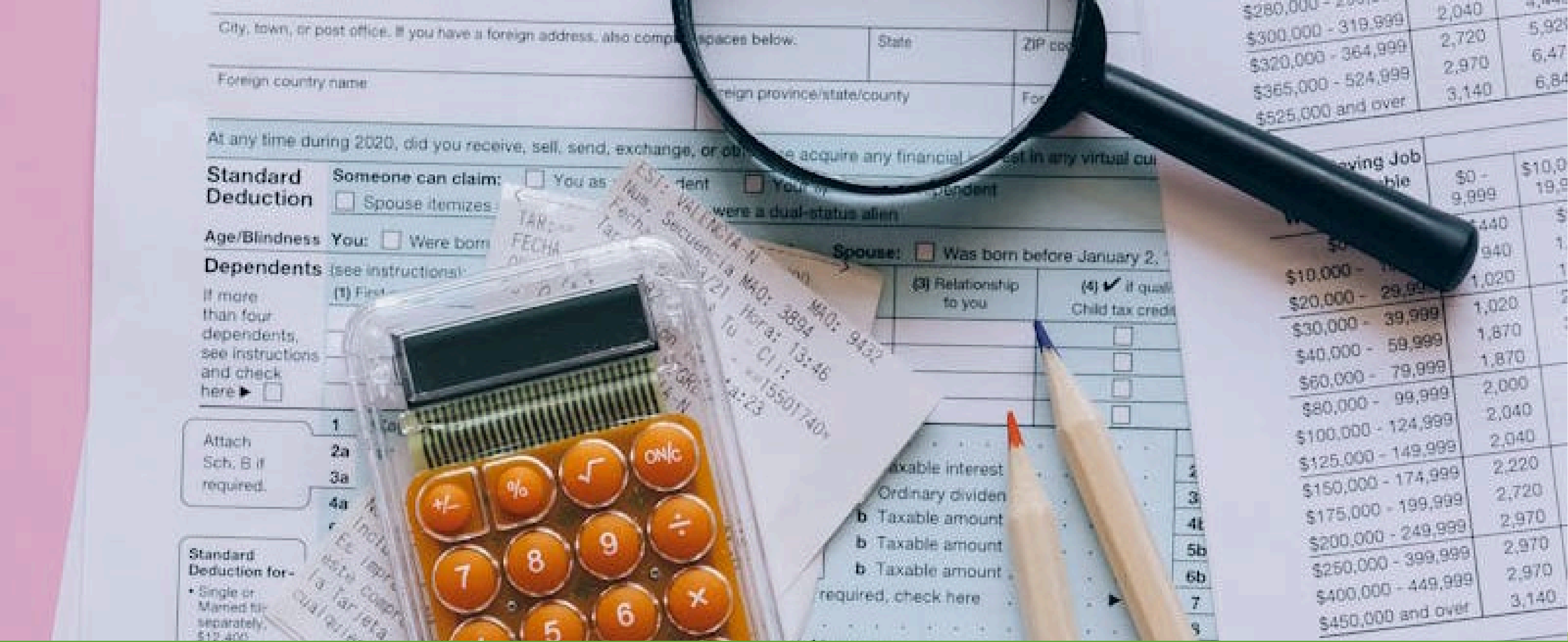


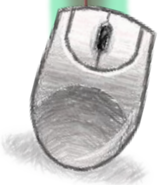
INCOME TAX BANDS – CALCULATING INCOME TAX

Lecturer: Mark Gillan

Introduction to Income Tax Bands

Income tax bands are a key component of the taxation system in the United Kingdom, including Scotland.

These bands determine the percentage of tax individuals must pay based on their income.



SCOTTISH INCOME TAX

In Scotland, the income tax bands are different from those in the rest of the UK.

Understanding how income tax bands work is crucial for individuals and businesses to calculate their tax liabilities accurately.

Overview of Scottish Income Tax Bands

- Scottish income tax bands are divided into different brackets based on income levels.
- The first £12,571 of income is tax-free, providing a guaranteed tax exemption.

LOWER TAX BANDS FOR SCOTLAND

- For income earned between £12,571 and £15,397, a modest starter tax rate of 19% applies.
- Income exceeding £15,398 is subject to a Scottish Basic tax rate of 20%, and so on through tax bands.
- By knowing which band an individual's income falls into, it becomes possible to calculate their annual Scottish service tax bill.
- Each tax band will have a percentage calculation for the amount falling into the next tax band until the taxable amount is exhausted and no further tax bands can be applied.

Calculating Tax Using Scottish Income Tax Bands

To calculate the tax bill using Scottish income tax bands, one needs to determine the income earned within each band.

This can be done by referring to the specific income tax rates applicable to each bracket.

SUMMARY

Income tax is calculated at each band

The balance after deducting from the Income is moved into the next band

Each band is calculated based upon the balance carried over, until the balance is exhausted and reaches zero

The last band used, could possibly have less than or equal to the tax band payable tax

See the simplified example on the next page

EXAMPLE: £38,000 INCOME TAX (FICTIONAL BANDS)

Income: £38,000

Total: Tax £2,100

23%	£90,000 +
21%	£50,000 +
18%	£40,000 +
15%	£30,000 +
4.5%	£10,000 +
0%	Free of Taxation

£8,000 x 15% = £1200

£20,000 x 4.5% = £900

First £10,000 x 0 = £0

FICTIONAL TAX BANDS EXAMPLE

- The examples used are for learning purposes.
- Same process for the exact published tax bands provided by the Scottish Government
- Personal Allowance is provided that zero rated percentage prior to the balance of taxable income is calculated through each applicable tax band.
- Total Taxable amount has the amount per band deducted prior to moving onto the next band – meaning there comes a point of exhaustion as to a balance being taxed.
- The following examples will help explain more…

EXPLANATION: LOWER TAX BANDS

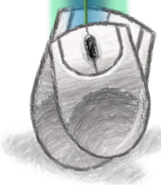
- For example, if an individual earned £25,000, their tax calculation would involve applying the 4.5% rate to the income between £10,001 and £25,000.
- By totaling the tax payable for each band, the annual Scottish service tax bill can be determined accurately.

EXAMPLE: £52,000 INCOME TAX

Rate	Threshold	Calculation	Tax
23%	£90,000		
21%	£50,000	£2,000 x 21% =	£420
18%	£40,000	£10,000 x 18% =	£1800
15%	£30,000	£10,000 x 15% =	£1500
4.5%	£10,000	£20,000 x 4.5% =	£900
0%	Free of Taxation	First £10,000 x 0 =	£0

Income: £52,000

Total: Tax £4,620

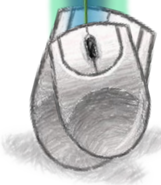


TRY THIS ONE: £47,500 INCOME TAX

Income: £47,500

Total: Tax £3,750

23%	£90,000		
21%	£50,000		
18%	£40,000	£7,500 x 18% =	£1350
15%	£30,000	£10,000 x 15% =	£1500
4.5%	£10,000	£20,000 x 4.5% =	£900
0%	Free of Taxation	First £10,000 x 0 =	£0



SCOTTISH TAX BANDS PUBLISHED

Current tax bands and rates can be obtained from:

www.gov.scot

Proposed Bands	Band name	Rate (%)
£12,571*- £15,397	Starter Rate	19
£15,398 - £27,491	Scottish Basic Rate	20
£27,492 - £43,662	Intermediate Rate	21
£43,663 - £75,000	Higher Rate	42
£75,001 - £125,140**	Advanced Rate	45
Above £125,140**	Top Rate	48

Thank You