

# Understanding your Income Tax & Tax Code



**Leeds**  
Credit Union

If you're working, the chances are you'll be paying tax on what you earn. If you work for an employer, this is usually taken off your wages by your employer before you get the money – this is called Pay As You Earn (or PAYE). If you get a pension, you may also have to pay tax and this will be sorted out by your pension provider.

Affordable. Flexible. Fair.

**How much tax you pay will depend on:**

HOW MUCH INCOME YOU GET

HOW MUCH TAX YOU'VE ALREADY PAID IN THE YEAR

YOUR PERSONAL TAX ALLOWANCE

Your employer or pension company will know how much tax to take from your wages by using your Tax Code.

## What is a Tax Code?

A Tax Code is a set of numbers and letters and is sent out to you and your employer/pension company each year by HM Revenue & Customs (HMRC).

The numbers show how much of your income in a year is tax-free. You might get more tax-free income if you claim certain expenses because of your job but you might get less tax-free income if you get some types of benefits as part of your job, such as a company car or van or health insurance.

So, for example, if your basic tax-free income is £12,500 a year but you get a benefit from your employer that is valued for tax at £1,500, your tax-free allowance would be £11,000. The last number is taken off and so the number part of your Tax Code would be 1100.

**L**

This is the most common code, meaning you are entitled to the basic personal allowance.

**M**

This means your spouse or civil partner has transferred part of their personal allowance to you under the Marriage Allowance scheme.

**N**

This means you've transferred part of your personal allowance to your spouse or civil partner.

**T**

This means there are additional adjustments, such as untaxed income or benefits.

**BR**

This code means all your income is taxed at the basic rate (20%) without any personal allowance.

**D0**

This code means your income is taxed at the higher rate (40%) without any personal allowance.

**D1**

This means income is taxed at the additional rate (45%).

**S**

At the start of your Tax Code means you are being taxed at the levels used in Scotland.

**K**

This means you have tax from the past you still need to pay, or you get money or benefits that can't be taxed before you receive it.

There will also be a letter as part of your Tax Code, usually at the end but sometimes at the start as well. **What do these mean?**

## Emergency Tax Codes?

Sometimes your tax code isn't right for your circumstances and you might be given an emergency code, perhaps when you start a new job or start working for an employer when you have been self-employed.

An emergency tax code means you're only entitled to the basic personal allowance. It'll mean you'll pay tax on all your income above the basic personal allowance (£12,570 for 2024/25).

## What if you think your tax code is wrong, you've paid too much or not enough tax?

If you think your tax code is wrong or have paid the wrong amount of tax, contact HMRC.

## How am I taxed?

There are different tax rates depending on how much you earn.

Band	Taxable Income	Tax Rate
Personal Allowance	up to £12,750	0%
Basic Rate	£12,751 - £50,270	20%
Higher Rate	£50,271 - £125,140	40%
Additional Rate	More than £124,140	45%

It won't include any allowances or reductions and reliefs you might be entitled to, so you could pay more tax than you should be for a short period of time.

If your tax code is one of these, HMRC will automatically update it. But it might mean that for one or two months your pay won't be the same, so be careful with your budgeting.

It's important you give them all the information they ask for so you don't end up on the wrong tax code and pay too much or too little tax.

## What does this mean?

### EXAMPLE 1:

Has a Tax Code of **1275L** and earns **£22,000** a year  
You would pay no tax on the first **£12,750** you earn and then **20%** tax on the rest of your wages

Income	Tax Rate	Tax Paid
<b>First £12,750</b>	0%	£0
<b>Next £9,9250</b> <i>(£22,000 take away £12,750 Personal Allowance)</i>	20%	£1,850

**So, in this case, you would pay £1,850 in tax for the year**

### EXAMPLE 2:

Has a Tax Code of **975L** and earns **£27,500** a year  
In this case, perhaps because of a benefit from your employer such as a company car, your tax-free allowance is reduced to **£9,750**, then the rest of your wages would be taxed at **20%**.

Income	Tax Rate	Tax Paid
<b>First £9,750</b>	0%	£0
<b>Next £17,750</b> <i>(£27,500 take away £9,750 Personal Allowance)</i>	20%	£3,550

**So, in this case, you would pay £3,550 in tax for the year**

### EXAMPLE 3:

Has a Tax Code of **1100L** and earns **£56,000** a year  
In this example, you would pay no tax on the first **£11,000** of your income, then **20%** on the next **£39,270**, then **40%** on the last **£5,730**.

Income	Tax Rate	Tax Paid
<b>First £11,000</b>	0%	£0
<b>Next £39,270</b> <i>(£50,270, the top limit for Basic Rate tax, take away £11,000 Personal Allowance)</i>	20%	£7,854
<b>Last £5,730</b>	40%	£2,292

**So, in this case, you would pay £10,146 in tax for the year.**

**It's important to note that if you earn more than the Basic Rate tax limit, you DON'T pay the higher rate on all your income, just on the amount over the limit!**

## IMPORTANT

This Information Sheet is just meant to be brief description of Tax Codes and Income Tax. Leeds Credit Union does not provide specific, detailed tax advice. If you have any questions about your Tax Code or the amount of tax you pay, please contact HM Revenue & Customs or a specialist tax advisor.