



# *Money Matters Seminar Series*

# Taxation

6<sup>th</sup> Form Career Guidance Programme 2019/20

In association with  
Timms Wealth Management  
a St James's Place Practice



# Agenda

- Different kinds of tax individuals pay
  - ✓ Spending
  - ✓ Sins
  - ✓ Vehicles
  - ✓ Air Travel
  - ✓ Insurance
  - ✓ New purchase of property
  - ✓ Already owned property
  - ✓ Inheritance
- Focus on Income Tax
  - ✓ Earned Income Tax
  - ✓ National Insurance Tax
  - ✓ Unearned Income Tax
  - ✓ How to decipher your pay slip

# Tax on: Spending

- Called **Value Added Tax (VAT)**
- Adds 20% to most products and services
- Paid to Central Government by seller.



VAT Band	VAT Band Rate %	Applies to
Standard	20%	Vast majority of goods and services
Reduced	5%	Children's car seats, home energy (electricity, gas, oil), mobility aids
Zero	0%	Food, children's clothes, publications, prescription drugs
Exempt	n/a	Financial services, lottery tickets, museums/zoos, school fees

# Tax on: Sins (Tobacco, Alcohol)

Tax on goods deemed to be harmful to society/individuals

- Tobacco: varies for cigarettes, cigars, and hand-rolling

*Cigarettes (20 pack):*

- ✓ £4.57 per pack + 16.5% of retail price
- ✓ £6 in tax per £9 pack (**66% is tax**)



- Alcohol: varies for beer, cider, wine, spirits; varies based on % alcohol by volume (ABV)

- ✓ 23p in tax per pint 5% cider (**8% is tax**)
- ✓ 52p in tax per 175ml 14% wine (**10% is tax**)
- ✓ 50p in tax per pint 5% beer (**15% is tax**)



# Tax on: Sins (Betting, Soft Drinks)

- Betting: varies by type of betting
  - ✓ Fruit or quiz machines – 20%
  - ✓ Bookmaker's – 15%
  - ✓ National Lottery Tickets – 12%
- Soft Drinks: varies by sugar content of drink
  - ✓ Sugar content  $>5\text{g}$  and  $<8\text{g}$  per 100ml:  
18p per litre
  - ✓ Sugar content  $\geq 8\text{g}$  per 100ml:  
24p per litre



# Tax on: Vehicles

- Vehicle Excise Duty (VED):

Based on:

- CO<sup>2</sup> emissions
- Age of car
- Type of fuel



- ✓ 2001-16: £20 to £160 per year
- ✓ 2017+: £25 to £210 per year

- Fuel Tax:

Same for all fuels, 58p per litre

- ✓ If £1.30 per litre, 45% is tax



# Tax on: Air Travel

- Called **Air Passenger Duty**
- Charged to passengers flying from UK (or Isle of Man) airports on aircraft authorised to take-off with 5.7+ tonnes or more than 20 passengers.



Band (flight distance)	Economy Class	All Other Classes
A ( $\leq 2,000$ miles)	£13 per passenger	£26 per passenger
B ( $> 2,000$ miles)	£78 per passenger	£172 per passenger

# Tax on: Insurance

- Called **Insurance Premium Tax**
- Charged on some (not all) types of insurance policies
  - ✓ Standard rate 12% (car, home, pet insurance)
  - ✓ Higher rate 20% (travel insurance)





