

Income Tax and National Insurance

There are two types of tax on the income you receive as an employee in the United Kingdom – Income Tax and National Insurance. They are calculated using different methods and each has its own set of rules.

PAYE (Pay as you Earn) Income Tax

If you are an employee, income tax is collected under the PAYE (Pay As You Earn) system. This means that income tax is deducted from your salary before you receive it, and LSE forwards the tax on to HM Revenue and Customs (HMRC) on your behalf. LSE tells HMRC that you are working for us, HMRC informs us of your tax code, and from this information, we are able to work out the tax that needs to be deducted.

Personal allowances and tax bands

Income tax is paid at three different rates –the Basic Rate, the Higher Rate and the Additional Rate. Most people have a tax-free allowance and tax is only deducted from income that exceeds this allowance. The following table shows the tax rates and bands for the current tax year:

	2016-17 Tax Year
Allowances	
PAYE tax threshold	£917 per month £11,000 per year
Basic tax rate	20% on annual earnings above the PAYE tax threshold and up to £32,000
Higher tax rate	40% on annual earnings from £32,001 to £150,000
Additional tax rate	45% on annual earnings above £150,000
Emergency tax code	1100L M1

* The Personal Allowance reduces where income is above £100,000 - by £1 for every £2 of income above the £100,000 limit.

Checking your tax code

Information about your tax-free allowances is contained in your personal tax code. The standard tax code for the 2016/17 tax year is 1100L – indicating the basic personal allowance of £11,000.

If your tax code is not the standard one, HMRC will usually send you a Notice of Coding. This will set out the allowances for which you are eligible and any deductions from and restrictions to these allowances. Subtracting the deductions and restrictions from the allowances will produce your tax-free allowance. Your tax code is produced by substituting the final digit of your tax-free allowance with a letter.

The following table explains the different tax codes:

Code ends with L	Basic Personal Allowance
Code ends with M	Receiving 10% of partner's personal allowance
Code ends with N	Transferring 10% of partner's personal allowance
Code ends with T	Tax code under review

Occasionally (if you have another source of income or have underpaid tax in the past) you might have a *negative* tax allowance: in this case your tax code will begin with a K and the number after the letter K is the excess income that needs to be taxed in addition to any income you receive from LSE. In calculating your tax, we will take account of this excess income.

HMRC will inform us of your tax code electronically. Please note we are not allowed to change your tax code from a P2 Notice of Coding – we can only accept electronic notification HMRC.

There are five other tax codes sometimes used that indicate that tax is deducted from all your income at the same rate, without any allowances. These are:

Code BR	All income taxed at Basic Rate (20%) – no allowances given
Code D0	All income taxed at Higher Rate (40%)– no allowances given
Code D1	All income taxed at Additional Rate (45%) – no allowances given
Code NT	No tax paid on this income
Code OT	All income taxed at all tax bands. No allowances given.

These codes are usually only applicable if your LSE job is not your main job and you are receiving your allowances against income from another employer, or in the case of NT, if your income is

being taxed in another country (this code must be issued by HMRC). If you have one of these tax codes but you think you should have a normal cumulative code, you should consult LSE Payroll for advice.

IMPORTANT: *if your annual income is in excess of £100,000, you will begin to lose your tax-free allowance at the rate of £1 for every £2 earned. HMRC should issue you with a OT tax code in this instance – however it may take them some time to do so. If you are in this position you should contact the HMRC Employees Helpline to request the code; failure to do so could result in you underpaying tax and being subsequently faced with a large tax bill. As an individual you are responsible for ensuring that your tax coding is correct – LSE as your employer acts on instruction from HMRC and cannot make any changes to your tax code or discuss your personal taxation with HMRC or any other external body.*

If we do not receive a P45 (or if you have not completed the tax declaration upon onboarding) when you start working for LSE, we will operate OT as a default code, until the P45 or is New Starter declaration received.

How PAYE works

In general, each month you are able to earn 1/12th of your personal allowance tax-free, and the rest of your income is divided up into the different tax bands and tax is deducted accordingly.

However it is important to note that tax codes are normally operated cumulatively – this means that previous earnings in the tax year are taken into account when tax is calculated each month. If your gross earnings are the same each month, the income tax deducted will remain about the same. However if your earnings vary from month to month, or if a new tax code is applied, we will recalculate the tax due for previous months, and if you have either under- or overpaid tax earlier in the year, an appropriate tax deduction or refund will be made from your next salary.

Please note that the UK tax year runs from 6 April through to 5 April. If you have overpaid tax in previous years and believe you are due a tax refund, you need to talk to HMRC directly.

If you are a member of one of the School's pension schemes (SAUL or USS), the pension contributions you make attract tax relief. This means that you are taxed only on an amount equal to your gross earnings minus your pension contributions. This applies to all Basic Rate and Higher Rate tax payers.

