

## Examples for 'Which tax rates apply to me?'

### Example 1

Thomas aged 59 works part time and gets wages of £5,000 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	10,000
Less: tax free personal allowance	<u>6,475</u>
Taxable income	<u>3,525</u>
Tax at 20% basic rate	£705

### Example 2

Looking at Thomas again but now he has only £10,000 of savings income – his tax will be worked out differently:

Savings income (total including any tax taken off)	10,000
Less: tax free personal allowance	<u>6,475</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 £2,440 at 10% with the balance at the 20% basic rate.

£2,440 @ 10%	244
£1,085 @ 20%	<u>217</u>
Tax due	<u>£461</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 £9,000 and he has £1,000 of savings. His non savings income is more than £8,915 (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

Thomas from the previous example still has income of £10,000 but 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 £5,000 savings*

Non savings uses £5,000 of Thomas's personal allowance of £6,475 leaving £1,475 to go against savings

So:

£1,475 @ 0%	0
£2,440 @ 10%	244
£1,085 @ 20%	<u>217</u>
	<u>£461</u>

#### Example 5

*£7,500 wages and £2,500 savings*

Non savings	7,500	
Less: allowances	<u>6,475</u>	
	<u>1,025</u>	@ 20%
		205

Savings

Of the £2,440 savings rate band - £1,025 has been used up so £1,415 remains for Thomas to use:

£1,415 @ 10%	141
£1,085 @ 20%	<u>217</u>
Total tax due	<u>£ 563</u>

#### Example 6

*£2,500 wages and £7,500 savings*

Non savings	2,500
Less: allowances	<u>2,500</u>
Savings income	7,500
Balance of allowance unused (6,475 - 2,500)	<u>3,975</u>
	<u>3,525</u>
Tax due	
£2,440 @ 10%	244
£1,085 @ 20%	<u>217</u>
	<u>£461</u>

### *Example 7*

Fred aged 66, has taxable employment & pension income of £9,560 and savings interest (before any tax is taken off) of £1,000. Fred's tax free personal allowance for 2009/10 is £9,490 so he only has tax to pay on £70 (9,560 - 9,490) on his non-savings income. This means that he has used up £70 of the £2,440 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 £12,000 – he will be taxed in full at 20% on his savings income as taxable non savings income is more than £11,930 (his allowance of £9,490 and the savings rate band of £2,440).