entitlement to certain state benefits, such as the State Pension and Maternity Allowance.

If you're an employee, you'll need to pay Class 1 NICs on your earnings. In addition, your employer will be required to make a secondary contribution of 13.8% of earnings above £166 a week. There is no upper limit on employer's National Insurance (NI) payments.

As an employee:

- you pay National Insurance contributions if you earn more than £184 a week for 2021/22
- you pay 12% of your earnings above this limit and up to £967 a week for 2021/22
- the rate drops to 2% of your earnings over £968 a week.

For example, if you earn £2,000 a week, you pay:

- nothing on the first £184
- 12% (£116.04) on the next £967

- 2% (£16.98) on the next £849.

### What is the difference between gross and net pay?

Gross pay is the income you receive before any taxes and deductions have been taken out. Your annual gross pay is what is often referred to as your annual salary.

Net pay is what is left over after deductions like Income tax and National Insurance have been taken off. It is what's often referred to as your take home pay.

You can see what your gross pay was and how much has been taken off (if anything) on your payslip.

### How is tax and National Insurance paid?

If your income is more than your Personal Allowance in a year, you have to pay tax.

In general, your Personal Allowance is spread evenly across your pay packets for the year and your employer will take out tax before giving you your pay.

They know how much to take out through a system called PAYE (Pay As You Earn). If it turns out at the end of the year you have paid too much tax, you can get a refund; too little and you will have to pay extra.

Your employer will also make National Insurance deductions from your pay.

This is worked out on a weekly or monthly basis, or however frequently you get paid. Unless there has been a mistake, you cannot get back any of the National Insurance you pay, even if your earnings fall later in the year.

### How PAYE works

When you start work, you'll either need to hand in a P45 form from your last job, or complete HMRC's new starter checklist, which you get from your employer.

These forms both tell HM Revenue & Customs (HMRC) you have started work and will be used to create a tax code.

Your tax code then tells your employer how much tax to take off your pay. The P46 form is no longer used.

PAYE might be used to collect tax not just on your earnings from this job but also on other income you have.

## What is a tax code?

The amount of tax you pay depends on:

- how much income you have
- how much tax you've already paid in the year
- your Personal Allowance

Different people have different tax codes, depending on their circumstances.

Every year, HMRC sends out a Coding Notice telling you what your tax code is and how much tax you've paid.

You can also find your tax code on your payslip. It's usually made up of a few numbers and a letter.

## How is my tax code worked out?

Your tax code is normally the amount you can earn without paying tax, divided by 10, with a letter added.

For example:

Tax code: 1257L

1257 becomes £12,570 earned before tax.

## My tax code starts with BR

You are not getting your tax-free basic personal allowance which means all your income is being taxed at the basic rate of 20%.

This can occur if your employer doesn't have all the information it needs to work out your tax code.

It doesn't always mean you're paying the wrong amount of tax. For example, you may have two jobs and HRMC has allocated your personal allowance against one of these.

## My tax code has no number, or starts with D followed by a number

This is usually because you have more than one source of income.

Your Personal Allowance is used up on your main income source, and you pay tax on everything you earn from your second income source.

For example, you might work a main job during the day and do shifts in a pub or work in a factory in the evenings.

If you earn more than £12,570 a year in your main job, your second job will be taxed at the basic rate. This can also apply to pensions or money paid out by investments (dividends).

### My tax code starts with K

This means you have tax from the past you still need to pay, or you get money or benefits that can't be taxed before you receive it, like a State Pension or company car.

From this, your employer can work out how much should be paid towards what you owe.

The amount you pay will never be more than half the amount you've earned or received during the pay period (whether that's monthly, weekly or another period).

### What is an emergency tax code?

Sometimes your tax code isn't right for your circumstances, and you might be given an emergency code.

An emergency tax code assumes that you're only entitled to the basic personal allowance. It'll mean you'll pay tax on all your income above the basic personal allowance (£12,570 for 2021/22).

It won't take into account any allowances or reductions and reliefs you might be entitled to.

This could mean you pay more tax than you should be for a short period of time.

For 2021/22, the emergency tax codes are:

- 1257L W1
- 1257L M1
- 1257L X.

You may be put on an emergency tax code if you've started a new job, started working for an employer after being self-employed or are getting company benefits or the State Pension.

If your tax code is one of these, HMRC will automatically update it, but it might mean that for one or two months your pay won't be the same, so be careful with your budgeting.

## How do I check my tax code?

To make sure you're on the right tax code, check your code matches the Personal Allowance you should be getting.

## What do I do if I think my tax code is wrong?

If you think your tax code is wrong, or if you're in any doubt, contact HMRC.

It's important you give HMRC all the information they ask for so you don't end up on the wrong tax code and pay too much or too little tax.

## If you think you've paid too much tax

It's worth checking how much tax you've paid on your wages.

Depending on your circumstances, you might be able to ask for a refund using a form, or you might need to contact HMRC directly.

## Paying back tax you owe through PAYE

HMRC can take money out of your pay to collect the tax you owe them, subject to certain limits.

If you earn less than £30,000 per year, HMRC can collect up to £3,000 per year.

If you earn over £30,000, HMRC can take more than £3,000 - the amount they can collect per year will increase depending on how much over £30,000 you earn.

The maximum amount of debt HMRC can collect in a year is £17,000 - you'll only pay this much if you earn over £90,000.

HMRC can't take more than 50% of your pay to collect a debt you owe to HMRC.

## Tips and bonuses

If you get money through your job that's not part of your usual wages, like an annual bonus or tips from customers, you'll have to pay tax on it, and usually National Insurance too.

- Your annual bonus, if you get one, is treated as if it's part of your normal wages. You'll pay tax and National Insurance on it through PAYE, in the usual way.
- If you get cash tips direct from customers or through a 'tronc' system (where tips are pooled and shared between staff members of the pool), you also need to pay tax on

them, but not National Insurance, provided the amount you get in tips does not involve your employer. It's your responsibility to tell HMRC about these tips. They will then give you a new tax code estimating how much you get in tips each pay period, and taxes you on that amount.

- If a customer gives you a tip via their bank card when paying for a meal or service, and your employer decides whether to share it with you, they are responsible for sorting out the tax and National Insurance. If the employer passes such payments to a tronc, then the rules above apply and no National Insurance is due.
- A service charge is not the same thing as a tip, because the customer doesn't choose to pay it. A tip is a payment that's given freely.

## Benefits in kind

Sometimes your employer will offer benefits like a company car or health insurance as part of your remuneration package.

These are known as 'benefits in kind'.

You might need to pay tax on the value of these benefits.

- Some benefits are always tax-free, such as employer contributions into a pension scheme for you, or childcare vouchers up to a limit.
- Some benefits are always taxable. For example, goods that your employer lets you have for free or below cost price.
- For some benefits it depends. For example, season-ticket loans are taxable if the value of all employer loans you get is more than £10,000 for the year.

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For initial advice about Accounting and Taxation; call our team on 0203 488 7503, 01992 236 110 or contact us by email at welcome@walshwestcca.com or via our website www.walshwestcca.com and we will help you.