

CashCalc Specification Sheets (Client Facing)

Salary/Dividend Tax Calculator

Overview

The Salary/Dividend Tax Calculator is used to forecast the amount of income tax, National Insurance, pension contribution, and student loan that will be payable on the client's salary. The Salary/Dividend Tax Calculator takes the basic pay and uses the tax rates from the selected year to do this, it can also calculate the additional tax received if taking dividends.

The Salary/Dividend Tax Calculator also has additional features that can be used to make the calculation more intelligent by allowing the adviser to adjust the client's personal allowance, input the clients working hours for an hourly breakdown of the clients deductions, set the pension contribution rate, select the student loan rate where applicable, select whether the client's pension is contracted out, select whether the client is registered blind, whether the client is liable to pay National Insurance, and do Scottish tax rates apply.

Assumptions

Below is a list of all assumptions made in order to perform the calculation:

- Figures are rounded up to the nearest penny
- Uses the UK tax rates based on the selected year
- Pension contributions are taken from the basic pay and not the total gross pay
- The tax on dividends is £2,000 at 0% tax, basic rate band with the limit of £32,000 at 7.5%, higher rate band with the limit of £43,000 at 32.5%, and 38.1% within the additional rate band
- Student loan is at 9% over £17,775 or £21,000
- If the pension is contracted out on is State Second Pension (S2P) Plan then they are subject to the rates set by the National Insurance Category Letter D, Lower Earnings Limit' (1.4% rebate) Upper Accrual Point 10.6%
- Registered blind tax relief at the value of £2,320
- The Scottish tax rate at 19% for the bands from £11,850 up to £13,850, 20% for the bands above £13,850 up to £25,000, 21% for the bands above £25,000 and £43,430, 41% for the bands above £43,430 and £150,000, and 46% above £150,000

Calculations Breakdown

The calculations require minimum of one parameter (total basic pay) in order to calculate the given outputs, in addition to this, 12 other inputs can be added, all including:

- Total Basic Pay
- Total Bonus
- Tax Year?
- Personal allowance remaining?
- Days per week worked?
- Hours per week worked?
- Pensions contracted out?
- Include Dividends?
- Gross Dividends taken
- Registered blind?
- Pension Contribution rate
- Student loan plan
- Pensions contracted out?
- Resisted Blind?
- National Insurance?
- Do Scottish tax rates apply?

Take Home Amount

Takehome Amount = Gross Salary - (Pension Contribution + Tax Paid + National Insurance + Student Loan) + (Gross Dividends - Tax on Dividends)

Contributing to Pension

Calculate the total contribution to a pension from the gross salary and percentage.

$$\text{Pension Contribution} = \text{Basic Salary} \times \text{Contribution Percentage}$$

Calculating Personal Allowance

Calculate the personal allowance that the client is entitled to.

$$\text{Personal Allowance Limit} = 100,000 + (\text{Personal Allowance} \times 2)$$

- If the client's salary is over the calculated limit, then their personal allowance is £0.
- If the client's salary is less than £100,000 their personal allowance is unchanged
- If the client's salary is between £100,000 and the limit it is reduced by £0.50 for every £1 over the limit

$$\text{Personal Allowance} = \text{Personal Allowance} - ((\text{Gross Salary} - 100,000) / 2)$$

Calculating Taxable Income

Calculate the taxable income from the client's gross salary. Taking into account the personal allowance, blind person's allowance and pension contributions.

$$\text{Taxable Income} = \text{Gross Salary} - \text{Blind Allowance} - \text{Personal Allowance} - \text{Pension Contributions}$$

Calculating Taxable Dividends

Calculate the dividend allowance after taxation.

$$\text{Taxable Dividends} = \text{Gross Dividends} - \text{Dividends Allowance} - \text{Remaining Personal Allowance}$$

Calculating Tax

Calculate the tax paid by the client using the taxable income and the tax brackets. The same is applied for taxable dividends using the applicable band rates.

