

Introduction to Tax Codes Factsheet

A tax code is usually made up of several numbers and a letter, for example 747L and K15. For tax codes with a number followed by a letter if you multiply the number in the tax code by ten this is your annual tax allowance (the amount you can earn before paying tax) for example 747L equals £7470.

Common tax code letters and what they mean

Letter	Reason
L	For people eligible for the basic personal allowance, 747L for the 2011-12 tax year. Also used for the emergency tax code explained below.
P	For people aged 65 to 74 and eligible for the full personal allowance.
Y	For people aged 75 or over and eligible for the full personal allowance.
T	HM Revenue & Customs have other items they need to review in your tax code, for example company benefits that reduce your tax allowance.

Other tax codes and what they mean

Code	Reason
0T	Income is taxed on the current tax rates with no tax allowance
BR	Earnings are taxed at Basic Rate 20%
D0	Earnings are taxed at the Higher Rate 40%
D1	Earnings are taxed at the Additional Rate 50%
NT	No tax is deducted from your earnings

Tax Codes BR, DO and D1 are most commonly used if you have two jobs or pensions. The second income would be taxed at the basic, higher or additional rate depending on all of your earnings. This is because your personal tax allowance would be used against your main income.

How HM Revenue & Customs calculate your tax code:

- Tax Allowances - The Revenue total the tax allowances you are entitled to, in most cases this is the personal tax allowance but can also include blind persons allowance and certain job expenses.
- Income you've not paid tax on (known as deductions) - The Revenue total income you have not paid tax on, this includes part time earnings, untaxed interest and taxable employment benefits.
- Tax allowances less the deductions equals your tax allowance for the year, the amount you can earn before paying tax.
- HM Revenue & Customs then divide the allowance by ten and add the letter corresponding to your circumstances. The tax code spreads your tax allowance equally over the tax year so you pay around the same amount of tax each pay period.

For example a tax code of 501L, £5010 is taken away from your taxable earnings and the remaining is taxed using the current tax bands.

Emergency Tax Code

The emergency tax code is used for a new employee's with no P45 and sign statement B on the P46 form. This tax code is used until HM Revenue & Customs calculate your correct tax code and have details of your previous income and tax in the tax year. If you are on the emergency tax code you will receive the basic personal allowance but on month 1 basis. Month 1 means your tax code is calculated on a monthly basis instead of looking at your cumulative earnings for the tax year.

K Tax Codes

K Tax codes are used when your untaxed income (deductions) are more than your tax allowances. HM Revenue & Customs will issue a K tax code to ensure you pay tax on the excess. The number in the tax code is multiplied by ten and this is how much must be added to your taxable income to take into account your untaxed income. K Tax codes are most commonly used to collect tax on company benefits, state benefits and underpayments of tax.

For example a tax code of K395, £3950 is added to your total taxable income to ensure the correct amount of tax deducted from your pay.

The information contained in this factsheet must not be relied on as giving sufficient advice in any specific case.