



Finances and the world of work

Age range: 16-19

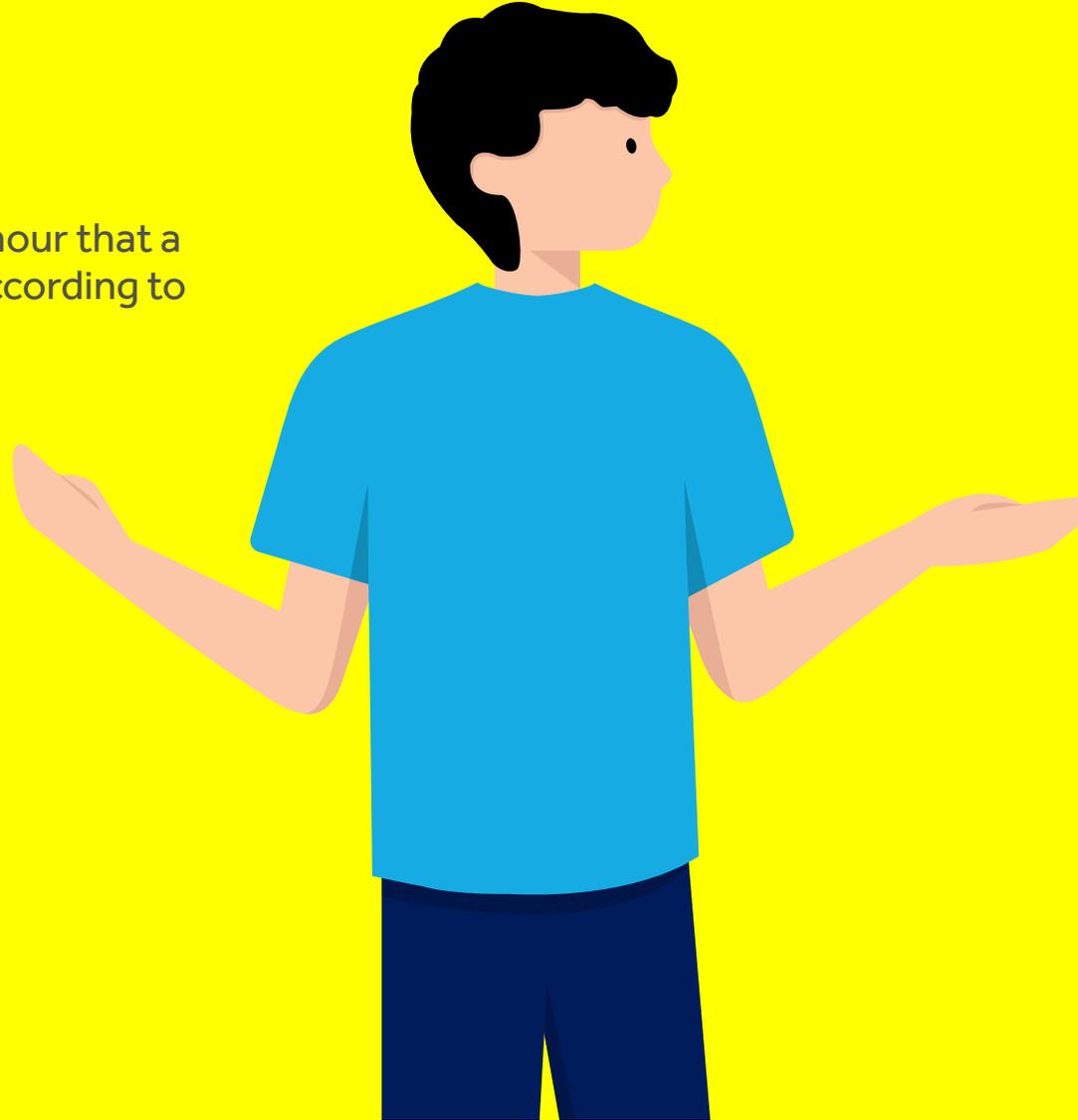
 **BARCLAYS** | LifeSkills



Definitions

Minimum wage

- The least amount per hour that a worker must be paid according to the law



Living wage

- The living wage is calculated according to the basic cost of living in the UK
- Employers choose to pay the living wage on a voluntary basis
- The London living wage is set higher to reflect the higher cost of living in London

Payslip definitions

Here are some terms that you will find on a payslip. The following slide provides definitions.

