ROUGH GUIDES

THE ROUGH GUIDE to Work & Money

THE PERSONAL FINANCE SERIES

In partnership with: Legal & General

A note from Melanie

"Most of us will spend the majority of our lives at work, yet we often aren't aware of all the benefits that are available. Every time I write about workplace money matters – and I've done that quite a bit in eighteen years as a personal finance journalist – I realize just how many different ways our jobs can reward us.

The aim of **The Rough Guide to Work & Money***, the third in our series, is to help you understand that while you're busy working hard for your company, there are lots of ways your employer can work hard for you, other than just paying your wages. Many of us just accept the fact that we'll have to fork out for those painful bills for commuting and childcare, without investigating if our workplace might be able to chip in and help, for example with a season ticket loan or childcare vouchers. Knowing exactly what's on offer, and how to make the most of these opportunities, could make going to work seem a whole lot more worthwhile."*

NAVIGATING THIS EBOOK
We've highlighted handy Top Tips, text boxes, visual aids and tables so you can pick out useful information that's relevant to you, or delve deeper by reading through each chapter. Any word or phrase that is coloured and underlined has a hyperlink, which takes you to other parts of the guide or to external websites (see Colour Key below).

COLOUR KEY:
blue hyperlinks: Click to access useful resources for further guidance.
purple hyperlinks: Click to navigate to the **Jargon Buster** (pp.54–55).
orange text underlined: Click to move to other parts of the guide.
Note that words coloured orange but not underlined do not have hyperlinks.

☞ Visit www.roughguidefinance.com to subscribe to *The Rough Guide to Personal Finance* series.

THE ROUGH GUIDE TO

WORK & MONEY

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With thanks to Anna Doman, Sam Richards,
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This first digital edition published August 2015 by
Rough Guides Ltd, 80 Strand, London WC2R 0RL
www.roughguides.com

in partnership with
Legal & General, Legal & General House,
St Monica's Road, Kingswood, Surrey KT20 6EU
www.legalandgeneral.com

978-0-2412-1508-1
001–284683–Aug/15

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Dr. Nigel Wilson, CEO, Legal & General

Foreword

Legal & General has teamed up with Rough Guides to create this new and much-needed book.

At first glance, travel and personal finance seem worlds apart, as do our two organizations. But dig a little deeper and a common purpose emerges: visiting new countries and sorting out personal finances are both, to greater or lesser extent, **journeys of discovery**.

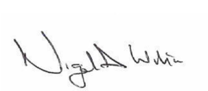
Over the past twenty years, Rough Guides has provided independent and reliable guides to countries and regions across the world. I and my family have used them on many occasions and have discovered and learned about new places as a result – they've enabled us do things which we might not otherwise have done, like visiting Myanmar (Burma) and South America.

We want ***The Rough Guide to Personal Finance*** series to achieve the same result by acting both as a **prompt to get started on the financial planning path** and to serve as a reference throughout the different stages of our lives.

We are ambitious – our intended audience is everyone. A young person's decision on the purchase of a pension plan is as important as how someone nearing retirement should spend and invest their pension pot. Too often, these crucial decisions are made with insufficient knowledge, information and guidance. Indeed, we devote more time and energy to planning holidays than our financial future.

The Rough Guide to Personal Finance series was commissioned to help fill that gap. The series will cover the key events of life and is firmly independent: the authors of each ebook have been selected by Rough Guides and are **respected personal finance writers**. They have been chosen for their expertise, personal experience and no-nonsense approach to financial planning.

At Legal & General we make a promise that every day we will help make financial security easier to achieve. This Rough Guide is an important new tool to help us fulfil that promise. It is designed to **help you take control of your finances and plan for the future**, whatever financial life stage you are at.



Dr. Nigel Wilson
CEO, Legal & General

CHAPTER ONE: YOUR INCOME

Work basics

Work can be hugely rewarding, whether you're part-time, full-time, working for a company, or have decided to go it alone and set up your own business. You might already be doing your dream job – perhaps something you aspired to when you were little – or you might be planning to try out lots of different roles throughout your working life. Whatever your **goals and ambitions**, many jobs offer a whole bundle of benefits on top of your monthly or weekly pay packet which can make working even more worthwhile.

The *Rough Guide to Work & Money* explains what might be available to you, from workplace pension schemes to ways in which your employer could help with your travel costs. It will also talk you through some of the "work basics" we all need to know about, such as finding out whether you need to fill out a tax return, and what your **financial rights** are should you need to take time off work, whether through illness or because you're expecting a baby.

How you're paid

When job-hunting, the amount of pay on offer is pretty high up the priority list for most people. Not all jobs pay you a set salary every year however. You might, for example, be offered a job where commission or a bonus makes up the main part of your pay. Alternatively, if you decide to go it alone and set up your own business, you may choose to pay yourself a **lump sum** every few months, rather than a smaller amount every month. Here are some of the different ways you might be paid and what to watch out for.

If you're employed

Most employers pay monthly, which means you should receive a wage slip every month outlining how much you've been paid. Your payslip should also show how much tax and **National Insurance (NI)** contributions you've paid that month, and whether there are any fixed deductions from your wages, such as healthcare subscriptions.

Always hang on to your wage slips for as long as possible as they will provide proof of earnings and might be required if, for example, you want to take out a mortgage, or remortgage an existing property.

If you are renting, you will often have to prove that your income is high enough for you to be able to afford to pay the rent. You will usually need to provide contact details of the company you work for so that your salary can be confirmed.

☞ **TOP TIP** If you need to fill in a **Self Assessment tax return**, you must keep all your financial records for at least 22 months after the end of the tax year the return is for. The tax year ends on 5 April each year.

Zero hours contracts

If you are on a **zero hours contract** an employer offers you work when it is needed with no guarantee of regular hours. The advantage, in theory, is flexibility for both sides: an employer can reduce labour costs by calling in staff when the work demands it, while an employee can fit work around other activities. The disadvantage for employees is the uncertainty about how much you earn each month, making it difficult to budget effectively if this is your only source of income. Bear in mind that if your income is below a certain level, you may qualify for state support (see citizensadvice.org.uk).

As a zero hours worker you must be paid the **National Minimum Wage** or, from 2016, the **National Living Wage** if you are aged 25 and over; you are entitled to annual leave and you must be paid for any work-related travel. New zero hours contract regulations were brought in this year (2015) which prevent employers from enforcing "exclusivity clauses" in this type of contract. Exclusivity clauses restrict workers from working for other employers. To find out more, visit the Advisory, Conciliation and Arbitration Service (ACAS) website or call their helpline: 0300 123 1100.

If you're self-employed

If you're a contractor or freelancer, your employer is not obliged to give you a payslip. You will need to keep your own records of any sales and income, all business expenses, **Value Added Tax (VAT)** records if you're registered for VAT and **Pay As You Earn (PAYE)** records of any people you may employ.

You must keep your records for at least five years. If you submit your 2014–15 tax return online by 31 January 2016, you must keep your records until at least the end of January 2021.

If you are looking to rent a property and have been self-employed for less than a year, you will either need a guarantor, or the landlord may require you to pay for the tenancy in advance. A guarantor is someone who agrees to pay the rent if you do not and is often a parent or other family member. If you've been self-employed for more than a year, the landlord will usually want to see proof of your income from your accountant.

The Minimum Wage

Employers are legally bound to pay you a set amount per hour, known as the Minimum Wage.

Hourly rates until October 2015:

21 and over	18 to 20	Under 18	Apprentice*
£6.50	£5.13	£3.79	£2.73

Hourly rates from October 2015:

21 and over	18 to 20	Under 18	Apprentice*
£6.70	£5.30	£3.87	£3.30

*This rate applies to apprentices aged 16 to 18 and those aged 19 or over who are in their first year.

From April 2016, the National Living Wage will replace the Minimum Wage for those aged 25 or over. This will initially be £7.50 per hour, rising gradually to at least £9 per hour by 2020. Under 25s will continue to receive the Minimum Wage.

Source: GOV.UK

Starting your own business

There are plenty of reasons why you might decide to go it alone – you may have come up with a fantastic business idea, want more flexibility than an employer can offer, or have been forced into the situation through redundancy. It can be a hugely exciting experience but also a daunting one and there are risks involved, so make sure you have thought it through in detail before you take the plunge.

