FINANCE FOR SCHOOL LEAVERS

YOUR NEED TO KNOW GUIDE

HB ACCOUNTANTS

CHARTERED ACCOUNTANTS & REGISTERED AUDITORS

Finance for School Leavers In England

Getting ready to leave school? What are your main options?

- Apprenticeship
- Employment
- Self-Employment
- Further education (college/university etc)

The above paths after school have different financial implications. We have reviewed each one to help you choose which one might be best for you.

Apprenticeship

An apprenticeship is where you work and earn a salary and study at the same time. The government offers employers incentives and funding, to encourage employers to run apprenticeship schemes. Many employers who used to follow a “graduate-only” policy are now making apprenticeships available.

Similar to university, you will typically sign up for a number of modules which could take 2 or 3 years to complete. These will usually allow you 1 or more days a week of full-time study at a local college, which will be paid for by your employer as part of your package. You will be an employee in full-time employment whilst undertaking your apprenticeship (see Employment section) & you will earn a salary. An apprenticeship salary can be lower than ‘normal’ employees’ salaries as the employer is paying for you to study as well as to work — there is a minimum apprenticeship wage but no maximum.

Here are some useful websites to help you find an apprenticeship:

https://www.gov.uk/apply-apprenticeship

https://www.ucas.com/apprenticeships-in-the-uk

Employment

For most of us, employment is the end game. Whether leaving school immediately (this includes apprentices) or after leaving further education. Whichever path you have chosen, the transition from education to employment, adjusting to often working 5 days a week, for 7-8 hours a day, plus travel time, with only 4 or 5 weeks holiday a year, is a significant change.

It is good to understand how salaries work— for example earning an annual salary of £24,000, will not mean that you will have £2,000 per month to spend, this is where **Tax & National Insurance** comes into play — we have a section on this further on.

Self Employment

Instead of going to work for someone else, you may instead decide to set yourself up in business. Self-employment can cover a wide range of activities. You may have attended an art college and decided to make a living as a sculptor or perhaps become an IT consultant for a few different companies.

This method of earning a living can be particularly demanding. Unlike employment, if there is no work available to you, you will not be earning anything. It can also take a long time to establish a business and generate customers, so you may need to borrow money to get yourself set up and cover that early period. You will also need to keep digital business records and deal with your own tax matters. You will very likely need business insurance and you may want to open a business bank account.

Getting advice from your parents & friends is helpful & if possible, speaking with any professional advisors, such as accountants, bankers, insurance brokers, solicitors and other professionals is also highly recommended before you start up a business.

Local growth hubs & Government/Council run initiatives offer free advice to start-up businesses.

Below are some useful local websites:

Hertfordshire Growth Hub:	https://www.hertsgrowthhub.com/
Wenta:	https://wenta.co.uk/
HB Accountants:	https://www.hbaccountants.co.uk/

University

If you have chosen to go to university, you will need to pay for the cost of tuition (universities in Northern Ireland, Scotland and Wales often charge less or nothing) to students who already live there). Most universities charge the maximum they can of £9,250 per annum for tuition costs.

Unless you are able to study whilst living at home, you will have to pay for accommodation and other living costs, on top of your tuition fees. Typically, these could come to £8,500 a year (or as high as £11,000 a year, if you are studying in London).

A typical 3 year course at university could therefore cost you circa £50k or more, even if there are no increases year-on-year. Student loans are authorised by the Government through the Student Loan Company (SLC) - what financial help you can get depends on the course you study, where you live while you study and your individual circumstances. Most full-time students can get a tuition fee loan (to cover the full cost of tuition) and a maintenance loan to cover some of the cost of living expenses. The maintenance loan will be issued to you at the start of each term, so make sure you budget this lump sum to ensure you don't spend it too soon.

If you borrow the maximum amount for tuition and living costs (outside London) this will amount to £21,917 a year, or £65,751 over a typical 3 year degree course.

Student Finance has to be paid back - you only make Student Loan repayments once you have left your course AND you are earning enough. Repayments vary with your salary and stop altogether if your income drops too low.

The Student Loan charges up to 4.5% interest each year until you pay it all back (for example in Year 1 Student Loan is £21,917, interest at 4.5% means that by the end of that first year, your loan has cost you £986.26 in interest and you now owe £22,903.26). HOWEVER, many loans may be written off before they are fully repaid—if you are not a big earner after university you may only pay a fraction of what you borrow from Student Finance.

Looking well ahead into the future, if you have not fully repaid your student loan within 30 years, the balance will be written off. If, therefore your earnings never exceed £25,000 per annum, your loan may not actually cost you anything.