Employee No	Employee		Pay Date	Tax Code	National Insurance Number	
01236	A.N. Other		30/06/2021	NT	JC 76** **C	
Payments	Units	Rate	Amount	Deductions	Amount	
Basic Gross Pay	1	1	£100.00	PAYE	£100.00	
Overtime	2	2	£200.00	NIC	£200.00	
Shift Allowance	3	3	£300.00	Pension	£300.00	
	4	4	£400.00	Student Loan	£400.00	
A.N. Other 1 My Road My Street My Town MT1 1AA	Totals for this period			Totals Year to Date (TD)		
	Total gross pay		£100.00	PAYE	£100.00	
			£200.00	NIC	£200.00	
			£300.00	Pension	£300.00	
			£400.00	Student Loan	£400.00	
ABC Company				Total Net Pay	£1234.56	

Reading a payslip: definitions

Basic

This is your pay when you work your normal agreed hours

Date

This is the last day of the period for which you're being paid, usually a week or month

Deductions

Amounts that are taken from the gross pay, such as income tax, National Insurance contributions, pension, student loan repayments

Employee number

Unique reference number at your place of work, in case employees have similar names

Gross pay

Your total pay before tax and other deductions

NIC

National Insurance contributions are paid by everyone over 16 earning over a certain amount. This is used to fund the state pension and benefits

NT

'No tax': appears when no tax is being deducted

National Insurance (NI) number

Unique reference for paying NI or for receiving benefits or the state pension. It is important to keep a note of your NI number somewhere safe as each new employer you work for will need it

Net pay

The amount of pay you take home after deductions

Overtime

Extra hours you work and are paid for above your normal working hours

PAYE

'Pay As You Earn': spreads your tax payments across each week or month rather than paying it in one lump sum, and is based on an estimate of your yearly salary

Pension

A long-term savings plan specifically to provide financial support in retirement. Both you and your employer may contribute to a pension fund throughout your working life

Rate

Either your hourly or monthly salary, depending on whether you are paid hourly or on an annual salary

Student loan

A borrowed amount of money to cover university tuition fees whilst studying. The loan doesn't need to be paid back until after the course has finished, and only when you are earning above a certain income

Tax code

This tells your employer how much tax to deduct from you. If you multiply the number in your tax code by ten, you will get the total amount of income you can earn in a year before paying tax

TD

'To date': shows a running total of payments from previous payslips within the current financial year, which starts on 6 April in the UK

What is a tax code?

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A tax code is usually made up of several numbers and a letter, for example: 1250L

- Multiply the number by ten to find the total amount of income you can earn in a year before paying tax:
 $1250 \times 10 = \text{£}12,500$
- This is your personal tax allowance. It is set by the government and may change from year to year

**e.g. for salary of £20,000 per year:
 $\text{£}20,000 - \text{£}12,500 = \text{£}7,500$**

Tax paid on £7,500 @ 20% = £1,500
(or £125 each month deducted from your pay)

What is National Insurance (NI)?

