

Lesson Plan

NEUROHEADWAY

Neuroscience Into Education

VANTAGE EDUCATION

Developing Lives. Accelerating Potential

How Taxes Work

HOW TAXES WORK

- Why do we pay taxes?
- In this country, we pay three main taxes:
- Income Tax
- National Insurance
- Valued Added Tax (VAT)



ACTIVITY ONE – INCOME TAX

- Income Tax is collected by HMRC on behalf of the government. It's used to help provide funding for public services such as the NHS, education and the welfare system, as well as investment in public projects, such as roads, rail and housing.



ACTIVITY ONE – INCOME TAX

- Income tax is a tax on income including:
- earnings from working, less your Personal Allowance
- Income from pensions
- interest on most savings
(Everyone pays, regardless of age)



ACTIVITY ONE – INCOME TAX

- Income is taxed at different percentage rates depending on the amount of your taxable income after deducting allowances and reliefs.
- Most people living in the UK are entitled to a basic Personal Allowance. This means that some of your income will be tax free.



ACTIVITY ONE – INCOME TAX

- Example: Your taxable income is £11,000 after deducting your personal allowance from your total income.
- You have no taxable income above the basic rate limit of £32,000, so you pay tax at the basic rate of 20% on all your taxable income.
- $20\% \times £11,000$ is £2,200.



ACTIVITY ONE – INCOME TAX

- Answer the following questions:
- If you have a Personal Allowance of £12500 and an annual income from work of:
- a) £30,000
- b) £22,500
- c) £11,000
- How much income tax would you pay each year on each income at a rate of 20%?



ACTIVITY TWO – NATIONAL INSURANCE

- National Insurance is a tax system in the United Kingdom paid by workers and employers to pay for state benefits, such as sickness, unemployment, retirement pensions and others, such as maternity and disability.
- Everyone has to have a National Insurance number.



ACTIVITY TWO – NATIONAL INSURANCE

- What would be your National Insurance contributions on an annual income of:
- a) £10,000
- b) £36,000
- What would be the employer contribute based on those incomes?



ACTIVITY TWO – NATIONAL INSURANCE

- As an employee: you pay National Insurance contributions if you earn more than £166 a week, then you pay 12% of your earnings above this limit.
- Employers also pay National Insurance on expenses and benefits they give to their employees. The rate for the tax year 2018 to 2019 is 13.8%.



ACTIVITY THREE – VALUE ADDED TAX (VAT)

- VAT is a tax on most goods and services provided by businesses. It is a tax based on your spending choices, so the more you spend on taxable items, the more tax you will pay overall.
- The standard rate is 20%. Some goods and services are subject to VAT at a reduced rate of 5% (such as domestic fuel) or 0% (such as most food and children's clothing).



ACTIVITY THREE – VALUE ADDED TAX (VAT)

If in any one week, you spent:

- £50 on food, £23 on clothes, £30 on gas and electricity and £45 on petrol for the car, how much VAT would you pay in total?

If in the same week, your friend spent:

- £20 on food, £15 on clothes, £53 on gas and electricity and £60 on petrol for the car, how much VAT would they pay in total?



PLENARY

- Why do we pay taxes?
- What taxes do we pay in this country?
- Which tax relates to our spending?