When you start working for LSE

If you are joining us from another employer, they should have issued you with a P45. You must bring this P45 to Human Resources on your first day or as soon as you receive it. If you do not have a P45 on your first day, LSE Payroll will assign a tax code depending on the tax declaration you completed during the on-boarding process.

If you join the LSE from overseas

If you are new to the UK, your tax code will be allocated depending on the tax declaration you choose during the on-boarding process.

If you have more than one job

If you have more than one job, you will have a tax code for each employer. You will usually be given your tax allowances against your earnings in what you and HMRC consider your main job. Your earnings in your second job will all be taxed at Basic Rate or, if appropriate, the Higher Rate. If your total earnings with both employers are below the threshold for basic rate tax, then you may be due a tax refund at the end of your employment.

When you stop working for LSE

When you leave LSE's employment, we will issue you with a P45. These are usually sent to your home address within two weeks of your last pay day.

You need to give this form to your next employer or keep it safely until you start work again. If you have not received your LSE P45 before you start your new job, you are advised to complete a New Starter Checklist for your new employer. This should prevent them taxing you at Basic Rate before your LSE P45 is received.

Leaving the UK

When you leave the UK, whether you are continuing to work for LSE or not, you should contact HMRC to inform them of your situation. This will enable them to ascertain your residency for tax purposes and whether you are due a refund of taxes. The LSE HMRC tax office can be contacted on 0300 200 3300.

What happens at the end of the tax year

If you are still an employee at the end of a tax year (i.e 5 April), LSE will send you a P60 by the end of May at the latest, setting out what your taxable earnings in the tax year were and how much tax and national insurance you have paid.

It is a legal requirement that you keep this document safely (see Self-Assessment section below). You will need it if you are asked to complete a tax return or if you wish to claim a tax refund. Remember that once a tax year is over, LSE cannot make any refunds of tax for that year. You must talk to HMRC directly about this.

Student loans

HMRC is responsible for the collection of most UK-issued student loans. They will inform the School if a student loan deduction applies to you.

For the 2016/17 tax year, there are two tiers of student loan.

Tier 1 applies to those whose course of study commenced before 1 September 2012. Where applicable, we will make a deduction whenever your earnings in any month are above £1,458 (equivalent to £17,495 a year).

Tier 2 applies to those who commenced study on or after 1 September 2012. The earnings threshold is £1,750 in any month (equivalent to £21,000 a year)

Deductions are made at the rate of 9% on any earnings above this threshold. The deductions operate non-cumulatively, i.e. each month's calculation is made independently. This means, for example, if your earnings are above the threshold at the beginning of the tax year, but then fall below it, no refund of loan repayment is due.

However if your total earnings are less than £17,495 for the whole of the tax year, you can claim a refund from the Student Loan Company on production of a P60 or other evidence.

If you are self-employed

Staff employed by LSE under a normal employment contract (sometimes referred to as "a contract of service") are taxed under PAYE as outlined above.

Some people working for LSE are regarded as self-employed and work for LSE under "a contract for services". These staff are paid by the School without deduction of income tax under "Self-Employed" status (sometimes referred to as "Schedule D") and pay income tax to HMRC directly. If you believe you may be eligible to claim Self-Employed status, please contact the Payroll Team as soon as possible (email fin.div.payroll@lse.ac.uk).

Double taxation

Some staff whose country of residence is not the UK may have to pay tax on their LSE salary in their home country as well as in the UK. If they are working in the UK in an academic capacity for a limited period of time only, they may be covered by a Double Taxation treaty and be exempt from UK income tax. If you think you are covered by these arrangements, please contact Ben Hancock in LSE Payroll as soon as possible (email b.hancock@lse.ac.uk; phone 020 7955 7879).

Self-assessment and keeping records

Some employees may be required to complete tax returns to HMRC under Self Assessment. Consequently everyone is required to keep records of their income (e.g. P60s, P45s, pay advices) for at least 22 months after the end of the tax year to which they relate. (People who are self-employed or have businesses are required to keep records for at least five years and 10 months after the end of the relevant tax year.)

When to contact the LSE Payroll Team

Please contact LSE Payroll if:

- you have any basic queries about income tax or National Insurance
- you have a query about forms P45, P46 or P60
- if you think we are operating tax code BR, D0, D1, NT or OT incorrectly
- if you receive a Notice of Coding and we do not start operating the new tax code on the pay day which is at least two weeks after you receive the Notice.

You can contact us fin.div.payroll@lse.ac.uk or see the LSE Payroll website on for a list of contacts.

Please note that, while LSE Payroll will try to ensure we deduct the correct income tax from your salary and assist you with any queries you may have, it is ultimately your responsibility to ensure that you pay the right amount of income tax.