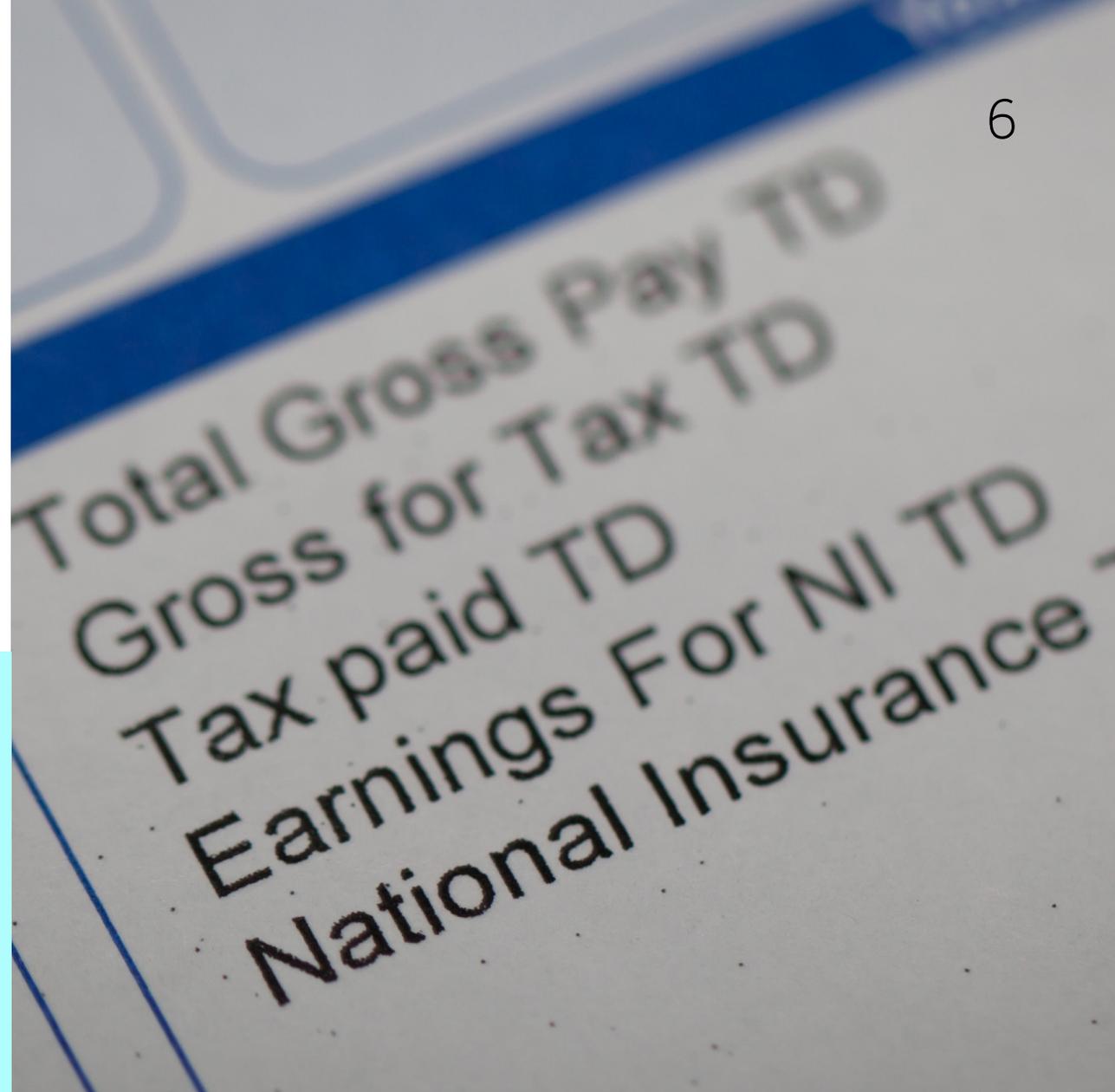
The UK's system of compulsory payments by employees and employers to provide help from the state for people who are sick, unemployed or retired.

- The rate for 2021/2022 is 12% for any employee of a company earning between £9,568 and £50,270 per year.

e.g. for salary of £20,000 per year:

£20,000 - £9,568 = £10,432

NI paid on £10,432 @ 12% = £1,251.84
(£104.32 per month deducted from your pay)



Sonya



Sonya is 21 and is a trainee engineering manager at a construction company. She is paid monthly and earns £20,400 per year. Because Sonya is over 16 she pays tax (PAYE) and National Insurance Contributions. She has a student loan but doesn't earn enough yet to make repayments.

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Calculate Sonya's PAYE:

- An annual personal tax allowance is 10x the number given in the tax code. What is Sonya's annual personal tax allowance?
- Work out Sonya's taxable pay – the amount of her salary that Sonya will have to pay tax on
- Calculate how much tax Sonya will pay over the year (the tax rate is 20% of taxable pay)
- Work out how much tax Sonya will pay each month

Calculate Sonya's NICs:

- National Insurance Contributions (NICs) are paid on annual earnings over £9,568. Work out how much of her annual salary Sonya will pay NICs on
- Calculate the NICs Sonya needs to pay on this amount. NICs are paid at 12% (on annual earnings over £9,568)
- Work out Sonya's monthly NICs

