

Unit 5 *Tax and National Insurance*

Introduction

Learning objectives

Having dealt with savings, loans and inflation, we move on to the important topic of tax and national insurance that is an unavoidable part of adult life. After studying this unit you should

- understand the basics of income tax including personal allowances and tax bands
- be able to calculate income tax using given data
- understand and be able to calculate National Insurance (NI) contributions
- be able to combine NI contributions and income tax calculations.

Notes

Both income Tax and NI details referred to in this unit are based on the tax year 2014/15. These rates do change: you can find up-to-date information on websites such as

https://www.gov.uk/income_tax

Key points

- Income Tax due depends on personal allowances (£10 000 in 2014/15) and total income, based on 3 bands.
- NI contributions depend on whether you are contracted in or contracted out of the system. Again there are different rates in different bands.

Glossary of terms

- *Income Tax*: paid (weekly or monthly) on earned income, according to the specified rates
- *National Insurance*: paid on earned income according to specified rates and also depending on whether you are contracted into or out of the scheme.