

Understanding Pay

Payslips, tax, National Insurance and take-home pay, explained clearly.

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Most young people start their first job without knowing how their pay actually works. This guide explains everything, from what gross pay means to how your tax code affects what you take home. No jargon, no assumptions. Just clear answers to the questions most people are too embarrassed to ask.

What this guide covers:

- 01 Gross pay vs net pay — what's the difference
- 02 Reading your payslip — every line explained
- 03 Income Tax — how it works and when you pay it
- 04 National Insurance — what it is and what it pays for
- 05 The National Minimum Wage — your legal right
- 06 Tax codes — what yours means
- 07 The Starter Checklist — what to fill in when you start a job
- 08 Common pay problems and how to fix them

Important note:

- Tax rates, National Insurance thresholds and minimum wage rates can change each tax year.
- This guide uses the most recently available rates at the time of publication. Always check GOV.UK for the latest figures before making financial decisions.
- Examples in this guide are simplified for educational purposes and may not reflect your exact circumstances.
- This guide is for information only and does not constitute financial, tax or legal advice.

01 Gross Pay vs Net Pay

The two most important numbers on your payslip.

Before you understand anything else about pay, you need to understand this distinction. It is the source of more confusion among first-time workers than anything else.

GROSS PAY

The total amount you have earned before any money is taken off.

This is what your employer has agreed to pay you.

It is the number in your contract and job offer.

Example: your contract says £11.44/hour × 40 hours = £457.60 gross pay.

NET PAY

The amount that actually lands in your bank account after deductions.

This is also called your take-home pay.

It is always less than your gross pay, sometimes significantly.

Example: after tax and National Insurance, £457.60 gross might become £380–£420 net.

Why does this matter?

- When an employer offers you a salary of £25,000, that is your gross pay.
- Your actual take-home pay will be roughly £20,700 (after income tax and National Insurance).
- Always think in net pay terms when budgeting. Gross is what you earn. Net is what you spend.

02 Reading Your Payslip

Every number on your payslip — explained line by line.

You will receive a payslip every time you are paid: weekly, fortnightly, or monthly. Employers are legally required to provide one. Here is what each section means, using a realistic example for a part-time student worker.

EMPLOYEE DETAILS		
Name: Jordan Blake		
Employee No: 00142		
Pay Period: June 2026		
EARNINGS		
Basic Pay (40 hrs × £11.44)	£457.60	<i>Your hourly rate × hours worked</i>
GROSS PAY	£457.60	<i>Total before any deductions</i>
DEDUCTIONS		
Income Tax (PAYE)	-£0.00	<i>Below personal allowance this month</i>
National Insurance (NI)	-£0.00	<i>Below NI threshold this month</i>
TOTAL DEDUCTIONS	-£0.00	
NET PAY (Take-Home Pay)	£457.60	<i>What actually lands in your account</i>

Glossary — key payslip terms:

Term	What it means
Gross Pay	Your total earnings before any deductions. This is what you actually worked for.
PAYE	Pay As You Earn: the system HMRC uses to collect income tax directly from your wages.
Income Tax	A percentage of your earnings taken by the government, above your personal allowance.
National Insurance (NI)	A separate contribution that funds state benefits like the NHS and state pension.
Net Pay	Your take-home pay, what goes into your bank account after all deductions.
Tax Code	A code from HMRC that tells your employer how much tax to deduct. Most people's is 1257L.

NI Number

Your personal National Insurance number. You need this to work legally in the UK.

YTD (Year to Date)

The running total of your earnings and deductions since 6 April (the start of the tax year).

03 Income Tax

You only pay tax on earnings above your Personal Allowance.

Income tax is the amount the government takes from your wages. The good news: most part-time student workers pay very little or no income tax at all, because of the Personal Allowance.

The Personal Allowance (2025/26):

- You can earn up to £12,570 per year completely tax-free. This is called your Personal Allowance.
- If your total income in the tax year is below £12,570, you pay NO income tax.
- Part-time student workers earning £8,000–£11,000 per year will typically pay no income tax at all.
- The tax year runs from 6 April to 5 April the following year, not January to December.

