

Gordon · Yates

UK income tax system – an overview

The tax year in the UK runs from April to March.

The UK uses a “Pay As You Earn” (PAYE) taxation system. As the name suggests, tax gets paid each week throughout the tax year, whenever earnings are above the tax-free threshold.

Tax codes explained for 2025-2026

For most people, their tax-free threshold is the standard one set each year by the UK Government. In some cases, the tax office (HMRC) may set a different threshold, for example if you have other earnings.

You can find information on income tax bands here: <https://www.gov.uk/income-tax-rates>

The tax-free threshold is set by your tax code. The standard tax code for the current tax year is 1257L, which equates to £12,570 tax free allowance (in most cases, you add a zero to the code for the tax-free allowance).

Under PAYE, your tax-free allowance is applied equally during each week of the tax year (i.e. $£12,570.00 / 52 \text{ weeks} = £241.73$ tax-free per weekly payroll). Everything above the tax-free amount is subject to tax.

EXAMPLE:

- ≡ Gross earnings £600 for the week, tax code 1257L
- ≡ Gross pay less tax-free allowance equals taxable pay ($£600 - £241.73 = £358.27$)
- ≡ 20% tax is payable on $£358.27 = £71.65$

Tax rates explained

In England, the basic tax rate is 20% – so, in the above example, tax of ($£358.27 \times 20\% =$) £71.65 would be payable. However, if taxable pay (i.e. gross earnings minus your tax-free allowance) is above the basic rate threshold of (£12,570 plus £37,700 =) £50,270, then higher taxation rates apply.

EXAMPLE:

- ≡ Gross earnings of, say, £1,400 for the week, tax code 1257L
- ≡ Gross pay less tax-free allowance equals taxable pay ($£1,400 - £241.73 =$) £1,158.27
- ≡ Tax is payable on £1,158.27
- ≡ Basic rate tax @: 20% on first £725.00 (i.e. $£37.7K / 52 =$) £145.00
- ≡ Higher rate tax @ 40% payable on balance ($£1,158.27 \text{ less } £725.00 =$) £433.27 @ 40% =) £173.31
- ≡ Total tax ($£145.00 + £173.31 =$) £318.31

(PLEASE NOTE: these examples simply explain how tax is calculated. In practice your gross pay will be reduced by holiday pay transferred each week to your holiday fund – this is taxed when you draw it from your fund.

You can use the Net Pay Calculator on the Candidate Hub to estimate what your weekly tax, holiday pay and net pay will be: <https://www.gordon-yates.co.uk/candidate-temp-hub>

Cumulative / Week One tax

Whatever your tax code, there are two different ways it will be applied – CUMULATIVE or WEEK 1 BASIS.

CUMULATIVE means your current employer's pay record contains all your current year earnings and tax data – your “cumulative earnings” – and he/she can therefore calculate tax cumulatively each week for the whole year to date.

WEEK 1 means your current employer doesn't have the whole picture, so needs to calculate tax using only the data for that individual week.

Depending on individual circumstances this may or may not have an impact on the amount of tax paid over the whole year. The main difference is that on a Week One basis you may lose some tax-free allowance if you are away from the workplace for a time.

As a general rule, it is better to be taxed on a cumulative basis wherever possible.

Beware two common tax pitfalls...

MORE THAN ONE JOB? If you are employed by more than one agency/have more than one job – please check you are receiving only the correct tax-free allowance, to avoid ending the year with a liability for unpaid tax.

In some cases, the tax office may be willing to help “split” your allowance where you have more than one employer. See Contact Details below for the number to call and tax reference numbers they will need.

FIRST JOB SINCE APRIL? If you start work (or arrive in the UK) during a tax year, you may find that you go for a period without paying any tax at all. Under the cumulative system, this is because each week's tax-free allowance accumulates while you're not working. Keep an eye on your payslips. After a while your backlog of unused tax-free allowance will get used up, and tax will start being taken. It pays to plan your budget before this happens.

Tax paperwork explained

Cumulative pay and tax details during a tax year are passed from employer to employer via a P45 tax form. When leaving an employer, request your P45 (in our case, via the GY website, Temp Team Hub) and pass it to your new employer.

When beginning employment, if you don't have a P45 from previous employment in the current tax year, or for some reason your P45 doesn't hold all your cumulative pay and tax details, it may be a good idea to talk to the tax office (see contact details below) and see if they can help get your cumulative information restored.

Beginning work with GY – If you register for work with Gordon Yates and don't have a P45 from your previous employment, either because your P45 is missing, or being kept with another employer, or because this is your first UK job since April, we will ask you to complete a new starter tax form (downloadable from www.gordon-yates.co.uk/cm/candidates/temp-hub) to ensure you are put on the right tax code.

If we don't have a P45 or a completed starter form, we need to apply a OT (zero allowance) tax code. This code taxes all your weekly income, without any tax-free allowance.

National Insurance (NI) is a further statutory deduction. **NI is always calculated on a Week One basis, which provides a big incentive for getting your timesheet to us on time.** From April 2025, the NI rate is 8% on earnings between £242 and £967 a week, and 2% above £967 a week.

Holiday fund transfers

As a GY temp your agreed rate includes a small percentage to be set aside for paid holiday.

Each week, 10.77% of pay is transferred into a personal holiday fund. This is your money and the total accumulated is shown on each week's payslip.

You may draw money from your accumulated holiday fund at any time via the GY Candidate Hub: <https://www.gordon-yates.co.uk/candidate-temp-hub>

(Please note that tax and other statutory deductions become payable on drawdown FROM your fund, rather than on transfers INTO the fund.)

Pensions – auto-enrolment explained

Under UK law, we are required to operate an “auto-enrolment” workplace pension. This law was introduced in 2012 to encourage everyone to save money into a personal pension fund.

When you first start working as a temp through us you will receive introductory information. However, enrolment is deferred until you have worked for 12 weeks on our payroll, at which point if you meet the criteria (age and earnings level) you will be enrolled with NEST, our nominated pension provider. At that point NEST will post a welcome pack to you and explain your options. These include the option to opt out of the scheme should you wish to do so.

After enrolment you have 30 days to opt out and have any pension contributions returned to you, should you so wish. After 30 days you can cease contributions at any time, but any contributions already made can't be returned and will be held in your personal pension fund until retirement age.

Contributions are 4% of pay (employee) and 3% (employer) on gross pay between £120 and £967 per week. The government tops up the 4% with an additional 1%, making your total pension contribution 8%.

Auto-enrolment regulations prevent us from dealing with NEST on your behalf, so all matters to do with your personal pension need to be by direct contact with NEST. Their contact details are available at:

<https://www.nestpensions.org.uk>

Tax and the law

Under PAYE, each UK employer is effectively a tax collector on behalf of the UK government and must adhere to HMRC rules and regulations or face penalties and fines.

We put every effort into getting your tax right – for your sake, and for ours.

Useful contact details

If you have any queries about tax, please call HMRC on 0300 200 3300 and quote your NI number and the Gordon Yates tax reference number: 951 F968WW, or visit: www.hmrc.gov.uk

If you are calling about another employment, you will need that employer's tax reference. This should be on your payslip or on the P45 you received from them when you left.

Gordon Yates
020 7494 4466
www.gordon-yates.co.uk