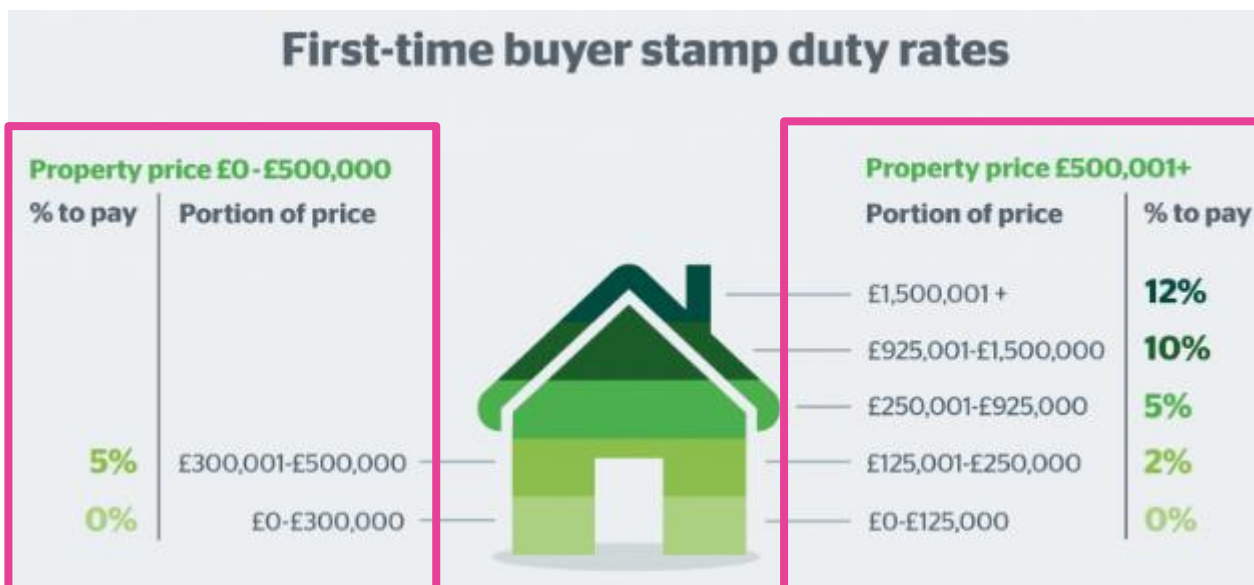
# Tax on: New Purchase of Property<sup>1</sup>

- Called Stamp Duty
- Charged on new purchase of property (buildings/land)
- Varies by property use (residential, non-residential, or mixed use)
  - ✓ No tax if residential property worth  $\leq$  £125,000
  - ✓ No tax if non-residential/mixed use property worth  $\leq$  £150,000



<sup>1</sup> For England and Northern Ireland only

# Tax on: New Purchase of Property<sup>1</sup>



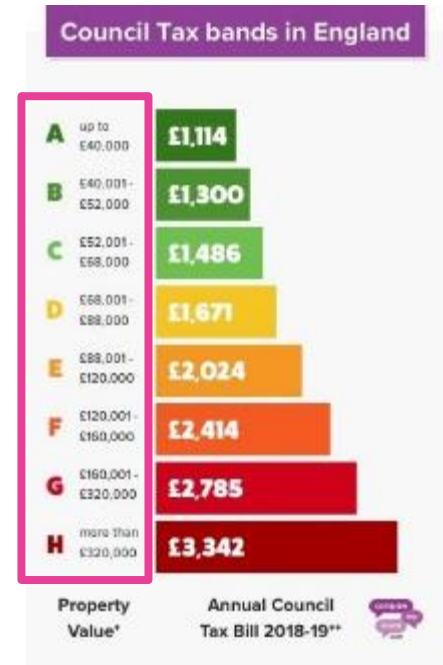
- 1<sup>st</sup> time buyer  
of residential property
- Reduced tax if  $\leq$ £500k
  - No tax if  $\leq$ £300k



<sup>1</sup> For England and Northern Ireland only

# Tax on: Already Owned Property<sup>1</sup>

- Called **Council Tax**
- Pays for local roads, police, fire service, libraries, leisure centres, rubbish collection, etc.
- Based on price property would have sold for on 1 April 1991
  - ✓ 8 Bands: A to H
- If house, and built after 01/04/91, value set by Valuation Office Agency
- Banding changes if house enlarged/reduced
- Amount can change each year and varies by parish