There are various ways of setting up a business – the main ones are:

- **Sole trader:** You're the sole owner of the business and are therefore personally liable for any losses your business makes – but you get to keep all profits after tax. Despite the name, you are permitted to employ other people.
- **Business partnership:** You and your business partner(s) personally share responsibility for your business. You can share all your business's profits between the partners but you and your partner(s) are responsible for any losses.
- **Limited company:** Your business is an organization run by at least one director. Shareholders (called "members") own the company. After paying Corporation Tax, any profit is owned by the company. You will usually pay yourself a small salary and then receive the remainder of your income as **dividends**. If the company fails, members are liable for the original value of the shares they were issued with but did not pay for.

For more information on setting up your own business see GOV.UK

HOW TO SET UP A BUSINESS

SOLE TRADER

To set up as a sole trader you must:

☞ Register as self-employed

☞ Fill out an annual Self-Assessment tax return

☞ Pay income Tax and NI on your profits

☞ Register for VAT if takings are expected to exceed £82,000

BUSINESS PARTNERSHIP

To set up as a business partnership you must:

☞ Choose and register a name for your partnership

☞ Fill out an annual Partnership Self-Assessment tax return

☞ Pay Income Tax and NI as an individual partner

☞ Register for VAT if takings are expected to exceed £82,000

LIMITED COMPANY

To set up a limited company you must:

☞ Register at Companies House

☞ Fill out an annual Self-Assessment tax return

☞ Choose and register a company name and keep accounts

☞ Pay income Tax and NI on any salary you receive

☞ Register for VAT if takings are expected to exceed £82,000

Dividends and how they are taxed

Many people who run their own businesses pay themselves **dividends** rather than a salary. Under current rules, when you receive dividends you benefit from a tax credit, which reduces the amount of tax you pay. So, for example, if you are a basic rate taxpayer the dividend end tax rate of 10% is reduced to an effective rate of 0% by the dividend tax credit.

From April 2016, if you receive a dividend income you won't have to pay any tax on the first £5,000. After that, the rate of tax you pay depends on your tax band:

Rate of income tax you pay	Effective tax rate until April 2016	Tax rate after April 2016
Basic rate (20%)	0%	7.5%
Higher rate (40%)	25%	32.5%
Additional rate (45%)	30.56%	38.1%

If you need help working out how much tax you owe, speak to an accountant. You can find one through the Institute of Chartered Accountants in England and Wales (ICAEW) or the Association of Chartered Certified Accountants (ACCA).

☞ **TOP TIP** You must notify HM Revenue & Customs (HMRC) within three months of becoming self-employed or you could be fined. You can do this by registering at GOV.UK or calling HMRC's Newly Self-Employed Helpline on **0300 200 3504**.

Support while you're off work

There may be times when you need to take several weeks or months off work, perhaps because you're pregnant, or unwell, or have had an accident and can't work. It's really important to find out how much support your employer might offer during these times, or what support you are entitled to if you're self employed, so that you know exactly what sort of income you will have while you're not working.

Maternity leave

A woman has the right to take up to a year off work, although maternity pay is only available for a maximum of 39 weeks. This doesn't apply if you are self-employed, although by law you must take at least a fortnight off after your baby is born.

You must let your employer know the date you want your maternity leave to start by the end of the 15th week before your baby is due. You might need to provide a medical certificate showing when your baby is due. This is called form **MATB1** and you can get it from either your midwife or GP.

Maternity leave consists of two parts:

- Ordinary Maternity Leave
- Additional Maternity Leave

Ordinary Maternity Leave applies to the first 26 weeks of maternity leave. During this period, you will be able to build up holiday and receive pay increases as you would if you were at work, even though you won't get your normal pay unless your contract states otherwise.

Additional Maternity Leave applies to the next 26 weeks of maternity leave, which must follow on directly from your Ordinary Maternity Leave. Once this has finished, you have the right to go back to your job provided it is still available. If it isn't, then you must be offered appropriate similar employment.

You don't have to give notice that you're returning to work if you take all 52 weeks of maternity leave, but you might want to let your employer know you plan to take your full entitlement. If you want to go back before you've taken 52 weeks, you should notify your employer in writing at least eight weeks before you wish to go back.

Returning to work

If you think the employment you have been offered on your return from **Additional Maternity Leave** isn't appropriate, let your employer know immediately. If the situation remains unresolved, you should follow your company's complaints procedure. If this doesn't work and you are a member of a trade union, contact them for advice. Alternatively, speak to a specialist at the Advisory, Conciliation and Arbitration Service (ACAS) who can help you resolve your dispute. Contact the **ACAS helpline** on **0300 123 1100** for more information, or visit the ACAS website.

Paternity leave and pay

As a father, you can take either one or two consecutive weeks off work when your baby is born. This is known as **Ordinary Paternity Leave** and it also applies if you and your partner are adopting a child. Your paternity start-date must be either the actual date of birth, or an agreed number of days following the baby's arrival.

Previously, if your baby was born before 4 April 2015, and you'd planned to stay at home and look after the baby, when your partner returned to work, you could have claimed **Additional Paternity Leave** for between two and 26 weeks. The amount you'd get would be the same as for a mother – £138.18 a week or 90% of your weekly earnings, whichever is lower.

☞ **TOP TIP** When pregnant, avoid heavy lifting or spending long periods sitting or standing at work. Employers must take reasonable measures on your behalf – such as avoiding late or long hours if you're on shift work – so don't hesitate to raise this with them.

Rules have now changed, so that if your baby was born after 5 April 2015, or if you adopted a child on or after this date, you may be eligible for **Shared Parental Leave and Pay**, a new system which aims to give parents greater flexibility when it comes to arranging childcare. Under the new rules, mothers will still take at least two weeks of maternity leave straight after the birth, but after that up to 50 weeks of leave and 37 weeks of pay can be shared between parents.

Statutory shared parental pay is £139.58 per week or 90% of your average weekly earnings, whichever is less. For more information, see GOV.UK.

Your employer might offer a more generous parental pay scheme, so read the small print of your contract carefully.

Maternity pay for employees

You are eligible for **Statutory Maternity Pay (SMP)** if you've been with the same employer for at least 26 weeks up to the fifteenth week before the week you are due to give birth, and have been earning on average at least £112 a week (in the 2015–16 tax year).

You can start your maternity leave from as early as 11 weeks before your baby is due, right up until the day after your baby is born. By law you must take at least two weeks off work after your baby's birth.

STATUTORY MATERNITY PAY

Paid to employees who earn on average at least **£112** a week

Paid for up to **39** weeks

You could get:

90% of your average weekly earnings (before tax) for the first **6** weeks **WITH NO MAXIMUM**

90% of your average weekly earnings or **£139.58** (whichever is less) for the next **33** weeks

MATERNITY ALLOWANCE

For those who don't qualify for maternity pay, e.g. the self-employed

Paid for up to **39** weeks

You could get:

EITHER **90%** of your average weekly earnings or **£139.58** (whichever is less)

OR **£27** a week for up to **14** weeks (if you are claiming maternity allowance as the partner of a self-employed person)

SHARED PARENTAL PAY

If your child was born on or after 5 April 2015, you can share your maternity leave and pay with your partner

90% of your average weekly earnings or **£139.58** (whichever is less) for up to **37** weeks

Source: GOV.UK

You'll need to tell your employer that you want to stop work to have a baby, and let them know the date you want your **maternity pay** to start, in writing if they ask you to. You have to give them at least 28 days' notice and you'll also have to provide proof that you're pregnant, such as a doctor's note.

Some employers offer a more generous maternity package, and you might get more than this. However, bear in mind that if you decide not to go back to work after your maternity leave, you might have to pay some of your maternity pay back, and some companies will require notice if you decide not to return, so make sure you check your contract.

Maternity pay if you're self-employed

If you're self-employed, or earn less than £112 a week (in the 2015–16 tax year), you won't qualify for SMP, but should be able to get Maternity Allowance, which provides up to the same amount as SMP.

To qualify for Maternity Allowance, you need to have been self-employed or employed for at least 26 weeks in the 66 weeks before your baby is due. You must also have been earning at least £30 a week over any 13-week period. If you're self–employed you must have paid **Class 2 National Insurance Contributions** for at least 13 of the 66 weeks before your baby's due.

