

Understanding Personal Finance



Objectives

- ❖ Understand the difference between gross and net pay and the deductions made on a payslip
- ❖ Add, subtract, multiply and divide work based sums of money and record the answers appropriately
- ❖ Identify the total gross amount to be paid to them
- ❖ Identify the deductions made from a payslip
- ❖ Say what these deductions are for and what represents the biggest deduction (Compare the payslips for different people)
- ❖ Identify the net amount of pay

Where does my money come from?

Source of money	Question	Answer
Work		£4.35
State benefits		£129.20
Borrowing		18

The difference between Gross and Net Pay

Gross Pay

Your total pay before tax and other deductions

Net Pay

The amount you take home after deductions from your pay (such as Tax, National Insurance, Pension)

What is PAYE / National insurance?

'Pay As You Earn' spreads your tax payments across each week or month rather than paying it in one lump sum, and is based on an estimate of your yearly salary

National Insurance contributions are paid by everyone over 16 earning over a certain amount. This is used to fund the state pension and benefits

Calculating tax / national insurance

Tax allowance

(Money you can earn that is not taxed) is 10x the number given in the tax code

So if your tax code is 1150L that means you can earn up to £11,500 before you are taxed

If you earn £21,600 on this tax code, means 10,100 can be taxed

The tax rate is 20%

$20\% \text{ } 10,100 = 10,100 \div 100 \times 20 = 2,200$ taken for tax

National Insurance

National Insurance is taken from earnings over £8,632 and at 12% of that amount

For the amount gross salary of £21,600:

$$21,600 - 8,632 = 12,968$$

$$12,968 \div 100 \times 12 = 1556.16$$

Labelling a payslip

Employee No	Employee		Pay Date	Tax Code	National Insurance Number
01236	A.N. Other		30/06/2019	NT	JC 76** **C
Payments	Units	Rate	Amount	Deductions	Amount
Basic Gross Pay	1	1	£100.00	PAYE	£100.00
Overtime	2	2	£200.00	NIC	£200.00
Shift Allowance	3	3	£300.00	Pension	£300.00
	4	4	£400.00	Student Loan	£400.00
A.N. Other 1 My Road My Street My Town MT1 1AA	Totals for this period			Totals Year to Date (TD)	
	Total gross pay		£100.00	PAYE	£100.00
			£200.00	NIC	£200.00
			£300.00	Pension	£300.00
			£400.00	Student Loan	£400.00
ABC Company			Total Net Pay	£1234.56	

Jacob is 15 years old, Sonya is 21, and both are applying for jobs.

Jacob wants to apply for...



Sales Assistant

A part-time sales assistant is required for our flagship store which sells mobile phones, smart technology and gaming devices. Previous experience preferred but not essential.

£4.50 per hour, up to a maximum of 6 hours per week. Flexible overtime is paid at £6 per hour and is often available, but not guaranteed.

Sonya wants to apply for...