When to contact HM Revenue and Customs

Please contact HM Revenue and Customs directly if:

- you wish to dispute/get information relating to a tax code issued by HMRC
- you wish to claim a tax refund for one or more previous tax years.

Each employer in the UK is allocated to a specific tax office. When you change your main job, your tax records will be transferred from one tax office to another. The contact details for LSE's tax office are as follows:

HM Revenue & Customs
Pay As You Earn
PO Box 1970
Liverpool
L75 1WX

Telephone: 0300 200 3300

When you contact HMRC, you will need to quote LSE's Tax Reference **120/L40364** and your National Insurance number.

National Insurance

National Insurance (NI) in the UK is a deduction from earned income paid by people aged over 16 and under the state pension age. Employers are also required to make contributions.

There are various classes of National Insurance Contributions (NICs), paid by employees, employers and the self-employed. Employees of the School will pay Class 1 Contributions.

Everybody who pays National Insurance has an NI account and, by payment of NI contributions, accrues rights to certain state benefits, i.e.:

Employment and Support Allowance
Maternity Allowance
Bereavement benefits

Jobseekers Allowance
Retirement Pension

National Insurance Number

UK citizens are automatically sent an NI number just before their 16th birthday (the number is generated at birth).

If you have come to the UK from abroad, you are legally obliged to apply for a number and register for NI purposes as soon as you start work here. Without an NI number, you will not be able to claim any tax refund owed to you when leaving the UK. You should contact the Department for Work and Pensions office and ask for an appointment to be interviewed for an NI number. The number to call is (020) 8218 4451 (Mon – Fri 9am – 5pm).

Class 1 National Insurance contributions

The School pays employees on a monthly basis. As an employee you pay contributions based upon your earnings; the School pays a corresponding amount of contributions also based on your earnings.

There are various categories of Class 1 Contributions. However most LSE employees pay Category A Class 1 NICs

Over state pension age?

If you are over state pension age (minimum 65 for men, approximately 61 for women – see below), you do not have to pay employee's contributions – although the School still pays Category C *Employer's* Contributions.

The School needs to hold one of the following as evidence of your date of birth and non-liability:

- Birth certificate or passport (please provide the original and we will take and retain a photocopy)
- Form CF384 or CA4140 Certificate of Age Exception which can be obtained from the National Insurance Contributions Office (we are required to keep the original, but will return this to you as soon as you stop working for the School).

If you do not provide evidence of your age, the School is obliged to continue deducting National Insurance from your salary at the contracted-in rate.

Increases in the state pension age

The Government has announced plans for the equalisation of the state pension age. If you are a woman born before 6 April 1950 your state pension age will be 60; if you are a woman born on or after 6 April 1955 your state pension age will be 65; if you are a woman born between 6 April 1950 and 5 April 1955, your state pension age will be between 60 and 65 depending on your exact date of birth.

The previous Government announced that the state pension age for both men and women will increase from age 66 to age 68 between 2024 and 2046.

You can find out your state pension age by using this calculator.

<https://www.gov.uk/calculate-state-pension>

National Insurance Categories

There are four main categories of National Insurance for employees of the School, as below. The Government introduced a new category (H) in the 2016/17 tax year. This category applies to apprentices aged under 25, and aims to encourage businesses to employ apprentices.

- A: Contracted in to the State Pension
- C: Over State Pension Age
- H: Apprentices under 25 (no employer contribution below a certain limit)
- M: Employees under 21 (no employer contribution below a certain limit)

National Insurance rates

National Insurance rates and thresholds for 2016/17 are:

Category	Earnings below £672 in a month	Earnings between £673 and £3,583 in a month	Earnings above £3,583
A	0%	12%	2%
C	No Employee NICs due	No Employee NICs due	No Employee NICs due
H	0%	12%	2%
M	0%	12%	2%

There is a further threshold, the Lower Earnings Limit (LEL), currently £486 per month, used in National Insurance calculations. If you earn above the LEL but below the Earnings Threshold (£672 per month), you are not liable to pay any Employee contributions but your NI account is credited as if you had made contributions, and you accrue rights to benefits accordingly.

The School also pays Employers Class 1 contributions for all the above categories, at a rate of 13.8% on all earnings above the Primary Threshold (£672 per month).

Note that, unlike income tax, National Insurance contributions are not calculated cumulatively, ie each month's calculation is made independently. This means, for example, if your earnings are above the Earnings Threshold at the beginning of the tax year, but then fall below it, no refund of contributions is due.

Further information

We have only been able to give basic information here and the above should not be regarded as a comprehensive statement of law. More detailed information can be found on the [GOV.uk](https://www.gov.uk) website