PCSHE – Year 11 Topic 4 – Financial Decision Making

KPI1: Key definitions:

- **Employee number**: your payroll number (every member of staff is given one when they start working at a company)
- **National Insurance Number**: everyone over the age of 16 is given a personal NI number
- **Tax code**: this consists of a number, followed by a letter. Normally, when you multiply the number by 10, it should give you your tax-free personal allowance
- **Tax period:** each month is allocated a number in the tax year, which starts in April (April = 1, May = 2, etc.)
- **Taxation**: A means by which governments finance their expenditure by imposing charges on citizens and corporate entities.
- **Deductions**: Any item or expenditure subtracted from gross income to reduce the amount of income.
- **National Insurance**: The system of compulsory payments by employees and employers to provide state assistance for people who are sick, unemployed, or retired.
- **Direct Taxation**: Are usually obvious amounts such as income tax which you can see being taken from your pay or have to pay direct to HMRC. Other direct taxes include corporation tax, capital gains tax and inheritance tax
- **Indirect taxation**: This is less obvious than a direct tax as it is included in the price of things that you buy. E.G. VAT
- **Gross Income**: Total amount of income earned before any deductions.
- **Net Income**: Total amount of income you receive after all deductions
- **Mortgage**: A mortgage is a specific type of loan that relates to your home. A lender will pay a certain percentage of the overall cost of your home and this loan is 'secured' against the property.
- **Income**: Income is the money or earnings that individuals or businesses receive from various sources, such as jobs, investments, or business activities.
- **Expenditure**: Expenditure is the money that individuals or businesses spend or use to pay for goods, services, or bills.
- **Disposable**: Disposable refers to the income or money that individuals or households have left after paying taxes and essential expenses. It is the money available for spending or saving on non-essential items.

KPI2: How is Income tax calculated?

As an employee:

1. You pay 0% on earnings up to £12,500* for 2019-20
2. Then you pay 20% on anything you earn between £12,501 and £50,000
3. You'll pay 40% income tax on earnings between £50,001 to £150,000
4. If you earn £150,001 and over, you pay 45% tax.

For example, if you earn £52,000 a year, you pay:

1. Nothing on the first £12,500
2. 20% (£7,500.00) on the next £37,500
3. 40% (£800) on the next £2,000.

Therefore, you would expect to pay

- £8,300 per year / £691.66 per month

KPI 3: What happens if I don't pay income tax?

Most people pay Income Tax through PAYE. This is the system your employer or pension provider uses to take Income Tax before they pay your wages or pension.

1. If your employer makes a mistake and under pays your tax, you could be made to repay that amount through the next years PAYE.

2. If you are a self-employed person, you are responsible for filing your tax returns each year with the HMRC. Failure to do so or filing late or inaccurate returns can result in a HMRC Enquiry. If the enquiry find you are guilty of deliberately misleading or falsify your tax record you can be prosecuted for fraud. In most cases you will be given a bill for the unpaid tax and a set time frame to pay it back.

KPI4: Other sources of income

Student loans

- The maximum that a university can charge is £9,250 per year (for students from the UK, studying a course in England that starts in the 2019-20 academic year)
- Students can get a tuition fee loan to cover these costs. This isn't paid back until after the course has finished, and only when you are earning above a certain income. As of March 2017, this is at a rate of 9% on any income over £25,725

Pensions

- People over 22 years of age in employment, earning over £192 per week or £833 a month, will be auto enrolled in a pension scheme by their employer
- As of April 2019, the minimum contribution is 8% of your pre-tax salary. This is made up of a minimum 3% employer contribution, 4% employee contribution and 1% of tax relief from the government
- It is possible to opt-out of the pension scheme

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KPI 5: Types of Taxation	
Income Tax	Is about 26% of the governments income and is based on a person's earnings
National Insurance Contributions	This builds up your entitlement to certain social security benefits, including state pension.
Inheritance tax	Tax paid on wealth (property) passed on from one person to another during their lifetime or as a part of their estate after death.
VAT	Charged at flat rates and are added to the price you pay for the goods of services (spending tax)
Council tax	This is a tax based on the value of your home and help pays for local services like policing and refuse collection
Stamp Duty	A government tax which is payable when a property is sold
Corporation tax	Term given to the type of taxation charged on the profits of companies
Road tax	Tax paid for usage of automobiles (cars)

KPI6: Mortgages

A mortgage is a specific type of loan that relates to your home. A lender will pay a certain percentage of the overall cost of your home and this loan is 'secured' against the property. This means that, if you fall behind in your payments or encounter financial difficulties, the lender has certain rights over your property and may even repossess it.

KPI7: Types of Mortgages

Fixed Mortgage	A fixed-rate mortgage means that your mortgage payments will stay the same for a set period. You can set the length you want to fix your costs for, typically 2, 3, or 5 years or longer. No matter what happens to inflation, interest rates, or the economy, you know that your mortgage payment, usually your biggest outgoing, will not change.
Tracker Mortgage	A tracker mortgage is a home loan where the interest rate you pay is based on an external rate - usually the Bank of England base rate - plus a set percentage. The base rate is currently at a record low of just 0.1%, after two emergency cuts in March 2020 due to the coronavirus outbreak. So, if the interest rate on a tracker mortgage was the base rate +1%, the amount of interest you would pay is 1.1%. If the base rate went up, the interest rate on your tracker mortgage would also rise.
Standard Variable rate	Mortgage lenders set their own standard variable rate, and this, along with your mortgage repayments, can go up or down at any time. Although the SVR can be influenced by changes in the Bank of England base rate, they do not have to strictly follow it. Instead, other factors such as the lender's cost of borrowing can influence the SVR and the lender can choose to raise or lower its SVR whenever it wants. This means that if the base rate rose by 1%, a lender might decide to: • Increase its SVR by 1% • Increase its SVR more than 1% • Increase its SVR by less than 1% (less likely) • Leave the SVR unchanged (unlikely) Similarly, if the base rate went down by 1%, a lender might choose to lower its SVR by 1% or less, or not lower it at all.