

Module 1

Session 1

Income & Tax



Lesson summary

An introduction into the world of personal finance. Explore the different ways we can earn an income and which types of tax we might encounter through our lives.



Learning Objectives

Understand the different forms of income.

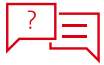
Identify features of a payslip.

Feel confident with the different types of tax and completing simple income tax calculations.

Lesson preparation

1. HSBC UK PowerPoint slides to facilitate lesson: Module 1 Session 1 Income and Tax
2. HSBC UK Module 1 Session 1 Worksheet (M1W1) used to complete activity
3. HSBC UK Module 1 Session 1 Stretch Challenge (M1SC1) to further embed learning as homework or a class project
4. You may wish to use mini whiteboards, maths books or calculators to complete tax calculations

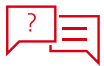
Slide 2: Money vs Income – 3 mins



Ask the group: What is the difference between “Money” “Income” and “Wealth”?

Discuss answers / ideas from your class group and then give the definitions below from the Oxford Language Dictionary.

- **Income:** Money received on a regular basis from work or invested wealth.
- **Money:** Accepted currency for the exchange of goods and services.
- **Wealth:** An abundance of money.



**Ask the group: Can you have one without the other?
(Open ended discussion)**

Slide 3: Sources of Income – 10 mins



Group work: Before revealing the mindmap answers on the slide, ask your class group to discuss different sources of income you can earn across your lifetime. Ask each group to share examples from their discussions and talk about these.

Populate the mind map on screen in slide 3, clicking and talking through each idea and picking up on any answer not mentioned by young people.

- **Salary:** Monthly Pay from your employer for work.
- **Pension:** An amount paid each month to those who are retired so they have an income to support themselves in old age.
- **Benefits:** An amount paid by the government to support those who have additional needs, to support those on a low income or those looking to find employment.
- **Investments:** Using your wealth or the interest it generates which could then be used pay yourself a monthly living allowance / to boost your income.
- **Side Hustle:** Monetising a hobby/interest to earn money alongside your day-to-day job.

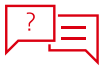
Lesson commentary

- **Assets:** This could be making money by renting out a room in your house, a parking space or a holiday home etc
- **Self Employed:** If you are self-employed you work for yourself. The money you earn could be used to pay yourself a monthly salary or to grow the company or a mix of both.



Ask the group: What income do you think someone your age could have?

- Doing Chores
- Influencer
- Part time job
- Pocket Money
- Selling items online



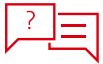
Ask the group: What things could cause our income to change? (Positively/Negatively)

Positives:

- Promotion
- Raise
- New Job
- Increase in working hours.

Negatives:

- Accident
- Sickness
- Maternity Leave
- Redundancy
- Hours being cut.

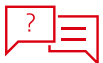


Ask the group: Is income always paid at the same time?

Looking for answers such as daily pay, weekly pay, monthly salary and discussion around zero hours contracts.

For information: Zero-hours contracts are usually for a specific project or 'piece' work, for example for interpreters. Employees on zero hours contracts

- are on call to work when needed (although they do not have to work when asked)
- do not have guaranteed work
- are entitled to statutory annual leave and the National Minimum Wage in the same way as regular workers.



Ask the group: How would you feel if you received your £25,000 yearly pay all at once in January instead of regularly each month? What would be the benefits/downsides of this?

Benefits:

- Planning large purchases in advance rather than saving.
- Buying everyday essentials in bulk
- Earning interest on the money through putting it into a savings account until needed

Disadvantages:

- You would need to be disciplined in planning for the long term
- It's a long wait until pay day if something goes wrong
- You may run out of money
- It would be very tempting to spend money / overspend
- If you changed job or got made redundant you would have to pay a proportion of the money back

Slide 4: Income Pay Slip – 10 mins



Group work: Young people to use the M1W1 Worksheet to match the numbered labels on the pay slip to the written definitions on the worksheet.

Answers:

1. **National Insurance Number:** You receive this number before your 16th Birthday. You need this number to work and ensure all your contributions are recorded.
2. **Payments:** Overview of how your pay is calculated, may include hourly rates, overtime etc.
3. **Gross Pay:** The total of all your wages/payments before any deductions.
4. **Deductions:** Your payslip must show the amount of variable deductions you pay from your salary
5. **Income Tax:** An amount paid to government to help fund services across the UK. Eligible on income over £12,570
6. **National Insurance Contributions:** An amount paid to contribute towards the benefits and pensions systems.
7. **Student Finance:** Deduction to repay your student finance. This will be based on your gross salary and the current repayment threshold set by the government.
8. **Workplace pension:** % of salary contributed towards your workplace pension. Your employer may also contribute on your behalf.
9. **Tax code:** The code that tells your employer how much tax-free pay you should get before deducting tax from the rest.
10. **Net Pay:** The amount you receive once all deductions have been made. You should check this amount against your bank statement.