Sonya's payslip: student sheet

Employee No	Employee		Pay Date	Tax Code	National Insurance Number	
0567	S Fletcher		30/06/2021	1257L	AB 123456 C	
Payments	Units	Rate	Amount	Deductions	Amount	
Basic	1	£ _____	£ _____	PAYE	£ _____	
				NIC	£ _____	
				Pension	£0.00	
				Student Loan	£0.00	
Ms S Fletcher 4 My Road My Street My Town MT1 1BD	Totals for this period			Totals Year to Date (TD)		
	Total gross pay		£ _____	Total gross pay TD	£5100.00	
				Tax paid TD	£391.50	
				NIC TD	£324.96	
				Pension TD	£0.00	
ABC Company Name			Total Net Pay	£ _____		

Sonya's payslip: answers

Employee No	Employee		Pay Date	Tax Code	National Insurance Number	
0567	S Fletcher		30/06/2021	1257L	AB 123456 C	
Payments	Units	Rate	Amount	Deductions	Amount	
Basic	1	£1700.00	£1700.00	PAYE	£130.50	
				NIC	£108.32	
				Pension	£0.00	
				Student Loan	£0.00	
Ms S Fletcher 4 My Road My Street My Town MT1 1BD	Totals for this period			Totals Year to Date (TD)		
	Total gross pay		£1700.00	Total gross pay TD	£5100.00	
				Tax paid TD	£391.50	
				NIC TD	£324.96	
				Pension TD	£0.00	
ABC Company Name			Total Net Pay	£1461.18		

Financial terms: student sheet

In groups or with a partner, look at these financial terms and discuss what you think they mean and uses the spaces below to input your answers. You will be given the answers so don't worry if some are unfamiliar.

Financial term	Definition
Credit rating	
Limited liability	
Budget	
Cash flow	
Fixed cost	
Gross profit	
Net profit	
Variable cost	
VAT	
Capital	

Financial terms - answers

In groups or with a partner, look at these financial terms and discuss what you think they mean and uses the spaces below to input your answers. You will be given the answers so don't worry if some are unfamiliar.

Financial term	Definition
Credit rating	The assessment given to borrowers by a ratings agency according to their level of risk
Limited liability	Confines an investor's loss in a business to the amount of capital they invested: if a person invests £1,000 in a company and it goes out of business, they will lose only their investment and not more
Budget	An amount of money that is allocated to a particular activity or resource over a set period of time
Cash flow	The movement of cash in and out of a business from day to day
Fixed cost	A cost that does not vary with changing circumstances, e.g. paying for a venue will cost the same regardless of how many people use it
Gross profit	Sales minus cost of goods or services sold
Net profit	Normally refers to profit after deduction of all operating expenses including fixed costs and overheads
Variable cost	A cost that varies according to use, e.g. materials, fuel
VAT	Tax charged when a registered business sells to either another business or to a non-business customer; the current rate is 20%.
Capital	Current assets minus current liabilities: the money that can be put to work to earn income

Organising an event: Scenario

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Reece works for a company that specialises in organising staff training events and has been asked to project manage a large training day.



Income from the event must cover all the costs. Reece needs to choose a suitable venue, book lunch and refreshments and print a pack of information for each delegate to receive on the day.

A guest speaker has been invited who won't charge a fee but will need overnight accommodation the night before as she doesn't live close by. Reece needs to include this expense and book a hotel.

- Using the information Reece has gathered, discuss and decide which options he should choose to ensure the costs are covered
- On the list of items that need to be paid for, identify which costs are fixed and which are variable
- Work out what the running costs will be in total
- It is predicted that a maximum of 50 people will attend the conference. It has been agreed that the attendance fee will be £75 per person. Calculate how much income this will generate if 50 places are filled

Budget template: student sheet

Expenditure	Options chosen	Number of items	Cost per item	Total	Fixed or variable cost
Room hire					
Refreshments					
Lunch					
Hotel					
Printing					
Total expenditure					
Income		Bookings (No.)	Price per ticket	Total	
Bookings taken		50			
Total income		Total expenditure		Money remaining (profit)	
£		£		£	

Organising an event: Information sheet (1/2)

Reece has done some research and picked three venue options that meet his requirements. He wants his company to make a good impression on delegates so he is looking for somewhere with enough space and good facilities.