If your earnings do exceed £12,570, you only pay tax on the amount above the allowance:

Band	Taxable Income	Tax Rate	Example
Personal Allowance	Up to £12,570	0%	Earn £10,000 — pay £0 tax
Basic Rate	£12,571 – £50,270	20%	Earn £15,000 — pay tax on £2,430 = £486
Higher Rate	£50,271 – £125,140	40%	Unlikely to apply to entry-level workers
Additional Rate	Over £125,140	45%	Does not apply to this guide's audience

Example — how tax is calculated:

Jordan earns £18,000 per year gross.

Personal Allowance: £12,570 — this is tax-free.

Taxable income: £18,000 – £12,570 = £5,430.

Tax owed: 20% of £5,430 = £1,086 per year, or £90.50 per month.

This is spread across 12 monthly payslips, so Jordan pays £90.50 less each month.

If you've paid too much tax:

- This sometimes happens when you start mid-year or your tax code is wrong.
- HMRC will usually refund overpaid tax automatically at the end of the tax year.
- If you think you've overpaid and haven't received a refund, contact HMRC via [gov.uk](https://www.gov.uk) or call 0300 200 3300.
- Students who work in the holidays only often find they've overpaid: claim it back.

04 National Insurance

A separate contribution that funds the NHS, state pension and benefits.

National Insurance (NI) is separate from income tax. It is a contribution that funds public services, primarily the NHS, state pension, unemployment benefits and maternity/paternity pay. Your NI contributions build up a record that affects your entitlement to these benefits later in life.

Key facts about National Insurance:

- You pay NI on earnings above £12,570 per year (the Primary Threshold) — same as income tax.
- The standard rate for employees is 8% on earnings between £12,570 and £50,270.
- Below £12,570 per year: you pay NO National Insurance.
- Your NI Number is a unique reference (e.g. QQ 12 34 56 A). You need it to work in the UK.
- If you haven't received your NI Number yet, apply at gov.uk — you can work while waiting.

Earnings (per year)	NI Rate	What you pay
Below £12,570	0%	Nothing — below the threshold
£12,571 – £50,270	8%	8% on earnings above £12,570 only
Above £50,270	2%	2% on earnings above £50,270

For most entry-level and part-time workers, NI contributions will be zero or very small. A student working 15 hours per week at the National Minimum Wage earns roughly £8,800 per year, well below the NI threshold.

05 National Minimum Wage

Your legal right — no employer can pay you less than this.

The National Minimum Wage (NMW) is the minimum hourly rate your employer must pay you by law. Paying below it is illegal. The rate depends on your age and whether you are an apprentice.

Age / Category	Rate per hour (2026/27)	Example — 20hrs/week, 52 weeks
21 and over (National Living Wage)	£12.71	£13,218 per year gross
18 to 20	£10.85	£11,284 per year gross
Under 18 (school leaving age and above)	£8.00	£8,320 per year gross
Apprentice (under 19, or in first year)	£8.00	£8,320 per year gross

What counts as working time:

- Any time your employer requires you to be at work, including mandatory training.
- Time spent travelling between work sites (not the journey to your first location).
- Trial shifts may need to be paid if they involve carrying out real work rather than a short assessment of your suitability for a role. If you are unsure, seek advice from ACAS or check the latest guidance on GOV.UK.
- Your employer cannot deduct the cost of uniforms if it takes your pay below the minimum wage.

If you are being paid below the minimum wage:

- Speak to your employer first: it may be a genuine error.
- If they refuse to correct it, contact HMRC's National Minimum Wage team: 0300 123 1100.
- You can report anonymously. HMRC investigates all complaints.
- Workers have legal protections when raising concerns about pay and employment rights. If you believe you have been treated unfairly after raising a concern, contact ACAS for advice.

06 Tax Codes

The code on your payslip that tells your employer how much tax to deduct.

Your tax code is set by HMRC and tells your employer how much of your income is tax-free. If your tax code is wrong, you could pay too much or too little tax, so it's worth understanding.

