

Topic 1(i) Earnings

What are 'earnings'?

'**Earnings**' means the money that you get for doing a job. It comes from the word 'earn', which means to get something because you have worked for it.



What other words can you think of that mean the money you get for doing a job?

Different types of earnings



Ali delivers newspapers for 'The Corner Shop' and earns £3.00 an hour.



Bethany babysits for her neighbours and earns £3.40 an hour.



Connor works in a sports shop called 'Jump' on Saturdays and earns £4.25 an hour.



Demi is a receptionist at 'Dolby and Crane Ltd' earning £10,000 per year.



Evan is a painter/decorator who works for himself and charges £150 per day.

Different types of employment

When people have jobs they become **employees**. The person or organisation they work for is called their **employer**. Employers make decisions about the tasks employees do, the hours they work and the pay they earn. Employers must meet employment **laws** and **regulations** (rules) set by the government. We will look at these rules on the following pages.



Ali is an employee and his employer is 'The Corner Shop'

Demi is an employee and her employer is 'Dolby and Crane Ltd'



Some people work for themselves and are called **self-employed**.

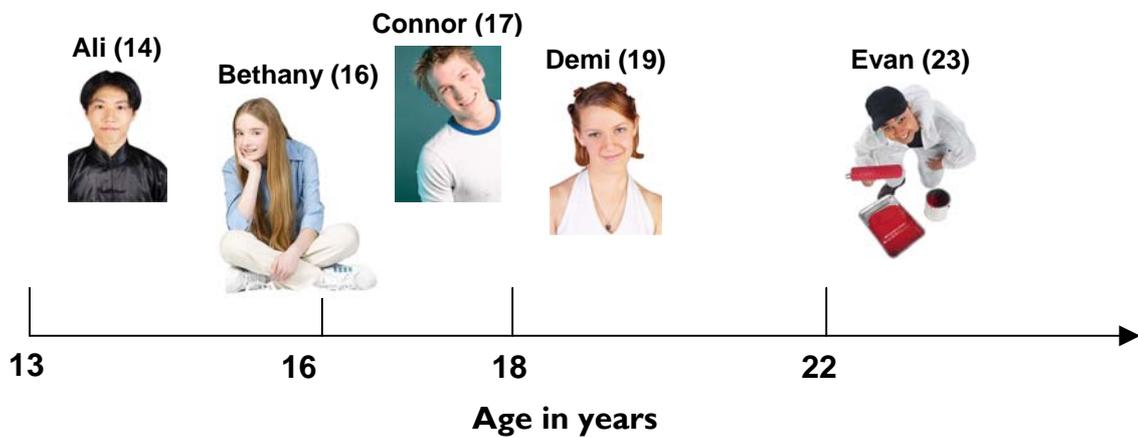


Evan has his own painting and decorating business. He advertises his services in the local paper and gets jobs with many different families and organisations. He is self-employed. He decides what tasks he does, what hours he works and what he will charge customers. He works five days a week to earn enough money to pay his mortgage and other bills.

Self-employed people must also follow rules set out by the government.

Hours that people work

In the UK there are laws about the age people must be to go to work and how many hours they can work.



Under 13

People under 13 are not allowed to work unless they are actors. The government sets strict rules to make sure young actors work short hours and don't miss too much school.

13–15

People aged over 13 and below 16 must not work:

- before 7 in the morning or after 7 at night;
- for more than 2 hours on a school day or a Sunday;
- for more than 12 hours a week during term time;
- in the holidays for more than 25 hours a week if they are 13 or 14, or for more than 35 hours a week if they are 15.



Nobody aged between 13 and 16 is allowed to do a job that could be dangerous, e.g. work in a factory.

These are national rules. Local authorities can set their own local rules.

In Northern Ireland people aged less than 15 cannot work for more than 5 hours on a Saturday, with a maximum of 27 hours per week.



16–17

The law says that students must go to school until they are 16. In England and Wales people can leave school on the last Friday in June if they are 16 or will be 16 before the start of the next school year.

In Northern Ireland people can leave school after 30 June of the school year when they have their 16th birthday.

In Scotland people can leave school on 31 May if their 16th birthday is between 1 March and 30 September or at the beginning of the Christmas holidays if their birthday is between 1 October and the last day of February.