How to claim Maternity Allowance

To claim Maternity Allowance, **download a claim form** from the GOV.UK website. Alternatively you can call Jobcentre Plus on 0800 055 6688. If you live in Northern Ireland, you can download a claim form from the Nidirect.gov.uk website.

You can also find a **maternity pay calculator** on the GOV.UK site to help you work out how much you might get.

☞ **TOP TIP** If you are expecting a child, sit down and write a list of all your essential outgoings, such as your rent or mortgage, energy costs and council tax, and think about how you will cover all these while you're living on a reduced income.

Sick pay

The amount you receive if you are employed but unable to work due to ill health varies from company to company. Some firms will give you full pay for a set period of time, while others may only offer **Statutory Sick Pay (SSP)**, which is the minimum amount they must legally pay you. This is currently paid at a rate of £88.45 a week for up to 28 weeks.

To qualify for SSP, you must:

- Have been ill for at least four consecutive days
- Earn at least £112 per week before tax
- Inform your employer you are sick within seven days or before their deadline

You won't qualify for SSP if you are:

- Self-employed
- Receiving Satutory Maternity Pay

If you're off ill for more than seven consecutive days, you must give your employer a "fit note" (or "sick note") as proof that you are unable to work. Your doctor or hospital will provide you with this free of charge, although they might charge you a small fee if you ask for a note before you've been off for seven days.

Long-term sickness

If you are ill and unable to work for more than 28 weeks, or you stop being employed, you might be able to claim **Employment and Support Allowance**. You may also be eligible if you don't earn enough to qualify for Statutory Sick Pay.

There are two different kinds of Employment and Support Allowance. One of them is "contributory" and you only get it if you've made enough **National Insurance (NI)** contributions. The other is related to your income, and depends on how much you earn and your savings. You can get either

☞ **TOP TIP** Always check out whether your company has a long-term sickness policy that offers you protection. You usually qualify when you have been working for the company for a year.

Sickness and Self-Employment

Getting ill when you are self-employed can be a real problem so – if you can afford it – it's worth considering taking out **Income protection cover**. If you become too ill to work, you can claim **Employment and Support Allowance (ESA)**, which will provide limited financial help. From April 2017, payments for new claimants who are considered medically able to prepare to return to work will be aligned with Jobseeker's Allowance. The easiest way to apply is by telephoning 0800 055 6688. For more on ESA, see GOV.UK.

sort of Employment and Support Allowance, or you may be entitled to both. Chapter 4 of this guide looks at how your employer can help. For more information on Employment and Support Allowance, see the GOV.UK website.

Your holiday entitlement

To take time off for holidays, you need to use your annual holiday allocation (also known as annual leave) which your employer is legally obliged to give you. The amount is generally worked out at 5.6 times your usual working week, but can vary according to who you work for and how long you've been there. It's up to your employer whether to include bank holidays in the overall amount. You are also entitled to holiday leave during maternity, paternity or adoption leave, which can be built up to use at a later date.

If you leave your job early, you may have to pay for any holiday you have taken over your allocated amount. See the GOV.UK website for more information on holiday entitlement.

Your redundancy rights

Being made redundant can be a pretty upsetting experience and can cause serious financial problems. Always check your redundancy terms when you start a new job. However, if you've been working for your current employer for over two years, you are likely to qualify for statutory redundancy payment. This varies according to your age as follows:

- Under 22 you get half a week's pay for every year worked
- Between 22 and 41 you get one week's pay for every year worked
- Over the age of 41 you get one and half week's pay for every year worked

The maximum statutory amount you can receive is £13,920. For more on your redundancy rights see GOV.UK.

After you've been given notice or decided to leave, your employer may ask you to serve out your notice at home (known as "gardening leave"). This usually happens when an employee has access to sensitive company information. The terms should be in your contract, but you must be paid your normal salary along with any other benefits. For more on gardening leave, see GOV.UK.

☞ **TOP TIP** Your redundancy settlement may not cover all your essential bills, so consider other financial protection. **Short-term income protection insurance (STIP)** pays you a proportion of your salary (usually for between one and two years) and **Mortgage payment protection insurance (MPPI)** covers your monthly repayments (usually for up to two years).

CHAPTER TWO:

THE COST OF WORKING

Getting the balance right

Nearly everyone needs to work and for many people it's a fulfilling as well as a rewarding experience. But, depending on your circumstances, taking on a job can also involve extra (sometimes unexpected) expenses. Commuting, childcare bills, food, drink and other expenses can all add up, but there are plenty of ways to help keep these costs manageable.

Help with childcare

Childcare can be very expensive. According to a 2015 survey by the Family and Childcare Trust, the typical price of a part-time (25 hours a week) nursery place for a child aged two or under is around £115.45 per week – which adds up to £6,003 per year in Britain (see **table below**), so it's hardly surprising that many parents simply can't afford to work regular office hours.

In most cases you'll have to sort out childcare for yourself, but there are ways your employer can help. Some companies offer their own on-site crèche, either as a free service or by asking you to make a contribution from your salary. Another way you may be able to get some support is through **childcare vouchers**.

Average cost of childcare in 2015

	CHILD UNDER 2 YEARS	CHILD 2 YEARS AND OLDER
Nursery, part-time (25 hrs)	£115.45 per week	£109.83 per week
Childminder, part-time (25 hrs)	£104.06 per week	£103.04 per week

Source: Family and Childcare Trust Annual Childcare Survey 2015

Childcare vouchers

If your employer offers a **childcare voucher scheme** (see GOV.UK), you can pay for some or all of your monthly childcare costs out of your income before tax is deducted. This applies to children up to the age of 15. If you're a basic rate taxpayer signing up to the current scheme, you can receive up to £55 per week or £243 a month of vouchers, exempt from tax and **National Insurance**, while higher rate tax payers can receive £28 per week, or £124 per month. These vouchers are non-refundable.

New childcare voucher scheme

A new childcare voucher scheme is due to be introduced in early 2017, called "Tax-free Childcare". Both employed and self-employed parents can apply. See the table below to work out if you are eligible. Homes where only one parent works will not be eligible. For more on **Tax-Free Childcare**, see GOV.UK.

Who is eligible?

You are eligible if you:

- have one or more child aged under 12
- are in a couple, and you are both working
- earn between £2420 and £150,000 a year (applies to both of you if you're in a couple), including if you are self-employed
- aren't claiming tax credits
- are on maternity, paternity or adoption leave

Under the new scheme you pay in to an online voucher account. For every 80p you contribute, the state will contribute 20p. This 20% rebate applies to the annual cost of childcare of up to £10,000 a year. So, for example, if you spend £4,000 on childcare a year, you will be entitled to £800 of tax-free support. Grandparents, other family members or employers can also contribute if they want to.

If you belong to the current voucher scheme, and you don't move jobs, you can stay on it until your child reaches 15, or you can move to the new scheme.

If you decide to stop paying into the scheme at any time, you will be able to withdraw any money you have built up, but bear in mind that the government will take away what it has paid in.

If you sign up to the current childcare voucher scheme now, you can transfer across to the new scheme once it launches, as long as you are eligible. Once the new scheme comes into effect, the current childcare voucher scheme will be closed to new applicants, although if you've already signed up, you can continue to belong to it.

☞ **TOP TIP** Use your vouchers to pay for any childcare regulated by Ofsted (the official body for checking education standards), including child-minders, nannies, nurseries, play-schemes and out of school clubs in England and equivalent childcare in Scotland, Wales and Northern Ireland. Access Ofsted reports on childcare at http://reports.ofsted.gov.uk

If you decide to switch out of the existing scheme and into the new scheme, you can't then move back to the previous scheme.

Support for pre-schoolers

When your child reaches the age of three, he or she will be entitled to 15 hours a week of **free nursery education** for 38 weeks of the year during school term-time, regardless of how much you earn (see GOV.UK). This applies until your child reaches compulsory school age, after their fifth birthday. The government has pledged to increase this to 30 hours a week from 2017.

You might also be eligible to claim **Child Benefit** if you and your partner each earn less than £50,000 a year. This is £20.70 a week for the eldest child and £13.70 for other children. If either you or your partner individually earns between £50,000 and £60,000 a year, you are still entitled to Child Benefit, but will have to pay back 1% of it for every additional £100 of income you earn over £50,000. If either of you earns over £60,000 you won't be eligible at all.

