

A guide to UK tax codes

Introduction

What does your tax code mean and how does it effect how much tax you pay?

This article explains what each code means and how it is used to calculate your tax.

Where does my tax code come from?

Your tax code is issued by HMRC to your employer, so that the right amount of income tax (PAYE) that can be deducted each month from your salary.

Here are some examples of tax codes:

747L

747P, 747V, 382Y

384T

K384

BR, OT, DO, NT

Except for the last few, the majority of tax codes are a combination of numbers and letters.

The numbers are used to work out how much income should be taxed. The letter is used to determine how the income is taxed.

What the number means

The number is used to work out your tax allowance as follows:

Tax allowance = Number X 10 + 9.

For example, if you earn £20,000 per annum and your tax code is 747L then your tax allowance would be 7479. This is then deducted from your salary to determine your taxable income. For this example, the taxable income is £12,521.

Note: If your tax code is a letter 'K' followed by a number, it means that the total allowances in your code are less than the total deductions to be taken away from your allowances. In this case the number is added rather than deducted to determine the taxable income. For someone earning £20,000 with a tax code of K747 the taxable income would be £27,479.

For a personal calculation of your own income tax (PAYE) and National Insurance (NI) contributions use our [PAYE/NI Net Salary Tax Calculator](#).

What the letters mean

Tax code L

Indicates a basic personal allowance and is the most common code.

Tax codes P, V and Y

Indicate higher personal allowances for those aged over 65.

Tax code T

Indicates there are items requiring review by your Inspector of Taxes.

Tax code K

The amount of allowances is less than total deductions. An example could be if you have a company car, private medical benefit and other taxable expenses and benefits in kind which exceed the amount of the personal allowance.

Tax code BR

Stands for "Basic Rate" and indicates that all of your income is to be subjected to the basic rate of tax at the current rate. You will therefore receive no personal allowances but you will not be subjected to higher rates of tax.

A BR tax code is often issued to a consultant who sets up his own limited company, having just left a previous employment.

This is because HMRC may believe that the new company is a second source of income prior to your form P45 filtering through the system, indicating that you have left the previous employment. As soon as HMRC realise that the new limited company is your only source of income, they will usually issue an appropriate "L" tax code as above. A letter from your accountant to the Payroll Inspector for the new limited company can often speed up this process.

Tax code OT

Indicates that you have no personal allowances and all income is subject to basic and higher rates of tax.

Tax code DO

Indicates all of your income is subject to the higher rate of tax.

Tax code NT



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Indicates that no tax is to be deducted on your income – the tax code we would all like to have!

Further resources

[HMRC: Understanding your tax code](#)

[PAYE/NI Net Salary Tax Calculator](#)

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