

Is your PAYE code correct?

Many people can go for years paying too much (or, perhaps more worryingly, too little) tax. This has not been helped by errors made by the tax authorities.

PAYE aims to collect, over the course of a tax year, approximately the right amount of tax from your earnings. This is done by the issue of one, or sometimes a series of tax codes, which are used by your employer to calculate the tax to be deducted from your earnings.

The code represents the amount of salary or pension you can receive before having to pay tax. The allowance is allocated in line with your pay frequency e.g. weekly, 4 weekly, monthly or even annually.

If you are paid monthly, the allowance is deducted from your earnings to date, tax calculated on those earnings to date and compared with tax paid to date. If you owe some more, it is then deducted from your salary, if you have already exceeded the amount due, then a refund is paid.

This is the most common process with the code being applied on a cumulative basis. Any small calculation differences in earlier months get picked up and corrected automatically.

If your tax code is marked M1 or W1, it means it's not being applied cumulatively, just on the pay of that month/week. It is possible for you to miss out on allowances for earlier months.

Many employees have incorrect tax codes. In particular, they may not have notified the tax office of changes in their circumstances that would affect their tax position, such as changing jobs and / or losing the benefit of a company car, or they may have started investing in a pension.

It is important that you check your PAYE code now, because it is much easier to rectify mistakes before the tax year ends. As a first step, though, look at your salary or pension advice slip and see what code is currently being applied. The letter at the end of the code tells you whether your code includes one of the standard allowances, and you can see if this is right for your circumstances:

- **L** includes standard personal allowance
- **P** indicates that the employee is entitled to the lower single age allowance, i.e. a taxpayer born between 6 April 1938 and 5 April 1948
- **Y** indicates that the tax payer is entitled to the higher single allowance, i.e. - an individual born before 6 April 1938
- **T** means that your code requires manual checking by HMRC each year

Or you may have the letter **K** at the beginning of your code. This is a special tax code and means that you are paying tax on more than just your salary through PAYE.

It may be that the tax due on your state pension might be collected through increasing the tax you would otherwise pay on your company pension, or you may be receiving some rental income which is being taxed through your salary rather than you paying tax at the end of the year.

If you owe back tax, this can also be collected by an adjustment to your tax code. A **K** code applies when the adjustments made reduce your allowances to less than zero - in effect, it means that you have a 'negative' tax allowance. The maximum tax which can be deducted using a **K** code is 40% of your income in each month.

Other codes include:

BR: This is used when all your income is taxed at the basic rate and is most commonly used for a pension. This code was also often used for a second job but more commonly this is now coded **OT**.

OT: This is used where the tax office believe or know you are not entitled to a personal allowance and any earnings will be taxed at basic, higher or the additional rate as appropriate. Most frequently for those earning over £100,000 who lose the personal allowance.

DO: This is used when all your income is taxed at the higher rate of tax

D1: This is used when all your income is taxed at the additional rate of tax

NT: This is used when no tax is to be deducted from your income or pension

What to look out for

- Any adjustments to the standard allowance if you don't have any benefits you are aware of.
- HMRC estimating future income.
- Loss of your personal allowance when you know income is down in the current year.
- Your code has been marked M1/W1 for some time

What to do next

Contact Jill Phillips or Karen Cheeseman for a review of your tax code. It is important to send us both sides of the code notice. Useful information is often listed on the back of the form.

We will be happy to help, just call **020 8460 0543** to experience our totally stress free tax and accounts service!