

Taxation Module -Session 8

Employment Income, Pensions and NI

We will look at 3 areas in today's session

- Employment Income – We will look at the tax of employees under the PAYE system (any work completed in the UK for an employer) and consider how we decide if someone is EMPLOYED or SELF EMPLOYED (i.e. a Trader)
- Pension Schemes – We will briefly examine the types of schemes
- National Insurance Contributions – These are different for employed and self employed and we will compare them and look at assistance available to small employers

Employment Income

It is very important to identify if a person is EMPLOYED or SELF EMPLOYED as the taxation methods are completely different. This is not a matter of choice but a matter of circumstance or REAL situation.

The definition is shown in the notes (2.1) and a list of criteria to define the differences is notes in (2.2). This subject is currently very topical as the government are scrutinising certain business types. These relationships are being questioned by HMRC and in some cases changes are being forced on workers/service providers (usually with a result of paying higher tax!)

FOR EMPLOYEES The taxable amount is calculated by adding together all types of wages that may be paid and deducting allowable expenses

Pay is made up of

- Basic Wages
- Overtime
- Fixed Salary
- Any bonus or tips
- Commission on sales
- Benefits in Kind (non cash “perks”)

Allowable deductions

- Amounts paid to the company pension scheme
- Subscriptions to professional bodies
- Payroll charity giving
- Travel costs to actually “do the job” NOT to commute to and from the workplace
 - Mileage (same rules as self employed) if personal car is used for business and not reimbursed
 - If employer pays more than “allowable amounts” a benefit in Kind arises of if some is reimbursed the difference is then claimable **Work though EXAMPLE 1**
- Capital Allowances (if the employee has incurred the costs of purchasing the asset them self)
- Anything else incurred “wholly and exclusively”

There are some benefits that are NOT TAXABLE and employers can provide them to their employees without any need to account for tax or NI on them

See list in **Section 6 and** study. **These are important** to Note as they are quite likely to be tested in an exam. The list is complete and anything else will be taxable

Taxable Benefits and P11D

The Taxable benefit is usually based on COST to the employer of providing the benefit. So for e.g if the Employer provides Private Health Insurance that costs £2000 per year, the TAXABLE BENEFIT to the employee will be £2000. This is treated for tax purposes as if the employee has received the cash and then paid the insurance. So £2000 would be added to TAXABLE INCOME.

There is a list in **SECTION 7.1 (a-i)** of the notes. Please check these out and look at the different scenarios and situations so that you are familiar with them all. These will likely be included in an exam asking you for calculating tax for an individual and you need to be able to decide what is taxable and what isn't.

NOW checkout **Examples 2-6** and follow through the examples (answers are in a separate document on Moodle). These cover off and help explain the different treatment for different Benefits In Kind (BIK). Pay special attention to:

1. Motor Cars and Vans are dealt with completely differently so it's important to check out WHAT VEHICLE the employee is being provided with in any question
2. With cars it is the LIST PRICE when NEW that is used and not the current value
3. There is an additional charge if FUEL is provided for personal use too (which is usual if a car is provided)
4. For vans there is a FLAT FIGURE or £3350 and its not based on the cost of the van

The rest are explained fully in the notes

PAYE System

This is Pay
As
You
Earn

As it suggests, you pay your tax and NI as you go along through the year, as you earn your wages

Employers have to operate the scheme and make the deductions every time an employee is paid

Weekly

Fortnightly

4 Weekly

Monthly

They must now submit the data of gross pay, tax deducted and NI to HMRC on or before the date the wages were paid. (Real Time Information)

The employer must pay the PAYE tax and NI deducted from the employees and the Employer NI to HMRC by 22nd of the following month.

PAYE System

PAYE CODING – check out section 8.4 as it explains the system well. The “normal” tax code for those having a full personal allowance and no benefits in Kind for 19/20 for 1250L

Follow through Example 7. See if you can do it yourself and then check to the answer.

EMPLOYERS MUST ISSUE CERTAIN DOCUMENTS

P45 – this document is used to transfer PAYE information from one employer to another to ensure continuity of cumulative PAYE tax for that tax year.

P60 – is given to the employee at the end of every tax year to summarise how much they have been paid and how much tax and NI has been deducted

P11d – is issued to the employee if they have had Benefits In Kind. This shows what they have had and what the TAXABLE BENEFIT VALUE is of each benefit

NOW try QUESTION 19

Pension Schemes

Occupational & Personal

These have different ways of getting tax reliefs that will depend on the scheme and how it has been set up

Follow Chapter 10 notes and get familiar with these rules.

Note that the SCHEMES themselves will set out how it works and how the deductions are made so read any question carefully to check out the circumstances

NB – this is not a major part of the course but you need to have the background info on it and know how to incorporate this into a larger tax computation

National Insurance Contributions (NIC)

This is the person's contribution that is depending on source and level of income. The process is different for Employment and Self Employment income and other income types (Rental income, Capital Gains, pension income) do not incur NIC

Employed

- Paid by the EMPLOYER and EMPLOYEE for amounts over the threshold
- Deducted/paid as part of the PAYE so taken every time the employee is paid
- Employer pays NI on Benefits in Kind too

Self Employed

- Split into 2 types
 - Class 2 – A fixed amount
 - Class 4 – a % of profits
- Paid annually with self assessment tax
- Rates and NI thresholds change annually

This is a fairly simple calculation that always follows the same rules. No ambiguity so can be learned and mastered easily by just remembering the rules.

Now try practice [Question 21](#) and send it to me for marking

This would have been much quicker to deliver in person!!

I hope its useful to you and please send me any questions on email.

Thank You