



Managing payslips, pensions and self-employment

Age range: 16-19



Definitions

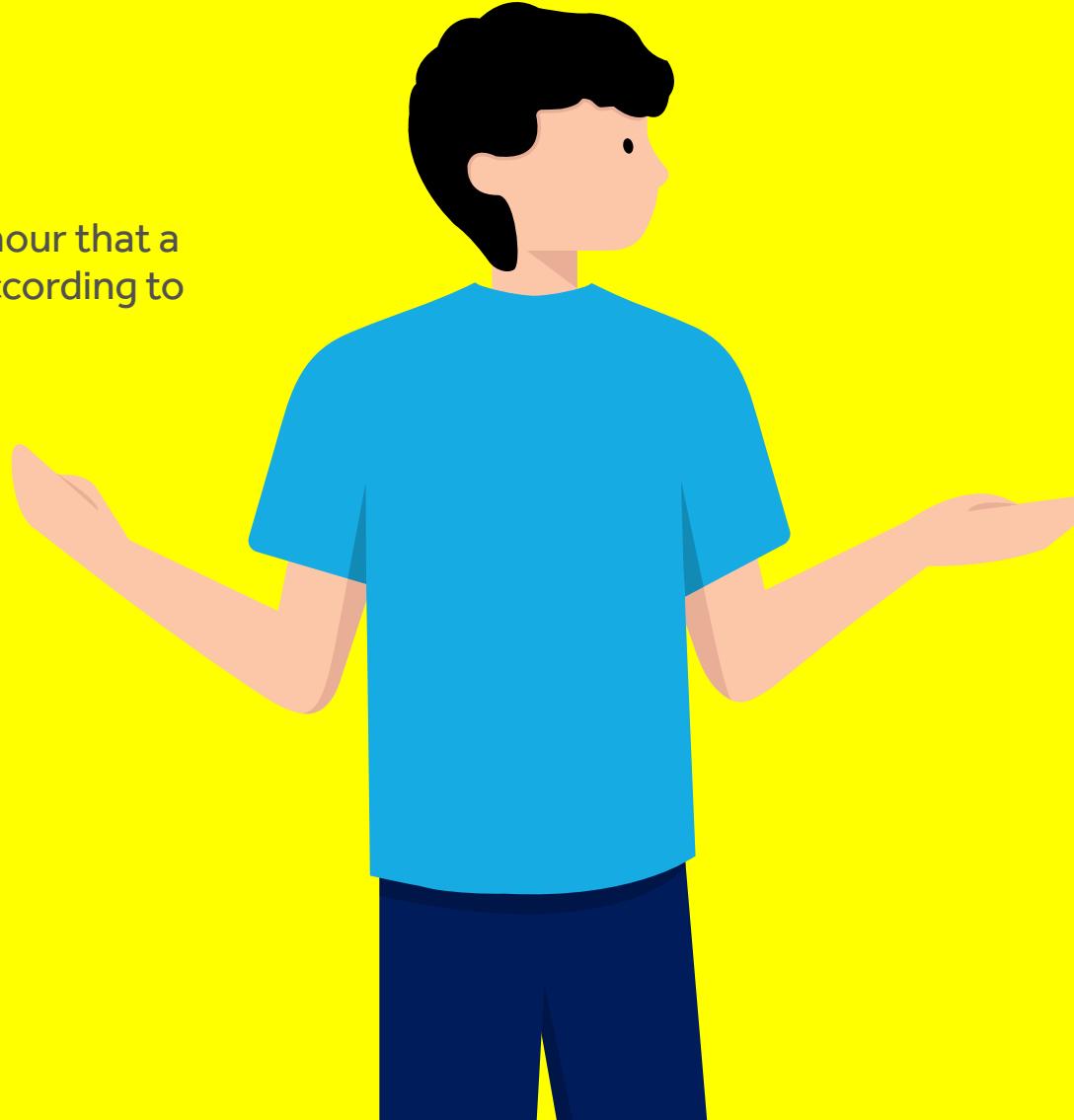
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Minimum wage

- 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		01/05/2024	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

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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: 1257L.

- Multiply the number by ten to find the total amount of income you can earn in a year before paying tax:
 $1257 \times 10 = \text{£}12,570$.
- 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:
 $\text{£}20,000 - \text{£}12,570 = \text{£}7,430$.

Tax paid on £7,430 @ 20% = £1,486
(or £123.84 each month deducted from your pay).

What is National Insurance (NI)?