<sup>1</sup> For England only

# Tax on: Already Owned Property<sup>1</sup>



WEST OXFORDSHIRE  
DISTRICT COUNCIL

[www.westoxon.gov.uk](http://www.westoxon.gov.uk)

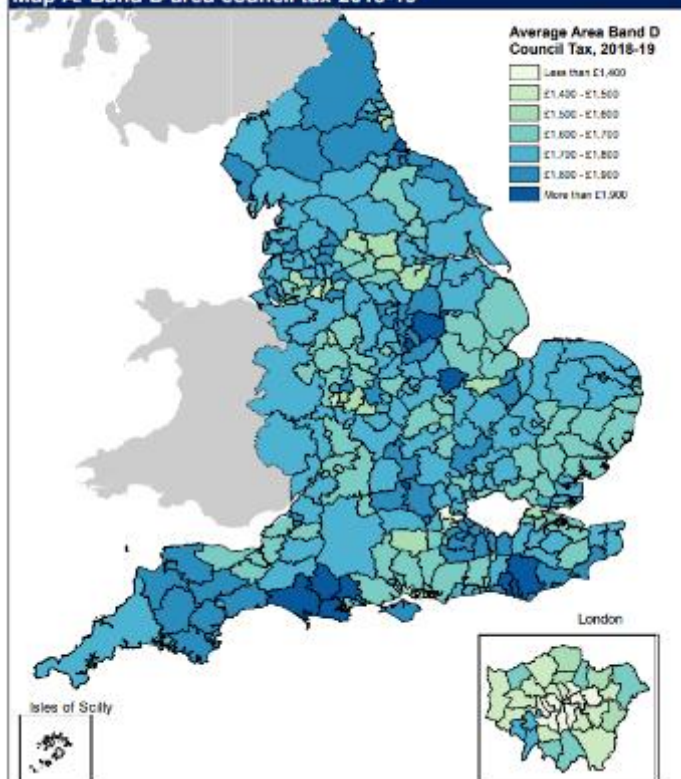
## Council tax charges 2019-2020

Parish	Band							
	A	B	C	D	E	F	G	H
ALVESCOT	1,226.82	1,431.30	1,635.77	1,840.24	2,249.18	2,657.42	3,067.06	3,680.48
ASCOTT-UNDER-WYCHWOOD	1,241.01	1,447.85	1,654.69	1,861.52	2,275.19	2,688.16	3,102.53	3,723.04
ASTHAL	1,197.72	1,397.35	1,596.97	1,796.59	2,195.83	2,594.37	2,994.31	3,593.18
ASTON,COTE,SHIFFORD & CHIMNEY	1,216.15	1,418.85	1,621.54	1,824.23	2,229.61	2,634.30	3,040.38	3,648.46
BAMPTON	1,257.34	1,466.91	1,676.47	1,886.02	2,305.13	2,723.55	3,143.36	3,772.04
BLACK BOURTON	1,226.16	1,430.53	1,634.89	1,839.25	2,247.97	2,655.99	3,065.41	3,678.50
BLADON	1,245.10	1,452.62	1,660.14	1,867.65	2,282.68	2,697.01	3,112.75	3,735.30
BLenheim	1,182.99	1,380.16	1,577.33	1,774.49	2,168.82	2,562.45	2,957.48	3,548.98
BRIZE NORTON	1,221.16	1,424.70	1,628.23	1,831.75	2,238.80	2,645.16	3,052.91	3,663.50
BROADWELL	1,187.65	1,385.60	1,583.54	1,781.48	2,177.36	2,572.55	2,969.13	3,562.96
BRUERN	1,182.99	1,380.16	1,577.33	1,774.49	2,168.82	2,562.45	2,957.48	3,548.98
BURFORD TOWN COUNCIL	1,251.40	1,459.97	1,668.54	1,877.10	2,294.23	2,710.66	3,128.50	3,754.20
CARTERTON TOWN COUNCIL	1,231.86	1,437.17	1,642.49	1,847.79	2,258.41	2,668.33	3,079.65	3,695.58
CASSINGTON	1,212.00	1,414.01	1,616.01	1,818.01	2,222.01	2,625.31	3,030.01	3,636.02
CHADLINGTON	1,209.09	1,410.61	1,612.13	1,813.64	2,216.67	2,619.00	3,022.73	3,627.28
CHARLBURY TOWN COUNCIL	1,233.82	1,439.46	1,645.10	1,850.73	2,262.00	2,672.57	3,084.55	3,701.46
CHASTLETON	1,182.99	1,380.16	1,577.33	1,774.49	2,168.82	2,562.45	2,957.48	3,548.98
CHILSON	1,186.70	1,384.48	1,582.27	1,780.05	2,175.62	2,570.48	2,966.75	3,560.10