The cost of commuting

Commuting is not just a major expense, it can also be stressful and impact on the quality of your life, for example by lessening the time you spend with your loved ones. If you have the option, it's worth assessing whether working nearer home for a smaller salary is better, in the long run, than earning more and travelling further. It's also worth weighing up the choice between the expense of running a car versus the high cost of public transport. There are ways of keeping travel expenses down, however, or at least spreading the cost over time, and if you are self-employed, many of your travel expenses are tax deductible.

Season ticket loan

A season ticket can bite a big chunk out of your earnings. In 2015, according to **National Rail's Season Ticket Calculator** (see nationalrail.co.uk), a standard class annual season ticket from Tonbridge in Kent to London costs an eye-watering £4052. Rather than stumping up the full cost of your annual ticket yourself, some companies provide you with the money to pay for it interest-free. You then pay back the loan each month from your salary. Bear in mind that an annual ticket is usually considerably less than paying for a monthly or weekly ticket, so this is an attractive perk if your employer offers it.

Company cars

If you have to travel a lot with your job, your employer might offer you a company car. However, you should bear in mind the following:

- You will usually have to pay tax on the value of the car if you use it privately as well as for work.
- The amount of tax you pay depends on how much you'd pay if you bought it, and the kind of fuel it uses.
- The rates for diesel cars are usually 3% higher than for petrol equivalents, although this will be scrapped from April 2016.

You can see how much tax you might pay with the **HM Revenue & Customs (HMRC)** company car and fuel benefit calculator.

☞ **TOP TIP** Whether employed or self-employed, consider car sharing with a friend or colleague to reduce your travel costs. Alternatively, investigate one of the many commercial car share schemes available throughout the country.

A car allowance

Rather than offering you a car, some employers provide you with a car allowance to help cover the cost of running your own car. The amount you get varies from employer to employer. This is taxed at your normal rate, as it is paid to you as part of your salary.

Your employer might also reimburse you for fuel costs for business travel in your company car. The amount you will get is usually based on the government's Advisory Fuel Rates. The latest rates, which apply from 1 March 2015, can be found on the GOV.UK website. Rates are reviewed every quarter on the first day of March, June, September and December.

Cycle to work scheme

Provided you don't live miles away from your job, you might want to consider cycling to work. This is not only good for your health, it can save you money.

If you don't already own a bike for commuting, your employer may be able to help you buy one tax-free through the government's Cyclescheme. Employers run the scheme in different ways, but essentially your employer buys a bike, you then agree to a "salary sacrifice" (see **box**) – paying back the original cost (usually less the VAT) in monthly instalments from your salary.

Salary sacrifice

Salary sacrifice is when you make an agreement with your employer to give up part of your salary, usually in exchange for a non-cash benefit – such as a bicycle. The advantage is that the non-cash benefit will be exempt from tax and **National Insurance (NI)**. It may seem counter-intuitive to agree to a "salary sacrifice", but not only does it mean that you will pay less tax and NI but also your employer's NI contributions will be less. In some cases an employer may even pass this additional benefit on to you.

Once you've completed payment you can usually purchase the bike at an HMRC-approved value that reflects its age. For a one-year old bicycle, this is 18% of its value if the bike cost less than £500, or 25% if it cost £500 or more. This sounds as though you are buying it twice, but because of your savings on tax and National Insurance you are paying much less than if you had bought the bike yourself.

☞ **TOP TIP** Use the Cyclescheme calculator to work out how much money you could save under your employer's cycle-to-work scheme.

Equipment and other expenses

Of course, travel and childcare aren't the only expenses associated with work. Depending on what you do, you may need certain "tools of the trade" to help you do your job. You may well have to cover the cost of these yourself, although you might be able to claim **tax relief** on any items you've bought for work, as long as you don't use them in your private life as well.

Claiming tax relief on work tools

As an employee you can claim relief on the following:

- Repairing, replacing or buying small tools you need to carry out your job, such as an electric drill or nail gun.
- Repairing, cleaning or replacing clothing you need specifically for your job, such as boots or a uniform.
- Any fees or subscriptions paid to approved professional organizations, but only if they are helpful for your work, or if membership is essential in order to do your job.

You can't claim **tax relief** on:

- The initial cost of buying your work clothing.

You should also be able to claim tax relief if you use your own car for business, or for fuel when you use a company car, as well as on the cost of overnight expenses if you have to travel as part of your work.

You can find out more about tax relief for employees on the GOV.UK website.

Claiming for employee expenses

If you're an employee, and have to spend your own money on things you must buy for your job, such as tools if you're a builder, or you have to pay for travel, you can claim **tax relief** for up to £2500 of these using your **Self Assessment** tax return if you already fill one in. If you don't already fill one in, you can use the **HM Revenue & Customs (HMRC)** form P87 to claim tax relief on your employment expenses – download it from the GOV.UK website.

If your expenses are more than £2500, then you will have to fill in a Self Assessment tax return. You can register for Self Assessment here. You will receive any tax relief through your **tax code** for the current year and next tax years.

Expenses if you're self-employed

As a general rule, if you are self-employed you can deduct any expenses that you've incurred in relation to your work and then pay income tax on what's left.

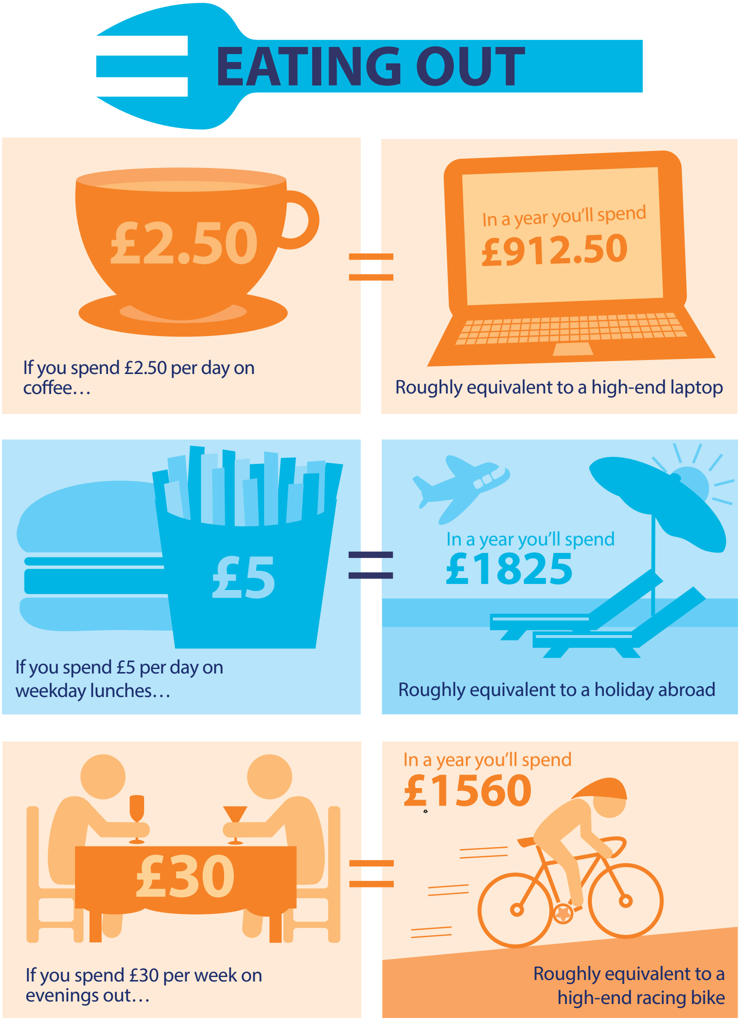
Be careful if you've got combined personal and business expenses. For example, if you use the same mobile phone to make business and personal calls, you can only deduct the business calls if they can be easily identified and separated from your other calls.

You'll need to keep receipts for any expenses you've run up, so that you can add up everything you need to deduct when completing your tax return. You should keep these records for six years after the tax year to which they apply ends.

Eating out

That coffee you buy every morning on your way to work might not seem like a big extravagance, but add up the cost of buying one every day for a year and you might be shocked at how much you're paying. Buying lunch every day can also take a big chunk out of your pay packet. If you're looking to cut costs, think about taking in a packed lunch or bringing in a thermos of coffee.

☞ **TOP TIP** Set yourself a strict daily budget for snacks and drinks, so you know exactly how much you are spending. It might seem boring, but any savings you make can go towards something else you really want.



