

A Practical Guide to Tax Codes

With HM Revenue and Customs continuing to issue huge numbers of Tax Coding Notices, tax payers are becoming increasingly confused as to what their tax codes mean and how it could affect them.

Here we offer a practical guide as to what tax codes include and what to look out for when you receive a new tax code.

What is a tax code?

A tax code is a notice to your employer or pension provider to tell them how much tax to deduct from your salary or pension.

What do tax codes include?

Tax codes include any allowances available, such as your annual Personal Allowance, along with any income or benefits that are not taxed at source.

Some common uses of the tax code is to collect the tax that is due on a company car through the tax payers salary or for older tax payers the tax code is also commonly used to collect the tax due on their State Pension.

Common Tax Codes

647L This is the standard tax code and only includes an individuals standard Personal Allowance of £6,475 for the 2010/11 tax year.

'L' Tax Codes This will be a series of numbers followed by the letter L. This means that the individuals tax allowances are higher than their benefits.

An example of an 'L' tax code would be:

Personal Allowance	6,475
Car benefit	(3,950)
Allowances remaining	2,525 (Which translates to tax code 252L)



'K' Tax Codes Again a series of numbers but followed by the letter K. This means that the total of the individuals benefits are higher than their allowances – a negative tax code.

An example of a 'K' tax code would be:

Personal Allowance 6,475

Car benefit (7,350)

Allowances remaining (875) (Which translates to tax code K87)

BR or Basic Rate This means that tax will be deducted from that income source at a rate of 20%. A BR tax code should generally be used for a second source of income where the individuals allowances have been used on the main employment

Do Tax will be deducted at 40% under a D0 tax code. Again these tax codes are generally used for second sources of income but where the individual is a higher rate tax payer.

What to look out for with your tax codes?

Problems with your tax coding notices could potentially lead to HMRC deducting hundreds of pounds of tax that is not due so it is important to ensure that these notices are correct. Here senior accountant from Burgess Hodgson, Tom Saltmer, identifies some of the common errors and important things to look out for with tax codes.

- 1. Check the dates** – HMRC can often issue multiple tax codes quite close together and whilst the earlier tax codes are wrong they have now been superseded by later tax codes.
- 2. Check the income sources** – We have seen a huge number of tax coding notices issued for old income sources this year such as previous employers. Whilst the tax code may be wrong it will have no effect as no income is received from that source.
- 3. Do or BR** – HMRC seems to be quite keen to issue D0 tax codes this year which give rise to a 40% tax deduction. If you receive a D0 tax code you need to consider if you are or will be a higher rate tax payer.

4. **Savings income** – There are still tax codes around that include the tax due on bank interest at pre recession interest rates. Generally bank interest is minimal now and the amounts in the tax code can be reduced.

5. **Personal allowance from 5 April 2010** – From this date those earning over £100,000 will lose their Personal Allowance and HMRC is trying to make this adjustment through some tax codes. Our experience is that HMRC have struggled with this so you need to check if HMRC have removed your Personal Allowance without reason.

6. **Old benefits** – The benefits included in your tax code are often not up to date and may have been carried forward for several years. If, for example, you no longer have a company car make sure that this has been removed from your tax codes.

7. **Reimbursed expenses** – Some employees receive reimbursed expenses from their employer and these are dealt with by including a benefit and an allowance on the tax code. HMRC are very good at just including the benefit side of the adjustment so do check if you have reimbursed expenses.

These are some of the common problems with tax codes – but there are many other errors do appear so a general ‘sense check’ of your tax code is useful.

Despite the problems with the tax code system it is important to remember that any problems can generally be resolved easily – usually by making a quick phone call to HMRC.

- for more details about Tax Codes, contact a member of our tax team on 01227 454627 or email: tax.planning@burgesshodgson.co.uk

**E
A
C
T
S
T
H
E
M
E**