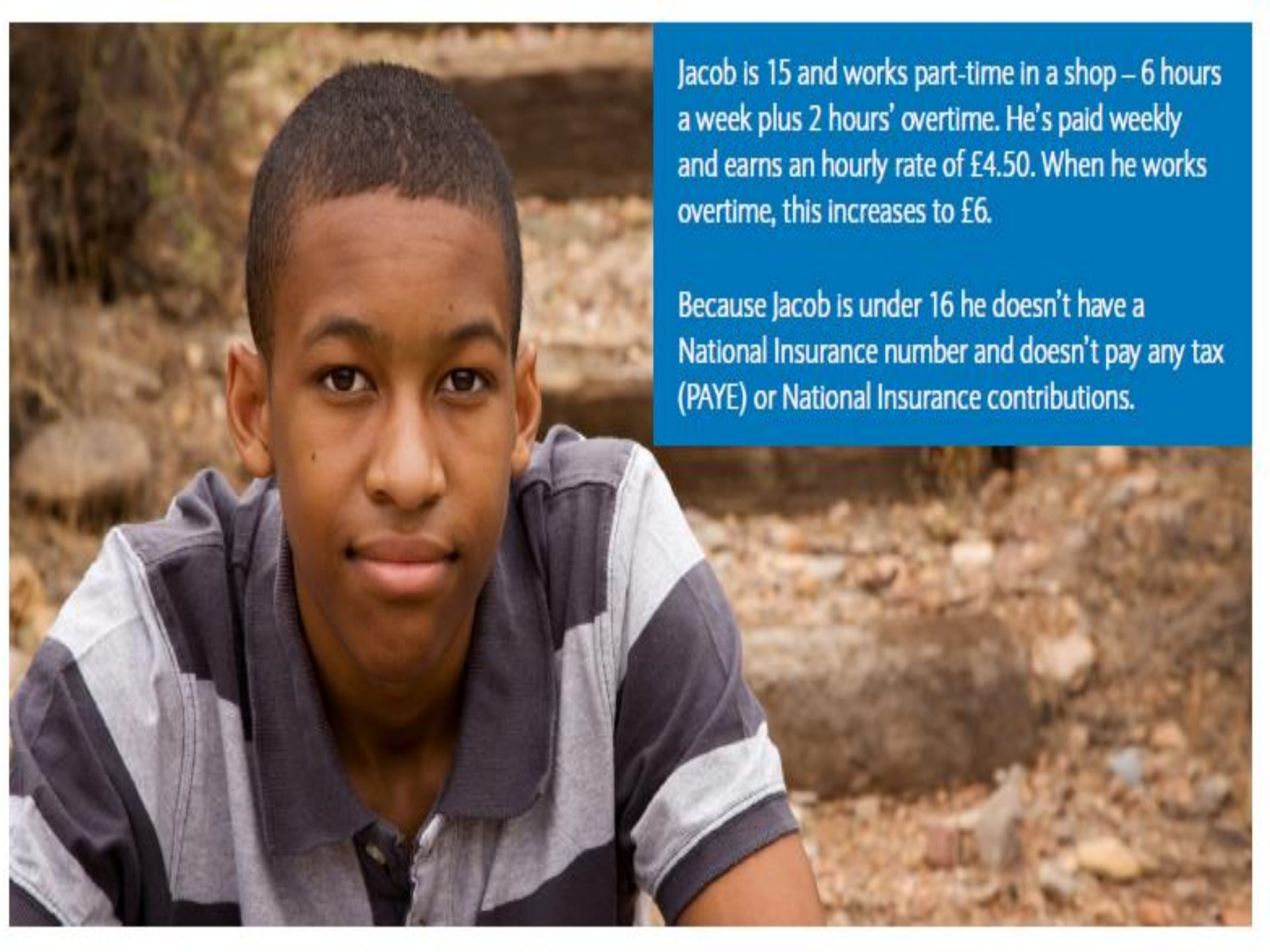
Trainee Engineering Manager

A full-time trainee engineering manager is required to assist with the building of a new sports stadium. Relevant degree (or equivalent qualification) required.

The starting salary is £20,400.

Jacob's Payslip

Employee No	Employee		Pay Date	Tax Code	National Insurance Number	
01236	J Smith		30/06/2019	NT	-	
Payments	Units	Rate	Amount	Deductions	Amount	
Basic	_____	4.50	£ _____	PAYE	£ _____	
Overtime	2	_____	£12.00	NIC	£ _____	
				Pension	£0.00	
				Student Loan	£0.00	
Mr J Smith 1 My Road My Street My Town MT1 1AA	Totals for this period			Totals Year to Date		
	Total gross pay		£ _____	Total gross pay TD	£117.00	
				Tax paid TD	£0.00	
				NIC TD	£0.00	
				Pension TD	£0.00	
ABC Company Name			Total Net Pay			£ _____



Jacob is 15 and works part-time in a shop – 6 hours a week plus 2 hours' overtime. He's paid weekly and earns an hourly rate of £4.50. When he works overtime, this increases to £6.

Because Jacob is under 16 he doesn't have a National Insurance number and doesn't pay any tax (PAYE) or National Insurance contributions.

Sonya's Payslip

Employee No	Employee		Pay Date	Tax Code	National Insurance Number	
0567	S Fletcher		30/06/2019	1250L	AB 123456 C	
Payments	Units	Rate	Amount	Deductions	Amount	
Basic	1	£ _____	£ _____	PAYE	£ _____	
				NIC	£ _____	
				Pension	£0.00	
				Student Loan	£0.00	
Ms S Fletcher 4 My Road My Street My Town MT1 1BD	Totals for this period			Totals Year to Date		
	Total gross pay		£ _____	Total gross pay TD	£5100.00	
				Tax paid TD	£394.98	
				NIC TD	£353.04	
				Pension TD	£0.00	
ABC Company Name			Total Net Pay		£ _____	



Sonya is 21 and is a trainee engineering manager at a construction company. She is paid monthly and earns £20,400 per year. Because Sonya is over 16 she pays tax (PAYE) and National Insurance Contributions. She has a student loan but doesn't earn enough yet to make repayments.

Calculate Sonya's PAYE:

- An annual personal tax allowance is 10x the number given in the tax code. What is Sonya's annual personal tax allowance?
- Work out Sonya's taxable pay – the amount of her salary that Sonya will have to pay tax on
- Calculate how much tax Sonya will pay over the year (the tax rate is 20% of taxable pay)
- Work out how much tax Sonya will pay each month

Calculate Sonya's NICs:

- National Insurance Contributions (NICs) are paid on annual earnings over £8,632. Work out how much of her annual salary Sonya will pay NICs on
- Calculate the NICs Sonya needs to pay on this amount. NICs are paid at 12% (on annual earnings over £8,632)
- Work out Sonya's monthly NICs

True or False?

You need your National Insurance number when you start a new job

You pay income tax on every penny you earn

You can never query your tax code with HMRC

You must pay into a pension scheme as soon as you turn 18

You start paying back your university student loan as soon as you get a job

There's no need to check your payslip

Job satisfaction is more important than salary