More information about SLC can be found here:

https://www.gov.uk/student-finance

Tax & National Insurance

The figures below will change each year when the Government sets the new rates for the tax year ahead

In this section we refer to the rates of tax and national insurance from 6 July 2022 (the 2022/2023 tax year) - please note we refer to July dates because of the Government's late NIC change, if working prior to the 6 July '22, figures may differ.

You may already have come across tax & NI if you have taken a part-time job. However, unless you earn more than £242 in any week, no tax or NI is deducted from the amount you earn.

Once you go over £242 (from 6 July '22) in any week, you will be required to pay NI contributions (NICs) at 12% on any amount over the £242. So, if you earned £300 a week, you would be charged £9.96 in NICs & you would only take home £290.04 a week, your "net" pay, instead of £300 a week, your "gross" pay.

Once you start earning larger amounts, tax and NIC will take more of your income. In the previous section we mentioned someone earning £24,000 a year. That person would be liable to pay both tax and NIC as outlined here:

Tax Example

The first £12,570 (known as your personal allowance) of the first £24,000 earned will be free of tax, leaving you £11,430 to be taxed at 20% - this results in a tax bill of £2,286 in total.

National Insurance Example

The first £12,584 of the £24,000 earned will be free of NICs, leaving £11,416 to be charged at 12% which is £1,369.92 in total.

Total

The total deductions will therefore be £3,655.92 so your actual take home pay will be £20,344.08 instead of £24,000. Where you are paid monthly this will mean £1,695.34 instead of £2,000 per month.

There are lots of salary calculators online so you can enter your potential salary and the calculator will tell you what your net monthly pay will be (ie the amount you get each month after the tax & NI has been deducted).

Use these free salary calculators:

https://www.gov.uk/estimate-income-tax

https://www.moneysavingexpert.com/tax-calculator/

The UK Tax Tool – App for your phone

Pensions

It is worth starting a pension as soon as you start working!

As soon as you hit 22 years of age (& if you earn more than £10,000 per year) and you are employed, you will qualify to be automatically enrolled in your employer's pension scheme. This is called "Auto-Enrolment" and is a compulsory Government scheme. Your employer will deduct 5% of your earnings from your pay, and pay it over to an approved pension scheme, together with an extra employer's contribution which amounts to 3% of your pay.

Opting out of the pension scheme is an option BUT think very carefully before you do so, as you would then LOSE the benefit of the 3% contribution from your employer.

Even while you are younger than 22, you can apply to join the scheme, although your employer is not obliged to let you (you can always take out a private pension). It can make sense to make this application because the earlier you start paying into the scheme, the bigger pension you are likely to get when you retire.

More information from the Pensions Regulator can be found here:

https://www.thepensionsregulator.gov.uk/

Tax Rates & Pensions

The figures below will change each year when the Government sets the new rates for the next tax year

The current annual tax rates for earnings:

0% on the first £12,570

20% up to £37,500

40% up to £150,000

45% on the rest

The weekly employee National Insurance rates for earnings: (from 6/7/22)

0% on the first £242

12% on £242 to £967

2% on the rest

We saw previously how £2,000 per month reduced to £1,695.34. If you join a pension scheme based on total earnings, your contribution would be £100 a month, taking your net pay down to £1,595.34 a month.

If you are employed, all of this will be taken care of by your employer, (PAYE pay as you earn) who will arrange the deductions and make the payments of tax to the government and the pension scheme.

If you are self-employed, you will need to do all of these calculations yourself, or you could engage an accountant—this is what HB Accountants do for lots of clients. You will need to keep records of all your income and expenses and pass these to your accountant, so they can calculate your tax and NICs.

Your tax and NICs will usually be payable every 6 months on 31st January and 31st July. If you start work on 1st October 2022 and prepare your first accounts to 5th April 2023, your first tax payment will be due on 31 January 2024 and will be based on your profits for that period.

Do take into consideration that, at the same time, you will usually have to pay tax early for your following business year (these are called "payments on account") for year ending 5 April 2024, so you will need to make sure you save enough from the start to enable you to pay your tax when it becomes due.

A good rule of thumb is to put away about one-third of your profits (income less expenditure) to cover this.

The tax rates are the same for the self-employed as for employees, although the tax is only payable on profits rather than total income (see Profit and Loss example on the next page).

Profit & Loss Worked Example:

	£
Sales (turnover or income)	25,000.00
Less Expenditure (products/advertising/admin etc)	(5,000.00)
Profit (total turnover less total expenditure)	**£20,000.00**
Tax	1,486.00
NIC (Class 4)	829.43
NIC (Class 2)	163.80
Total Tax NIC to pay to HMRC	2,479.23
Net Profit after Tax & NIC	**£17,520.77**

The NICs are only 9% rather than 12% (known as Class 4 NI) but there is also a flat-rate £3.15 per week which is payable at the same time as your tax (know as Class 2 NI).