To work out how much you spend on daily life, see the habit cost calculator on the Legal & General website.

If you have to travel for work, or stay somewhere overnight, you might be able to claim **tax relief** on money you've spent on food or accommodation. Find out more about what you can and can't claim for at the GOV.UK website. Some companies provide an allowance if you are travelling or operating on behalf of them, so always make sure you know what you can claim for.

CHAPTER THREE:

WORKPLACE PENSIONS

Saving for the future

The best way to have a secure and enjoyable retirement is to save as much as you can while you are working. The later you leave it, the more you'll have to pay into your pension pot. According to Legal & General, you would need to save £238 a month from the age of 25 to achieve an annual pension income of £5,000 by the time you're 65. If you waited until you were 45, you would have to contribute £444 a month to achieve the same amount at 65.

The State Pension may not necessarily provide you with enough to live on when you stop work. The maximum State Pension for a single person is currently £115.95 a week (for the tax year 2015–16) and from 6 April 2016, when the new State Pension is introduced, it will be no less than £148.40 per week. However, there are no guarantees that the State Pension will even be around in the long-term.

Company pension schemes often provide one of the best ways to save for retirement, as employers usually make contributions on your behalf. The government also gives you **tax relief**, boosting the amount in your pension pot. This makes it one of the most valuable company benefits available.

How workplace pensions work

When you sign up to your employer's workplace pension scheme, often known as an "occupational" or "company" scheme, you start contributing a percentage of your pay into the scheme every month. Your employer will then usually add their own contributions to your scheme, and you will also get **tax relief**, which is normally paid automatically.

The rate of tax relief varies according to the level of tax you pay:

- As a **basic rate taxpayer (20%)**, you will receive 20p in tax relief for every pound you make in pension contributions.
- As a **higher rate taxpayer (40%)**, this increases to 40p in tax relief for every pound you pay in.
- As an **additional rate taxpayer (45%)**, you receive 45p in tax relief.

For example, if you are a basic rate taxpayer, for every 80p you pay into your pension, the government will add another 20p in tax relief, so a £100 pension contribution will only cost you £80. That means when you pay £400 into your pension, the government adds £100, bringing your total contribution to £500.

You will have to claim some tax relief back if you pay income tax at a rate above 20% and your pension provider only claims the first 20% for you. You can claim the extra 20% back if you're a 40% taxpayer (or 25% if you pay 45% income tax) through your **Self Assessment** tax return. If you don't fill in a tax return, you'll need to telephone **HM Revenue & Customs (HMRC)** on 0300 200 3300 and let them know you need to claim tax relief on your pension contributions. You can find out more about Self Assessment and tax in Chapter 5.

Bear in mind that there is a pension lifetime allowance, which is currently £1.25 million. This is the total amount that you are allowed to save into a pension before you have to start paying tax on it. The lifetime allowance will fall to £1 million in April 2016.

☞ **TOP TIP** You can pay up to £40,000 or 100% of your earnings – whichever is less – into a pension between 9 July 2015 and 5 April 2016 and benefit from tax relief on these payments. From April 2016, the annual allowance will remain at £40,000, but tax relief will be gradually reduced for high earners at a rate of £1 for every £2 earned over £150,000, until it reaches the tax-free limit of £10,000.

What's on offer

The table below shows the most common pension schemes offered by employers. However, most final salary schemes are either now closed or closing because they are simply too expensive for employers to run.

TYPE OF PENSION SCHEME	WHAT IT IS	NEED TO KNOW
Money purchase OR Defined contribution pension	A pension scheme in which the contributions are invested in the stock market.	The amount of pension you receive at the end depends on: • How well the investments have performed. • How much you and your employer have contributed.
Final salary OR Defined benefit pension	A pension scheme that provides a guaranteed income when you retire, which rises with inflation.	• These schemes are no longer widely offered by employers. • The amount you get depends on your salary in the final year of your employment and how long you have worked for the company.

The benefits of auto-enrolment

Workplace pensions are one of the best ways to save for the future. In order that no employee misses out, a new pension **auto-enrolment** system was introduced in 2012 to provide employees with an easy, hassle-free way to save into workplace pensions, and to ensure that employers contribute too. If you are eligible and aren't already paying into your company's pension plan, your employer must automatically enrol you into a scheme.

As auto-enrolment affects millions of workers, it is being implemented in stages, starting with the biggest employers first. By now most people will already be signed up to their employer's scheme, but if your company only employs a small number of people – for example 60 or less – you might be among those yet to be enrolled. Companies of all sizes must have enrolled their employees into schemes by 2018.

You can find the dates by which smaller companies have to introduce auto-enrolment on The Pensions Regulator website.

AUTO-ENROLMENT

You will be automatically enrolled into a workplace pension scheme if you:

- Work in the UK
- Are aged between 22 and the State Pension age
- Don't already belong to a workplace scheme
- Earn more than £10,000 a year

Eligibility for auto-enrolment

You may automatically be enrolled into a workplace pension scheme. See the **graphic** for details on eligibility.

- If you are aged between 16 and 21 or between State Pension age and 74 and your earnings are below £10,000 but above £5824, you won't be auto-enrolled but can still choose to opt in.
- If you are aged between 16 and 74 and earn less than £5824, you won't be auto-enrolled either. You can, however, ask to join your company scheme, although your employer won't be obliged to contribute to your pension.

There is more information on enrolment on the GOV.UK website. You can opt out of the scheme if you want to, but remember that if you do this you won't benefit from your employer's contributions. Bear in mind too that if you decide not to join, employers must sign you up again every three years, so you may end up having to opt out several times.

Contributions

The amount you and your employer must contribute to your pension under the **auto-enrolment** scheme will increase over time.

This table shows how much you'll pay in initially and how contributions will go up in future years. Contributions are based on your **qualifying earnings**. This is the amount you earn before tax up to a current maximum limit of £42,385 per year and less the lower earnings threshold of £5824; limits change at the start of every tax year.

	TOTAL CONTRIBUTION REQUIRED (INCLUDES TAX RELIEF)	YOUR EMPLOYER'S MINIMUM CONTRIBUTION
Up until September 2017	2% (0.8% from you)	1%
October 2017 to September 2018	5% (2.4% from you)	2%
October 2018 onwards	8% (4% from you)	3%

Source: National Association of Pension Funds (NAPF)

The Money Advice Service (MAS) has a calculator to help you work out how much you and your employer will each pay into your pension. You can always pay in more than the minimum if you want to, and your employer might also decide to offer more generous contributions.

Moving jobs

If you're planning to change jobs, or have already done so, you might be wondering whether you can or should transfer your pension. Don't worry that your previous workplace pension will suddenly disappear. The money you've saved will remain invested and you'll still collect your pension once you reach the scheme's pension age.

Combining your workplace pensions

If you want to, you may be able to combine your old pension with your new one (perhaps because you're moving jobs, your new scheme is better than your previous one, or you simply want to bring all your pensions together). Before you do this, make sure your existing pension scheme allows you to transfer some or all of your pension savings. You'll also need to check that your new scheme will accept the transfer.

There may be fees involved in a transfer, and you could lose any right you had to draw your pension at a certain age, so it's worth seeking independent financial advice before proceeding. You can find an independent financial adviser in your area through the Unbiased.co.uk website. You also can get impartial information about transferring your pension from the Money Advice Service and the Pensions Advisory Service.

If you've only worked for your employer for two years or less and then leave, you might be able to get your pension contributions refunded. Your employer, or pension scheme provider, will let you know whether you can do this. This will free up your money, but the amount you get back will have been subject to tax (to take account of any **tax relief** you got when you made contributions into your plan). If you get a refund from your **defined benefit** scheme, contributions will be taxed at 20% on the first £10,800 and at 40% on the remainder.

☞ **TOP TIP** If you've lost track of your pension, contact the Pension Tracing Service who will try and find it for you. They only locate the address of your scheme provider: it's down to you to make further enquiries. For more on lost pension pots, see the Legal & General website.

You won't be able to get a refund of contributions you made using a salary sacrifice arrangement, as these are classed as employer contributions and must stay in your pension. It's important to remember that the value of any money you contribute to a **defined contribution** pension scheme can fall as well as rise. This means the value, when you choose to access your pension pot, could be less than you contributed. You also need to bear in mind that any money you contribute is tied up until you are able to access your pension pot, which is usually any time after you reach age 55.