People aged 16 or 17 must not work more than:

- 8 hours a day or 40 hours a week.

They must get:

- a break of 30 minutes every 4½ hours when they are at work;
- a rest period of at least 12 hours between each working day;
- 2 days off a week (i.e. work a maximum of 5 days a week).



In Northern Ireland people aged over 15 can work for up to 7 hours on a Saturday, with a maximum of 37 hours per week. They must have at least an hour for lunch and have a rest every four hours.



18 and over

Working regulations set by the government say that employees:

- must not be told to work more than 48 hours a week (but they can choose to do so, if they wish);
- must have at least 20 minutes' rest break during the working day if they work more than 6 hours a day;
- must have at least 4 weeks' **paid leave** every year. Paid leave is when the employee has time off from work but is still paid as if they are working;
- have a right to not work for 11 hours in any one day;
- have a right to one day off each week.

These rules do not apply to self-employed people because they can decide for themselves how much work they are willing to do.

Did you know?

TV and film companies often employ young twins to take the role of a character aged less than 13. This means that the role can be played for twice the number of hours in one day than if they employed one young actor.



What is the maximum number of hours that each of the following people can work each week?

Ali (14 years old): hours in term time

Bethany (16 years old): hours

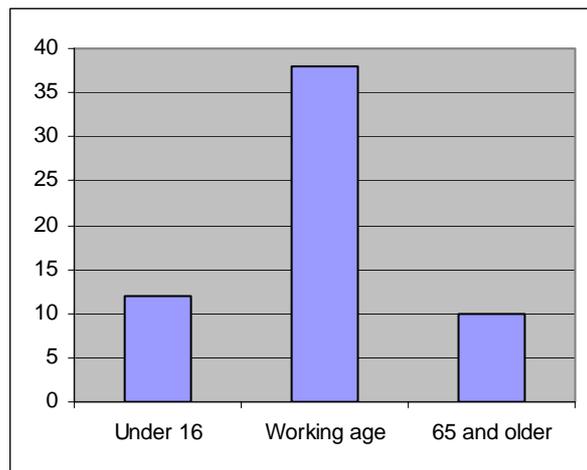
Connor (17 years old): hours

Demi (19 years old): hours, unless she agrees to work longer hours

Did you know?

In mid-2004 there were nearly 60 million people living in the UK. About:

- 12 million were aged under 16
 - 38 million were of working age
 - 10 million were aged 65 or over
- (Figures from National Statistics)



Did you know?

The population is growing - in 2004 639,721 babies were born.

The most popular names for a boy were Jack, Joshua, Thomas, James and Daniel. The most popular names for girls were Emily, Ellie, Jessica, Sophie and Chloe.

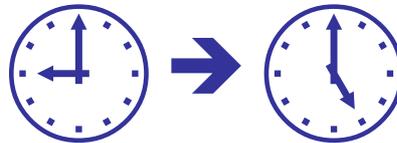


Full-time working

'I work full-time for Smith and Jones, the printers.'

Full-time work means working for all the working day and week, all year round except for paid holidays. For offices and shops this is often:

- 9am to 5pm...
- with one hour off for lunch...
- for five or six days a week.



Shifts

'I work the morning shift at The Gwesty, a local hotel.'

Some employers are open for more than 8 hours a day, for example supermarkets, hotels, pubs, restaurants and call centres. They may even operate for 24-hours a day like the police, hospitals, large airports, some motorway service stations and some factories. They need staff for all the hours they are open, so they have employees working in **shifts**.

A shift is when the working hours have been 'shifted' or moved to hours that are different from 9 to 5. The working day is divided into different periods. Each period (length of time) is one shift.

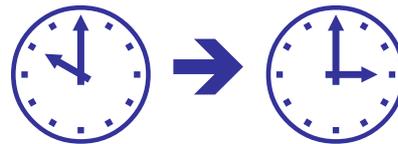
For example

'Quick eats' is a 24-hour restaurant in a busy motorway service station. Staff work in three shifts of 8 hours each:

 → 	10 am to 6 pm
 → 	6 pm to 2 am
 → 	2 am to 10 am
Total	24-hour cover

Part-time working

'I work part-time in an office to fit around taking my children to school at 9 and picking them up at 3.'



