PAYE Tax Code – what is it?

In these difficult and uncertain times, more than ever it is important to make sure that the tax you are paying, by its deduction from your pension or employment income is, correct. If the incorrect amount is paid during the year you will be sent a bill by HMRC after the end of the tax year. The best way to make sure you pay the correct amount of tax during the year is to check your tax code.

To check your tax code is correct, you need to know what it is. It should be on your payslip, or you can call HMRC and ask. You can also find your PAYE code online by accessing your Personal Tax Account: www.gov.uk/personal-tax-account. It is your responsibility to check your code and contact HMRC if you think it is wrong.

How do I check the Tax Code Notice?

Check you understand the numbers in each line of the letter and the HMRC notes on the back. The names of all the employers or pension providers who pay you should be listed at the bottom. The code will also list the tax free amount you are entitled to, less any adjustments.

Your Tax-Free Amount

This is the amount of tax free allowances you are entitled to less any deductions. Check that all the allowances you are entitled to, are given:
☐ The tax free Personal Allowance (£12,500 for 2020/21)
☐ If either you or your spouse were born before 6th April 1935, you may be entitled to Married Couple's Allowance (maximum 10% of £9075)
☐ If you were born after 6th April 1935, you will not be entitled to the Married Couple's Allowance, but your spouse may have applied to donate 10% of their Personal Allowance to you, and if so the transfer will show on your tax code (£1,250, for 2020/21) This transfer is the Marriage Allowance
☐ If you are registered blind then the Blind Person's Allowance should be shown (£2,500 for 2020/21)

Some deductions and adjustments you may have:

☐ The State Pension (SP) – this is taxable, but tax is not deducted before you receive it, so tax due is collected by deducting the amount of the pension from your Personal Allowance
☐ Other taxable benefits - e.g. Contributions based Employment Support Allowance, (ESA) (But note if you receive income based ESA it is not taxable and will not be included on your tax code)
☐ Marriage Allowance - if transferred to your spouse (D.O.B after 6th April 1935)
☐ Underpayments for a previous tax year – call HMRC if you don't understand this adjustment as you should have been sent paperwork to explain the underpayment previously
☐ Restrictions – usually to collect tax on income paid gross e.g. savings interest above £1,000, for basic rate taxpayers or above £500 for higher rate taxpayers
☐ Benefits from your job or previous employer - e.g. medical benefits

Final Tax Code

The total of the allowances, less deductions and adjustments, usually leaves a figure of unused allowances, which is converted into a code by removing the last digit and adding a letter.eg allowances of £12,500 become a code of 1250L.The letters at the end of the tax code are explained below:

L Entitlement to the personal tax free allowance
M 10% of your spouse's Personal Allowance has been transferred to you (Marriage Allowance rules)
N 10% of your Personal Allowance has been transferred to your spouse (Marriage Allowance rules)
T HMRC will review the code
X HMRC will review tax paid at the end of the tax year
K Negative tax free allowance, which means no net tax free allowance is due, but rather tax is due on the excess of adjustments over allowances
C Resident in Wales (different tax bands)
S Resident in Scotland (different tax bands)
BR Income taxed at basic rate, 20%
NT No tax to pay on this income
D0 Income taxed at higher rate, 40%

If you have any doubts about your code, contact either HMRC on 0300 200 3300 or, if on a low income, Tax Help for Older People, helpline number 01308 488066.

This article is by Tax Help for Older People Registered Charity no 1102276 (Scotland no SC045819), offering free tax advice to older people on a low income who cannot afford professional help.