The Business Centre	The City Hotel	The Stiles Conference Centre
<ul style="list-style-type: none">Room can accommodate 80Free parking availableLight & airy room with windowsUnlimited tea/coffee: FreeRoom hire fee: £300	<ul style="list-style-type: none">Room can accommodate 100Free parking available 500m awayBasement room with limited natural lightUnlimited tea/coffee: £1ppRoom hire fee: £250	<ul style="list-style-type: none">Room can accommodate 70Limited free parking on site with free off-road parking nearbyLight & airy room with windowsUnlimited tea/coffee: FreeRoom hire fee: £275

Reece needs to provide lunch for the delegates. He thinks it's important that delegates get the opportunity to network while they have lunch.

The Business Centre	The City Hotel	The Stiles Conference Centre
<ul style="list-style-type: none">Buffet lunch to include a selection of sandwiches, savoury pastries and salad, crisps, fruit platter and cupcakes: £15pp	<ul style="list-style-type: none">Buffet lunch to include a selection of sandwiches, fruit bowl and chocolate cake: £10ppSeated hot meal in the restaurant: £15pp	<ul style="list-style-type: none">Buffet lunch to include a selection of sandwiches, quiche and salads, crisps, fruit salad and selection of mini desserts: £13pp

Organising an event: Information sheet (2/2)

Each delegate will receive a folder of information. Reece will ask a local print company to do the job for him as he doesn't have time to do this himself.

The Print Shop	The Copy Centre	The Stationery Store
<ul style="list-style-type: none">• Printing information and packing into folders• Including delivery to the venue• Colour printing £4 per set	<ul style="list-style-type: none">• Printing information and packing into folders• Customer collects• Colour printing £3.50 per set	<ul style="list-style-type: none">• Printing information and packing into folders• Customer collects• Black and white printing £3 per set

These three hotels would be suitable for the speaker to stay in, and are all within 5–10 minutes drive of all of the venues.

The Mercury Hotel 5*	The City Hotel 4*	The Dunberry Hotel 4*
<ul style="list-style-type: none">• Superior room with dinner, bed & breakfast• Free WiFi in room• Free parking on site £150	<ul style="list-style-type: none">• Double room, bed & breakfast• Free WiFi in lobby and bar• Free parking 500m away £95	<ul style="list-style-type: none">• Double room• Free WiFi in room• Free parking on site• Breakfast additional £15 £105

Comparing types of employment

Employed by someone else	Self-employed	Freelance
Receive holiday and sick pay	More likely to have flexible working hours	More likely to have flexible working hours
Employer is required to contribute to your pension	Responsible for calculating your own tax and National insurance	Could work for multiple organisations and different projects at once
Receive a regular income as an annual salary	Might eventually be able to employ others	Able to agree your own daily or hourly rate
Opportunities for bonuses or salary increases	Able to set your own salary based on your profits	Able to claim tax relief if you set up a personal pension
Not responsible for calculating your own tax and National Insurance – but you should always check your payslips	Able to claim tax relief if you set up a personal pension	Need an accountant and/or financial advisor to support your finances
	Need an accountant and/or financial advisor to support your finances	

National Insurance contributions

If you are self-employed you will still need to make National Insurance contributions.

There are two classes of National Insurance contribution.

Class 2: If your profits are more than £6,515, then you pay a flat rate of £3.05 a week

