

AZEBRA UNDERSTANDING TAX

Your tax code is either week1/month1 (represented on the payslip by an X) or cumulative.

Week1/month1 - A Week1/month1 tax code means that we look at your earnings for this period only, not taking into consideration previous week's earnings.

Cumulative - A cumulative tax code takes into consideration previous earnings in the financial year, so if you have had a period of time when you haven't been paid you will receive the tax free amount for that time.

This can arise due to a gap in work because of a holiday, period of unemployment, or in between assignments. Tax codes can vary due to previous earnings, tax owing, second jobs, pensions etc.

Here are some examples:

PAYE tax rates, thresholds & codes

2021-22 TAX CODE 1257L

PAYE TAX THRESHOLD

- £241.73 per week
- £1047.50 per month
- £12,570 per year

BASIC TAX RATE 20% on annual earnings above the PAYE tax threshold and up to £37,700

HIGHER TAX RATE 40% on annual earnings from £37,701 to £150,000

As an example If you have a tax code of 1257L it means that you can earn £247.73 per week before being taxed. if your basic pay is £400, £247.73 is tax free. That means that £152.27 is subject to 20% tax = £30.45.

CODE REASON FOR CODE

BR

Is used when all your income is taxed at the basic rate - currently 20 per cent (most commonly used for a second job or pension)

OT

Is used when your allowances have been used up or reduced to nil and your income is taxed at the relevant tax rates. May also be used if you've started a new job and don't have a form P45 or haven't completed a form P46 before your first pay day

DO

Is used when all your income is taxed at the higher rate of tax - currently 40 per cent (most commonly used for a second job or pension)

D1

Is used when all your income is taxed at the additional rate of tax - currently 45 per cent (most commonly used for a second job or pension)

NT

Is used when no tax is to be taken from your income or pension

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