People who work 'part-time' work for 'part' or some of the employer's working day, week or year, for example:

- a few working hours each day, e.g. students working in the evenings or parents working for a few hours while their children are at school;
- a few days in a working week, e.g. doing a Saturday job or working three days rather than five;
- several months in a year, e.g. students working during school holidays or a seller of ice-creams who only works in the summer.

Whether people are considered full-time or part-time workers is up to their employer to decide. The **employment contract** (a written agreement between the employee and the employer giving details about the job) must state whether the employee is full-time or part-time.

Working regulations mean that part-time employees get the same legal rights as full-time employees.

Self-employed people can choose to work part-time if they wish, for example, someone might work three days a week instead of five.



Who works full-time: Ali, Bethany, Connor, Demi, Evan?

Fran works 9am to 5pm for five days a week. She gets one hour for lunch every working day. How many hours does she work during one week?



The minimum wage

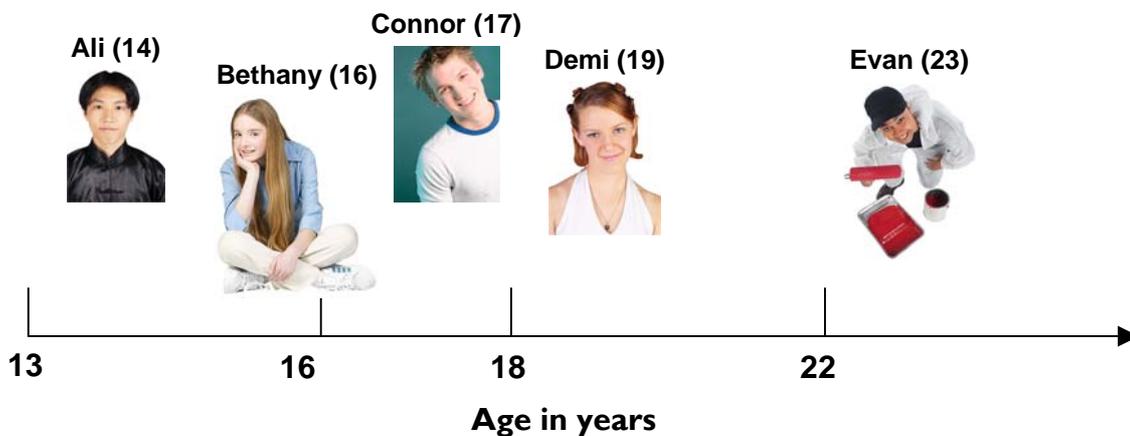
The law says that employers must pay workers at least the **minimum wage**. The government introduced the minimum wage to make sure ‘employees have decent minimum standards and fairness in the workplace’. This quote is from the Department for Business, Enterprise and Regulatory Reform (formerly the Department of Trade and Industry). This is the part of the government that is responsible for protecting the rights of working people (as well as other tasks). The minimum wage applies to all employees in the UK aged 16 and over. It varies according to how old the employee is:

Age	Minimum per hour until 30 September 2007	Minimum per hour from 1 October 2007
16–17	£3.30	£3.40
18–21	£4.45	£4.60
22 and over	£5.35	£5.52



What is the minimum wage that Connor must be paid?

What is the minimum wage that Demi must be paid?



Look back at the beginning of this topic where we introduced these characters. Are they being paid enough to meet the minimum wage rules? Please note that Demi is paid £192.31 per week and works for 35 hours a week.

Income tax

Income tax is money collected by the government from people's earnings. The government uses the money to pay for services that the country needs like schools, hospitals, the police and other emergency services, the army, navy and air force, etc. So income tax benefits the country and people who are less well off who may not be able to afford services like schools and hospitals if they were not free.



The amount of tax people pay depends on what they earn. It is worked out as a percentage of their earnings. When people earn more money the percentage they pay as tax increases. The idea is that people who earn more money can afford to contribute a larger percentage of it to the government for providing services.

Everyone has a **personal allowance** – an amount of money that they earn that is not taxed. Earnings above this amount are divided up into **tax bands** and a different percentage of tax is charged on each band.