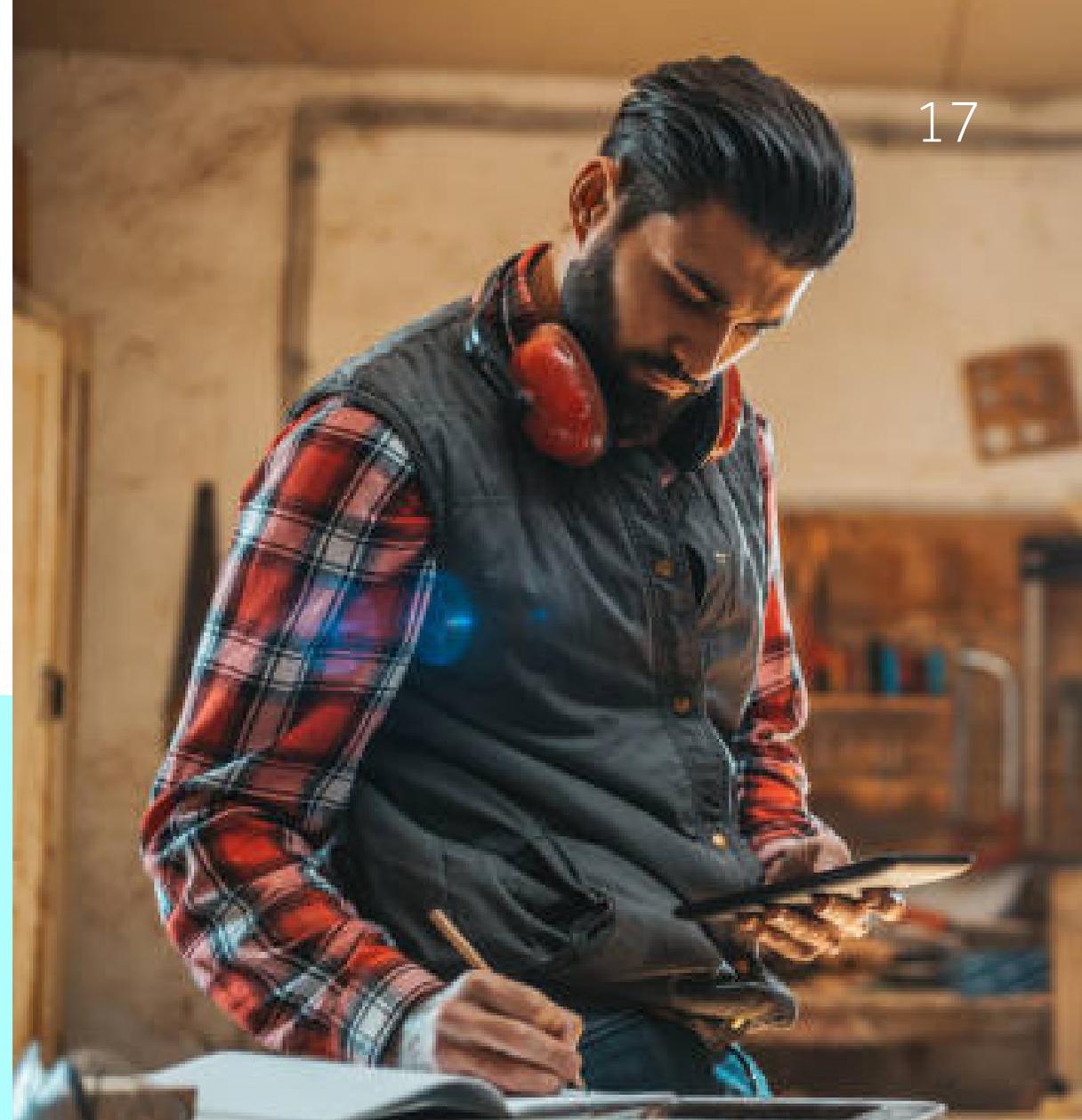
If your profits are above £9,569 you must also pay Class 4 contributions at 9%. For any profits above £50,270, you will pay 2%.

e.g. if you make a profit of £20,000:

£20,000 - £9,569 = £10,431

NI paid on £10,431 @ 9% = £938.79

Plus the flat weekly rate (£3.05 x 52 = £158.60) = 1,097.39
(paid with your tax at the end of your financial year)



Taxable income

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If you are self-employed your taxable income is any income you have received in one tax year minus

- Any tax deductible expenses
- Your personal tax allowance

e.g. income = £20,000, expenses = £2,500

Taxable income is $£20,000 - £2,500 - £10,000 = £7,500$

Tax payable @ 20% = £1,500

Working for yourself: Scenario

Lora graduated two years ago and has been working as a freelance designer for several different companies since then. Her work is mostly done at the clients' premises so she has to travel but she likes the flexibility of working on a range of projects.

Lora has been very careful to keep her accounts as she goes along, recording all expenditure and income on a spreadsheet. She's coming to the end of her first year of self-employment and wants to work out roughly how much tax she will need to pay on what she's earned over the year.

Lora is registered as self-employed with the Tax Office (HMRC) so she will need to complete a self-assessment tax return each year. She will also need to pay National Insurance which, for self-employment, is charged at 9% on any profits over £9,569 (these are called NI Class 4 contributions). She will also need to pay £3.05 per week, which are Class 2 contributions.



Working for yourself: student sheet

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Working in your groups, look at Lora's budget spreadsheet and fill in the missing information. Then discuss and answer the questions.

