**Estimating the Tax Contribution Made by the Employees of Companies Supported by Scottish Enterprise**

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| --- |
| **Scottish Enterprise (SE) is an economic development agency whose purpose is to grow the Scottish economy. The main measures of its effectiveness are Gross Value Added (GVA) and employment. However, as the Scottish Government assumes greater fiscal responsibility, these measures may be seen as only a partial reflection of SE’s economic impact. Fiscal measures such as income tax are now devolved. As such the tax impact of SE’s interventions is increasingly a matter of interest.****The purpose of this note is to outline a methodology to be used to estimate the tax contribution made by the employees of companies that are supported by Scottish Enterprise. This will become a part of SE’s normal appraisal and evaluation activity with the impact being reported alongside of the usual metrics such as GVA and jobs.** |

**Employee Taxation**

The direct tax contribution made by employees consists of:-

* Scottish Income Tax which now goes to the Scottish Government; and
* National Insurance which is, as yet, not devolved so goes to the UK Government.

**Estimating Employees’ Scottish Income Tax and National Insurance**

To calculate the Scottish Income Tax and National Insurance paid by the employees whose jobs are created because of SE’s support Her Majesty’s Revenue and Customs has a ready reckoner that can be used:-

<https://www.tax.service.gov.uk/estimate-paye-take-home-pay/your-pay>

To use this, you need to know the employees’ annual gross salary (not including any oncosts such as Employers National Insurance or pension contributions). When accessing the ready reckoner there are 4 things to be input:-

* The annual salary;
* **NO** to the State Pension age question;
* **NO** to using your tax code; and
* **YES,** to the Scottish Income Tax question.

As an example, for an annual gross salary of £30,000 the calculator shows that:-

* Scottish Income Tax is £3,698;
* Employees’ National Insurance is £2,620; and
* Total deductions are £6,318.

Similar calculations can then be done for all of the jobs to be created and the results presented in the form of a table as in the example below.

**TABLE 1 Annual Scottish Income Tax and National Insurance Contributions when all New Staff are in Post**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| **Job** | **Annual gross salary** | **Number of posts** | **Scottish Income Tax** | **Total Scottish Income Tax**(3 x 4) | **National Insurance** | **Total National Insurance**(3 x 6) |
| Assistants | £21,000 | 30 | £1,898 | £56,940 | £1,540 | £46,200 |
| Technical | £25,000 | 4 | £2,698 | £10,792 | £2,020 | £8,080 |
| Manager | £28,000 | 4 | £3,298 | £13,192 | £2,380 | £9,520 |
| **TOTAL** | **N/A** | **38** | **N/A** | **£80,924** | **N/A** | **£63,800** |

Clearly the income tax figures are broadly indicative given that individual circumstances will result in differing tax codes that may result in less or more tax being paid. Given this:-

* If there are many jobs, all of which are paid different salaries, then rather than entering each one into the ready reckoner the suggestion is that they are banded and the tax calculations undertaken for the average salary of each band; and
* Likewise, if all that is provided is an average salary then the tax payable should be calculated based on this, with a realisation that this will not be definitive.

Once the annual tax contribution has been calculated then this should be:-

* Profiled over the number of years that the appraisal covered. For example, in Table 1 this appraisal covered 5 years;
* Discounted by 3.5% to give a Present Value;
* Summed over the appraisal period to give the total gross Scottish Income Tax and National Insurance contribution, with each being reported separately;
* To calculate the net impact then the additionality metrics should be applied, that is deadweight, displacement and (if used) substitution and leakage. The multiplier should not be used; and
* When reporting, both the gross and the net Scottish Income Tax and National Insurance contribution should be noted along with some text that relates the tax contribution to the scale of SE’s support. For example, something along the lines of:-

“Over the 5 year appraisal period the total net employee tax contribution is £723,620, more than the amount of grant requested”.

Clearly these calculations only cover a proportion of the tax contribution that SE’s interventions may create. In addition to the tax paid by employees there are four main sources of tax paid by companies:-

* Business rates;
* Corporation Tax paid on profits at a general rate of 19% in 2017-18;
* Value Added Tax (VAT) that companies may incur; and
* The employers’ National Insurance contribution (currently generally 13.8% of employees’ gross salary)[[1]](#footnote-1).

Of these only business rates are raised and distributed in Scotland. The other 3 are paid to the UK Government.

**Need more help?**

For further information contact:-

Suzanne Fleming, 0141-228-2062

Suzanne.fleming@scotent.co.uk

**KH**

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**17/04/18**

1. <https://www.gov.uk/national-insurance-rates-letters/contribution-rates> [↑](#footnote-ref-1)