

# TAX CODES EXPLAINED

## How much tax are you paying?

Checking that you are on the correct tax code is essential. Being on the wrong tax code can result in significant loss of income or needing to pay back a large amount of money further down the line.

Understanding your tax code is simple and can save you from a big financial headache!

## Tax codes: the basics

On a pay-as-you-earn (PAYE) contract, a tax code tells an employer how each person's earnings should be taxed. This is very important because there are many different factors that affect how much tax you will need to pay.

Everyone receives a tax-free allowance. This is the amount that you can earn annually without paying tax – currently set at £12,570 until 5 April 2026. When your earnings go past this threshold, you'll need to start paying tax.

Your tax code tells your employer and HM Revenue & Customs (HMRC) how much of your income should be taxed and how much you get tax-free.

Your tax code will appear as a string of numbers and letters on your payslip.

## Tax codes under the microscope

Take a close look at your payslip and find your tax code. If you are a contracted employee in receipt of no additional benefits, and this is your only form on income, then it will probably be **1257L**.

There are two parts to this code – the numbers and the letter.

The numbers denotes your tax-free allowance. Multiply it by 10 to work out how much you receive without paying tax. So, 1257 indicates an allowance of £12,570.

The letter adds detail about how you should be taxed on income above your tax-free allowance. For example, the standard L dictates that you should be taxed at the normal rate for your income bracket.

## Why your tax code might be different

Most employees on a standard contract will use the tax code 1257L. So why is yours different?

Many factors can affect how much tax a person must pay. These are the most common reasons why you might have a non-standard tax code:

- You receive employment benefits, such as private healthcare or a company car
- You switched jobs during the year and are now paying emergency tax
- Underpaid tax in prior years
- You have multiple jobs or income streams
- You pay tax on state benefits
- You use your own vehicle for work
- You claim a home working allowance
- You need to repair or buy specialist equipment or clothing

Some of these factors will mean that your tax-free allowance is **reduced**, such as underpayment or additional benefits. Others, such as home working allowances or replacing specialist tools, will cause your allowance to be **increased**.

## Understanding different numbers

If the number in your tax code is **less than 1257**, then your personal tax allowance has been decreased.

If the number in your tax code is **greater than 1257**, then your personal tax allowance has been increased.

## Different letters in your tax code

In addition to having a different numbers, you may also notice that you have a different letter in your tax code.

Depending on the letter, these indicate different ways that your gross income is being taxed.

Non-standard tax codes may include:

- M** – where an employee’s spouse or civil partner has transferred some of their tax-free allowance, taxed at basic, higher or additional rates
- N** – where an employee has transferred some of their tax-free allowance to their spouse or civil partner, taxed at basic, higher or additional rates
- BR** – all income is taxed at basic rate, applied to second job or pension
- D0** – all income is taxed at higher rate, applied to second job or pension
- D1** – all income is taxed at additional rate, applied to second job or pension
- C** – for an employee whose main home is in Wales
- S** – for an employee whose main home is in Scotland
- NT** – no tax paid on this income
- OT** – where an employer is unable to work out the correct tax code or an employee has used up their tax-free allowance
- K** – deductions for company benefits or tax owed is greater than your tax-free allowance

## What to do if you have the wrong tax code

Tax codes are assigned to individual employees by HMRC. Employers have no control over your tax code, nor do they have any knowledge of why a particular code has been assigned to you.

If you think you have the wrong tax code, you’ll need to contact HMRC.

You can do this quickly and easily through the [online form](#) or by calling **0300 200 3300**.

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