The tax year – the 12 months used to calculate how much tax someone must pay – starts on 6 April and runs to 5 April in the following calendar year, e.g. 6 April 2007 to 5 April 2008.

Tax bands for the tax year 2007 to 2008

Amount earned	Income tax
Up to £5,225 (personal allowance)	0
£5,225 to £7,455	10%
£7,455 to £39,825	22%
More than £39,825	40%



Which government minister is responsible for setting the tax bands?



Let's see how much income tax Demi will pay on her £10,000 salary for the tax year 2007 to 2008.



Tax band: amount earned	Amount Demi earned in this band £	Income tax payable	Amount of income tax Demi pays £
Column A	Column B	Column C	Column B x Column C
Up to £5,225	5,225	0	0.00
£5,225 to £7,455	2,230	10%	223.00
£7,455 to £39,825	2,545	22%	559.90
More than £39,825	0	40%	0
Totals	£10,000		£782.90

So Demi will pay £782.90 income tax in the 2007 to 2008 tax year.



Kelvin earns £12,000 a year. Complete the table to calculate how much income tax he will pay in the tax year 2007 to 2008.



Tax band: amount earned	Amount Kelvin earned in this band £	Income tax payable	Amount of income tax Kelvin pays £
Column A	Column B	Column C	Column B x Column C
Up to £5,225	5,225	0	0.00
£5,225 to £7,455	2,230	10%	
£7,455 to £39,825		22%	
More than £39,825	0	40%	0
Totals	£12,000		

The government department that collects income tax used to be called the 'Inland Revenue'. This department has merged with the department called 'Customs and Excise' to form a new department called 'Her Majesty's Revenue and Customs'.

Inland Revenue

Customs and Excise



HM Revenue and Customs

National Insurance

As well as income tax, people aged 16 or over who are earning money must pay **National Insurance Contributions (NICs)**.

The government uses the money collected from National Insurance Contributions to pay for pensions, unemployment benefit, sickness benefits, etc. By making these contributions, people who are earning money are helping people who need financial support because they are not working. The amount of National Insurance Contributions people make is also used to decide how much state pension they will be paid when they retire.



Just like income tax, people only need to start paying National Insurance Contributions when they have earned a certain amount of money.

National Insurance Contributions for employees - tax year 2007-2008

Full amount earned per week	NICs
Up to £100 (Earnings threshold)	0
£100 to £670	11%
More than £670	1%



Let's see how much National Insurance Demi will pay on her £10,000 salary for the tax year 2007 to 2008.

Demi earns £10,000 per year. $£10,000 \div 52 = £192.31$ per week



NI band: amount earned per week	Amount Demi earned in this band £	NICs payable	Amount of NICs Demi pays per week £
Column A	Column B	Column C	Column B x Column C
Up to £100	100.00	0	0
£100 to £670	92.31	11%	10.15
More than £670	0	1%	0
Totals	£192.31		£10.15

So Demi will pay £10.15 per week in National Insurance Contributions for the tax year 2007 to 2008, as well as her income tax.

National Insurance Contributions can be quite a complicated subject because there are different classes of contributions made by different types of workers. The figures we have used are the contributions made by most employees. These are called Class 1 contributions.

Payslips

Employers must pay an employee's income tax and National Insurance Contributions to HM Revenue and Customs for the employee. They pay this amount out of the employee's earnings. This means that employees receive their earnings **after** these amounts of money have been taken off.

Because the employer deducts (takes off) the income tax payment and National Insurance Contributions, these amounts are known as **deductions**.

The employer must give each employee a written **payslip** (also known as a **pay statement**) showing details of the pay earned and the amounts deducted.

Demi's payslip

Looking at Demi's payslip (on the next page) from the top down, the boxes show:

Employer name	Where Demi works: Dolby and Crane Limited.
Date	The date that her earnings will be paid.
Payment period	Demi is being paid for the work she did between 1 and 31 May 2007. This is one month. People tend to be paid monthly or weekly.
Payment method	How her earnings will be paid. Credit transfer means that her salary will be paid directly to her bank account.