West Oxfordshire District Council

[www.westoxon.gov.uk](http://www.westoxon.gov.uk)

Map A: Band D area council tax 2018-19



<sup>1</sup> For England only

# Tax on: Inheritance

- Called **Inheritance Tax (IHT)**
- A tax on the estate (the property, money and possessions) of someone who has died.
  - ✓ No tax if value of estate <£325,000
  - ✓ No tax if you leave everything in excess of £325,000 to your spouse, civil partner, a charity, or a community amateur sports club
- Tax is 40% on everything above £325,000 (that has not been left as described above)
- Tax is 36% if you leave 10% or more of the 'net value' (after expenses paid – funeral, legal fees, etc.) of the estate to charity.

# Income Tax

- Income includes:
  - ✓ Employment (salary, wages, tips)
  - ✓ Self-employment (business profits)
  - ✓ Welfare (from pension, state benefits<sup>1</sup>)
  - ✓ Interest (from bank savings, bonds)
  - ✓ Dividends (from shares/unit trusts)
  - ✓ Capital Gains (from shares, possessions, property)
- Tax is charged on almost all forms of income – INESCAPABLE
- Income tax 55% of Central Government revenue – HUGELY IMPORTANT

<sup>1</sup> Not subject to income tax

# Tax Revenues: Central Government

Source	£ (B) <sup>1</sup>	%
Earned Income <sup>2</sup>	327.6	53
Unearned Income	12.8	2
Spending (VAT)	132.2	21
Tobacco	9.3	1
Beer	3.7	<1
Cider	0.3	<1
Wine	4.4	<1
Spirits	3.8	<1
Betting	3.0	<1
Soft Drinks	0.2	<1

Source	£ (B) <sup>1</sup>	%
Vehicles	28.0	4
Air Travel	3.6	<1
Insurance	6.2	<1
Purchase of Property	11.9	2
Inheritance	5.4	<1
Corporate Profit	53.2	9
Banks	4.5	<1
Other	9.3	1
<b>Total<sup>3</sup></b>	<b>619.4</b>	<b>100</b>

Taxes on individuals represented by text in pink

<sup>1</sup> For 6/4/18 to 5/4/19

<sup>2</sup> Includes £136.6 in National Insurance paid by both employers and employees

<sup>3</sup> Does not include Council Tax on already owned property, as this tax revenue goes to local government

# Income Tax

## Earned Income

### *Employment:*

- Salary
- Wages
- Tips

### *Self-employment:*

- Profits

### *Welfare:*

- Pension
- State Benefits

## Unearned Income

### *Interest:*

- Banks & Building Societies
- Corporate Bonds
- Government Bonds ('Gilts')

### *Dividends:*

- Shares, Unit Trusts

### *Capital Gains:*

- Shares, Property, Possessions



# Income Tax

- Step 1: Calculate your total income
  - Capital gains income does not count in this calculation.

