Breaking the PAYE code

Your latest PAYE code may look a little strange.

It's the time of year when HM Revenue & Customs (HMRC) sends out PAYE codes for the new tax year. Usually that means adjustments for:

- An increase in the personal allowance, which in 2016/17 will rise by £400 to £11,000;
- Changes in any benefit values, notably car benefit which could increase quite sharply if you have a low emission car; and
- Collecting tax due from earlier years and, unless you have requested otherwise, tax due for the current year on certain investment income.

Reports suggest that HMRC has started to allow for the dividend tax changes and the personal savings allowance in setting 2016/17 codes. However, the results can be confusing, not least because HMRC's starting point will be the dividend and interest on the last tax return which they received from you (hopefully 2014/15).

For example, if you are a higher rate taxpayer who had £7,000 of dividend income in 2014/15, HMRC will make the following calculation:

Dividends	£7,000
Dividend Allowance	£5,000
Taxable dividend	£2,000
Tax due £2,000 @ 32.5%	£ 650

To collect this tax, HMRC will reduce your total allowances by £1,625 on the basis that 40% of £1,625 is £650, the amount of tax due.

Anecdotal evidence suggests that the HMRC process is not running too smoothly. There have been wrong calculations and instructions *not* to collect tax in-year have been ignored. Although in the end the full self-assessment calculation will sort out any errors, it is better to start off with the right numbers rather than wait for a surprise bill or delayed tax repayment. If you want a quick check on what your tax bill should be for 2016/17 – and ways you might reduce it – do talk to us.

The value of tax reliefs depends on your individual circumstances. Tax laws can change. The Financial Conduct Authority does not regulate tax advice.