Payslips are often stored online by your employer and can be downloaded if you need to prove your income for renting or buying a property, signing up for financial contracts and applying for benefits etc.

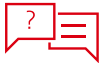
Slide 5: Types of Tax – 5 mins



Group work: Ask the young people to get into their groups. Read out each of the grey “Tax Description” boxes and ask them to match them to a red “Tax Type” disc. Click the screen, revealing the answers and see which group has got the most right.

Answers:

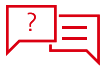
1. **Inheritance Tax:** Tax on the estate of someone who has died.
2. **Council Tax:** Local taxation collected to pay for community services where you live.
3. **Income Tax:** Deductions from your salary dependant on how much you earn.
4. **VAT (Value Added Tax):** 20% Charge added to most goods and services for sale.
5. **Capital Gains Tax:** Tax on the profit when you sell an asset that has increased value.
6. **National Insurance Contributions:** Deduction from your salary to fund state pensions and benefits.



Ask the group: For their scores - which group got the most right?

Slide 6: Income Tax – 10 mins

For the rest of this session, we will be focusing on Income tax.



Ask the group: Looking at the table on screen, what happens to our tax as we earn more income?

Answer: the higher your income, the more income tax you are required to pay.

Discussion: It isn't just a simple calculation as different tax bands apply to our wages. Use Madison's job/salary across 3 different stages of their life to bring this to life.

1. Madison's first Job is a weekend job at the local supermarket alongside their studies. She earns £6500 a year.

The personal allowance is currently at £12,570. This is the maximum we can earn before we must pay taxes.



Ask the group: So how much tax does Madison owe?

Click to reveal that £6500 is below the allowance so no tax is deducted.

Build the discussion: It's several years later and Madison has started her first full time job

2. Madison is now earning £18,000 a year in her new job.



Ask the group: What tax band does Madison now fall into?

Answer: Basic Rate

Click to reveal tax calculations.

Madison earns £18,000 but is still eligible for her personal allowance of £12,570. This means she is only taxed on the income above that threshold. To find out how much of her salary is eligible for tax:

£18,000 – £12,570 = £5,430 of her income that is eligible for tax.

As a basic rate taxpayer, Madison would be liable for 20% of the £5430 to find the tax payable.

Divide £5,430 by 100 to work out 1% and then multiply by 20 to work out the 20% tax. Or divide by 10 to work out 10% and then multiply by 2 to work out 20% Tax.

Lesson commentary

Answer: Madison would need to pay £1,086 in tax to be paid across the year.

Build the discussion: As she progresses through her career Madison has now become a senior manager

3. Madison is now earning £55,000 in her new role within the leadership team.



Ask the group: What tax band does Madison now fall into?

Answer: Higher Rate

This time the class will need to work out how much tax is owed for both the higher and basic bands to find out Madison's overall tax bill.

Repeat the steps from previous two sections to work out Personal Allowance and Basic Rate.

0% to pay on first £12,570 = £0

The top of the basic rate is £50,270. As our salary is above this figure, use the top of the band for the basic rate calculation.

£50,270 (Top of the basic tax band) – £12,570 = £37,700

Ask the class to work out the answer using previous methods.

20% of £37,00 = £7,540

We can use the same method again to work out what is owed under the higher rate tax.

First find the difference between Madison's salary and the lower end of the tax band.

£55,000 – £50,270 = £4,730

Higher rate tax is charged at 40%. Find 40% of £4,730 using the previous method:

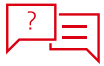
40% of £4,730 = £1,892

Now add the tax paid by Madison at each of the tax levels to calculate the overall tax bill.

£0 + £7,540 + £1,892 = £9,432

Slide 7: Income Tax – 10 mins

Practice what's been learned: Run through the different scenarios for the group to practise tax calculations.



Ask the group: How much more income tax does Leona pay than Scarlett?

Work out how much tax Scarlett pays:

Scarlett's salary: £45,000:

You pay no income tax on first £12,570 that you make

$$\text{£45,000} - \text{£12,570} = \text{£32,430}$$

20% tax is payable on £32,430:

$$20\% \text{ of } \text{£32,430} = \text{£6,486}$$

£6,486 is payable on Scarlett's salary of £45,000.

Leona has a salary of £60,270:

You pay no income tax on first £12,570 that you make:

$$\text{£50,270 (Top of the basic tax band)} - \text{£12,570} = \text{£37,700}$$

From the previous calculation, Leona pays £7,540 at the basic income tax rate (20%) on the next £37,700

Next calculate the amount payable at the higher tax rate:

$$\text{£60,270 (Leona's Salary)} - \text{£50,270 (Top of the basic tax band)} = \text{£10,000}$$

$$40\% \text{ (higher tax rate) of } \text{£10,000} = \text{£4,000}$$

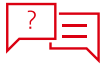
Finally calculate the total amount Leona is paying in tax on her salary of £60,270:

$$\text{£7,540 (Basic tax)} + \text{£4,000 (Higher rate)} = \text{£11,540}$$

£11,540 is payable on Leona's salary of £60,270.

