

EXAMPLES OF TAX LIABILITY FOR CONTRACTOR/PSC

	Note	PSC - all income caught by IR35 £	PSC - outside IR35 - without spouse allowances £	PSC - outside IR35 - with spouse allowances £
Example gross income (excluding vat)				
£25,000				
Basic income level (excluding vat)		25,000	25,000	25,000
Employers NI		-	-	-
Salary level		-	-	-
5% expense allowance	2	(1,250)	-	-
Subject to IR35		23,750	-	-
Employers NI		(2,047)	-	-
Deemed salary		21,703	-	-
Salary level - self		-	(8,000)	(8,000)
Salary level - spouse		-	-	(5,715)
Employers NI		-	(292)	(292)
Subject to Corporation Tax		1,250	16,708	10,993
Corporation Tax		263	3,509	2,308
Dividend level	4	988	13,199	8,684
Employees NI		1,759	251	251
Employers NI		2,047	292	292
Personal tax - salary		3,046	305	305
Personal tax - higher rate on dividend	4	-	-	-
Allowance restriction		inc above	-	-
Total Taxation		7,113	4,357	3,157
Total Take home		17,887	20,643	21,843
Take home %		71.5%	82.6%	87.4%

(2) The 5% expense allowance is shown as an adjustment in shifting income between salary and dividend in the IR35 scenario, but is not actually tax relieved - this is to allow parity with the other PSC examples where no expenses are shown.

(3) All tax rates 2010/11

(4) It is assumed all income is drawn - where Higher Rate liabilities are incurred, further savings can be made / taxes deferred by leaving income in the company undrawn.

EXAMPLES OF TAX LIABILITY FOR CONTRACTOR/PSC – *continued*

	Note	PSC - all income caught by IR35 £	PSC - outside IR35 - without spouse allowances £	PSC - outside IR35 - with spouse allowances £
Example gross income (excluding vat) £60,000				
Basic income level (excluding vat)		60,000	60,000	60,000
Employers NI		-	-	-
Salary level		-	-	-
5% expense allowance	2	(3,000)	-	-
Subject to IR35		57,000	-	-
Employers NI		(5,820)	-	-
Deemed salary		51,180	-	-
Salary level - self		-	(8,000)	(8,000)
Salary level - spouse		-	-	(5,715)
Employers NI		-	(292)	(292)
Subject to Corporation Tax		3,000	51,708	45,993
Corporation Tax		630	10,859	9,658
Dividend level	4	2,370	40,849	36,334
Employees NI		4,271	251	251
Employers NI		5,820	292	292
Personal tax - salary		10,402	305	305
Personal tax - higher rate on dividend	4	593	2,140	-
Allowance restriction		inc above	-	-
Total Taxation		21,715	13,848	10,507
Total Take home		38,285	46,152	49,493
Take home %		63.8%	76.9%	82.5%

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(3) All tax rates 2010/11

(4) It is assumed all income is drawn - where Higher Rate liabilities are incurred, further savings can be made / taxes deferred by leaving income in the company undrawn.

EXAMPLES OF TAX LIABILITY FOR CONTRACTOR/PSC – *continued*

	Note	PSC - all income caught by IR35 £	PSC - outside IR35 - without spouse allowances £	PSC - outside IR35 - with spouse allowances £
Example gross income (excluding vat)				
£140,000				
Basic income level (excluding vat)		140,000	140,000	140,000
Employers NI		-	-	-
Salary level		-	-	-
5% expense allowance	2	(7,000)	-	-
Subject to IR35		133,000	-	-
Employers NI		(14,444)	-	-
Deemed salary		118,556	-	-
Salary level - self		-	(8,000)	(8,000)
Salary level - spouse		-	-	(5,715)
Employers NI		-	(292)	(292)
Subject to Corporation Tax		7,000	131,708	125,993
Corporation Tax		1,470	27,659	26,458
Dividend level	4	5,530	104,049	99,534
Employees NI		4,944	251	251
Employers NI		14,444	292	292
Personal tax - salary		39,943	305	305
Personal tax - higher rate on dividend	4	1,383	17,940	8,226
Allowance restriction		inc above	1,457	-
Total Taxation		62,183	47,905	35,533
Total Take home		77,817	92,095	104,467
Take home %		55.6%	65.8%	74.6%

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(3) All tax rates 2010/11

(4) It is assumed all income is drawn - where Higher Rate liabilities are incurred, further savings can be made / taxes deferred by leaving income in the company undrawn.

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