

## **Tax and National Insurance contributions during your industrial year**

*Note that I am not a tax expert! What follows is my understanding of the present position but you should consult your local tax office for an authoritative statement, or look at the HMRC web pages. Your employer's payroll department may also be able to help.*

*Note also that what is written here assumes that you are a typical student and that, for example, you aren't entitled to any special allowances and you don't have income from investments or royalties. It also assumes that you are working in England, Wales or Northern Ireland. There are minor differences if you are working in Scotland and major differences if you are working outside the United Kingdom.*

### **Do I have to pay income tax during my industrial year?**

Yes! But, depending on what you are earning, the amount you have to pay may not be very large and may even be zero.

You will also have to pay National Insurance contributions. These may very well be more than the income tax you have to pay.

### **How much income tax will I have to pay?**

The amount of income tax that you have to pay depends on the amount that you earn in each *tax year*. The tax year runs from 6th April in one year to 5th April in the next year.

For the tax year 6th April 2020 to 5th April 2021, there is a personal allowance of £12,500. This means that you do not have to pay tax on the first £12,500 that you earn.

What you earn in the tax year over the first £12,500 is taxed at 20%. Since you will only be earning for part of the tax year, you are unlikely to earn a lot more than £12,500 so you should not have to pay very much income tax. Note that anything you may have earned in the current tax year before starting your placement, in a part-time job for example, has to be included in your earnings for the year.

(If you are lucky enough to earn more than £50,000 you will find that the tax rate goes up to 40%.)

The tax rates and tax allowances for the current year can be found on the following web page:

<https://www.gov.uk/income-tax-rates>

### **How is the tax collected?**

Income tax is collected through a system known as PAYE (Pay As You Earn). Under this system, which employers must by law follow, employers deduct an appropriate amount of tax from each salary payment they make.

The rate at which the employer deducts tax is determined by the employee's *tax code*. The tax code is issued by HM Revenue & Customs (HMRC), although the employer may have to assign a provisional code when a new employee starts. The tax code is meant to establish the rate at which tax must be deducted in order to ensure that the correct amount of tax has been deducted by the end of the tax year. However, this is only possible if the amount earned already, and the tax

deducted, is known; even then, the result is uncertain because of the possibility that the employee will not continue earning at the same rate until the end of the tax year. For this reason, there may be variations from month to month in the amount of tax deducted and it can only be finally settled at the end of the tax year.

### **What should I do to make sure my employer deducts the right amount of tax?**

This depends on whether or not you have earned any money earlier in the same financial year, through part-time work in a supermarket for example.

If you have earned money earlier in the same financial year, your employer during that period must give you a form, known as a P45, which shows how much you earned in the current financial year and how much tax has been deducted. Give this form to your industrial year employer and the company will then be able to make sure that the correct amount of tax is deducted from your salary payments.

If you haven't earned anything earlier in the tax year and so don't have a P45, your employer should give you a 'Starter Checklist' to complete, or ask you for relevant information before your first payday, to tell HMRC about you. This will help your employer allocate a provisional tax code and work out the tax due on your first payday. HMRC will process the information you have provided on the Starter Checklist and where necessary, revise the tax code.

### **Can I claim back tax that I have paid in the tax year in which I return to University.**

HMRC provides a special form (P50) that allows you to claim tax back when you leave your placement to return to university, or you can claim on line. Information about this and a link to the form can be found at

<https://www.gov.uk/government/publications/income-tax-claiming-tax-back-when-you-have-stopped-working-p50>

### **What are National Insurance contributions?**

National Insurance contributions are compulsory deductions from your salary in order to qualify you for certain state benefits including, in particular, the State Pension. Quite illogically, they are based on your weekly income rather than your annual income.

### **How much will I have to pay in National Insurance contributions?**

You pay no National Insurance contributions on the first £183 you earn each week and you then pay 12% on your earnings over £183. Thus, if you earn £200 in a week, the National Insurance contribution you will have to pay is 12% of £(200-183), i.e.  $£0.12 \times 17 = £2.04$ .

Almost all employees are now paid monthly and the number of weeks in the month may be either four or five. This leads to variations from month to month in the deductions for National Insurance.

(The current rates for National Insurance contributions can be found at

<https://www.gov.uk/national-insurance/how-much-you-pay>

(In the unlikely event that you earn more than £962 per week, you will find that rate changes.)

### **So what does the overall picture look like?**

Suppose that you didn't do any paid work in the tax year until you started your placement on the first of August and that you are being paid a salary of £18,000 a year.

You will be working for eight months in the first tax year and so you will earn  $£18000 \times 8/12 = £12,000$  in that tax year. Since you are allowed to earn £12,500 in a tax year before you become liable for income tax, you will not have to pay any income tax during the 2020/21 tax year.

There are 36 weeks in the period that you will be working so your weekly income is  $£12,000/36$ , that is, £333.33. The National Insurance contributions due on this are therefore 12% of  $(£333.33 - £183)$ , that is £18.04 per week. This means a total National Insurance deduction of £72.16 in months with four weeks and £90.20 in months with five weeks. (In practice, the actual figures may be slightly different because the method of calculation is slightly more complicated than described above.)

Suppose that you finish your placement at the end of July. You will only have worked four months in the second tax year and only earned £6,000. This is less than your personal allowance so you will not be liable for any income tax. However, the PAYE system will have deducted tax as if you were going to work a full year and earn £18,000. This means a deduction of  $20\% \times (18000 - 12500)/12 = £91.67$  per month, that is, a total of £366.67 over the four months. When you finish work, you will be able to claim this money back using form P50, along with the P45 your employer will give you when you leave, as described above. If you undertake any paid work after returning to university, this is potentially taxable. However, you will only have tax to pay if your total earnings exceed your personal allowance, that is, if you earn another £6,500 between finishing your placement and 5 April 2022. (Note that the tax rates and allowances may have changed for the 2021/22 tax year and so the sums involved could well be slightly different.)

During the second part of your placement National Insurance contributions will continue to be deducted at the same rate as before and you cannot claim these back.

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