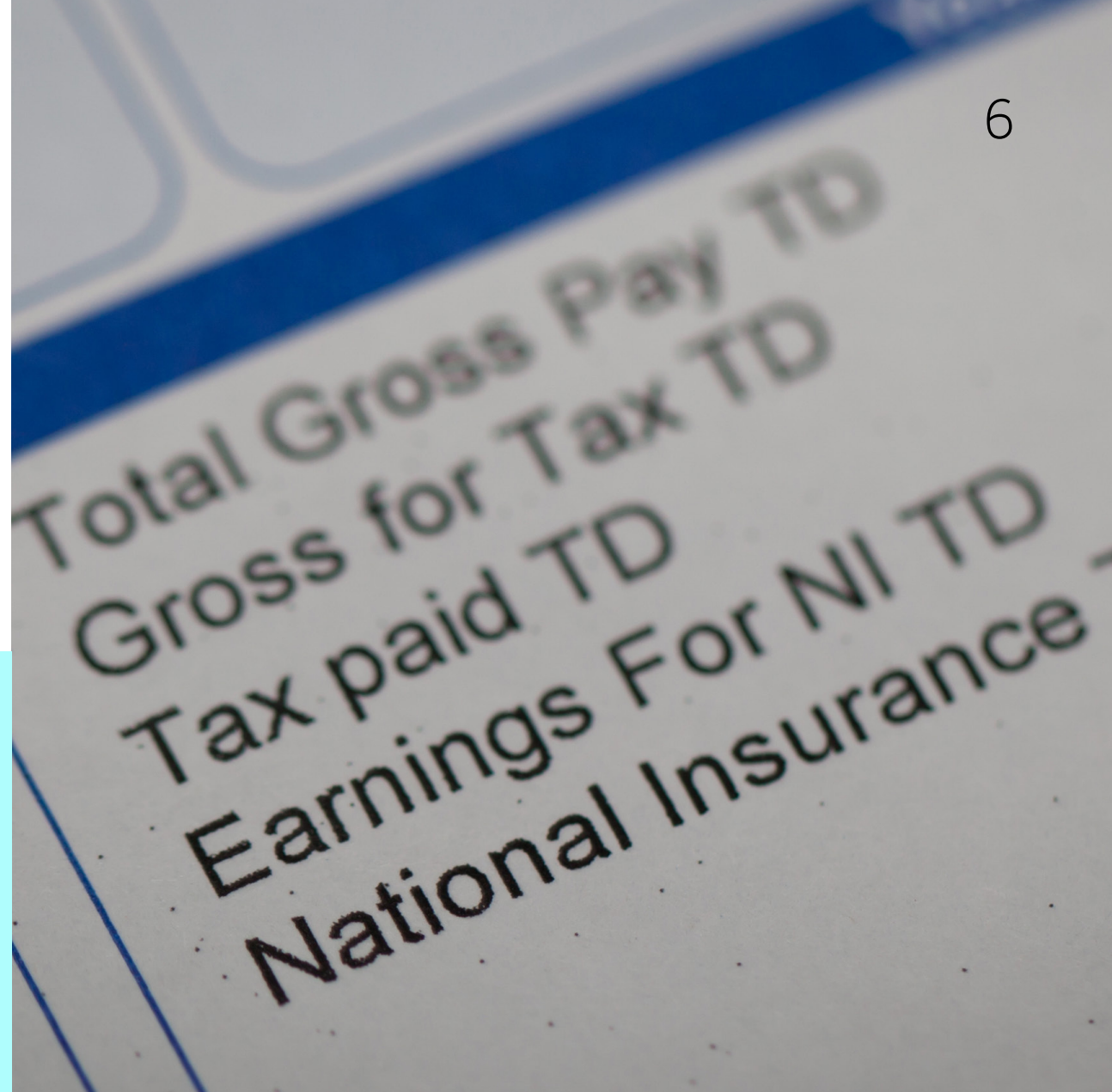
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The UK's system of compulsory payments by employees and employers to provide help from the state for people who are sick, unemployed or retired.

- The rate for 2024/2025 is 8% for any employee of a company earning between £12,570 and £50,270 per year.

**e.g. for salary of £20,000 per year:
£20,000 - £12,570 = £7,430.**

NI paid on £7,430 @ 8% = £594.40
(£49.54 per month deducted from your pay).



Spending diary: student sheet

Use this sheet to record your spending over the course of one week. Include any regular outgoings, e.g. mobile phone, and any extra one-off items, e.g. cinema ticket or night out. Writing down everything you spend for a few weeks will really help you to understand your spending patterns and identify areas where you could save.