EXAMPLE 1	£
Employment (Salary, Wages, Tips)	30,000
Self-Employment (Business Profits)	1,500
Welfare (Pension, State Benefits)	0
Interest	500
Dividends	<u>500</u>
<b>Total Income</b>	<b>32,500</b>

# Income Tax

- Step 2: Calculate your taxable income
- Every penny of income is not subject to tax
  - ✓ Tax-free personal allowance (£12,500 for 2019/20)<sup>1</sup>
- Total Income - Personal Allowance = Taxable Income

EXAMPLE 1	£
Total Income	32,500
Less: Personal Allowance (PA) <sup>1</sup>	<u>-12,500</u>
<b>Taxable Income</b>	<b>20,000</b>

<sup>1</sup> 6/4/19 to 5/4/20.

If income > £100,000, PA reduced by £1 for every £2 earned over £100,000. No PA if income => £125,000.

# Income Tax

- Step 3: Determine your income tax band
- Income is banded (grouped into a range)
- Each band of income is taxed at a different rate

Taxable Income	Total Income	Income Tax Band	Income Tax Rate % <sup>1</sup>
	£0 to £12,500	Tax Free	0%
	£12,501 to £50,000	Basic	20%
	£50,0001 to £150,000	Higher	40%
	£150,001 +	Additional	45%

## EXAMPLE 1

	£
Total Income	32,500
Less: Personal Allowance (PA)	-12,500
<b>Taxable Income</b>	<b>20,000</b>

<sup>1</sup> For England and NI, 6/4/19 to 5/4/20

# Income Tax

## Earned Income

### *Employment:*

- Salary
- Wages
- Tips

### *Self-employment:*

- Profits

### *Welfare:*

- Pension
- State Benefits

## Unearned Income

### *Interest:*

- Banks & Building Societies
- Corporate Bonds
- Government Bonds ('Gilts')

### *Dividends:*

- Shares, Unit Trusts

### *Capital Gains:*

- Shares, Property, Possessions

# Unearned Income Tax

- Step 4: Calculate tax on Interest
- First £1,000<sup>1</sup> tax free – ‘Personal Saving Allowance’

EXAMPLE (total income £32,500)

	£
Interest	2,000
<u>Less: Personal Savings Allowance</u>	<u>-1,000</u>
Taxable Interest	1,000
<u>Less: Basic Rate Tax (1,000 x 20%)<sup>2</sup></u>	<u>- 200</u>
Remaining after Tax Paid	1,800 (90%)



Income Tax Band	Interest Tax Rate % <sup>2</sup>
Tax Free	0%
Basic	20%
Higher	40%
Additional	45%

<sup>1</sup> 6/4/19 to 5/4/20. Up to £5,000 tax free if income (not including interest) <£17,500


<sup>2</sup> For England and NI, 6/4/19 to 5/4/20

# Unearned Income Tax

- Step 5: Calculate tax on Dividends
- First £2,000<sup>1</sup> tax free – ‘Dividends Allowance’

EXAMPLE (total income £32,500)

	£
Dividends	3,000
<u>Less: Dividends Allowance</u> <sup>1</sup>	<u>-2,000</u>
Taxable Dividends	1,000
<u>Less: Basic Rate Tax (1,000 x 7.5%)</u> <sup>2</sup>	<u>- 75</u>
Remaining after Tax Paid	2,925 (98%)



Income Tax Band	Dividends Tax Rate % <sup>1</sup>
Tax Free	0%
Basic	7.5%
Higher	32.5%
Additional	38.1%

<sup>1</sup> 6/4/19 to 5/4/20

<sup>2</sup> For England and NI, 6/4/19 to 5/4/20

# Unearned Income Tax

- Step 6: Calculate tax on Capital Gains
- First £12,000<sup>1</sup> tax free – ‘Dividends Allowance’




