

Sloane Walker – Chartered Certified Accountants

Fact sheet 100

Tax Codes For Employment Income

What is my Tax Code?

When a person is employed we are given by the UK tax office a PAYE (Pay as you earn) tax code. It will often look like this '647L'.

How is it calculated? Well, most people can, during the year ended 5 April 2010 earn £6,475 tax free and they will not need to pay any tax on these earnings, lovely!

The tax man simply snips the last number of the tax free amount off, adds a letter and bingo, you have a tax code.

Next he chops the tax free amount of say £6,475 into 52 slices for those paid weekly or 12 slices for those paid monthly. So you can earn say £539 during April 2009 from your employer and not pay any tax.

If your earnings exceed this amount then you will pay tax of 20% on the excess. If however you are earning lots each year, once your monthly earnings go over £3,655 then the excess falls into the 40% band, ouch!

And if you are a big fat cat, you can even pay the super duper rate of 50%, but that is for those earning over £150,000 and it doesn't come in until 2010 anyway, so don't worry too much!

This guide is not intended to replace the advice of a qualified accountant. Please contact Sloane Walker on 01404 813694 for further assistance.