

What is a tax code?

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

If your tax code is a number followed by a letter

- If you multiply the number in your tax code by ten, you'll 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

Letter	Reason for use
L	For those eligible for the basic Personal Allowance - 647L for the 2009-10 tax year. It is also used for 'emergency' tax codes (read more in the section 'If you're on an emergency tax code')
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	If there are any other items we need to review in your tax code
K	When your total allowances are less than your total 'deductions' - read more in the section 'How tax codes are worked out'

Other tax codes

If your tax code has two letters but no number, or is the letter 'D' followed by a zero, it is normally used where you have two or more sources of income and all of your allowances have been applied to the tax code and income from your 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)
NT	Is used when no tax is to be taken from your income or pension

If you have two jobs or pensions, it is likely that all of your second income will be taxed at the basic or higher rate - depending on how much you earn. This is because all of your allowances will have been used against the income from your main job or pension.

How tax codes are worked out

Step one

Your tax allowances are added up. (In most cases this will just be your Personal Allowance and any Blind Person's Allowance. However in some cases it may include certain job expenses.)

Step two

Income you've not paid tax on (for example untaxed interest or part-time earnings) and any taxable employment benefits are added up.

Step three

The total amount of income you've not paid any tax on (called 'deductions') is taken away from the total amount of tax allowances. The amount you are left with is the total of tax-free income you are allowed in a tax year.

Step four

Broadly speaking, to arrive at your tax code the amount of tax-free income you are left with is divided by 10 and added to the letter which fits your circumstances.

For example, the tax code 117L means:

- you are entitled to the basic Personal Allowance
- £1,170 must be taken away from your total taxable income and you pay tax on what's left

The tax code spreads your tax-free amount equally over the year so that you get about the same take-home pay or pension each week or month.

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. Whereas with other tax codes the number indicates the amount of income you can have tax-free, the number in a K code multiplied by ten broadly indicates how much must be added to your taxable income to take account of the excess untaxed income you received.

K code example

K497 means:

- your untaxed income was approximately £4,970 greater than your taxable income
- as a result, approximately £4,970 must be added to your total taxable income to ensure the right amount of tax is collected
(The actual calculation is more complex and of course precise - and ensures that the exactly right amount is added to your taxable income.)

If you're on an emergency tax code

Sometimes your employer or pension payer will have to use an 'emergency' or 'special basis' code until we've worked out what your tax code should be. This can happen if you start a new job and don't have a P45 for example. While you're on an emergency code you'll get the basic Personal Allowance - this may or may not be right for you, but the tax code will be reviewed and changed if necessary once we know more about your previous pay and tax. If you have paid too much tax under the emergency code, you will get a refund.

Where to find your tax code

If you're employed or between jobs

You'll find your tax code 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.

You'll also find your tax code on your 'PAYE Coding Notice' sent to you by your Tax Office usually before the start of each tax year. (It may also be sent to you at other times if something has changed - for example, if you've started receiving a new source of income or a new company benefit or your entitlement to age-related or other allowances has changed.)

If you're starting your first job

If you're starting your first job and therefore don't have a P45 your employer will give you a P46 to fill in and sign. Your employer will allocate a tax code and work out the tax due. We will then process your P46 and, where necessary, revise your tax code.

If you've paid too much tax, your employer will make the necessary refund. (If the tax year has ended before this is worked out, then we will make the refund.) If you haven't paid enough tax, your tax code can be amended to collect the underpaid tax. This will happen in the current tax year, if there's enough time for your employer or pension payer to apply the revised code or, if not, in a later tax year.

If you get a company or personal pension

You'll find your tax code on your PAYE Coding Notice sent to you by your Tax Office usually before the start of each tax year. It may also be sent to you at other times if something has changed - for example, if you've started receiving a new source of income or a new company benefit. You'll also find your tax code on notices and pay slips 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 and either of you were born before 6 April 1935
- you start to receive a second (or third or more) income
- the amount of untaxed income you get increases or reduces

If you don't let us know you could end up paying the wrong amount of tax.

If we change your tax code, you should receive a PAYE Coding Notice 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 amount of tax.