

## PAYE & National Insurance

### What is it?

**PAYE (Pay as you earn)** is a method of paying national contributions and income tax introduced to the UK in 1944. This is applicable to employees, where the employer deducts these taxes from your wages before paying your net (after tax) wages.

To break it down further, income tax returns along with payments are due every year on the 31<sup>st</sup> of Jan. For those employees with higher earnings, it could be difficult to pay the tax bill in one instalment.

This is where the PAYE system enters. Each time wages are received, tax and national insurance are deducted. It is designed to lessen the burden of a large tax bill on the 31<sup>st</sup> of Jan. **National insurance** is a method where individuals in employment make payments towards benefits, such as a state pension. It is a system designed to aid individuals once they go into retirement.

For those in employment imagine, every pay day you have been deducted national insurance. The deductions get placed into a pot. Once you reach the age of retirement usually (65 for men 60 for women) the pot begins to pay out and you receive income even though you are not in working.

If you are between the ages of 16-65 and are either in employment or self-employed payments are required once you start earning above a certain limit.

### Different types of national insurance:

There are 5 different types of National insurance, and are as follows:

**Class 1 (primary)** – This is paid by employees only (deducted from wages)

**Class 1 (secondary)** – This is paid by employers only (paid out of the business)

**Class 1a** – This is paid by employers who offer benefits to their staff (company cars, interest free loans etc.)

**Class 2** – This paid by individuals that are self-employed and is paid by usually by direct debit.

**Class 4** – This is paid by individuals that are self-employed (It is paid based on their profits **not** the sales/revenue for)