



PAYE Tax Codes

Understanding the Numbers

Tax Codes. We all need them, but do we really know what they mean?

The tax code 1257L is most commonly used for the majority of people who have one job or pension. But there are a multitude of other codes that may appear on your payslip or HMRC App. So, what do they mean? Your tax code will be made up of numbers and a letter(s).

The numbers in your tax code simply informs your employer pension provider how much tax-free income you get in that tax year. The number is based on your tax-free personal allowance and income you have not paid tax on, as well as taking in to account any benefits from your job such as company cars or private healthcare.

But there are also letters in your code. And there are plenty of them! The most used tax code will be L, which means you are entitled to a tax-free personal allowance – which is literally the amount of income you are allowed to earn before starting to pay tax.

Here's the lowdown on the letters

Letters	What they mean
L	You're entitled to the standard tax-free Personal Allowance
M	Marriage Allowance: you've received a transfer of 10% of your partner's Personal Allowance
N	Marriage Allowance: you've transferred 10% of your Personal Allowance to your partner
T	Your tax code includes other calculations to work out your Personal Allowance
OT	Your Personal Allowance has been used up, or you've started a new job and your employer does not have the details they need to give you a tax code

Letters	What they mean
BR	All your income from this job or pension is taxed at the basic rate (usually used if you've got more than one job or pension)
D0	All your income from this job or pension is taxed at the higher rate (usually used if you've got more than one job or pension)
D1	All your income from this job or pension is taxed at the additional rate (usually used if you've got more than one job or pension)
NT	You're not paying any tax on this income

What is emergency tax?

If you have a W1, M1 or X at the end of your Tax Code, this means you are paying emergency tax. HMRC may have put you on emergency tax if they have not received the information that they need to correctly calculate your tax. You may have just started a new job, starting working for an employer after being self-employed or getting company benefits or State Pension. The sooner you or your employer give HMRC your correct details the sooner they will update the tax code. Ensure you give your new employer your P45 as soon as you start work so that they can send this to HMRC as Emergency Tax is higher than the normal rate. If you don't have a P45, or are only just becoming PAYE, they will be able to ask you for all the information they need in a starter checklist.

Why has my tax code changed?

If your earning circumstances change, so will your tax code. This could be that your employer has given you benefits such as a company car or private health insurance. You may have started (or stopped) receiving taxable state benefits, claiming marriage allowance or claiming expenses that you get tax relief on, or you are getting additional income from another job or pension.

*If you need to update your tax code contact **HMRC** online*