1957 Aston Martin DB2/4 MkII

# Unearned Income Tax

EXAMPLE: 1957 Aston Martin DB2/4 MkII

	£
Purchase Price	5,000
Sale Price (10 years later)	<u>150,000</u>
Gross Capital Gain	145,000
<u>Less:</u> Expenses of restoring car	<u>- 50,000</u>
Net Capital Gain	95,000
<u>Less:</u> Capital Gains Allowance <sup>1</sup>	<u>-12,000</u>
Taxable Capital Gain	83,000
<u>Less:</u> Basic Rate Tax (83,000 x 10%) <sup>2</sup>	<u>- 8,300</u>
Remaining after Tax Paid	86,700 (91%)



Income Tax Band	Capital Gains Tax Rate % <sup>1</sup>
Tax Free	0%
Basic	10% / 18% (on residential property)
Higher	20% / 28% (on residential property)

<sup>1</sup> 6/4/19 to 5/4/20

<sup>2</sup> For England and NI, 6/4/19 to 5/4/20



# Earned Income Tax

- Step 7: Calculate tax on earned income

# Income Tax

## Earned Income

### *Employment:*

- Salary
- Wages
- Tips

### *Self-employment:*

- Profits

### *Welfare:*

- Pension
- State Benefits<sup>1</sup>

## Unearned Income

### *Interest:*

- Banks & Building Societies
- Corporate Bonds
- Government Bonds ('Gilts')

### *Dividends:*

- Shares, Unit Trusts

### *Capital Gains:*

- Shares, Property, Possessions

<sup>1</sup> Not subject to income tax

# Earned Income Tax

## EXAMPLE 1

	£
Employment (Salary, Wages, Tips)	30,000
Self-Employment (Business Profits)	1,500
Welfare (Pension, State Benefits)	0
Interest	500
Dividends	<u>500</u>
<b>Total Income</b>	<b>32,500</b>

# Earned Income Tax

## EXAMPLE 1

	£
Earned Income <sup>1</sup>	31,500
Personal Allowance (PA) <sup>2</sup>	<u>-12,500</u>
Taxable Income	19,000
Basic Rate Tax (19,000 x 20%) <sup>3</sup>	<u>- 3,800</u>
Remaining after Tax Paid	27,700 (88%)

Total Income	Income Tax Band	Income Tax Rate % <sup>3</sup>
£0 to £12,500	Tax Free	0%
£12,501 to £50,000	Basic	20%
£50,0001 to £150,000	Higher	40%
£150,001 +	Additional	45%

<sup>1</sup> Includes salary, wages, tips, business profits from self-employment, pension. Does not include state benefits.

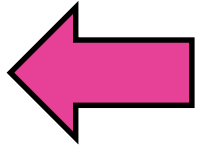
<sup>2</sup> 6/4/19 to 5/4/20

<sup>3</sup> For England and NI, 6/4/19 to 5/4/20

# Earned Income Tax

## EXAMPLE 2

	£
Earned Income <sup>1</sup>	75,000
<u>Less: Personal Allowance (PA)<sup>2</sup></u>	<u>-12,500</u>
Taxable Income	62,500
<u>Less: Basic Rate Tax (50,000 x 20%)<sup>3</sup></u>	<u>-10,000</u>
<u>Less: Higher Rate Tax (12,500 x 40%)<sup>3</sup></u>	<u>- 5,000</u>
Remaining after Tax Paid	60,000 (80%)



Total Income	Income Tax Band	Income Tax Rate % <sup>3</sup>
£0 to £12,500	Tax Free	0%
£12,501 to £50,000	Basic	20%
£50,0001 to £150,000	Higher	40%
£150,001 +	Additional	45%

<sup>1</sup> Includes salary, wages, tips, business profits from self-employment, pension. Does not include state benefits.

