Employees has wrong tax code

HMRC · https://paiyroll.com/kb/employees-has-wrong-tax-code/

Overview

Follow this guide to understand the tax code process, and in particular, when an employee may have multiple employment(s).

How Tax codes are computed

Tax codes are determined in this order:

1. **Employee Starter Declaration**: A, B, or C determines the tax code. When a new employee is added, typically, no additional information is available.
2. **P45** tax code on the Employee. If a P45 is entered, it takes precedence over the starter declaration. P45s are not often available.
3. P6/P9 tax code on the **PAYE Pay Item** received from HMRC (e.g. via DPS) or imported from an FPS takes precedence over a starter declaration or the P45 tax code.

Please note that P45 Previous pay and tax values are not shown on the payslips. Those values are, however, used in the tax calculation and checked by HMRC in the RTI submission.

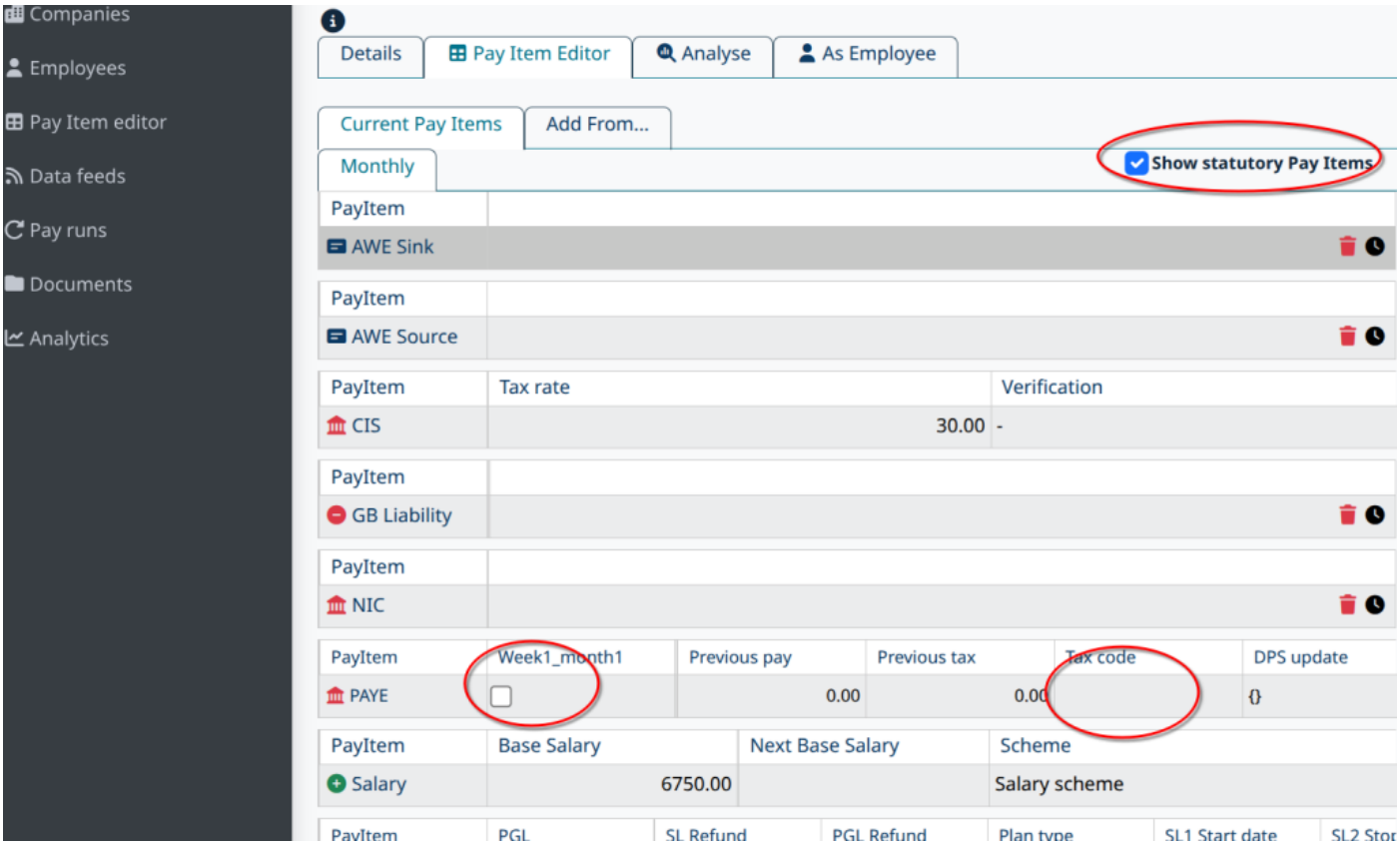
Process

1. Every time you submit a full payment submission (FPS) to HMRC, they update their forecasted annual income for that employment; The same will occur for any other employment(s).
2. HMRC systems, then combine each individual's forecasted income across all employments and employers to arrive at a single number.. Based on this, they will then allocate the appropriate tax code for each employment, ensuring that the individual pays the correct amount of tax each week, month, and for the year in total.
3. If any circumstances change, HMRC will update the tax code, and it'll be sent back to us and other employers.

4. The system operates very efficiently in that if anyone overpays tax, it is automatically refunded on a future Payroll. Generally, HMRC ensures that everyone pays the correct amount of tax in a tax year. In some cases, if that can't be done, a refund will be automatically provided in the next tax year through a tax code.
5. Tax codes are determined by HMRC and not by paiyroll®. The law requires any employer to implement any HMRC tax codes sent to them.
6. If the employee has any concerns about their tax code, they can contact HMRC as detailed here . Usually, they will be able to explain why the tax codes are as they are, and if anything is incorrect, they may amend the tax codes.

Overriding the process

If you do need to override things for some reason, then you can do so using the Pay Item Editor to modify the PAYE pay item. Goto **Employes > worker > Pay Item Editor,** and tick box to show the PAYE item:



You can then provide the overrides as per the Process described. Don't forget to remove the override when no longer needed.

Verification

Click on "Update/View payslip" to check the result.