Question	Answer
1. What is Lora's total income for the year?	
2. Lora is allowed to put all her business mileage down as an expense at the mileage rate set by HRMC for the tax year. This is currently 45p per mile. What is Lora's total claim for mileage?	
3. What is the total for all expenditure for the year?	
4. Lora has a tax code of 1000L. Based on the figures she has recorded on her spreadsheet, what is her taxable income?	
5. How much tax should she expect to pay? (20% of the above)	
6. What will be the estimate for National Insurance contributions? First you will have to work out her profit (income - expenditure) (profit - £9,569, NI @ 9%, plus £3.05 per week)	
7. What is Lora's predicted net profit (i.e. what she will earn after expenses and tax are deducted)?	

Working for yourself – Lora's expenditure: student sheet

Expenditure	Quantity	Cost (£)	Total
April			
Mileage	130	0.45	£58.50
Promarker pens	6	2.75	£16.50
Mobile phone contract	1	25	£25.00
Letraset sketchpad	1	10	£10.00
Sub total			£
May			
Mileage	70	0.45	£31.50
Postage	3	6.5	£19.50
Mobile phone contract	1	25	£25.00
Sub total			£
June			
Mileage	130	0.45	£58.50
Mobile phone contract	1	25	£25.00
Sub total			£
July			
Mileage	70	0.45	£31.50
Mobile phone contract	1	25	£25.00
Sub total			£

Expenditure	Quantity	Cost (£)	Total
August			
Mileage	200	0.45	£90.00
Promarker pens	4	2.75	£11.00
Mobile phone contract	1	25	£25.00
Letraset sketchpad	1	10	£10.00
Sub total			£
Sept			
Mileage	70	0.45	£31.50
Postage	4	3.45	£13.80
Mobile phone contract	1	25	£25.00
Sub total			£
October			
Mileage	130	0.45	£58.50
Software licence renewal	1	36	£36.00
Mobile phone contract	1	25	£25.00
Printer cartridges	4	18.75	£75.00
Sub total			£
November			
Mileage	70	0.45	£31.50
Postage	3	4.2	£12.60
Mobile phone contract	1	25	£25.00
Sub total			£

Expenditure	Quantity	Cost (£)	Total
December			
Mileage	130	0.45	£58.50
Mobile phone contract	1	25	£25.00
Subtotal			£
January			
Mileage	70	0.45	£31.50
Mobile phone contract	1	25	£25.00
Subtotal			£
February			
Mileage	175	0.45	£78.75
Promarker pens	12	2.75	£33.00
Mobile phone contract	1	25	£25.00
Letraset sketchpad	1	10	£10.00
Subtotal			£
March			
Mileage	70	0.45	£31.50
Portfolio file	1	36	£36.00
Mobile phone contract	1	25	£25.00
Subtotal			£
Total expenditure			£

Working for yourself – Lora's income: student sheet

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Income	No. days	Day rate (£)	Total
April			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£
May			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£
June			
High St Design Co	4	150	£600.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£
July			
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£

Income	No. days	Day rate (£)	Total
August			
High St Design Co	6	150	£900.00
Shoe Mania	2	100	£200.00
Courtlands	2	125	£250.00
Merry & Co	2	80	£160.00
Subtotal			£
Sept			
High St Design Co	8	150	£1,200.00
Shoe Mania	2	100	£200.00
Courtlands	2	125	£250.00
Subtotal			£
October			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£
November			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£

Income	No. days	Day rate (£)	Total
December			
High St Design Co	4	150	£600.00
Shoe Mania	2	100	£200.00
Courtlands	1	125	£125.00
Subtotal			£
January			
Shoe Mania	2	100	£200.00
Courtlands	2	125	£250.00
Subtotal			£
February			
High St Design Co	6	150	£900.00
Shoe Mania	1	100	£100.00
Courtlands	2	125	£250.00
Merry & Co	6	80	£480.00
Subtotal			£
March			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£
Total income			£

Working for yourself – answers

Question	Answer
1. What is Lora's total income for the year?	£18,465.00
2. Lora is allowed to put all her business mileage down as an expense at the mileage rate set by HRMC for the tax year. This is currently 45p per mile. What is Lora's total claim for mileage?	£591.75
3. What is the total for all expenditure for the year?	£1,175.15
4. Lora has a tax code of 1000L. Based on the figures she has recorded on her spreadsheet, what is her taxable income?	£7,289.85
5. How much tax should she expect to pay? (20% of the above)	£1,457.97
6. What will be the estimate for National Insurance contributions? First you will have to work out her profit (income - expenditure) (profit - £9,569, NI @ 9%, plus £3.06 per week)	£694.88 + £158.60 = 853.48
7. What is Lora's predicted net profit (i.e. what she will earn after expenses and tax are deducted)?	£14,978.40

