An explanation of your tax code

Why do you need a tax code?

We have to tell your employer, pension payer or benefit office how much Income Tax to deduct for the tax year. But we must keep your personal tax details **confidential**. We do this by using a tax code. We tell your wages or paying office what your tax code is but we don't tell them how it is worked out.

In turn, you need to tell me what tax allowances you want to claim and also about other items that can affect your tax liability, such as any State pension, investment or property income you receive. Your tax code can be used to deduct tax from

- your pay
- an occupational pension
- taxable Social Security benefits (such as Jobseeker's Allowance or taxable Incapacity Benefit).

Example of how a tax code works

For each week or month of the tax year, the PAYE system gives an **equal portion** of **your tax free amount** (see box C overleaf) against your income. This is taken away from the pay for that week or month and any pay over that amount is taxed. In this way, if your income stays much the same each week or month, so will the tax you pay.

What a 'tax free amount' means

A Total allowances	£5,000
B Total deductions	£1,880
The tax free amount for the year (A minus B)	C £3,120

What does this mean for each week or month?

If you are paid WEEKLY...	
No tax is paid on (£3,120 divided by 52)	£60
If you are paid MONTHLY...	
No tax is paid on (£3,120 divided by 12)	£260

How much tax will you pay?

Understanding Your Tax Code gives details of tax allowances and rates of tax for the year. There is an example in the leaflet to show you how to work out the tax you should pay each week or month.

If a leaflet is not enclosed with this form and we have not already sent you a copy, you can get one by contacting your Inland Revenue office (details overleaf). There is also a copy, available to view and download, on the Inland Revenue website at www.inlandrevenue.gov.uk under 'Leaflets and Publications'.