Your options at retirement

Up to now, as a **defined contribution** pension customer you were fairly restricted in what you could do with your pension pot at retirement. Most used it to buy an annuity, which is effectively a contract with an insurer to provide you with an income for life.

The government has removed the restrictions on what you can do with your pension pot so that you now have much greater choice and flexibility over how you use your savings. Under changes announced in the 2015 Budget, after April 2016 pensioners with existing annuities are expected to be able to sell the income they get from them. There is also a new service allowing you to receive free, impartial guidance on your options, information about the tax implications of the different options, and tips on shopping around to get the best deal. For further details, visit GOV.UK's Pension Wise website.

If after receiving free guidance you are still unsure what to do, it's a good idea to speak to a financial adviser. Some decisions you make at retirement can have long-term consequences and some can't be changed once made, so you need to be sure about what you're doing.

☞ **TOP TIP** If you have a final salary or defined benefit workplace pension, you can take up to 25% of your pension pot as a tax-free lump sum, although this does mean that your retirement income will be lower.

CHAPTER FOUR: EMPLOYEE BENEFITS

The benefits of employment

Many employers offer you a lot more than just your salary. There are often plenty of benefits available and it's well worth making the most of them. These can include flexible working hours, **gym membership**, and discounts, as well as access to loyalty schemes. Lots of employers offer you the opportunity to buy shares in the company, and you might also be able to benefit from insurance schemes that can protect you and your family in the event of illness. Here's a rundown of some of the **various benefits** your employer might provide, as well as suggestions on what to do when things go wrong at work.

Private medical insurance

With the NHS currently under a lot of strain, you might want to take out private medical insurance in order to obtain immediate treatment and the peace of mind that goes with it. Some employers offer low-cost private medical and dental cover as a "**benefit-in-kind**". This means that the company pays for your insurance, although you'll usually have to pay tax on the cost of the insurance premiums.

If your employer offers medical insurance, make sure you check the small print so that you know exactly what your policy does and doesn't cover. For example, not all policies will cover pre-existing medical issues. You should also find out how much the excess is – the excess being the portion of any **insurance claim** that you must pay yourself.

> ☞ **TOP TIP** Always speak to your insurer before agreeing to any treatment, so that you can be certain you won't have to cover the cost of medical or dental bills yourself.

Free eye tests

You are legally entitled to claim a free eye test from your employer if you regularly work with "visual display units" (VDUs), such as computers, or if you have to drive a car or heavy goods vehicle as part of your job. It's up to you to ask for an eye test if your employer doesn't offer you one. Some employers will also contribute towards the cost of purchasing spectacles should you need them.

Bear in mind that an employer doesn't have to pay for your spectacles if you need them for a purpose outside your work. So if you use them for driving, but don't have to drive for work, then you'll have to cover the bill yourself.

Critical illness cover

Your employer may offer you **critical illness cover**. This type of plan could pay out a cash lump sum if you are diagnosed with a specified critical illness or condition. You can put this money towards clearing your mortgage, or paying for modifications to your home if your illness has left you disabled.

Group schemes don't usually require you to provide personal health details, you can often be included for cover without the need to provide lots of information. However, there may be instances – as with most **insurance policies** – where you may not be covered, such as an illness that you had or were aware of before joining the scheme.

Being your own boss

Are there any perks to being self-employed or running your own business? The obvious one is the freedom it gives you, particularly in managing your own time. It can also enable you to make choices about what projects you work on and who you work for, plus projects can be varied if you are contracted by a number of different businesses. If you're a member of a union or association, you might still be able to get some perks, such as discounts, insurance and services. The main disadvantage to being self-employed is having an inconsistent income.

Keeping everyone motivated

Good employers want to keep their employees as happy as possible in order to motivate them to do the best that they can for the business and to minimize the time taken off work. Apart from the ways listed in the rest of this chapter, there are a range of other perks, benefits and rewards that may incentivize you or, at the very least, help to improve your experience of work – see the **graphic**.


EMPLOYEE BENEFITS
Flexi-time
Flexible hours & working from home
%
Voucher schemes
Non-taxable rewards for employees
Gym Membership
Free or subsidized membership
Annual Awards
Christmas bonus & good employee awards
Discounts
Reduced prices with local retailers

Benefits-in-kind

Some of the perks or benefits your employer might offer are tax-free, which means you don't need to include them on your tax return. The table below shows some of the types that are taxable and those that are tax-free. It's not an exhaustive list; to find out more visit the Citizens Advice website.

TAX-FREE BENEFITS	TAXABLE BENEFITS
Employer contributions into a company or personal pension scheme.	Company cars which you use for private and business purposes.
Bicycles provided by your employer for getting to and from work.	Employer-provided accommodation which is either rent-free or below the market rent.
Free or subsidized canteen meals.	Interest-Free Loans.
In-house gym or sports facilities.	Private medical insurance.
Reasonable removal expenses if you are transferred to a new work location.	

Under current rules, employees who earn less than £8500 a year don't have to pay income tax on certain **benefits-in-kind**. This threshold is due to be abolished from 6 April 2016, so that everyone who has a taxable benefit or expense will have this taken into account when their tax liability is worked out.

Income protection cover

Whether you are employed or self-employed, it's worth thinking about how you would cover all your outgoings if you lost your income because you were too unwell to work. Research by Legal & General has found that people in the UK could be on the breadline in just 29 days if the main breadwinner was unable to work. If you want to see how this loss of income would impact on you, use the online calculator.

Recent research by PMI Health Group found that more than three-quarters (77%) of employees would not be able to live on just statutory sick pay, which is currently £88.45 a week (2015–16 tax year), if their income stopped tomorrow. Which is why, if your employer offers income protection as an employee benefit, it's well worth understanding what's covered. **Income protection cover** is designed to pay out a monthly taxed income, usually up to retirement age, if you are too unwell to work, up to 80% of your gross (pre-tax) income can usually be covered.

Some income protection policies come with additional benefits, such as rehabilitation programmes, to help you get back on your feet so you can return to work.

Death in service

Many employers offer "death-in-service" insurance to their staff. In the event of your death, the amount paid out is usually a multiple of your salary, such as three or four times the amount you earned every year. Some employers will also provide a widow or widower pension.

As well as being a member of staff when you die, there may be other criteria you need to meet in order for the **death-in-service insurance** to pay out, such as not being in the probationary period. Cover usually runs until you leave your company.

> ☞ **TOP TIP** Death-in-service cover might be insufficient to support your dependants, so think about having additional life insurance that will continue until you die or your policy comes to an end.

Most insurers offer a choice of level term assurance, where a cash sum is paid out if you die during the term of the policy, or mortgage term assurance, which is specifically designed to pay out a cash sum to pay off your mortgage if you die during the policy term.

When things go wrong

If you have a grievance at work – for example, you may have been given an impossible workload or feel bullied by a colleague – first try to sort it out informally with the person in question. If this doesn't work, talk to your manager or the Human Resources (HR) department. If this still doesn't resolve things, then you can make a formal complaint either in writing or at a meeting with your employer. The next step is to speak either to your trade union (see below), if you belong to one, or to the **Advisory, Conciliation and Arbitration Service (Acas)**. If you live in Northern Ireland, you can contact the **Labour Relations Agency**.

Help and advice

Acas: Helpline 0300 123 1100

acas.org.uk

Labour Relations Agency:

Helpline 028 9032 1442

lra.org.uk

Similarly, if you are concerned about an employee's behaviour at work, you should talk to them about it. If this doesn't work, the next stage is disciplinary action, which can potentially result in dismissal. There are strict rules about disciplinary proceedings and it is important to follow them correctly. For more information, see GOV.UK or nidirect.gov.uk if you live in Northern Ireland.

Trade unions and pressure groups

A trade union is an organization that represents the interests of a particular group of workers – such as nurses, office workers or teachers – negotiating with employers on things like the improvement of **pay and conditions**. A trade union will also offer an individual member advice and support in the event of a disagreement with an employer.

You are under no obligation to join a union, and your employer cannot discriminate against you either for being a member or not. For more on trade unions see GOV.UK. If you run a small business, the equivalent organization would be a pressure group, such as the Federation of Small Businesses, which gives advice and represents its members' interests to parliament and the EU.

