

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>6,035</u>
Taxable income	<u>3,965</u>
Tax at 20% basic rate	£793

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>6,035</u>
Taxable income	<u>3,965</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 £2,320 at 10% with the balance at the 20% basic rate.

£2,320 @ 10%	232
£1,645 @ 20%	<u>329</u>
Tax due	<u>£561</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 £7,755 (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 £6,035 leaving £1,035 to go against savings

So:

£1,035 @ 0%	0
£2,320 @ 10%	232
£1,645 @ 20%	<u>329</u>
	<u>£561</u>

Example 5

£7,500 wages and £2,500 savings

Non savings	7,500	
Less: allowances	<u>6,035</u>	
	<u>1,465</u>	@ 20%
		293

Savings

Of the £2,320 savings rate band - £1,465 has been used up so £855 remains for Thomas to use:

£855 @ 10%	85
£1,645 @ 20%	<u>329</u>
Total tax due	<u>£ 707</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 (6,035 - 2,500)	<u>3,535</u>
	<u>3,965</u>
Tax due	
£2,320 @ 10%	232
£1,645 @ 20%	<u>329</u>
	<u>£561</u>

Example 7

Fred aged 66, has taxable employment & pension income of £9,100 and savings interest (before any tax is taken off) of £1,000. Fred's tax free personal allowance for 2008/09 is £9,030 so he only has tax to pay on £70 (9,100 - 9,030) on his non-savings income. This means that he has used up £70 of the £2,320 starting rate band of 10% for savings leaving £2,250 available. His savings of £1,000 will be taxed in full at 10% only.

However if Fred's non savings income amounted to £11,500 – he will be taxed in full at 20% on his savings income as taxable non savings income is more than £11,350 (his allowance of £9,030 and the savings rate band of £2,320).