



Tax code time!

Now is the time for you to receive your coding notices for the new tax year. Just as golden daffodils appear in the gardens, so brown HMRC letters appear through your letter box! HMRC will be sending out tax codes with most of them being issued during February and March. This should be in plenty of time for you to see how they intend to tax you in the new tax year which starts on April 6th 2022.

Tax codes apply to the income of everyone who is employed full-time or part-time, or receiving a private pension and everyone who receives a tax code has a responsibility to check that the tax code is correct. Do not think that responsibility for getting it right rests with employers, pension providers and HMRC. Whilst they have their part to play, it is ultimately up to everyone to make sure that their tax codes are right and working correctly. If you believe there is a mistake, you should contact HMRC immediately to have it corrected.

Nowadays, coding notices are computer generated within HMRC and transmitted directly to employers' or pension providers' computer systems without any human intervention. This sometimes means that errors can go undetected for a whole year or even longer, so it is important that you check the details. If there is a mistake on the code and the wrong amount of tax is collected, HMRC will follow this up and you could face a tax bill after the end of the tax year. However, if you check your code and spot the error you can let HMRC know and avoid an unexpected bill later.

Checking a tax code

A tax code is a combination of numbers and letters and is used by employers and pension providers to work out how much income tax should be deducted.

Between 6th April 2022 and 5th April 2023 most people can earn £12,570 before paying tax. This is known as the tax-free allowance, and it amounts to £1047.50 per month or £241.73 a week.

On the tax code, HMRC drop the last digit of the tax-free amount and then add on a letter. For example, in 2022/23, the most common tax code includes just the tax free personal allowance of £12,570, so this becomes the tax code **1257L**.

But not every taxpayer will get a code of 1257L for the new tax year. There are items included in the tax code calculation that will reduce the tax-free amount and increase the amount of tax that is taken from wages or pension. For example, the state pension. The state pension is taxable but the Department for Work and Pensions (DWP), who pay it, do not operate the PAYE system. The tax due is



therefore collected by reducing the tax-free amount by the total amount of state pension paid during the year.

Contribution based Employment Support Allowance is another taxable benefit.

Benefits from your employment, such as medical insurance should be included in your tax code and can therefore increase the tax you pay.

Allowances, such as the blind person's allowance, marriage allowance or flat rate job expenses increase the amount of tax-free pay and reduce the amount of income on which tax is paid. This means less tax is paid when relief is given 'through the tax code'.

The inclusion of savings interest in the code reduces the personal allowance so you should check the amount of the savings interest included in your tax code. HMRC will be making an estimate of the interest you will receive usually based on the amount received in previous years, so if there have been changes, HMRC will not know unless you tell them. The tax-free amount is reduced or increased as necessary and this forms the basis of a tax code.

The final letter in the tax code is there for HMRC or your employer (or pension provider) to refer to. The most frequently used letters are as follows:

L is the most common letter on tax codes

M denotes 10% of your spouse's personal allowance has been transferred to you

N you have transferred 10% of your personal allowance to your spouse

T allowances are split between 2 or more incomes and HMRC will review the code

X HMRC will review the tax paid at the end of the tax year

BR income taxed at basic rate, 20%

K codes

There is one other type of tax code that you may receive, which is a K code. This code applies when items that reduce the tax-free allowances, for example a large state pension exceeds those allowances, resulting in 'minus allowances'. HMRC treat these minus allowances as extra income on which tax is due, and they use a special code number, beginning with the letter K.

For the K code, HMRC drop the last digit of the minus allowance, and deduct one. For example, if you have minus allowances of £2,970, your tax code will be K296.

K codes are designed to collect extra tax, but cannot take tax of more than 50% of that period's pay (or pension). So while they are designed to collect the extra tax due, it might not be possible to collect it all and you may still have additional tax to pay at the end of the year.

If you think any of the items on your tax code are wrong or you have any questions about your tax codes, either contact HMRC on 0300 200 3300 or if you are over 60, you can contact Tax Help for Older People by calling the helpline on 01308 488066. The helpline is open 9.00 am to 5.00 pm Monday to Friday. If the line is really busy, or you want to call outside office hours, then please leave a message and an adviser will call you back. You can also email us at taxvol@taxvol.org.uk

Alternatively, you can contact our sister charity, TaxAid, on the helpline number 0345 120 3779, and again please leave a message if the line is busy. This helpline is also open 9.00 am to 5.00 pm Monday to Friday. If you would prefer to send an email enquiry, please send it to help@taxaid.org.uk

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.