<sup>2</sup> 6/4/19 to 5/4/20

<sup>3</sup> For England and NI, 6/4/19 to 5/4/20

# National Insurance Tax

- National Insurance Tax (NIC): a 2<sup>nd</sup> tax on earned income
- Revenue from NIC pays for:
  - ✓ State pension: payment to retirees for the rest of their lives (*only if they have paid enough into the scheme*)
  - ✓ NHS: about 20% of the NHS's annual budget
  - ✓ Jobseeker's allowance: if you work less than 16 hours a week and are looking for more work
  - ✓ Sickness and disability allowance: if you are sick or disabled and cannot work for a period of time
  - ✓ Maternity allowance: if you are pregnant or have recently given birth
  - ✓ Bereavement allowance: if your income-earning spouse has died

# National Insurance Tax

- Step 8: Calculate National Insurance Tax (NIC)
- NIC is not charged on welfare (pension or state benefits).
- NIC is charged<sup>1</sup>:
  - ✓ If employed: earnings of £166 or more per week<sup>2</sup>
  - ✓ If self-employed: profit of £6,365 or more per year<sup>2</sup>
- NIC is paid:
  - ✓ If employed: deducted from salary/wages by employer and paid to HMRC
  - ✓ If self-employed: you pay directly to HMRC

<sup>1</sup> If aged 16 or older. At age 16, you receive a National Insurance Number for life.

<sup>2</sup> 6/4/19 to 5/4/20

# National Insurance Tax

- NIC tax rate varies by type of earned income
  - ✓ If employed (Class 1):
    - <£166 a week<sup>1</sup>: no NIC tax
    - £166 to £962 a week<sup>1</sup>: 12% of employment income
    - >£962 a week<sup>1</sup>: 2% of employment income

*Your employer also pays 13.8% NIC tax on your employment income!*

- ✓ If self-employed:
  - Profits of <£6,365 per year: no NIC tax<sup>1</sup>
  - Class 2 (profits =>£6,365 per year): £3 a week<sup>1</sup>
  - Class 4 (profits =>£8,632 per year):
    - ✓ 9% on profits between £8,632 and £50,000<sup>1,2</sup>
    - ✓ 2% on profits >£50,000<sup>1,2</sup>

<sup>1</sup> 6/4/19 to 5/4/20

<sup>2</sup> Class 4 NIC tax is paid in addition to Class 2 NIC tax.



# How to Decipher Your Pay Slip

<b>Company Name</b>				
Jolly Little Co Limited, Unit 12, The Industrial Estate, Nice Town, PE77 9HU			<b>National Insurance Number</b>	
<b>Employee No</b>	<b>Employee Name</b>	<b>Process Date</b>	<b>Insurance Number</b>	
12345	Sally James	31/01/2019	NH0000000F	
<b>Payments</b>		<b>Line Units</b>	<b>Line Rate</b>	<b>Amount</b>
Salary			3000.00	3000.00
Bonus			100.00	100.00
Commission			250.00	250.00
Expenses			10.50	10.50
3% Employee / 5% Employer				
<b>Deductions</b>		<b>Amount</b>		
Period Pay		3350.00		
PAYE Tax		452.40		
Nat Insurance		317.76		
Healthcare		20.00		
Student Loan		90.00		
EE Pension		100.00		
ER Pension		168.00		
Sally James Flat 5, The Big House Long Street Nice Town Gorgeous County PE77 1PQ		<b>This Period</b>		<b>Year To Date</b>
		Pay	3350.00	Pay 33500.00
		PAYE Tax	452.40	PAYE Tax 4524.00
		Nat Insurance	317.76	Nat Insurance 3177.60
		EE Pension	100.00	EE Pension 1000.00
		ER Pension	168.00	ER Pension 1680.00
<b>Pay Method</b>	<b>Period No</b>	<b>Dept</b>	<b>Tax Code</b>	<b>Pay Period</b>
Bank	10	01	1185L	Month
<b>Net Pay</b>				<b>2380.34</b>

Period 1: April (start of tax year): 6 April to 5 April each year)