Demi's payslip

Dolby and Crane Limited

Date: 01/06/2007



Payment period			Payment method		
01/05/2007 to 31/05/2007			Credit transfer		
Tax Code	Employee no.	Employee name		N.I. number	
522L	26	Demi Morgan		NS102030P	
PAYMENTS				DEDUCTIONS	
Description	Hours	Rate	Amount	Description	Amount
Basic salary T			833.33	PAYE Tax	65.24
				N. I.	43.98
Gross pay			833.33	Total deductions	109.22
Net pay			724.11		

Taxable pay to date	1666.66	Tax paid to date	130.48
		N. I. paid to date	87.96

T = taxable



How much money will Demi get on 1 June 2007?

Information about Demi:

Tax code



All employees have a tax code that tells the employer how much they can earn before they must start paying income tax. The numbers in the tax code are the first three numbers in the employee's personal allowance. Demi's tax code is 522 because she can earn the standard personal allowance of £5,225 before starting to pay tax.

A tax code is made up of several numbers and a letter, e.g. 522L or K487. The letter gives the employer more information about the income tax the employee needs to pay. The L in Demi's tax code means that the standard personal allowance applies.

Employee number

Demi is employee number 26 at Dolby and Crane Limited. This number is used by the organisation to identify Demi in their **payroll** system. A payroll system is a computer programme that is used to calculate pay.

Employee name	Demi's name appears here.
National Insurance	The National Insurance Contributions Office, part of HM Revenue and Customs, issues people in Great Britain with a National Insurance (NI) number on their 16th birthday. People keep this NI number for the rest of their lives.
(NI) number	It works like a personal account number with the government. This account records all the tax payments and National Insurance Contributions people make. National Insurance numbers are made up of two letters followed by six numbers and one letter.

Information about the amount of money being paid:

Payments	Employers list all the payments they are making. They may pay employees expenses such as travel costs to a client's office. They may also make extra payments like overtime payments (when an employee works extra hours) or a bonus .
Basic salary	The amount of her salary for this month. Demi earns £10,000 a year. $£10,000 \div 12 = £833.33$. If Demi were paid by the hour this box would be left blank.
Hours	If Demi were paid by the hour the number of hours for which she was being paid would appear here. As Demi is paid an annual salary this box is left blank.
Rate	If Demi were paid by the hour, the amount of money she earns per hour would appear here. As Demi is paid an annual salary this box is left blank.
Gross pay	The gross (total) earnings for Demi this month. This is the amount of her earnings before Dolby and Crane deduct income tax and NICs. The T shows that this amount is taxable. Demi's basic salary and gross pay are the same amount because she has not earned any extras like overtime payments or a bonus this month.
Net pay	What Demi gets after Dolby and Crane has made deductions for income tax and National Insurance Contributions. This is the amount of money that will go into her bank account on 1 June 2007. The sum is $£833.33 - £109.22 = £724.11$
Taxable pay to date	The total taxable pay for the tax year so far. The tax year starts in April. This is the pay for May so Demi has received two months' salary this tax year: April and May. The amount shown is her basic monthly salary multiplied by two.

Information about deductions:

PAYE tax	<p>PAYE stands for Pay As You Earn. It means the income tax that is paid for Demi from her month's salary. She is paying the income tax as she earns the money, rather than paying one big tax bill at the end of the tax year.</p> <p>We worked out Demi's tax for the year earlier. To get the monthly amount she must pay the sum is:</p> $£782.90 \div 12 = £65.24$
N. I.	<p>National Insurance Contributions made for Demi this month. We worked out Demi's weekly NICs earlier. To get the monthly amount the sum is:</p> $£10.15 \times 52 \text{ weeks} = £527.80 \text{ a year}$ $£527.80 \div 12 = £43.98.$
Total deductions	<p>The total amount that Dolby and Crane is taking off Demi's gross pay this month, i.e. $£65.24 + £43.98 = £109.22$</p> <p>As well as income tax and NICs, employers can make deductions for items like pension contributions and repayment of student loans.</p>
Tax paid to date	The total PAYE tax paid for Demi this tax year. On this payslip it is the tax amount for two months.
N.I. paid to date	The total amount of NICs paid for Demi in this tax year. On this payslip it is the NIC for two months.