Investing in your employer

If the company you work for is doing well, why not invest in it? Many companies now offer some form of **workplace investment scheme**. The table below shows some of the most popular ones. Never put all your investment eggs in one basket, though. If, for example, you invest heavily in your company and the share price falls, you could end up with financial losses.

TYPE OF SCHEME	WHAT IT IS	PROS	CONS
Save as you earn (SAYE)	A savings scheme in which you save a fixed amount for 3–5 years. You can then either take your money back or buy shares in your company.	• If the share price has risen during the term of the scheme, then you can opt to buy shares. • If it has dropped, you can simply take the cash. • If you decide to buy shares, you won't have to pay income tax or National Insurance contributions on the profit.	• HMRC has cut interest rates for investments in SAYE schemes to 0%, which means if you decide to take the cash, the value of your money will have decreased due to inflation.
Share Incentive Plan (SIP)	A scheme that companies may offer employees. A SIP allows you to obtain shares by: • Offering up to £3600 of "free" shares. • Allowing you to spend up to £1800 of untaxed salary on partnership shares. • "Matching" your shares by giving you up to two free shares for every partnership share you buy. • Allowing you to use any dividends, paid out on the above, to buy more shares.	• If the shares are held for at least 5 years, there is no income tax or National Insurance contributions to pay on the value of your shares. • There's also no capital gains tax on the shares you sell as long as they are kept in the plan until you sell them.	• Shares that are taken out of the plan, then kept and sold later, may be subject to capital gains tax, if their value has increased.
Workplace ISAs	A tax-efficient savings scheme that allows you to make payments directly from your pay. It's usually a stocks and shares ISA and you can choose which funds to invest in. The allowance for 2015–16 is £15,240.	• Fees are often discounted, so you may benefit from reduced or no initial charges and reduced management fees.	• You can't switch to a different ISA provider if your ISA is peforming badly, but you can still switch funds.

CHAPTER FIVE:
TAX

How tax works

Tax is a notoriously complicated area, but understanding how employers work out how much you owe, and how to make the most of any allowances that are available to you, can help make it easier to manage your finances. As well as income tax, you'll also usually have to pay **National Insurance (NI)** contributions. These entitle you to various benefits such as the State Pension and the National Health Service.

National Insurance

You pay **National Insurance (NI)** contributions on the money you earn from the age of 16 until the age you receive the State Pension. You and your employer contribute to your NI payments, which are deducted from your wages before you receive them.

For the 2015–16 tax year you will have to pay NI if you are over 16, an employee earning at least £155 a week, or self-employed and making a profit of £5965 or more a year.

If you're employed, you'll pay **Class 1 National Insurance contributions:**

- 12% on your weekly earnings between £155 and £815
- 2% on any weekly earnings over £815

If you're self-employed, you'll pay **Class 2** or **Class 4 National Insurance contributions**, depending on your profits. These are collected through the self-assessment system.

- £2.80 per week, if your profits are over £5965 a year (Class 2)
- 9% on profits between £8060 and £42,385, 2% on profits over £42,385 (Class 4)

If your profits are lower than the Small Profit threshold of £5,965 for the current 2015–16 tax year, you won't have to pay any Class 2 National Insurance. You used to have to fill out an HMRC form to claim an exemption in advance, but this is no longer necessary.

☞ **TOP TIP** If you are out of work, you should consider making voluntary National Insurance (NI) contributions so that there are no gaps in your NI record. If you haven't paid enough years of NI by the time you reach State Pension retirement age, you will not receive the full State Pension.

How much tax you'll pay

If you are in work, you pay tax on your income (known as income tax). The more money you earn, the more tax you have to pay. There is some good news though. You receive a certain amount of your income tax-free each year. This is known as your **personal allowance**. Most people's allowance for the tax year 2015–16 is **£10,600**; it will increase to £11,000 in 2016–17, with the government aiming to increase it to £12,500 by 2020.

AGE	PERSONAL ALLOWANCE FOR 2015–16
If you were born after 5 April 1948	10,600
If you were born between 6 April 1938 and 5 April 1948	10,600
If you were born before 6 April 1938	10,660

There are various factors that determine the level of an allowance, such as:

Age: If you were born before 6 April 1938 and your income *doesn't exceed* £27,700, you get an "age allowance"; this will no longer apply from 2016-17.

Income limits: If you earn above a certain threshold, your allowance will be reduced. For example:

- If you were born before 6 April 1938 and your income is *higher than* £27,700, then your age allowance is reduced by £1 for every £2 over the threshold until it reaches £10,600.
- If your income is *higher than* £100,000 (whatever your age), your personal allowance also goes down by £1 for every £2 that your income is over this threshold. That means if you earn £121,200 or more, your personal allowance disappears altogether. For a full list of allowances – see GOV.UK.

Income tax rates for 2015–16

Above your **personal allowance**, your income is taxed at different rates as shown in the chart below. For example, a person earning £25,000 a year, with a personal allowance of £10,600, will only pay the 20% basic rate of tax on £14,400, in other words on their salary less their £10,600 personal allowance.

TAX RATE	TAXABLE INCOME ABOVE YOUR PERSONAL ALLOWANCE
Basic rate 20%	Up to £31,785
Higher rate 40%	£31,786 – £150,000
Additional rate 45%	Over £150,000

Source: GOV.UK

People with the standard personal allowance currently start paying higher rate tax on income over £42,385. This higher rate threshold will increase to £42,700 in 2016–17.

Any bonuses and commission earned at work are taxable, as well as any redundancy or leaving payments over £30,000. For any tax due on benefits in kind see Chapter 4.

How you pay tax

If you are in employment, you will usually pay tax through the **Pay As You Earn (PAYE)** system. This means your employer deducts your tax and **National Insurance (NI)** contributions from your wages before you are paid.

You therefore pay tax every month, rather than in a big lump sum. At the end of the tax year, which finishes on **5 April** every year, your employer should give you a P60 form which tells you exactly how much you've been paid over the year, as well as how much tax and NI contributions have been deducted.

The PAYE system can also be used by HMRC to collect tax on any other income you might have, such as any untaxed savings interest or rent if you are a landlord, by adjusting your tax code.

Understanding your tax code

Your employer knows how much income tax to take off your salary through your tax code. This normally consists of numbers with a letter at the end. HM Revenue & Customs (HMRC) issues everyone on the PAYE system with a tax code for the coming tax year, usually sending them out between January and March.

The numbers in your income tax code refer to the amount of money you're allowed to earn before you start paying tax. So, for example, if you get the full basic personal allowance (currently £10,600), your tax code would have number 1000 on it. That's because the amount you can receive before tax is due is divided by 10 to generate the tax code number (£10,600 ÷ 10 = £1,060). People who receive the personal allowance in full would have the tax code 1060L. Codes are adjusted to take account of some workplace benefits, such as a company car.

Not everyone will get a tax code ending in L. See GOV.UK to find out what all the different codes mean. Always check your tax code when it arrives and if it is wrong, ask HMRC to correct it.

Do you need to fill out a tax return?

If your employer deducts tax from your pay through the PAYE system, and you don't have any other sources of income and your work expenses don't exceed £2500 per year, you usually won't have to worry about filling in a tax return.

You will need to complete a Self Assessment tax return if you are one of the following:

- Self-employed
- A company director
- A partner in a business
- In receipt of untaxed income of over £2500
- Live abroad and have a UK income, or receive taxable income from abroad

There are a number of other reasons for completing a tax return, so it's worth checking whether you qualify by completing the online HM Revenue & Customs (HMRC) questionnaire or by referring to GOV.UK.

In most cases, you'll be sent a notice to complete a tax return by HMRC, but if you haven't received one and think you need to fill one in, you should call the **HMRC Self Assessment Helpline** on 0300 200 3310.

A new tax system

Under changes unveiled in the March 2015 budget, the current annual tax return system will soon be scrapped. It will be replaced by an online system over the next five years.

By early 2016, five million small businesses and ten million individuals will have access to their own **digital tax accounts**, and by 2020, every individual and business will have one.

People and businesses will have the option to "pay as you go" to help manage cash flow and avoid having to make big lump sum payments.

If you have to fill in a tax return, you will still need to complete one as normal for the 2014–15 tax year, which ended on 5 April 2015.