How much more does Leona pay in tax than Scarlett?

$$\text{£11,540} - \text{£6,486} = \text{Leona Pays £5,054 more in tax than Scarlett does}$$



Ask the group: Now let's look at Rajesh. Rajesh has had a pay rise of £7,000 but how much tax will he have to pay on this?

How much more income tax will Rajesh need to pay on his new salary?

Rajesh's old salary: £25,000:

You pay no income tax on first £12,570 that you make

$$\text{£25,000} - \text{£12,570} = \text{£12,430}$$

Basic tax at 20% is payable on £12,430:

$$20\% \text{ of } \text{£12,430} = \text{£2,486}$$

£2,486 at the basic income tax rate (20%) is payable on Rajesh's old salary.

Rajesh's new salary: £32,000:

No income tax is payable on the first £12,570 of Rajesh's salary

$$\text{£32,000} - \text{£12,570} = \text{£19,430}$$

Basic income tax rate (20%) is due on £19,430

$$20\% \text{ of } \text{£19,430} = \text{£3,886}$$

$$\text{£3,886 (New tax payable)} - \text{£2,486 (Old tax payable)} = \text{£1,400}$$

Rajesh must pay £1,400 more in tax after the pay rise.

Slide 8: P45 and P60 – 2 Mins

Your P45 shows how much tax you have paid on your salary so far for that tax year and helps any new employer with working out how much tax you should be paying on your new salary.

Your P60 is a yearly summary of how much tax you've paid on your salary and can help you claim back overpaid tax, apply for tax credits or prove your income if you are applying for a loan.

Lesson commentary

Click to reveal the P45 and P60 and cover key points on the screen.

- Each year your employer will issue you a P60 to document the tax you have paid.
 - If you move jobs, you will be issued a P45 so that your new employer and HMRC have an accurate record of your taxes paid this year.
 - Each year HMRC will check your taxes paid against their expected total.
 - You may be eligible for a tax rebate if you have paid too much tax.
 - You may need to make an additional payment if you have paid too little.
 - If you have any worries over your tax, contact HMRC as soon as possible.
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Slide 9: Self Employed – 2 Mins

If you are self-employed, it is important to stay on top of the tax you owe and this is done via self assessment:

- On registering for self-assessment tax return you will be issued with a Unique taxpayer reference.
- A record of all untaxed income, business expenses and voluntary pension contributions will need to be kept.
- These records should be kept for 5 years in case you are audited by HMRC.
- As a self-employed person you will need to submit your tax return by 31st Jan of the subsequent tax year.
- If you started running a company in June 2020 – The tax year ends April 2021 and then tax owed by January 2022.
- Tax bands are same as for Income tax.
- You also need to consider your national insurance contributions, to access state pension and benefits etc.

Slide 10: Stretch Challenge



Group work / homework: This can be used as you see fit for a homework, group project or additional lesson during school hours to embed and practise the income tax calculations. Use the worksheet to record answers.

Stretch Challenge worksheet M1SC1

- **Part 1** Create a new tax band between the basic and higher rate and complete the table with your new tax bands.
For example:
Basic Rate 20% - £12,570 - £35,999
Medium Tax 30% - £36,000 - £64,999
Higher Rate 40% - £65,000 - £125,140
- **Part 2** Research 5 salaries and calculate the income tax bill before and after the changes you have introduced.
- **Part 3** Using the 5 salaries from part 2 calculate how much national insurance would also need to be paid. This is the same method for calculating income tax.



Module 1
Session 1 M1SC1



Stretch Challenge: Create a New Tax Band

During financial year 22/23 the Government raised £246.8 billion through income tax alone. In pairs, decide on a new tax band between the basic and higher rate and update the table below.

Band	Taxable Income	Tax Rate
Personal Allowance	Up to £12,570	0%
Basic Rate	£12,570 – (£)	20%
	(£) – (£)	() %
Higher Rate	(£) – £125,140	40%
Additional Rate	Over £125,140	45%

Now research the salaries of a nurse, supermarket manager, pilot and two other professions. How would you change the tax bands and what impact would it have on their tax bill?

Job	Salary	Tax paid before	Tax paid after
Nurse			
Supermarket Manager			
Pilot			

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 HSBC UK


Name: _____

The Government also collects national insurance contributions from those employed and self-employed to help fund the pension and benefits systems in the UK. Just like our income tax, the amount we need to pay is determined by our gross salary, and we need to work out how much we are eligible for at each tax band.

Band	Taxable Income	National Insurance
Personal Allowance	Up to £12,570	0%
Basic Rate	£12,570 – £50,269	8%
Higher Rate	£50,270+	2%

How would paying national insurance impact the salaries you researched from page one of the stretch challenge.

Job	Salary	National Insurance required
Nurse		
Supermarket Manager		
Pilot		



Stretch Challenge M1SC1