Item	EWS*	Mon	Tue	Weds	Thurs	Fri	Sat	Sun	Total
Total									

*Estimated Weekly Spend

Small sacrifices, big rewards

Item saved on	Item I could buy
If I bought one less app for my phone a week (£1) then in 9 weeks I could buy...	
If I ate one less takeaway a week (£9) then in eight months (32 weeks) I could buy...	
If I started walking home rather than catching the bus each evening (£10 per week) then I could buy...	
If I stopped buying an energy drink (£1) every day then in five weeks I could buy...	
If I stopped buying a bottle of water (£1) every two days then in six weeks I could buy...	
If I didn't get my weekly magazine (£2) then in eight months (32 weeks) I could buy...	
If I cut out just one social event e.g. cinema/bowling (£8) each week then in one year (52 weeks) I could buy...	

What could you buy?

- A ticket to a large music festival (£200).
- A tablet computer (£384).
- A pair of new trainers (£64).
- Contribute to a pension (if you are over 18 and in employment).
- A new smartphone (£500).
- A cinema ticket and popcorn (£9).
- Some new clothes (£60).
- Put money into a savings account.

Comparing savings accounts

Account	Access	Interest	Required opening deposit	Required deposit per month
1	Instant	Low	None	None
2	Up to 3 withdrawals per year with no notice	Low-medium	£0-£20,000	£0-£100
3	Up to 3 withdrawals per year with 60 days' notice	Medium-high	£500-£50,000	£50-£500
4	3 year fixed	High	£5,000-£100,000	None allowed

Top tips for savings accounts

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- Consider the level of access you need – instant, limited or none within a fixed period.
- Compare interest rates and consider whether you have an opening deposit that could affect the account you choose.
- Shop around for the best deal to meet your current needs.
- Decide whether you need ready access to your money.
- Change your account type if your needs change.
- Keep your financial information secure.



Thinking about pensions

- Suki is 21 and earning £18,500 in her first full-time job. Her employer makes contributions on part of her salary.
- Suki's qualifying earnings are calculated by subtracting the lower earnings threshold of £6,240 from her earnings before tax ($£18,500 - £6,240 = £12,260$).
- The overall minimum that must be paid into a pension is 8% of your qualifying earnings. At least 3% must be paid by an employer, and the employee must contribute at least enough to reach 8%.
- Suki's employer offers a 5% contribution and Suki contributes 3%.

What is the monthly contribution to her pension pot?

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Thinking about pensions

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- The overall minimum that must be paid into a pension is 8% of your qualifying earnings. At least 3% must be paid by an employer, and the employee must contribute at least enough to reach 8%.
- Suki's employer offers a 5% contribution and Suki contributes 3%.

What is the monthly contribution to her pension pot?

Suki contributes 3% of £12,260 = **£30.65**.

Her employer contributes 5% of £12,260 = **£51.08**.

Total monthly contribution = **£81.73**.

* [Money Helper](#)



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 likely still need to make National Insurance contributions.

Your National Insurance contribution depends on your profits.

Less than £6,725 profit a year: If your profits are less than £6,725, you do not have to pay anything but you can choose to pay voluntary Class 2 contributions, which is a flat rate of £3.45 a week.

