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Payslips explained

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Payslips Explained

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Payroll number
Used by your employer to identify you.

Base Pay
Shows what you make before taxes & contributions are taken. Also known as your gross pay.

Tax Period
The tax year runs from April 6th to April 5th of the following year. April 2020 would be tax month 1 and July 2020 would be tax month 4.

Tax Code
Shows how much tax-free pay you should get before tax is deducted. Most people have a tax code 1250L – this means you can earn up to £12,500 before you start paying tax. Please see 'The Detail 1' for further explanation of your earnings & tax.

Payday!

Ref	Employee Name	Process Date	N.I. Number
101	Miss Jane Doe	28/04/2020	AB123456C

Payments	Units	Rate	Amount
Basic Pay	30.00	8.00	240.00

Deductions	Amount
PAYE Tax	3.77
National Insurance (NI)	9.96
Employee Pension	0.00

Coffee House Ltd.

Tax Period	1
Tax Code	1250L
Payment Method	BACS Transfer
Payment Period	Weekly

This Period	
Total Gross Pay	240.00
Gross for Tax	240.00
Earnings for NI	240.00
Employer NI	11.45

Year To Date	
Total Gross Pay TD	240.00
Gross for Tax TD	240.00
Net Paid TD	3.77
NI TD	9.96
Employer NI TD	11.45

Net Pay	226.27

National Insurance number
HMRC use this number to identify you. It ensures any tax and NICs are recorded against your name.

Tax Deduction
Shows how much tax has been deducted from your gross pay (determined by your tax code and level of earnings)

National Insurance Contributions
Deductions taken from your pay and used towards state benefits and services. Please see 'The Detail 2' for further NI information.

Pension Details
If you are paying towards a workplace pension, the amount you're paying will be shown here. If you see 'ER pension', this is money your employer contributes, while 'EE pension' is the amount you are contributing.

Net Pay
Arguably the most important figure on the payslip, as it tells you the amount you will have credited to your bank account after all deductions.

The Pay Year to Date
Some payslips show how much you've been paid in the current financial year (usually shortened to TD or YTD). It may also how the total tax and NI paid.

The detail 1

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1.1 What is tax and who pays?

Tax is the way the Government raises much of the money the country needs to pay for the things that we all benefit from, such as schools, hospitals and roads.

There are many forms of tax, but the one we're going to look at here is income tax.

As soon as you start to earn over a certain amount of money each year, a proportion of that money is paid to the Government via their tax collection agency Her Majesty's Revenue and Customs (HMRC). The amount paid to the Government is known as income tax.

When you become employed, your employer will automatically deduct the income tax from your earnings and send it to HMRC. (If you were self-employed, i.e. working for yourself, you would be responsible for paying the income tax you owe directly to HMRC.)

1.2 The Personal Allowance

Each year, nearly everyone can earn up to a certain amount of money that is free from income tax. This is known as the personal allowance. In the tax year 2020/21 – which runs from 6 April 2020 to 5 April 2021 – the personal allowance is £12,500.

The personal allowance generally goes up each tax year and its existence means that those on relatively low incomes, including those who work part time while in full time education, do not typically pay any income tax.

For example, if you were to earn £12,000 a year, you will not pay any income tax because your income is below the personal allowance of £12,500. The personal allowance will reduce, partially or completely, for those earning over £100,000.

1.3 The Tax Bands

UK income tax is a progressive tax. This means that the Government takes more money from those who earn more, than they do from those who earn less. Most people feel this is fair.

Income in excess of the personal allowance is known as taxable income. It is taxed as follows:

Taxable income (income over £12,500)	Tax Band	Tax Rate
Up to £37,500	Basic Rate	20%
£37,501 - £150,000	Higher Rate	40%
Over £150,001	Additional Rate	45%

For example, if you had a full-time job and started earning £28,000 per year, you'll pay income tax as follows:

- **First £12,500 – no tax, as this will fall within your personal allowance**
- **Next £15,500 (£28,000 minus the £12,500 personal allowance) – taxed at 20% as this will fall within the basic rate band**

Therefore, the total tax bill would be £15,500 x 20% = £3,100

1.4 Pay As You Earn (PAYE)

The UK operates on a Pay As You Earn (PAYE) system, which is essentially a method of paying tax and National Insurance contributions (NICs) during the year.

Your employer withholds taxes due from you from your pay, before paying you your wages. At the end of the tax year, you will receive a form, known as a P60, which outlines the total amount you were paid for the previous tax year along with any deductions.

The detail 2

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National Insurance is a tax on earnings paid by both employees and employers. Your National insurance contributions (NICs) are taken from your earned income and used to pay some state benefits.

National Insurance payments go towards state benefits and services, including:

- **The NHS**
- **State Pension**
- **Unemployment benefits**
- **Sickness & disability allowances**

You'll need to pay into National Insurance for a set number of years to be entitled to receive the state pension. If you haven't met the minimum amount of contributions, you may not qualify for some benefits.

1.5 How much National Insurance do I pay?

Unlike Income Tax, National Insurance is not an annual tax. It applies to your pay each period (which may be monthly or weekly). The National Insurance contributions (NICs) will be taken off along with Income Tax before your employer pays your wages.

You begin paying National Insurance once you earn more than £183 a week (for the 2020/21 tax year).

The amount you pay depends on how much you earn:

- **12% of weekly earnings between £183 and £962**
- **2% of weekly earnings above £962**

For example, if you earn £500 per week, you pay:

- **Nothing on the first £183**
- **12% (£38.04) on the next £317**

Important notes:

The information is based on our understanding of current taxation, legislation and HM Revenue & Customs practice. The tax treatment depends on the individual circumstances of each individual and may be subject to change in future.

The Financial Conduct Authority does not regulate tax advice.

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