



Foremans (UK) Limited Understanding Your Tax Code



Foremans (UK) Ltd
Professional Umbrella Solutions



PAYE Tax Codes

What is a tax code?

A tax code is applied to your earnings under the Pay As You Earn (PAYE) scheme. The tax code should reflect your personal allowances and allow HMRC to collect income tax due for a tax year evenly over that tax year so that the take home pay is consistent over the year.

What is Income Tax Personal Allowance?

Income Tax Personal Allowance is the amount of income you can receive in a year without having to pay tax on it. Nearly everyone in the UK is entitled to an Income Tax Personal Allowance.

Your personal allowance depends on your total income in the tax year and your age:

| | 2015-16 Tax Year | Income Limit |
|--|-------------------------|---------------------|
| Basic | £ 10,600 | £100,000 |
| Born between 6 April 1938 and 5 April 1948 | £10,600 | £ 27,700 |
| Born before 6 April 1938 | £10,660 | £ 27,700 |

Taxpayers who turned 65 on or after 6 April 2013 are longer be entitled to an age related personal tax allowance. They will receive the same personal allowance as people aged under 65.

You should receive your personal allowance automatically through your job or pension, or if you complete a Self Assessment tax return.

On 6 April 2015 the basic personal allowance went up by £600 to £10,600.

What does my tax code look like?

A tax code is usually made up of several numbers and a letter, for example: 543L or K497.

If the tax code is a number followed by a letter

Multiply the number in tax code by ten = the total amount of income you can earn in a year before paying tax.

For example: Tax code 720L = 720 X 10 = 7200 = personal allowance.





What does the letter represent?

The letter shows how the number should be adjusted following any changes to allowances announced by the Chancellor.

For example: at 06.04.15 all L codes were increased by 60. 1000L became 1060L.

Common tax code letters and what they mean

| Letter | Reason for use |
|--------|--|
| L | For those eligible for the basic Personal Allowance - 1060L for the 2015/16 tax year. It is also used for 'emergency' tax codes. |
| P | For people born between 6 April 1938 and 5 April 1948 and eligible for the full Personal Allowance |
| Y | For people born before 6 April 1938 and eligible for the full Personal Allowance |
| T | If there are any other items HMRC need to review in your tax code |
| K | When your total allowances are less than your total 'deductions' |

What if my tax code is not several numbers and a letter?

If your tax code has two letters but no number, or is the letter 'D' followed by a zero or one, it is normally used where there are two or more sources of income and all of the allowances have been applied to the tax code and income from the main job or pension.

Other tax codes and what they mean

| Code | Reason for use |
|------|--|
| BR | Is used when all your income is taxed at the basic rate - currently 20 per cent (most commonly used for a second job or pension) |
| D0 | Is used when all your income is taxed at the higher rate of tax - currently 40 per cent (most commonly used for a second job or pension) |
| D1 | Is used when all your income is taxed at the additional rate of tax - currently 45 per cent (most commonly used for a second job or pension) |
| NT | Is used when no tax is to be taken from your income or pension |





If you have two jobs or pensions, the second income will be taxed at the basic or higher rate, because all of the allowances will have been used against the income from the main job or pension.

How is my tax code worked out?

Step one

All your Income Tax allowances are added up.

Step two

Income that no tax is paid on (for example untaxed interest or part-time earnings) and any taxable employment benefits are added up.

Step three

The total amount of income that you have not paid tax on (called 'deductions') is deducted from the total amount of tax allowances. The remaining amount is the total of tax-free income allowed in that tax year.

Step four

The amount of tax-free income left is divided by 10 and added to the letter which fits your circumstances.

For example:

| | | | | |
|----------------------------|--------------|--------------|--------------|--------------|
| Personal Allowance | 10600 | 10600 | 10600 | 10600 |
| Married Couple's Allowance | | 6860 | | |
| Blind Person's Allowance | | | 1890 | |
| Health care (BUPA) | | (400) | | (400) |
| Car fuel | | | | (4500) |
| Loan Interest | | | | (6560) |
| Total | <i>10600</i> | <i>17060</i> | <i>12490</i> | <i>(860)</i> |
| Tax Code | 1060L | 1706L | 1249L | K86 |

What is a 'K' code?

[K Code = If deductions are more than allowances you'll be given a K code](#)

The number in a K code multiplied by ten gives how much must be added to the taxable income to take account of the excess untaxed income received.





Where do I get my tax code from?

Your tax code should be issued to you by HMRC. HMRC should issue a P2 form detailing how they have calculated your tax code. Your employer, in this case your PSC, will also receive a P9 giving the tax code to be applied but not how it was calculated.

When do I receive my tax code?

Tax codes for 2015/2016 should have been issued prior to 06.04.2015. Tax codes may be revised and reissued during the tax year.

What should I do if I think my tax code is incorrect?

Our accountancy partner, Foremans LLP, can check your tax code for you or you can contact HMRC direct to discuss.

If you think you have not used your personal allowance or have paid too much tax for some other reason there are certain time limits within which you can claim a tax refund.

For more information on tax codes you can contact Foremans on **01244 625 555** or through our website.



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