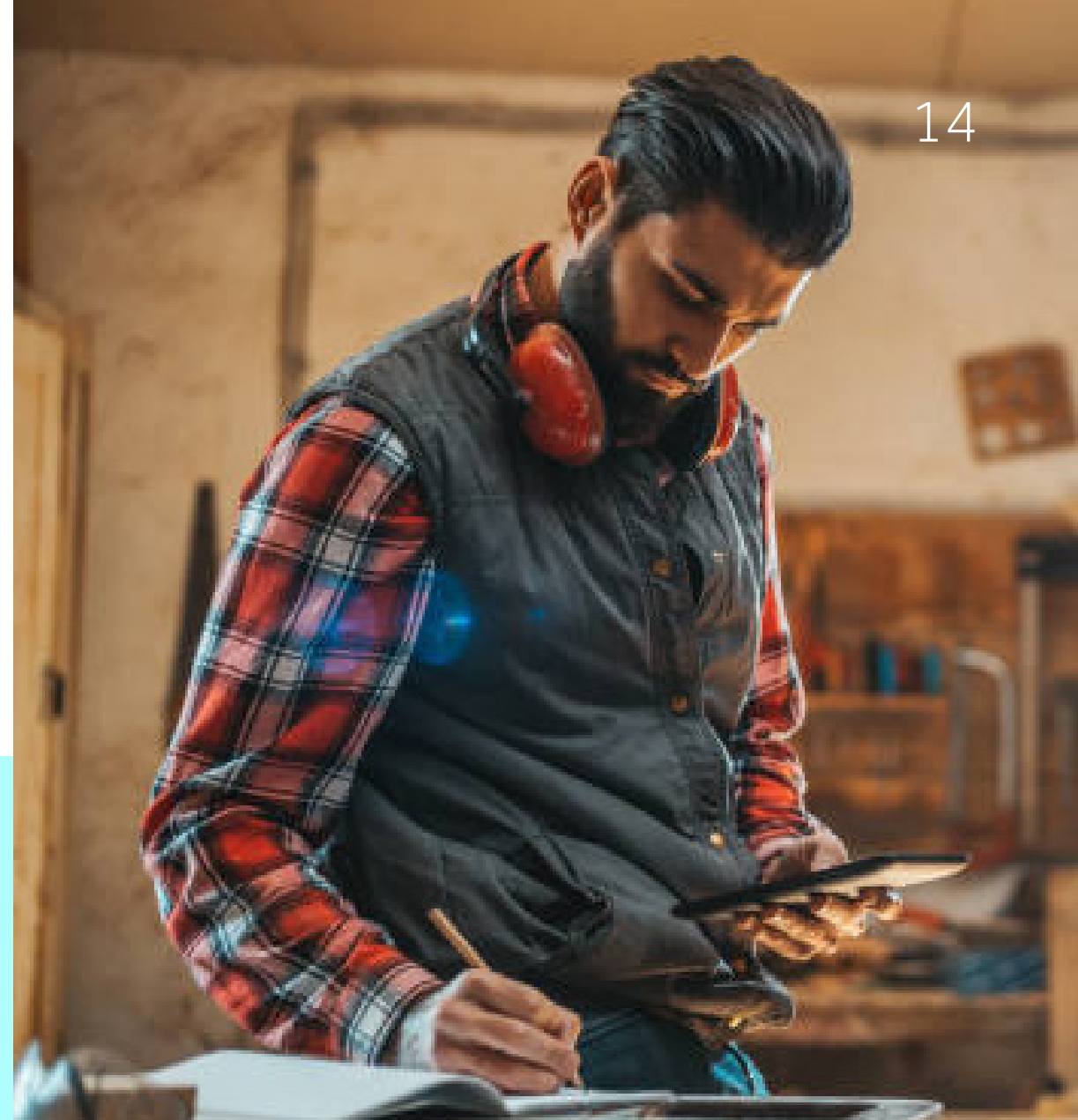
£6,725 or more profits a year: If your profits are between £6,725 and £12,570 you do not have to pay Class 2 contributions. If your profits are more than £12,570 a year, you must pay Class 4 contributions of 6%. For any profits above £50,270, you will pay 2%.

e.g. if you make a profit of £20,000:

£20,000 - £12,570 = £7,430.

NI paid on £7,430 @ 6% = £445.80

Or if your profits were less than £6,725 you may choose to pay the voluntary flat weekly rate (£3.45 x 52 = £179.40)
(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 $£20,000 - £2,500 - £12,570 = £4,930$.

Tax payable @ 20% = £986.

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 6% on any profits over £12,570 (these are called NI Class 4 contributions).

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Working for yourself: student sheet

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 1257L. 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), then (profit - £12,570), then work out 6% of this amount.	
7. What is Lora’s predicted net profit (i.e. what she will earn after NI contributions and tax are deducted and expenses are claimed)?	

Working for yourself – Lora's expenditure: student sheet

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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

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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 1257L. Based on the figures she has recorded on her spreadsheet, what is her taxable income?	£4,719.85
5. How much tax should she expect to pay? (20% of the above).	£943.97
6. What will be the estimate for National Insurance contributions? First you will have to work out her profit (income - expenditure, £18,465 - £1,175.15), then (profit, £17,289.85 - £12,570 = £4719.85), then work out 6% of this.	£4719.85 x 0.06 = £283.19
7. What is Lora's predicted net profit (i.e. what she will earn after NI contributions and tax are deducted and expenses are claimed)?	£18,465.00 - (1,175.15 - 943.97 - 283.19) + £591.75 = £16,834.44

Working for yourself: Lora's expenditure – answers

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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.
- Seek advice on taking out liability insurance, however, you may find it is not needed for your type of business.