Tax Code	What it means
1257L	The most common code. Means you have the standard £12,570 Personal Allowance. No issues.
BR	All income taxed at 20% Basic Rate; usually means you have a second job or HMRC hasn't received your details yet.
0T	No Personal Allowance: all earnings are taxed. Usually a temporary code when starting a new job with no P45.
W1 or M1	Emergency tax code (week 1 or month 1 basis). Temporary until HMRC gets your full details.
NT	No Tax: you pay no income tax at all. Rare, but applies in some specific situations.
K code	Your tax-free allowance has been reduced (e.g., to recover underpaid tax from a previous year).

If your tax code looks wrong:

- Check your payslip and compare it to what you expect.
- If you are on an emergency code (BR, 0T, W1, M1), contact HMRC as soon as possible to correct it.
- You can check and update your tax code via your Personal Tax Account at gov.uk.
- A wrong tax code usually corrects itself within 1–2 months, but HMRC will refund any overpayment.

07 The Starter Checklist

What you need to fill in when you start a new job.

When you start a new job, your employer will ask you to complete a Starter Checklist (previously called a P46). This tells HMRC about your employment situation so they can set the right tax code. Getting this right prevents you from being put on an emergency tax code.

Statement	Choose this if...
Statement A	This is your first job since 6 April and you have not received any taxable benefits since then.
Statement B	This is your only job but you have had another job since 6 April, or you have received taxable benefits.
Statement C	You have another job, or you receive a state, works or private pension.

Most first-time workers should choose Statement A:

- If this is your very first job and you haven't worked since the previous 6 April, choose Statement A.
- This gives you the full Personal Allowance against this job's income.
- If you choose the wrong statement, you may be taxed too much or too little: correct it with HMRC as soon as you realise.

P45 — what it is and when you need one:

- When you leave a job, your employer gives you a P45. This shows your total earnings and tax paid in the current tax year.
- Give your P45 to your new employer when you start, as it helps them set the right tax code.
- If you don't have a P45 (e.g. it's your first ever job), just complete the Starter Checklist instead.
- Your end-of-year tax summary is called a P60; keep these safely. You may need them for tax returns or mortgage applications in future.

08 Common Pay Problems

What to do when something doesn't look right.

Pay problems are more common than most people think. Most are simple errors that can be fixed quickly, but you need to know how to spot them and what to do.

1 I've been paid the wrong amount

1

Check your payslip against your contracted hours and hourly rate. Calculate what you should have been paid. Raise it with your employer or payroll team immediately, in writing if possible. They are legally required to pay you correctly.

2 I haven't received a payslip

2

Your employer is legally required to give you a payslip on or before the date you are paid. If they don't, ask for one in writing. If they still refuse, you can complain to an employment tribunal.

3 Too much tax has been taken

3

This usually means your tax code is wrong or you've been put on an emergency code. Contact HMRC to correct your code. Any overpaid tax will be refunded, either through your payslip or directly from HMRC at year end.

4 I'm being paid below minimum wage

4

First check whether the underpayment is due to deductions (e.g. uniform costs) or a genuine error. If your employer refuses to correct it, report to HMRC's National Minimum Wage team on 0300 123 1100. You can do this anonymously.

5 I don't know my NI Number

5

Check old payslips, P60s or any previous correspondence from HMRC. If you can't find it, call HMRC on 0300 200 3500 — they can confirm it over the phone after verifying your identity.

6 My employer is paying me cash with no payslip

6

This is illegal. You are entitled to a payslip regardless of how you are paid. Working without a payslip also means no record of your NI contributions, which affects your state pension entitlement. Raise it with your employer or seek advice from ACAS (acas.org.uk).

Useful contacts:

- HMRC general enquiries: 0300 200 3300 | gov.uk/contact-hmrc
- National Minimum Wage complaints: 0300 123 1100
- ACAS (employment rights advice): acas.org.uk | 0300 123 1100
- Citizens Advice: citizensadvice.org.uk — free, confidential, covers pay and employment rights
- GOV.UK Personal Tax Account: check your tax code, NI record and income history

Understanding your pay is not optional.

It's your money. Know where it goes.

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