Employers must give employees payslips at the time, or just before, they are paid. Where Demi works, payslips are delivered by the mailroom in envelopes marked 'Private and Confidential'.

There is no standard layout for a payslip. However, working regulations say that at the least a payslip must contain the:

- gross amount of the earnings before deductions;
- reasons for and the amounts of all deductions;
- net amount of the earnings;
- explanation of how the earnings are paid.



Jimmy has gross pay for the month of £700 and total deductions of £52.26. How much money gets paid into his bank account for his salary this month?

Self-employed people – income tax and NICs

Income tax



The front page of a tax return

Self-employed people like Evan don't know how much money they will earn in a year until the year is ended. This is because they do not know how much work they will get.



So self-employed people cannot pay income tax as they earn, using PAYE. Instead they fill in a **tax return** at the end of the tax year and calculate how much tax they owe. A tax return is a paper or online form that tells HM Revenue and Customs what they have earned.

When people calculate the tax they owe, it is called **Self-Assessment**. You may have seen the advertisements on TV that explain when tax returns have to be sent to HM Revenue and Customs. There are two options for self-employed people like Evan:

- he can send his tax return to HM Revenue and Customs before 30 September after the end of the tax year. The Revenue will then calculate how much tax he owes and send him a **Statement of Account** explaining what to pay; or
- he can send his tax return to the Revenue by 31 January after the end of the tax year. With this option, Evan must calculate the tax he owes himself and pay it immediately.



If Evan makes a mistake and pays too little income tax, what do you think HM Revenue and Customs will do?

NICs

Self-employed people pay Class 2 and Class 4 National Insurance Contributions.

In the tax year 2007 to 2008 the Class 2 contributions are £2.20 per week.

Class 4 contributions are calculated as a percentage of annual profit:

Annual profit	Class 4 NICs
Up to £5,225	0
£5,225 to £34,840	8%
More than £34,840	1%

Income for people who are not working

Education Maintenance Allowance (EMA)

The government pays an **Education Maintenance Allowance** (EMA) to school or college students who need help with costs so they can continue to study. The EMA is a weekly payment paid during term-time only. It is meant to pay for travel, books and equipment for the student's course.



To be able to get the EMA, students need to:

- be aged 16 or over;
- have a **household income** of less than £31,528;
- be on a course that has at least 12 hours of guided study (lessons, lectures or supervised study) per week.

The amount of EMA paid to students depends on their household income:

Household income	EMA per week
Up to £21,302	£30
£21,303 to £26,116	£20
£26,117 to £31,528	£10

As well as the weekly payment, students can get bonus payments if they are doing well on their course. Each bonus payment is £100. There are five times during a two-year course when a bonus payment could be made:

Year 1	Year 2
January	October
July	January
	July



Ling is 16 years old. She wants to stay on at school to do four AS subjects and then three A2s. However, she feels she should get a job to help her family pay their bills.

Ling's father earns £18,000 a year. Her mother earns £5,500. Her three brothers are all under 13.

a. Can Ling get an Education Maintenance Allowance?

b. If so, how much would she receive?



Benefits

People who are not working might get benefit payments from the government.

There are many different types of benefit payment to help people with financial and other difficulties. The Department of Work and Pension's website: www.dwp.gov.uk explains what benefits are available.

The main benefit for people of working age who are unemployed is the **Jobseeker's Allowance**.

Who can claim	Amount in 2007–2008	
People of working age who are able to work but are not working or are working less than 16 hours a week	Age 16–17	£35.65 per week
	Age 18–24	£46.85 per week
	Age 25 plus	£59.15 per week



Review questions

1. What are 'earnings'?
2. Mandeep is 16 years old. He wants to get a job in the local library over the summer holidays. What is the maximum number of hours that the law allows him to work in a week?
3. What is the minimum wage for a person aged 17 in December 2007?
4. Spence starts work in November 2007 when he is 18. What is the minimum wage that he must be paid?
5. What is a 'personal allowance' for income tax?
6. How much is the standard personal allowance for income tax in the 2007 to 2008 tax year?
7. How does the government spend the income tax it collects?
8. How does the government spend National Insurance Contributions?
9. What does EMA stand for?



