Income Tax and National Insurance

When you get your pay slip, you'll notice that some money has been taken out. Every person in employment has to pay Income Tax and National Insurance. But what are they? (See Fact Sheet FD2 - Local and National Taxation and Work Sheet WD2 - Local and National Taxation.)

Income Tax

- The Government takes money from people in **employment** to be used for the running of the country (e.g. the National Health Service, maintaining highways and transport systems, the police force and national defence). This money is known as Income Tax.
- **Taxable income** includes money earned from employment and self-employment, pensions, interest on savings, income from shares or renting out properties, etc.
- The amount of tax you pay is worked out as a **percentage** of what you earn.
- Your percentage (called the 'tax take') depends on your income. At present (May 2011), you don't pay any tax on the first £7,475 you earn because that's your Personal Allowance. This tax free amount is spread out equally across the 12 months of the year. Amounts above this, up to £35,000, are charged at 20% tax. Anything over that and up to £150,000 is charged at 40% tax, after which it is taxed at 50%. However, certain allowances can make the figures different!
- If you're working for an employer, your tax and National Insurance will be taken out of your pay automatically. This happens every week or every month, depending on when you get paid. It's called **Pay As You Earn (PAYE)** – this means the money that you owe in tax is spread out over the year so you don't have to pay your tax all in one go.
- PAYE works on an annual basis. The 'tax year' starts on 6th April and ends on 5th April the following year. The Government sends a tax code to your employer and this tells them how to work out how much tax to subtract from your pay.
- Self-employed people must fill out an annual **tax return** and pay tax directly to the Government.

National Insurance

- As well as paying Income Tax, you also have to pay **National Insurance Contributions (NICs).** These help to fund benefits, such as the State Pension and Employment Support Allowance (see Fact Sheet FA3 - Benefits). By paying NICs, you build up your entitlement to get benefits if you are unable to work, as well as the State Pension when you retire.
- The National Insurance that you pay depends on how much you earn and whether you're employed or self-employed. It is usually around 12-13% of your income (if you earn over £139 per week) but depends on your earnings.
- You pay NICs from age 16 until retirement. At 16, you are given a unique **National Insurance Number,** which is yours for life. This makes sure that your tax and NICs are kept on record.