



Issue 1

Areas Covered

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What is a tax code?

A tax code is used by your employer or pension provider to calculate the amount of tax to deduct from your pay or pension. If you have the wrong tax code you could end up paying too much or too little tax.

A tax code is usually made up of one letter and several numbers, for example: 117L or K497.

If your tax code is a number followed by a letter, you can multiply the number in your tax code by 10, to get the total amount of income you can earn in a year before paying tax. The letter shows how the number should be adjusted following any changes to allowances announced by the Chancellor - common tax code letters are explained below.

Common tax code letters and what they mean

- L** - is used if you are eligible for the basic personal allowance (under 65).
- P** - is used if you are aged 65 to 74 and eligible for the full personal allowance.
- V** - is used if you are aged 65 to 74, eligible for the full personal allowance and the full age related married couple's allowance (for those born before 6 April 1935 and aged under 75) and estimated to be liable at the basic rate of tax.
- Y** - is used if you are aged 75 or over and eligible for the full personal allowance.
- T** - is used if there are any other items HM Revenue & Customs (HMRC) needs to review in your tax code, or if you ask HMRC not to use any of the other tax code letters listed above.
- K** - is used when your total allowances are less than your total 'deductions'.

If your tax code is a 'K' code - for example, K497 - the number indicates how much must be added to your taxable income. Read more under How the K code works.



How the 'K code' works

If your deductions (untaxed income on which tax is still due) are more than your allowances you'll be given a K code, to ensure you pay tax on the excess.

The excess tax due is divided by 10 and added to the letter K. So, whereas with other tax codes the number indicates the amount of income you can have tax-free, the number in a K code indicates how much must be added to your taxable income.

K code example

K497 means:

- » your untaxed income was £4,970 greater than your tax-free allowances
- » as a result, £4,970 must be added to your total taxable income to ensure the right amount of tax is collected.

If you're employed or between jobs

Your tax code is written on your P45 (given to you by your employer when you stop working for them). This is why it's very important to give this to your new employer when you change jobs. If you've lost your P45 and want to find out your tax code contact your tax office and give them your National Insurance number and tax reference number.

If you're starting your first job

If you're starting your first job and don't have a P45, your employer will give you a P46 to fill in and sign. Your employer will allocate a tax (depending on your circumstances) code and work out the tax due. HMRC will process your P46 and, where necessary, revise your tax code. If you've paid too much tax, your employer will make the necessary repayment. (If the tax year has ended before this is worked out, then HMRC will make the repayment.) If you haven't paid enough tax your tax code can be amended to collect the underpaid tax (K code).

If you get a company or personal pension

You'll find your tax code on your 'notice of coding' sent to you by your tax office after the start of each tax year (and at other times if your tax code changes). You'll also find your tax code on notices and payslips from your pension provider.

Changes that might affect your tax code

You must keep us informed of any change in your circumstances, for example if:

- » you get married, form a civil partnership or separate or either of you was born before 6 April 1935
- » you start to receive a second income
- » the amount of untaxed income you get increases or reduces.

If you do not do this you could end up paying the wrong amount of tax. If your tax code is changed, you should receive a 'notice of coding' from your tax office. Keep all notice of coding letters for reference in case you have any questions or need to check you are paying the right level of tax.