



## WHY ARE TAX CODES SO TAXING?

Tax codes can be confusing at the best of times, and especially if you are in receipt of income from more than one source. It is important to check your codes, making sure they are correct, because they are the mechanism by which HMRC instruct employers and pension providers to collect the tax you owe under PAYE (Pay As You Earn).

You should receive one coding notice for each and every source of taxable income. Coding notices show how the codes are constructed and have explanatory notes on the back. It is the responsibility of you, the taxpayer, to check that they are right and to contact HMRC directly if you think they might be wrong. For those with multiple sources of income it is important to make sure all the codes work together. The coding notice you receive from HMRC is a copy of the instruction sent to the employer or pension provider.

Codes are made up of numbers and letters. The numbers represent the amount of tax free allowance you have to set off against your income (before your tax is calculated) and the letters are the system that HMRC use to communicate with the employer or pension provider. The letters follow the numbers and are generally based on your age;

- L – born after 5<sup>th</sup> April 1938
- Y – born before 6<sup>th</sup> April 1938
- T – any age but affairs more complicated and code should be reviewed annually
  
- The P code has now been **removed** by HMRC.

This is all fine provided you have tax free allowance left, but what happens if you don't? Some people receive income that is not taxed at source, such as the state pension or savings interest. If their untaxed income is higher than their personal allowance (PA) they will not have any tax free allowance, but tax will still be due on the income not covered by their PA. In these circumstances a 'K' code is needed. The 'K' represents a minus figure, precedes the number and instructs the income provider to *increase* the income by that amount before calculating the tax.

It is possible for someone in Self-Assessment (SA) to pay the tax they owe via their tax code. To achieve this, their tax return must be with HMRC by 30<sup>th</sup> Dec after the end of the tax year in question, indicating that the tax due should be coded via PAYE. If this date is missed then the amount will not be coded out. For example, a 2013/14 tax return filed before 30/12/14 should be coded in the 2015/16 tax year, whereas if the return was filed in January 2015, it will not be coded and tax due must have been paid by 31 Jan 2015 to avoid incurring interest charges.

Unfortunately, the system doesn't always work, resulting in underpayments and overpayments of tax. These are usually picked up during the annual reconciliation process when HMRC issues what are known as P800 calculations to those affected. Before paying what you owe, or spending a refund, it is worth checking the calculation carefully against your end of year P60's, P45's and savings annual statement. A taxpayer has the right to ask HMRC to explore the reason why an underpayment has occurred and can ask HMRC to consider a concession called ESC A19 where HMRC may have made an error, or to investigate possible employer error. The criteria can be quite restrictive, so it may be worthwhile seeking guidance on how to proceed.

This article is by Tax Help for Older People registered charity no 1102276, offering free tax advice to older people on incomes below £20,000 a year. The Helpline number is 0845 601 3321 or geographical 01308 488066.