

## Functional Skills Maths | Level 1 and 2 Income Tax Explainer

### What is Income Tax?

- Income Tax is a direct tax that a person in the United Kingdom pays on their income.
- How much Income Tax you pay depends on how much money you earn.
- Income Tax is broken into the following bands (as of 1 January 2024):

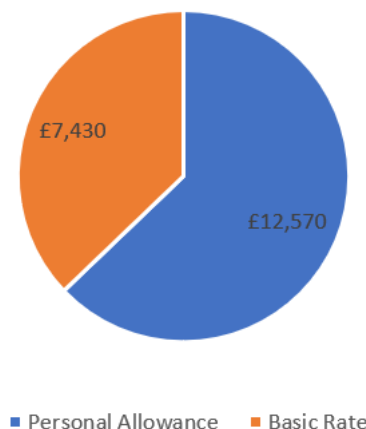
Band	Taxable Income	Tax Rate
Personal Allowance	Up to £12,570	0%
Basic Rate	£12,571 to £50,270	20%
Higher Rate	£50,271 to £125,140	40%
Additional Rate	Over £125,140	45%

What this means is that a person can earn up to £12,570 without paying Income Tax and that most people do not pay Income Tax on the first £12,570 they earn.

Let's look at some examples.

### Example 1

Income Tax Bands For a Person Earning £20,000



- For a person earning £20,000, the rates are broken down into Personal Allowance and Basic Rate.
- They only pay Income Tax on the amount over the Personal Allowance.

- To work out the taxable pay, they need to do the following sum:

$$\begin{aligned} &\text{Total pay – Personal Allowance} \\ &\quad \text{£20,000 – £12,570} \end{aligned}$$

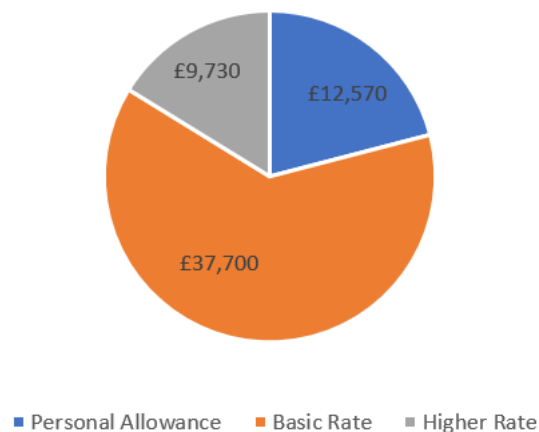
- This means £7,430 of their income is taxable.
- To work out how much Income Tax this person pays, we need to work out 20% of Basic Rate amount.

$$\begin{aligned} &\text{Find 10\% of £7,430 by dividing by 10} \\ &\quad \text{£7,430} \div 10 = \text{£743} \\ &\text{Find 20\% by multiplying the answer by 2} \\ &\quad \text{£743} \times 2 = \text{£1,486} \end{aligned}$$

- In this case it is £1,486.

### Example 2

Income Tax Bands For A Person Earning £60,000



- For a person earning £60,000, the rates are broken down into Personal Allowance, Basic Rate and Higher Rate.
- They only pay Income Tax on the amount over the Personal Allowance.

Total pay – Personal Allowance  
£60,000 – £12,570

- This means £47,430 of their income is taxable.
- They need to work out how much tax they will pay at the Basic Rate and the Higher Rate.

Total pay – Basic Rate Upper Threshold  
£60,000 – £50,270

- £9,730 is taxable at the Higher Rate.

Basic Rate Upper Threshold – Personal Allowance  
£50,270 – £12,570

- £37,700 is taxable at the Basic Rate.
- To work out how much Income Tax this person pays, we need to work out 20% of Basic Rate amount and 40% of the Higher Rate.

Find 10% of £37,700 by dividing by 10

$$£37,700 \div 10 = £3,770$$

Find 20% by multiplying the answer by 2

$$£3,770 \times 2 = £7,540$$

- The Basic Rate tax amount is £7,540.

Find 10% of £9,730 by dividing by 10

$$£9,730 \div 10 = £973$$

Find 40% by multiplying the answer by 4

$$£973 \times 4 = £3,892$$

- The Higher Rate tax amount is £3,892.

Total Tax = Basic Rate + Higher Rate

$$£7,540 + £3,892$$

- The total tax amount is £11,432.