



This project has been funded with support from the European Commission. This communication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Submission Number: 2017-1-UK01-KA201-036799

ERASMUS+ KA2 STRATEGIC PARTNERSHIP IN SCHOOL EDUCATION



Erasmus + Personal Finance Programme Module 3: Wages, salary & Payslip

Teacher's Guidance Notes

The purpose of this module is to introduce Young People to wages, salary and payslips.

It will teach them:

1. Wages & Salaries.

1.1: Wages & Salaries: Definition and differences.

1.2: Different types of work (different ways in which people can be engaged).

1.2.1. Piece Rate and Time Rate.

1.2.2. Examples.

1.2.3. Terms.

1.3: Minimum wage & Collective agreements (Optional learning).

1.4: Payslip.

2. Taxation.

2.1. Income Tax.

2.2. National Insurance (NI).

1. Wages & Salaries.

1.1: Wages & Salaries: Definition and differences.

What is the meaning of wage?

D: A fixed regular payment earned for work or services, typically paid on a daily or weekly basis. (Oxford Dictionary)

Origin: XIV C. from old French *gage*: “pledge, pay, reward, guarantee, surety” or “a promise or pledge to meet in battle”.

What is the meaning of salary?

D: A fixed regular payment, typically paid on a monthly basis but often expressed as an annual sum, made by an employer to an employee, especially a professional or white-collar worker. (Oxford Dictionary)

Origin: The Latin word *salarium*, from *sal* "salt".

The term comes from the ancient Roman Empire, where payments were often made to soldiers with salt, which was worth its weight in gold, since salt in ancient times was one of the few ways to conserve meat.

The distinction between salaries and wages is not clearly defined, but generally...

Wages are usually considered to be earnings which are calculated on a weekly basis and traditionally paid in cash. Wages can be earned and calculated on a 'time rate' or a 'piece rate' basis.

Salaries are income from employment which is paid on a monthly basis. Salaries are usually expressed as an amount for a whole year. It is extremely rare for salaried employees to be paid on a weekly basis.

For example,

...an employee is paid an annual salary of £16,500; the amount of each month's pay is calculated by dividing the annual amount by twelve, so that the gross pay for each month would be £1,375. The employee receives the same amount each month irrespective of the number of days in that month.

1.2: Different types of work (different ways in which people can be engaged)

1.2.1. Piece Rate and Time Rate:

Piece Rate - This method of payment relates the earnings to the results of the work. The payment made to the employee is calculated on the quantity of work produced. A figure is agreed between the management and the workers, and payment is made according to the number of items produced.

Time Rate - With this system the employee is paid an agreed amount for each hour worked up to a given number of hours. This is the basic rate or standard rate of pay, with extra payment for any hours worked in excess of this number of hours. Any additional time worked is calculated at a higher rate of pay, referred to as "overtime". Overtime rates of pay are generally quoted as "time and a quarter", "time and a half" and "double time".

1.2.2. Examples:

Quick example 1: time rate general quotes

If the standard rate of pay is £8 per hour, then:

- Time and a quarter would be £8 + a quarter (£2) = £10 per hour.
- Time and a half would be £8 + half (£4) = £12 per hour.
- Double time would be £8 + £8 = £16.00 per hour.

Quick example 2: time rate calculation

If the standard rate of pay is £8 per hour, then:

An employee is paid a basic wage of **£8.00 per hour** for a **40-hour week**; any hours worked in excess of this are paid at **time and a half**. During one week the employee worked a total of **46 hours**. The calculation of the gross pay would be as follows:

40 hours at £8.00 per hour	£320.00
6 hours at £12.00	£72.00
Gross pay	£392.00

Quick example 3: piece rate.

For example,

...if the agreed “piece rate” is **£3.00 per 100 items produced**, and the employee completes **5,000 items** in the **week**, the gross pay would be **£150**.

Quick example 4: time rate general quotes.

If the standard rate of pay is £5.90 per hour

(National Minimum Wage for 18-20 year olds), then:

- Time and a quarter would be £5.90 + a quarter (£1.47) = £7.37 per hour.
- Time and a half would be £5.90 + half (£2.95) = £8.85 per hour.
- Double time would be £5.90 + £5.90 = £11.80 per hour.

Quick example 5: time rate calculations.

If the standard rate of pay is £5.90 (NMW 18-20 year old) per hour, then:

An employee is paid a basic wage of **£5.90 per hour** for a **40-hour week**; any hours worked in excess of this are paid at **time and a half**. During one week the employee worked a total of **46 hours**. The calculation of the gross pay would be as follows:

40 hours at £5.90 per hour	£236.00
6 hours at £8.85	£53.10
Gross pay	£289.10

1.2.3. Terms.

- The “**gross pay**” is the total amount earned by the employee before any deductions have been taken off.
- A “**bonus**” is a sum of money paid to an employee as an additional payment. This is usually offered as an incentive to increase the effort or efficiency of the employee.

- The “**net Pay**” is the amount paid to the employee after deductions have been taken off the gross pay.

1.3: Minimum wage & Collective agreements (Optional learning)

What is the meaning of minimum wage?

D: The lowest wage permitted by law or by a special agreement. (Oxford Dictionary)

Almost all workers are entitled to the National Minimum Wage, including:

- Casual workers.
- Part-time workers.
- Temporary workers.

