What does my Tax Code mean?

This guide is based on Tax Year 2020-21 guidelines

Everyone starts with a Tax Code of 1250L

Add in your personal situation, and this determines what YOUR Tax Code should be.

We breakdown the Tax Code into it's different sections in the following pages,
to see how your Tax Code is built up, and what it all means.

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Prefix

For some people, their Tax Code will start with a letter…
S – Scottish Tax Payer (known as a S code)
C – Welsh Tax Payer (known as a C code)
No prefix letter means the Rest of the UK

The prefix letter is determined by where you are resident, i.e. your main residential home is in Scotland, your Tax Code will begin with an S.

The rates and thresholds used to calculate the Tax your due to pay are determined by the prefix used in your Tax Code. For example, for S prefix Tax Codes, the Scottish tax rates and thresholds are used to calculate what to deduct from your pay for Tax.

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The Numbers

To determine your free pay allowance for the Tax Year, the amount you can earn without Tax being deducted, add a zero on to the end of the numbers in your Tax Code. Divide the resulting number by 12 to get your monthly free pay allowance, or by 52 to get your weekly free pay Allowance.

Please note: This is the way Tax is calculated using the Exact Percentage method, most payroll software will use the Tax Tables provided by HMRC to calculate the Tax due. Therefore, there may be a few pence difference to what is on your payslip, if your using this method to manually calculate how much Tax your due to pay.

1250 plus a zero is 12500, therefore you get £12,500 before Tax is Deducted each Tax Year.

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Suffix

There are a variety of letters that your Tax Code can end with, each having their own meaning.

L – your entitled to the standard Tax free personal allowance (most common letter used)

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 (often referred to as a temporary Tax Code)

Other Tax Codes and their meanings

0T – your personal allowance has been used up, or you've just started a new job and your employer doesn't have the details to give you a Tax Code

BR – all your income is this job or pension is taxed at Basic Rate (usually used if you have more than one job or pension)

D0 – all your income is this job or pension is taxed at Higher Rate (usually used if you have more than one job or pension)

D1 – all your income is this job or pension is taxed at Additional Rate (usually used if you have more than one job or pension)

NT – your not paying any tax on this income

If you have one of the above Tax Codes with a prefix of S, then your taxed according to the Scottish rates and thresholds. If it's a C prefix, then your taxed according to the Welsh rates and thresholds, and if no prefix, then your taxed according to the Rest of the UK rates and thresholds.

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K Codes

Tax Codes that begin with the letter K, known as K Codes, work in the opposite way to other Tax Codes. Instead of the numbers in the Tax Code determining how much free pay allowance you receive (how much is deducted from your Taxable Pay before Tax due is calculated), the numbers determine how much additional Taxable Pay to add on to your Taxable Pay in this employment. You can find out how much this is by adding a zero on to the numbers, like you did with the other types of Tax Codes.

For example, K800 Tax Code, (add zero onto 800 gives you 8000), will mean That £8000 is added to your Taxable Pay in this employment for the whole Tax Year.

K Codes are most commonly used to recover underpayments of Tax from previous Tax Years or additional Tax due for company benefits (from P11D submissions).

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Cumulative or Non-Cumulative

If your Tax Code has a space and 'M1/W1' (or 'Month1/Week1') after it, this means that your Tax Code is operated on a non-cumulative basis. Meaning that only the Taxable Pay in the current Tax Period is used to calculate how much Tax you're due to have deducted from you. If 'M1/W1' (or 'Month1/Week1') is not noted after your Tax Code then it's operated on a cumulative basis. This means that in each pay period your total Taxable Pay for the Tax Year (since 6th April) to date is used to calculate your Tax due to date. The Tax you've already paid in previous Tax Month's of this Tax Year, are then deducted from the total Tax due to date, with the remainder being deducted in the current Pay Period.

Some Examples

S840L

In this example the S prefix is used, therefore you've been defined as being a Scottish resident, calculations will be based on the Scottish rates and thresholds. Adding a zero onto the numbers 840 gives 8400, so the Tax Code gives you a free pay allowance of £8,400 per Tax Year. The L suffix let's you know that you're entitled to the standard free pay allowance. There is no M1/W1 noted at the end so the Tax Code will be operated on a cumulative bases.

C0T

In this example the C prefix is used, therefore you've been defined as being a Welsh resident, calculations will be based on the Welsh rates and thresholds. The C is followed by a zero, therefore no free pay allowance is due. The T suffix let's you know that there have been other calculations used to define the Tax Code. There is no M1/W1 noted at the end so the Tax Code will be operated on a cumulative bases.

K432 M1/W1

This is a K Code, without a prefix, so the Tax will be calculated using the Rest of the UK rates and thresholds. Add a zero on to the number 432 gives 4320, as this is a K Code the £4,320 gets added on to your Taxable Pay for the Tax Year. As there is M1/W1 noted at the end of the Tax Code then this code will be operated on a non-cumulative basis.

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We hope you've found this guide on Tax Codes useful!

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