

# Lesson plan for income tax and National Insurance topic - duration 20 minutes+

## Learning objectives

- To understand how income tax is calculated
- To discover what National Insurance is and what it is used for.

## Resources

- WizeUp powerpoint presentation
- Worksheet
- Videos
- Kahoot! quiz

## Content & teaching activity

### Slides



### •Starter

Ask if anyone is already paying income tax.  
What age does this start happening?  
There is no minimum age.  
You start paying when you earn enough.

A presentation slide with a rainbow gradient background. In the top left corner, there is a logo for 'WizeUp Financial Education'. The main title 'PERSONAL ALLOWANCE' is written in large, bold, orange capital letters. Below the title, there is a bulleted list of three points. To the right of the list is a screenshot of a UK HM Revenue & Customs 'Your Pay As You Earn Income Tax' account page. The screenshot shows the current tax year as '6 April 2017 to 5 April 2018' and the tax code and income to date as '1150L'.

- Everyone gets a personal allowance
- You don't pay tax on your personal allowance
- You can find out how much your personal allowance is through your tax code
- This year it is £12,500 (Code 1250X)

Everyone earning less than £125k gets a personal allowance.  
Income up to personal allowance is tax free  
Everyone gets notice of their personal allowance through their tax code  
This can be found on your payslip  
Remove the letter and add a 0 - this is your personal allowance.  
Be sure to check as any errors are your responsibility

## HOW MUCH DO YOU PAY?

Depends how much income you have.

Up to personal allowance = 0%

Basic rate on next £37,500 = 20%

Higher rate on £37,501 - £150,000 over personal allowance = 40%

Top rate on anything above £150,000 over personal allowance = 45%

Amount of tax owed increases as earnings increase  
 Calculated in tax bands  
 Up to personal allowance = 0  
 Next £37,500 over personal allowance is taxed at 20% = basic rate  
 Next £100,000 is taxed at 40% = higher rate  
 Anything earnings above £150,000 taxed at 45% = top rate

## EXAMPLE

EARNINGS ARE £62,000, TAX CODE IS 1250L

0% ON FIRST £12,500 = 0

20% ON NEXT £37,500 = £7,500

40% ON FINAL £12,000 (£62,000 - £12,500 - £37,500) = £4,800

SO THE TAX BILL FOR THAT TAX YEAR WOULD BE £7,500 + £4,800 = £12,300

Ask students how much tax they think will be due from this job.  
 Go through the maths



Same example but shown graphically.  
 Gross pay = pay before any stoppages  
 Net pay = pay after stoppages  
 May be more stoppages than just income tax  
 Eg student loan, national insurance, pension contributions

## PAYE

If you work for an employer tax will be deducted from salary each month -

Pay As You Earn (PAYE)

On the example this would be £1,025.00 each month

If you work for an employer your tax deductions will be made for you - nothing to do  
 It is deducted by a scheme called PAYE  
 Employer does the calculation we have just done to find out how much you will owe for the year  
 That figure divided by 12 and an equal deduction is made each month  
 If you are self employed you have to keep enough profit back to pay this as a lump sum  
 You will be asked to put 50% of next years expected tax bill 'on account'.



## National Insurance

If you work for an employer it is deducted directly from earnings

Go towards your state-pension

Given a N.I. number at age 16

Can earn £8,632 without paying N.I.

12% of earnings between £8,632 and £50,024\*

2% of earnings above £50,024

\*You pay a lower rate if you are a member of a company scheme

National Insurance will also be deducted from your gross salary  
This goes towards your state pension  
There is an allowance on which you don't pay NI  
After this it can be 12% of earnings up to a certain amount  
This figure will be considerably lower if you are in a company pension scheme

Could show a film from the website here is time allows

### **Test Knowledge**

Kahoot! Quiz on the website

### **Plenary**

Look into pensions

What is the state pension and when do people get it?

How does it differ from workplace or personal pensions?