Working for yourself: Lora's expenditure – answers

Expenditure	Quantity	Cost (£)	Total
April			
Mileage	130	0.45	£58.50
Promarker pens	6	2.75	£16.50
Mobile phone contract	1	25	£25.00
Letraset sketchpad	1	10	£10.00
Sub total			£110.00
May			
Mileage	70	0.45	£31.50
Postage	3	6.5	£19.50
Mobile phone contract	1	25	£25.00
Sub total			£76.00
June			
Mileage	130	0.45	£58.50
Mobile phone contract	1	25	£25.00
Sub total			£83.50
July			
Mileage	70	0.45	£31.50
Mobile phone contract	1	25	£25.00
Sub total			£56.50

Expenditure	Quantity	Cost (£)	Total
August			
Mileage	200	0.45	£90.00
Promarker pens	4	2.75	£11.00
Mobile phone contract	1	25	£25.00
Letraset sketchpad	1	10	£10.00
Sub total			£136.00
Sept			
Mileage	70	0.45	£31.50
Postage	4	3.45	£13.80
Mobile phone contract	1	25	£25.00
Sub total			£70.30
October			
Mileage	130	0.45	£58.50
Software licence renewal	1	36	£36.00
Mobile phone contract	1	25	£25.00
Printer cartridges	4	18.75	£75.00
Sub total			£194.50
November			
Mileage	70	0.45	£31.50
Postage	3	4.2	£12.60
Mobile phone contract	1	25	£25.00
Sub total			£69.10

Expenditure	Quantity	Cost (£)	Total
December			
Mileage	130	0.45	£58.50
Mobile phone contract	1	25	£25.00
Subtotal			£83.50
January			
Mileage	70	0.45	£31.50
Mobile phone contract	1	25	£25.00
Subtotal			£56.50
February			
Mileage	175	0.45	£78.75
Promarker pens	12	2.75	£33.00
Mobile phone contract	1	25	£25.00
Letraset sketchpad	1	10	£10.00
Subtotal			£146.75
March			
Mileage	70	0.45	£31.50
Portfolio file	1	36	£36.00
Mobile phone contract	1	25	£25.00
Subtotal			£92.50
Total expenditure			£1175.15

Working for yourself: Lora's income – answers

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Income	No. days	Day rate (£)	Total
April			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£2,000.00
May			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£2,000.00
June			
High St Design Co	4	150	£600.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£1,400.00
July			
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£800.00

Income	No. days	Day rate (£)	Total
August			
High St Design Co	6	150	£900.00
Shoe Mania	2	100	£200.00
Courtlands	2	125	£250.00
Merry & Co	2	80	£160.00
Subtotal			£1,510.00
Sept			
High St Design Co	8	150	£1,200.00
Shoe Mania	2	100	£200.00
Courtlands	2	125	£250.00
Subtotal			£1,650.00
October			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£2,000.00
November			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£2,000.00

Income	No. days	Day rate (£)	Total
December			
High St Design Co	4	150	£600.00
Shoe Mania	2	100	£200.00
Courtlands	1	125	£125.00
Subtotal			£925.00
January			
Shoe Mania	2	100	£200.00
Courtlands	2	125	£250.00
Subtotal			£450.00
February			
High St Design Co	6	150	£900.00
Shoe Mania	1	100	£100.00
Courtlands	2	125	£250.00
Merry & Co	6	80	£480.00
Subtotal			£1,730.00
March			
High St Design Co	8	150	£1,200.00
Shoe Mania	3	100	£300.00
Courtlands	4	125	£500.00
Subtotal			£2,000.00
Total income			£18,465.00

Top tips for self-employment

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- Record all income and expenditure carefully as you go along
- Keep all receipts so you have a record of expenditure
- Put money aside every month in a separate account to cover tax and NI
- Plan your budget based on average monthly income
- Put money aside to cover quieter months and holiday periods
- Declare your self-employment to the tax office and complete tax returns on time