As a self-employed person it will be up to you whether you would like to pay into a pension, it is good practice to begin to save for your future at the earliest possible point and therefore we would recommend you speak to a pension specialist if you are considering becoming self-employed. Ask friends and family if they have or know an advisor, if not ask local providers who give free advice for start-up businesses.

The flat-rate £3.15 paid by the self-employed and the 12% NICs paid by employees count towards your state pension. The basic state pension is currently worth about £185.15 per week, which is a good starting point but not much to live on, so you need to consider putting away something extra away as soon as possible. It seems like a lifetime away but the earlier you start paying into a pension, the longer those contributions will have to grow.

Getting on the Property Ladder

In recent years house prices have been increasing faster than inflation and faster than wage growth. The younger generation are therefore finding it harder to get a foot on the home-ownership ladder.

If parents have spare funds available, they can pay modest amounts into your bank account to help you build up a deposit for a starter property (it's a good idea to open a separate bank account for this, so you are less tempted to dip into it).

If you are living at home, consider investing any spare money in one or more of the saving schemes introduced by the government, such as "The Lifetime ISA Account" (LISA). The government will add a bonus to your LISA savings if you use them to pay for your first home.

Link to "The Lifetime ISA Account" (LISA): https://www.gov.uk/lifetime-isa

Unless you are particularly fortunate, you will need to take out a mortgage to help buy your property - find a responsible financial adviser to assist you with this. Some mortgages start out with a low rate of interest for the first two or three years (the fixed rate period), so you need to be prepared for this to potentially increase once the fixed rate period is over.

Other options such as shared-ownership are a possibility but you should seek legal advice to make sure that this can be untangled if one of the owners wishes to move on, but the other does not.

Final Thoughts

This is a really simplified list of financial matters which we hope will help you. As your income increases you may be looking at other investments and financial planning for your own family. By being aware of the financial implications of your life choices from an early stage, you will be in a better position to plan ahead, to your advantage, while enjoying your life.

Good luck on your journey, whichever path you choose and we wish you all the success in the future.

Place for your notes

If you have any questions connect with us @hbahoddeson on Facebook, Twitter or Instagram or message us via LinkedIn, call on 01992 444466, or email directors@hbaccountants.co.uk

Annual Accounts

Management Accounts

Tax Compliance

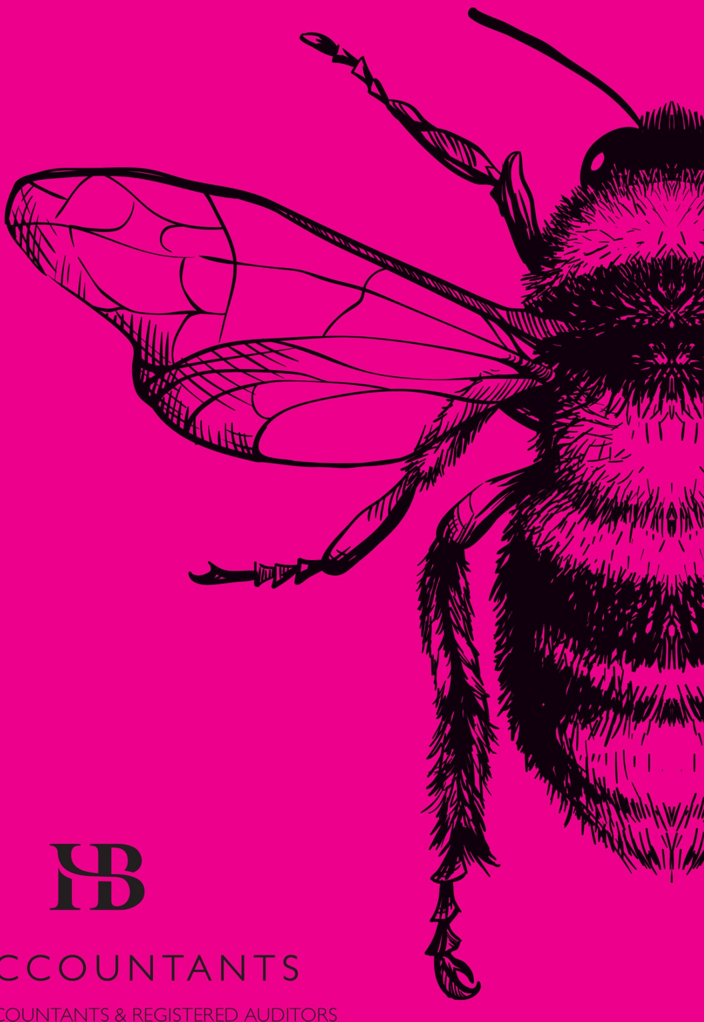
Tax Planning

Cloud Accounting

Payroll

Company Formations

WWW.HBACCOUNTANTS.CO.UK



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