But if you’re self-employed or a company director, you’re not entitled to the National Minimum Wage.

Current UK minimum wage at April 2018:

Age	Minimum hourly rate
25 and over	£7.83
21 to 24	£7.38
18 to 20	£5.90
Under 18	£4.20
Apprentice	£3.70

What is the meaning of collective agreement?

D: A negotiated agreement, which is not enforceable at law, between an employer and employees' representatives, covering rates of pay or terms and conditions of employment, or both. (Collins Dictionary)

How minimum wage and collective bargaining work?

In many countries, bargained and statutory minimum wages co-exist.

Collective bargaining can **provide protection of minimum standards**. However, the coverage of collective bargaining is **insufficient** to provide this protection. Hence, statutory **minimum wages** are adopted **in addition** to collective bargaining.

In general, collective agreements can set minimum wages provided that they are not lower than statutory levels. This implies that when a statutory minimum is increased above the floor level of some collective agreements, the statutory minimum wage applies.

1.4: Payslip

Understanding a payslip

A payslip is a statement of earnings which show how much you have earned that week or month, how the total has been made up, what has been deducted, and what the net payment is. It also shows cumulative totals to date within the current tax year.

Employee No	Employee Name	Process Date	National Insurance Number
87021	Ms A N Other	30/09/2018	AB 12 34 56 C

Payments	Units	Rate	Amount	Deduction	Amount
Basic Salary			1335.92	PAYE Tax	97.00
Overtime @ 1.5	5.5	12.36	67.98	National Insurance	88.92
				Pension	84.35
			Total Payments	Total Deductions	270.27
			1403.90		

Tax Code 1000L	Tax Period 6 Payment Method BACS	<table border="1"> <thead> <tr> <th colspan="2">Year To Date</th> </tr> </thead> <tbody> <tr> <td>Pay To Date</td> <td>8423.40</td> </tr> <tr> <td>Tax To Date</td> <td>582.00</td> </tr> <tr> <td>NI To Date</td> <td>533.52</td> </tr> <tr> <td>Taxable To Date</td> <td>8423.40</td> </tr> </tbody> </table>	Year To Date		Pay To Date	8423.40	Tax To Date	582.00	NI To Date	533.52	Taxable To Date	8423.40
Year To Date												
Pay To Date	8423.40											
Tax To Date	582.00											
NI To Date	533.52											
Taxable To Date	8423.40											
		<table border="1"> <tr> <td>Net Pay</td> <td>1133.63</td> </tr> </table>	Net Pay	1133.63								
Net Pay	1133.63											

A payslip must tell you certain things.

- It must identify you, with your name, unique works number and NI number. It may also have your address.
- It needs to tell you the date the payment was made, and the tax period within which that date falls.
- It needs to tell you your tax code.
- It needs to tell you what your gross (total) earnings are. This may be made up from pay, and other things such as allowances or bonuses.
- It needs to tell you what deductions have been taken off your gross pay. These are normally Income tax and National insurance (NI) There are other deductions which may be taken off, common ones include student loan, or a pension contribution.
- It needs to tell you your net pay. Which is your gross pay less your deductions.
- It also needs to tell your total pay and deductions to date (within the current tax year.) This will include total pay to date, total taxable pay to date, total tax paid to date and total NI paid to date.

2. Taxation

2.1. Income Tax

Do you need to pay Income Tax and National Insurance?

Income tax

You can earn a certain amount of income each year, called your Personal Allowance, before you need to pay any Income Tax.

In general, everyone gets the same Personal Allowance. In the UK it is £11,850 for the year 2018-19

In the UK, the tax system is based on marginal tax rates. That means it's worked out as a percentage of income you earn inside certain thresholds – you don't pay the same amount of tax on everything you earn.

Income tax as an employee:

As an employee:

- You pay 0% on incomes up to £11,850
- Then you pay 20% on anything you earn between £11,851 and £46,350
- Then you pay 40% on anything you earn above £46,350

- PAYE stands for ‘Pay As You Earn’. It is the system for collecting tax from your earnings or pensions during the tax year. The tax year begins on 6 April in the year and ends on 5 April in the following year.

You pay tax as you earn, so if you earn money one month, then none the next, the following month tax deductions will take into account the month where you earned nothing. This is why your tax may go up and down each month depending on how much you earn.

2.2. National Insurance.

National Insurance (NI)

How much NI do I pay?

There is a threshold (called the primary threshold) and if, as an employee, your income falls below this you do not need to pay any contributions. For 2018/19 this threshold is £162 a week or £702 a month.

The actual amount of NI you pay depends on what you earn up to the upper earnings limit, which is £892 per week or £3,865 per month for 2018/19.

For 2018/19 the rates NI for employees are as follows:

	Weekly	Monthly	Rate
On first	£162	£702	Nil
On income between	£162 and £892	£702 and £3.865	12%
On income above	£892	£3.865	2%

NI is generally calculated week by week or month by month, depending on whether your employer pays you weekly or monthly. It is not cumulative like income tax deducted under Pay As You Earn (PAYE).



This project has been funded with support from the European Commission. This communication reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Submission Number: 2017-1-UK01-KA201-036799

ERASMUS+ KA2 STRATEGIC PARTNERSHIP IN SCHOOL EDUCATION

Coordinator



Program Partners