What you need to fill out a tax return

You'll need the following information to complete your return, if you're self-employed:

- Your invoices and details of any expenses and receipts
- Your accounts for the year, including purchase and sale ledgers and petty cash books
- Receipts for any expenses associated with your job

Keeping good records

> ☞ **TOP TIP** When buying equipment for your business, check whether you can offset the cost against your taxable income by claiming what are known as "capital allowances".

It's important to keep accurate and detailed records of your business. You may be able to keep your own books or employ a bookkeeper or accountant, but if you are trading as a limited company you will need the help of an accountant. You can find an accountant through the Institute of Chartered Accountants in England and Wales (ICAEW).

If you're employed, but still need to fill out a tax return, you'll need the following information to complete your return:

- **Your P60 form:** This shows how much you have earned for the year and is given to you by your employer
- **Your P11D form:** Also from your employer, this shows the company benefits you have received for the year, such as private medical insurance.
- **Payslip:** Obtain a payslip from your employer and information about any share options you have.

Don't file late!

Always get your tax return in **on time**, or you risk being fined by HM Revenue & Customs (HMRC). There are two important deadlines: a paper return must be filed by 31 October, but for online filing, you've got until 31 January.

Missing the January deadline means an **automatic £100 fine**. After that, the penalties are as follows:

- Over three months late, you'll be charged an additional £10 daily for a maximum of ninety days
- Over six months late, you'll be charged a further penalty of 5% of your tax or £300 (whichever is higher)
- Over twelve months late, you'll be charged another penalty of 5% of your tax or £300

There are also penalties for late payment of any tax owed. You get 30 day's grace after the **31 January deadline**, at which point you will be fined 5% of the tax owed, followed by a further 5% if the tax still hasn't been paid by 31 July.

Not paying can lead to serious consequences. For example, owing large outstanding fines could affect your ability to get a mortgage.

Next steps

Hopefully, this guide has helped you find out more about your financial rights at work and some of the benefits that might be on offer. Although you'll usually have to pay tax on what you earn, the benefits can often make your overall package seem much more attractive. While you might not be able to take advantage of every benefit, the chances are there'll be a few which are really useful.

If you're unsure about a particular area, or what your employer offers, start by asking them for more information. If you're self-employed always make sure you claim the full amount on the costs of running your business. Making the most of what's on offer can often be a case of filling out a few forms, so don't put it off or you risk missing out on help that could provide you with a big financial boost.

☞ Visit www.roughguidefinance.com to subscribe to
The Rough Guide to Personal Finance series.

Useful links

ADVICE & CHARITIES

- **Citizens Advice:**
  England/Wales: citizensadvice.org.uk
  Scotland: cas.org.uk
  Northern Ireland: citizensadvice.co.uk
- **Family and Childcare Trust:** familyandchildcaretrust.org
- **Money Advice Service:** moneyadviceservice.org.uk
- **National Debtline:** nationaldebtline.org
- **StepChange Debt Charity:** stepchange.org
- **Turn2us:** turn2us.org.uk

EMPLOYMENT & SELF-EMPLOYMENT

- **Advisory, Conciliation and Arbitration Service:** acas.org.uk
- **Federation of Small Businesses:** fsb.org.uk
- **Labour Relations Agency:** lra.org.uk
- **Trades Union Congress:** tuc.org.uk

FINANCE & TAX

- **Association of Chartered Certified Accountants:** accaglobal.com
- **Financial Conduct Authority:** fca.org.uk
- **Institute of Chartered Accountants in England & Wales:** icaew.com
- **Legal & General:** legalandgeneral.com
- **TaxAid:** taxaid.org.uk
- **Unbiased:** unbiased.co.uk

GOVERNMENT & PUBLIC BODIES

- **GOV.UK:** GOV.UK
- **HM Revenue & Customs:** hmrc.gov.uk
- **National Health Service:** nhs.uk
- **Ofsted:** reports.ofsted.gov.uk
- **Pensions Regulator:** thepensionsregulator.gov.uk
- **Pension Wise:** pensionwise.gov.uk

PENSIONS

- **National Association of Pension Funds:** napf.co.uk
- **National Employment Savings Trust:** nestpensions.org.uk
- **Pensions Advisory Service:** pensionsadvisoryservice.org.uk
- **Pension Tracing Service:** pensiontracingservice.com

OTHER

- **Cyclescheme:** cyclescheme.co.uk
- **Rough Guides:** roughguides.com

Jargon buster

Auto-enrolment: A government scheme in which every employer automatically enrols you into a workplace pension scheme, if you meet certain criteria. Both employer and employee make contributions into the scheme.

Benefits-in-kind: A benefit which you receive from your employment, but which is not included in your wages, such as a company car or private medical insurance paid by your employer. Some benefits-in-kind are not taxed, whereas others are.

Capital gains tax: A tax on the profit or gain you make when you sell or dispose of an asset. You can receive gains of up to the value of £11,100 (for the 2015–16 tax year) before you have to pay capital gains tax.

Critical illness cover: An insurance policy which pays out a tax-free lump sum if you're diagnosed with a life-threatening illness covered by your plan.

Defined benefit pension: A pension scheme that promises to pay out an amount based on how much you earn when you retire, or an average of your earnings during your employment with that organization. Also known as a final salary or salary-related pension.

Defined contribution pension: A pension scheme in which you build up a "pot" of money from contributions made by you and your employer, which is invested in the stockmarket. When you retire, you can access and use your pension pot in any way you wish. Also known as a money purchase pension.

Dividend: A payment made by a company to its shareholders from its profits after tax. Dividends are typically paid annually.

Enterprise Management Incentives: A type of employee share scheme which enables you to buy shares in the company you work for in the future at a price agreed now. You can buy shares of up to £250,000 without paying income tax or National Insurance on the difference between what you pay for the shares and what they're actually worth. Capital gains tax may be payable if you sell your shares.

HM Revenue & Customs (HMRC): The government department that is responsible for collecting taxes to make sure that money is available to fund the UK's public services. It also administers National Insurance and state benefits.

Income protection cover: Insurance cover which pays out a monthly taxed income if you are unable to work due to illness or disability.

Life insurance: A contract between you and an insurer which will pay out a cash sum if you die during the term of the policy.

National Insurance (NI): A system in which employees and employers make compulsory payments to provide financial support for people who are sick, unemployed or retired.

Pay As You Earn (PAYE): A method of paying income tax and National Insurance in which your employer deducts contributions from your wages or pension before paying you.

Personal Allowance: The amount of income you can receive each year without having to pay tax on it. Any amount you earn above this threshold is taxed.

Private medical insurance: A type of insurance which will pay out, up to specified cover limits, for you to receive any private medical treatment you might need.

Save As You Earn (SAYE): A type of employee savings scheme where you agree to save a fixed amount every month for three or five years. At the end of that time you can either decide to take your cash back, or you can buy shares in the company at a pre-determined price. You don't pay income tax or National Insurance on the difference between what you pay for the shares and what they're worth. You may have to pay capital gains tax if you sell the shares.

Self Assessment: A system which HMRC uses to collect income tax. Tax is usually deducted automatically from your pay, pensions and savings, but if you have other income, it is your responsibility to report it in a Self Assessment tax return.

Share Incentive Plans (SIP): A scheme to encourage employees to buy shares in the companies they work for. If you keep shares in the plan for five years, you won't pay income tax or National Insurance on their value.

Tax code: Your tax code is worked out by HMRC and is usually made up of several numbers and a letter. It is used by your employer to work out how much tax to take from your pay or pension.

Tax relief: A deduction in the amount of tax a person or company has to pay.

Tax year: A 12-month period which is set by the government in order to calculate taxes. The UK's tax year starts on 6 April each year.

Workplace Individual Savings Account (ISA): A scheme which enables you to save in cash and/or stocks and shares through your workplace up to a set limit each year. Returns are free of income and capital gains tax.

Melanie Wright

Melanie Wright is an award-winning freelance financial journalist, who has written about personal finance and money matters for the past eighteen years. She is a former Deputy Editor of *The Daily Telegraph*'s **Your Money** section, and wrote *The Sunday Mirror*'s **Money** section for more than a decade. She contributes regularly to *The Sunday Times*, *The Daily Telegraph* and *The Observer*, as well as various other publications and websites, and feels passionately about providing readers with "news they can use". Melanie is also a regular commentator on television and radio, having been interviewed on BBC Breakfast, BBC News Channel, Channel Five News, ITN News, GMTV and LBC Radio.

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