Case studies

1. Zadie earns £20,000 a year. How much income tax will she pay in the tax year 2007 to 2008?

Tax band: amount earned	Amount Zadie earned in this band £	Income tax payable	Amount of income tax Zadie pays £
Column A	Column B	Column C	Column B x Column C
Up to £5,225	5,225	0	0.00
£5,225 to £7,445	2,230	10%	223.00
£7,445 to £39,825		22%	
More than £39,825		40%	
Totals			

2. Zadie's mother, Kate earns £40,000 a year. How much income tax will she pay in 2007 to 2008?

Tax band: amount earned	Amount Kate earned in this band £	Income tax payable	Amount of income tax Kate pays £
Column A	Column B	Column C	Column B x Column C
Up to £5,225	5,225	0	0.00
£5,225 to £7,445	2,230	10%	223.00
£7,445 to £39,825		22%	
More than £39,825		40%	
Totals			

3. Karl earns £14,000 a year. Look at Karl's payslip.

Complete the box for net pay.

What does the tax code mean?

What is Karl's National Insurance number?

Seahorse Designs Limited



Date: 01/07/2007

Payment period				Payment method		
01/06/2007 to 30/06/2007				Credit transfer		
Tax Code	Employee no.	Employee name		N.I. number		
522L	48	Karl Brown		HL123456N		
PAYMENTS				DEDUCTIONS		
Description	Hours	Rate	Amount	Description	Amount	
Basic salary T			1166.67	PAYE Tax	138.58	
				N. I.	80.69	
Gross pay			1166.67	Total deductions	219.27	
Net pay					
Taxable pay to date				3500.01	Tax paid to date	415.74
					N. I. paid to date	242.07

T = taxable

Learning activities



Internet

1. Visit www.direct.gov.uk and select 'Young People'. Then click 'Work and careers' and go to 'Employment rights for young people'. Click 'The National Minimum Wage: introduction (employment section)'. What should employees do if their employer does not pay them the minimum wage?
2. Visit <http://www.hmrc.gov.uk/students/casestudy1.htm> and find out how much tax Brian pays in the tax year 2006–2007 (case study 1).



Group

1. Select some of the job advertisements in your local paper. Then:
 - a. check that the employers are paying at least the minimum wage;
 - b. work out how much net pay the workers will get.



Individual

1. Ask a member of your family or a family friend if you may see their payslip. Identify what each of the items on the payslip means.



Key points for Earnings

- 'Earnings' means money people get for doing a job.
- People with a job are 'employees'. They work for 'employers' and have an 'employment contract'.
- Some people are 'self-employed', that is, they work for themselves.
- There are laws and government regulations about employment hours and wages.
- The number of hours people can work depends on their age.
- Employees can be full-time or part-time.
- The government sets a minimum wage for employees. This is the minimum amount of money that an employee must be paid per hour.
- People who earn money must pay HM Revenue and Customs the correct amount of income tax.
- The government uses the money it gets from income tax to pay for essential services like schools, hospitals, the emergency services (police, fire brigade and ambulance) and the armed forces (army, navy and air force).
- Income tax is calculated on what people earn. People only pay income tax once they have earned more than their personal allowance.
- The more people earn, the more tax they pay. This is because income tax is a larger percentage in higher tax bands.
- People also pay National Insurance Contributions (NICs), depending on how much they earn.
- The government spends the money it gets from NICs on pensions and benefits paid to people who are unable to work.
- Employers must give employees a payslip with their salary or wages. A payslip gives details of the employee's gross pay, the deductions made by the employer and the employee's net pay.
- Employers must deduct (take off) income tax and National Insurance Contributions from the employee's gross (full) pay. Employers pay these amounts to HM Revenue and Customs.
- Paying income tax as a percentage of monthly salary or weekly wages is called Pay As You Earn (PAYE).
- Self-employed people fill in a tax return at the end of the tax year to tell the Revenue how much they have earned. These workers have the option to ask the Revenue to calculate their income tax or to calculate it themselves.
- The government offers financial help to students from lower-income families who are staying on at school. This is called the Education Maintenance Allowance (EMA).
- If people cannot find work or are unable to work they may be given state benefits, e.g. the Jobseeker's Allowance.