

## 19.4 Net Income

**Net income** is the difference between gross income and total deductions. For employees, this is the amount they will actually receive from their employer. As well as National Insurance contributions and income tax, there are a number of other deductions that may be taken from gross pay, including:

- **Workplace Pension:** A percentage of gross income that goes towards a retirement fund, deducted **before** income tax is calculated.
- **Student Loan Repayments:** Automatic repayment of student debt that is proportional to earnings, deducted **after** income tax is calculated.
- **Registration Fee for Professional Bodies:** fees paid by those working in certain professions, such as teaching or law, deducted **after** income tax is calculated.
- **Child Maintenance:** payment to a former spouse to support the cost of raising children, deducted **after** income tax is calculated.

Some workplaces will also run **benefit schemes** that employees can opt in to which reduce their taxable income, for example, 'cycle to work' schemes and Payroll Giving.

**NB:** Throughout this chapter, use the Class 1 National Insurance rates given in section 19.2 and the Scottish Income Tax rates given in section 19.1. In the 2024–2025 tax year, student loan repayments for students in Scotland are 9% of gross income over £31,395.

### Worked Example:

Isobel earns a gross annual salary of £42,000. She pays 5.3% of her gross annual salary into her pension, makes student loan repayments and pays £2353.92 National Insurance per annum. Calculate her net monthly income.

Pension:  $5.3\% \text{ of } 42,000 = \text{£}2226 \text{ per year}$

Taxable income:  $42,000 - 2226 = \text{£}39,774 \text{ per year}$

Income tax:

Starter rate  $19\% \text{ of } (14,876 - 12,570) = \text{£}438.14$

Basic rate  $20\% \text{ of } (26,561 - 14,876) = \text{£}2337$

Intermediate rate  $21\% \text{ of } (39,774 - 26,561) = \text{£}2774.73$

Total income tax  $= \text{£}5549.87 \text{ per year}$

Student loan:  $9\% \text{ of } (42,000 - 31,395) = \text{£}954.45 \text{ per year}$

Total deductions:  $2226 + 5549.87 + 954.45 + 2353.92 = \text{£}11,084.24 \text{ per year}$

**Net income:**  $(42,000 - 11,084.24) \div 12 = 30,915.76 \div 12 = \text{£}2576.31 \text{ per month}$

### Exercise 19.4A

1. Kelly earns a gross annual salary of £25,380. She pays 7.2% of her gross annual salary into her pension and pays £1024.32 National Insurance per annum. Calculate her net monthly income.
2. Jason earns a gross annual salary of £32,268. He makes student loan repayments and pays £3973.61 in income tax each year. Calculate his net monthly income.
3. Florence has a gross weekly income of £865. She pays 4.9% of her gross pay into her pension and makes child maintenance payments equal to 11% of her taxable income. She pays weekly National Insurance contributions of £49.84. Calculate her net weekly income.