Using British Tax Bands

Amount taxed at:

If in Band 1:

$$\text{Total Tax paid} = \text{Taxable Income} \times \text{Band 1 rate}$$

If in Band 2:

$$\text{Total Tax paid} = (\text{Taxable Income} - \text{band 2 lower threshold}) \times \text{band 2 rate} + (\text{band 1 rate} \times \text{band 1 threshold})$$

If in Band 3:

$$\text{Total Tax paid} = (\text{Taxable Income} - \text{band 3 threshold}) \times \text{band 3 rate} + (\text{band 2 rate} \times (\text{band 2 upper threshold} - \text{band 2 lower threshold})) + (\text{band 1 rate} \times \text{band 1 threshold})$$

Using Scottish Tax Bands

Starter Band:

$$\begin{aligned} \text{Amount Taxed at 19\%} &= \frac{\text{Lesser Of (Remaining Income, Starter Band)}}{12} \\ \text{Tax Payable} &= \text{Amount Taxed at 19\%} \times 0.19 \\ \text{Remaining Income After Starter Band} &= \text{Remaining Income} - \text{Starter Band Tax Rate} \end{aligned}$$

Basic Band:

$$\begin{aligned} \text{Amount Taxed at 20\%} &= \frac{\text{Lesser Of (Remaining Income, Basic Band)}}{12} \\ \text{Tax Payable} &= \text{Amount Taxed at 20\%} \times 0.2 \\ \text{Remaining Income After Basic Band} &= \text{Remaining Income} - \text{Basic Band Tax Rate} \end{aligned}$$

Intermediate Band:

$$\begin{aligned} \text{Amount Taxed at 21\%} &= \frac{\text{Lesser Of (Remaining Income, Intermediate Band)}}{12} \\ \text{Tax Payable} &= \text{Amount Taxed at 21\%} \times 0.21 \\ \text{Remaining Income After Intermediate Band} &= \text{Remaining Income} - \text{Intermediate Band Tax Rate} \end{aligned}$$

Higher Band:

$$\begin{aligned} \text{Amount Taxed at 41\%} &= \frac{\text{Lesser Of (Remaining Income, Higher Band)}}{12} \\ \text{Tax Payable} &= \text{Amount Taxed at 41\%} \times 0.41 \\ \text{Remaining Income After Higher Band} &= \text{Remaining Income} - \text{Higher Band Tax Rate} \end{aligned}$$

Top Band:

$$\begin{aligned} \text{Amount Taxed at 46\%} &= \frac{\text{Remaining Income After Higher Band}}{12} \\ \text{Tax Payable} &= \text{Amount Taxed at 46\%} \times 0.46 \end{aligned}$$

Calculates how much of the client's salary falls within each tax bracket and then apply the relative rate; total taken from the sum of the taxed amounts at each bracket.

Calculating National Insurance

Calculate the National Insurance Contributions made by the client.

- If the client's salary is less than the lower limit, no National Insurance is paid.
- If the client's salary is greater than the upper limit, fill the lower band and multiply by the relative rate, use remainder of salary at upper rate.
- If the Client's salary is between the upper and lower limit, multiply as much of the salary by the relative rate as possible.
- If the client has contracted out, different bands are used and a rebate is provided.

Non-Contracted

$$12\% = (\text{Lowest of (Salary, Upper)} - \text{Lower}) \times 0.12$$

$$2\% = (\text{Salary} - \text{Upper}) \times 0.02$$

$$\text{Total} = 12\% + 2\%$$

Contracted

$$\text{Rebate} = (\text{Lower Limit} - \text{Lower Earnings Limit}) \times 0.014$$

$$10.6\% = (\text{Lowest of (Salary, Upper Accrual Point)} - \text{Lower Limit}) \times 0.106$$

$$12\% = (\text{Lowest of (Salary, Upper Limit)} - \text{Upper Accrual Point}) \times 0.12$$

$$2\% = (\text{Salary} - \text{Upper Limit}) \times 0.02$$

$$\text{Total} = 10.6\% + 12\% + 2\% - \text{Rebate}$$

Calculating Student Loan

Calculate student loan repayments depending on which payment plan they use.

- Plan 1 Limit: £17,775
- Plan 2 Limit: £21,000

$$\text{Repayment Amount} = (\text{Salary} - \text{Limit}) \times 0.09$$

The calculations used to generate the numbers are available to see by clicking on the calculations button.

A PDF report can be created from this calculator which contains detailed information about the relevant client's details and the outputs of the calculations performed. The report can be selected to show a breakdown, annually, monthly, weekly, daily, hourly or all time periods.