

Examples for 'Which tax rates apply to me?' – 2011/12

Example 1

Thomas aged 59 works part time and gets wages of £6,000 a year. He also has a pension from his old job of £5,000 a year. He has no other income. Thomas's tax is worked out like this:

Earned income	11,000
Less: tax free personal allowance	<u>7,475</u>
Taxable income	<u>3,525</u>
Tax at 20% basic rate	£705

Example 2

Looking at Thomas again but now he has only £11,000 of savings income – his tax will be worked out differently:

Savings income (total including any tax taken off)	11,000
Less: tax free personal allowance	<u>7,475</u>
Taxable income	<u>3,525</u>

Thomas has no earned income and he has not used up any of his starting rate for savings tax band so he will be taxed up to the limit of £2,560 at 10% with the balance at the 20% basic rate.

£2,560 @ 10%	256
£965 @ 20%	<u>193</u>
Tax due	<u>£449</u>

Thomas will have had tax taken off by his bank or building society at 20% before he gets his interest so he will have to claim a repayment (link) of tax each year.

Example 3

Looking at Thomas again – let's say this time his earnings are £11,000 and he has £1,000 of savings. His non savings income is more than £10,035 (have a look again at the upper and lower limits) so he is taxed in full on the £1,000 savings at the 20% basic rate.

Examples 4-6

In these examples, we will have a look at how his tax changes depending on whether the income is earned income or savings:

Example 4

£5,000 wages and £6,000 savings

Non savings uses £5,000 of Thomas's personal allowance of £7,475 leaving £2,475 to go against savings

So:

£2,475 @ 0%	0
£2,560 @ 10%	256
<u>£ 965 @ 20%</u>	<u>193</u>
<u>£6,000</u>	<u>£449</u>

Example 5

£7,500 wages and £3,000 savings

Non savings	7,500	
Less: allowances	<u>7,475</u>	
	<u>25</u> @ 20%	5

Savings

Of the £2,560 savings rate band - £25 has been used so £2,535 remains for Thomas to use:

£2,535 @ 10%	253
<u>£ 465 @ 20%</u>	<u>93</u>
Total tax due	<u>£ 346</u>

Example 6

£3,500 wages and £7,500 savings

Non savings	3,500
Less: allowances	<u>3,500</u>
Savings income	7,500
Balance of allowance unused (7,475 – 3,500)	<u>3,975</u>
	<u>3,525</u>
Tax due	
£2,560 @ 10%	256
£ 965 @ 20%	<u>193</u>
	<u>£449</u>

Example 7

Fred aged 66, has taxable employment & pension income of £10,130 and savings interest (before any tax is taken off) of £1,000. Fred's tax free personal allowance for 2011/12 is £9,940 so he only has tax to pay on £190 (10,130 - 9,940) on his non-savings income. This means that he has used up £190 of the £2,560 starting rate band of 10% for savings leaving £2,370 available. His savings of £1,000 will be taxed in full at 10% only.

However if Fred's non savings income amounted to £13,000 – he will be taxed in full at 20% on his savings income as taxable non savings income is more than £12,500 (his allowance of £9,940 and the savings rate band of £2,560).