

The University of Edinburgh Finance Department



Student Employment – Income Tax & National Insurance

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Introduction

The aim of this guide is to assist students who take paid employment whilst studying at the University to understand their rights and responsibilities in relation to Income Tax and National Insurance.

It should also help administrative staff involved in the employment of students to understand the tax rules surrounding students in employment and allow them to assist the students they employ.

Taxation in the UK

The Tax Year

Within the UK income tax is assessed on an annual basis over a year which runs from 6th April to the following 5th April. Somewhat confusingly this is not the same as the Financial Year, which runs from 1st April to the following 31st March, and is used in relation to other taxes such as Corporation Tax paid by companies.

When dealing with personal tax issues such as Income Tax and National Insurance, the relevant period will always be the year running from 6th April to the following 6th April. This is referred to as the Fiscal Year, or more commonly as simply “the tax year”.

Where reference is made to the date of a tax year it will usually quote both the calendar year in which the tax year begins and the one in which it ends, e.g. Tax Year 2009-10.

The Personal Allowance

Virtually all UK residents are entitled to a ‘Personal Allowance’, which is an amount of taxable income which can be earned each year tax free.

Income Tax is only paid on earnings above your personal allowance.

The amount of the personal allowance changes each year: for the tax year 2009-10 the basic personal allowance is £6,475. This means that you can earn up to £6,475 before you are required to start paying income tax on your earnings.

Her Majesty’s Revenue & Customs

Her Majesty’s Revenue & Customs (commonly abbreviated to HM Revenue & Customs or HMRC) is the department of the government which collects the majority of UK taxes, and also administers benefits and credits available to workers and families.

HMRC was formed on 18 April 2005 following the merger of the Inland Revenue and HM Customs Excise. Prior to the merger the Inland Revenue was responsible for the collection of Income Tax and National Insurance, and in many places reference is still made to the Inland Revenue.

Paying tax as a student

Being a student does not exempt you from paying income tax. If you earn over your personal allowance you will be required to pay income tax. However, there is a special set of rules regarding students in full-time education to simplify their tax affairs. These are covered in more detail below.

Income Tax

The Pay as You Earn (PAYE) System

Most income tax is collected with the Pay as You Earn (PAYE) system. This is a system where your employer pays your salary to you after deducting the appropriate amount of tax and paying it to HMRC on your behalf.

Tax Codes

Your employer knows how much tax to deduct by referring to your tax code. Tax codes are generally made up of several numbers and a letter, e.g. 647L.

Tax codes spread your personal allowance over the tax year and tell employers to deduct a uniform amount of tax each month from an employee's salary. The result is that you receive the same salary after tax every month.

Tax codes are provided to employers by HMRC. In order to issue a tax code HMRC require certain information; therefore there are a number of forms to complete when starting or leaving employment:

Form P45

When you leave a job your employer should give you a completed P45. When you start a new job you should give your P45 to your new employer to ensure that you continue to pay the right amount of tax.

If you have started working for the University and have a P45 this should be sent to the Payroll Section of the Finance Department.

Form P46

Form P46 is for employees who do not have a form P45. If you do not have a form P45 your new employer should give you a copy of form P46 to complete and return when you start work.

Form P60

Form P60 provides a summary of the amount of tax you have paid in the tax year, and is sent to employees following the end of the tax year (i.e. after 6th April).

Form P38(S)

Form P38 allows students to receive payment for working in the holiday periods without any tax being deducted. In order to receive your wages without tax being deducted you must:

- Be attending University and will continue to do so until after April 5th next (i.e. the end of the current Tax Year);
- Have no income from teaching or coaching;
- Only work during the holidays (summer, Christmas, Easter);
- Have a total income that does not exceed the basic Personal Allowance (in 2009/10 this is £6,475).

If you meet these criteria, you should complete a Form P38(S) and give it to your employer.

You will need to obtain and complete a new Form P38(S) for each tax year.

If you do not meet the criteria listed above you will be taxed through the PAYE system and your Personal allowance spread throughout the year.

Form P50

Form P50 is used to reclaim tax when you are no longer working or have returned to educational studies.

Emergency Tax Codes

Where reference is made to an emergency tax code this generally means that insufficient information was available to issue an accurate tax code for an employee, and therefore a substitute code is being used until the correct code can be issued.

The most common example of this is where your tax code is shown as “BR” – this means that all your income is being taxed at the basic rate of tax, and you are not benefiting from your personal allowance.

This can occur where you have not been able to provide your new employer with a Form P45.

If your tax code is shown as BR on your payslips you may be due a refund for overpaid tax in the future. If you can provide your employer with further information about your previous employment (e.g. Form P45) a refund of tax may be made through your wages. If not, be sure to retain your payslips so that if a refund is due it can be claimed at a later date.

Special Rules for Students

There are special tax rules which allow students who work in the holidays to receive their wages without paying any tax. The details of these rules are mentioned above under the heading “Form P38(S)”.

Claiming a Refund for Overpaid Income Tax

As a student in paid employment, there are a number of situations where you may have overpaid tax, and therefore be due a refund. These commonly include:

- If you were entitled to receive your wages for work undertaken in the holidays without paying tax, but did not complete a Form P38(S) and therefore paid tax;
- If you were employed for only part of the Tax Year;
- If started a new job and your employer used an emergency tax code.

How you reclaim tax depends upon whether you are still working. If you are in employment your tax code can be amended so that you pay less tax to make up for the previously overpaid tax. If you are no longer in employment you can reclaim the overpaid tax by completing a Form P50.

For further details on how to reclaim over paid tax, please refer to the relevant section of the HMRC website:

→ <http://www.hmrc.gov.uk/incometax/refund-reclaim.htm>

National Insurance

Anyone aged between 16 and state pension age (60 for women, 65 for men) who is employed will pay National Insurance Contributions on their earnings, in addition to Income Tax.

Paying National Insurance Contributions (NICs)

You pay the same NICs whether or not you are a student. Your employer will deduct NICs from your pay if they are due.

NICs will be due for any week in which your gross pay is between £105.01 to £770 per week (£453.01 and £3,337 a month). These figures are for the tax year 2009-10.

NICs are due on your pay for the week or month, so you will not get a refund if you stop working part way through the tax year.

Your National Insurance Number

National Insurance numbers are used as reference numbers throughout HMRC. It is therefore important to supply the correct number to your employer. Anyone living in the UK should receive notification of their National Insurance number before their 16th birthday, when they will receive a National Insurance number card.

If you have moved to the UK and do not have a National Insurance number more information on applying for one can be found on the Direct Gov website:

→ http://www.direct.gov.uk/en/MoneyTaxAndBenefits/BenefitsTaxCreditsAndOtherSupport/BeginnersGuideToBenefits/DG_10014073

Information on what to do if you have lost your National Insurance number card can be found on the HMRC website:

→ <http://www.hmrc.gov.uk/nic/ynino.htm>

Further information

Additional information for students who are employed by the University can be found in the Finance Department guide *“Student Employment – Working for the University”*.

Further information on taxation in the UK can be found on the HMRC website:

→ <http://www.hmrc.gov.uk/>

Specific information for students is available at:

→ <http://www.hmrc.gov.uk/students/>

The Directgov website also contains specific information for students regarding paying tax:

→ <http://campaigns.direct.gov.uk/studenttaxadvice/>

Finance Department Contact Details

Postal Address

Finance Department,
Charles Stewart House,
9-16 Chambers Street,
Edinburgh
EH1 1HT

→ <http://www.finance.ed.ac.uk/>

Payroll Section

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→ <http://www.finance.ed.ac.uk/finweb/payroll>