



TAXATION (TX-UK)

(Finance Act 2019)

For June 2020 to March 2021 examination sittings

Pocket notes

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Preface

These pocket notes contain the key points you need to know for the exam, presented in a unique visual way that makes revision easy and effective.

Written by experienced lecturers and authors, these pocket notes break down content into manageable chunks to maximise your concentration.

Throughout these notes you will find references to past questions including the name of the question in the Kaplan exam kit. These have been included to enable you to locate the questions in the exam kit. Please be aware that due to changes in the examination format in recent years, all questions have been adapted from their original format in order to be representative of the format and style of questions that you are likely see in your TX examination. Therefore, there may be differences between

the Kaplan examination version and the version available on the ACCA website, which will not have been updated to current examination format.

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The examination

TX is assessed by a three hour computer based examination (CBE).

The exam will consist of 3 compulsory sections A, B and C.

Section A will be comprised of 15 objective test (OT) questions of 2 marks each.

Section B will be comprised of 3 objective test (OT) case questions with five OT questions worth 2 marks each linked to each case.

Section C will be comprised of one 10 mark and two 15 mark constructed response (long) questions.

The two 15 mark questions will focus on income tax (syllabus area B) and the other on corporation tax (syllabus area E).

The section A questions, section B questions and the 10 mark section C question can cover any areas of the syllabus.

Aims and capabilities

Aim of the exam

To develop knowledge and skills relating to the tax system as applicable to individuals, single companies, and groups of companies.

Main capabilities

On successful completion of this exam candidates should be able to:

- explain the operation and scope of the tax system and the obligations of taxpayers and/or their agents and the implications of non-compliance
- explain and compute the income tax liabilities of individuals and the effect of national insurance contributions (NICs) on employees, employers and the self-employed
- explain and compute the chargeable gains arising on individuals

- explain and compute the inheritance tax liabilities of individuals
- explain and compute the corporation tax liabilities of individual companies and groups of companies
- explain and compute the effects of value added tax on incorporated and unincorporated businesses.

The keys to success in TX

The TX exam is divided into three different sections, requiring the application of different skills to be successful.

Spend time reading the exam carefully, paying particular attention to sections B and C, where questions will be based on longer scenarios than the 2 mark OTs in section A.

- Divide the time you spend on questions in proportion to the marks on offer.
- One suggestion for this examination is to allocate 1.8 minutes to each mark available (180 minutes/100 marks), so a 10 mark question should be completed in approximately 18 minutes.

Section A

Applying the timing principle of 1.8 minutes per mark for TX means that 15 objective test (OT) questions (30 marks) should take 54 minutes.

Work steadily. Rushing leads to careless mistakes and questions are designed to include answers which result from careless mistakes.

If you don't know the answer, eliminate those options you know are incorrect and see if the answer becomes more obvious.

Remember that only one answer to an OT question can be right and there is no negative marking for an incorrect answer.

After you have eliminated any options that you know to be wrong, if you are still unsure, guess.

Section B

Each case has five 2 mark OT questions linked to it, meaning that each case is worth 10 marks in total. You should therefore spend 18 minutes (10 x 1.8 minutes) tackling each case.

Read the information relating to each case carefully.

Firstly, identify any OT questions that can be answered without significant workings and attempt these. Use your remaining time to attempt the OT questions that require workings.

The above guidance for section A is equally valid for the section B OT questions.

Section C

Always show workings in questions.

Always state any assumptions you make if you do not understand what the question is asking.

Learn and follow the pro formas for computational questions.

Adopt a logical approach and cross reference workings to the main computation to keep your answer tidy.

All sections

Don't skip parts of the syllabus in your studies. The TX exam has 33 different questions that contribute to your overall mark so the examination can cover a very broad selection of the syllabus each sitting.

Spend time learning the rules and definitions.

Read the TX examining team's articles released in Student Accountant in the months up to your examination date. These give clues as to the areas that may be covered.

Practice plenty of questions to improve your ability to apply the techniques and perform the calculations.

Don't panic if you realise that you've answered a question incorrectly. Getting one question wrong will not mean the difference between passing and failing.

In the exam...

- Make sure you take a spare calculator.
 - Decide the order in which to attempt the sections and stick to your plan.
 - Work out the length of time you have to complete each question.
 - Attempt all of the questions.
 - Missing out questions makes it harder for you to achieve success – you still have to gain 50 marks!
 - At the end of your time allocation, move on to the next question; if you have spare time at the end you can go back to any unfinished questions.
 - Try to spend the last five minutes reading through your answers and making any additions or corrections.
- Be sure you understand how to use the CBE software before you start the examination. If in doubt, ask the assessment centre staff to explain it to you.
 - Questions are displayed on screen and answers are entered using a keyboard and a mouse.

chapter

1

Income tax: overview and property income

In this chapter

- Tax year.
- Taxable income.
- Exempt income.
- Pro forma – income tax computation.
- Reliefs.
- Personal allowance.
- Child benefit tax charge.
- Calculating income tax.
- Tax rates.
- Tax deducted at source.
- Property income.
- Joint income.

Tax year

- An individual's taxable income is assessed in respect of a tax year.
- Runs from 6th April to following 5th April.

Tax year 2019/20: 6 April 2019 to 5 April 2020.

Taxable income

Income assessable	Basis of assessment
Profits from a trade/profession/vocation	Tax adjusted trading profits of the accounts ending in the current tax year
Interest received from UK sources	Income received in the tax year
Income from employment	
Dividend income	
Property income	Income received in the tax year is the default basis (accruals basis is used in certain circumstances)

Income taxed at different income tax rates depending on type of income:

Non-savings



Employment
income

Trading profits
Property income

Savings



Interest
income

Dividends



Dividend
income

Income must be included in computation gross.

Exempt income

Main examples:

- Premium bond prizes.
- Betting/gambling winnings.
- Returns on NS&I certificates.
- Income received from ISAs.
- Repayment interest (interest on tax repayments).



Key Point

Any exempt income should be:

- excluded in the income tax computation
- but noted as exempt in section C exam answers.



Exam focus

Use the following income tax pro forma to ensure that income tax is calculated at the correct rates on different sources of income.

Pro forma – Income tax computation – 2019/20

	Total £	Non-savings £	Savings £	Dividends £
Employment income	X	X		
Trading profits	X	X		
Property income	X	X		
Pension income	X	X		
Interest income	X		X	
Dividend income	X			X
Total income	X	X	X	X
Less: Reliefs	(X)	(X)		
Net income	X	X	X	X
Less: Personal Allowance (PA)	(12,500)	(12,500)		
Taxable income	X	X	X	X

Income tax computation

	£
Non-savings income x 20/40/45%	x
Savings income x 0/20/40/45% (Note)	x
Dividend income x 0/7.5/32.5/38.1% (Note)	x
	<u> </u>

Income tax liability

Less: PAYE	(x)
	<u> </u>

Income tax payable

x

The appropriate rate of tax depends on the level of taxable income:

Basic rate band limit	= £37,500
Higher rate band limit	= £150,000

Note: Savings income falling into the first £5,000 of taxable income is taxed at 0% (not 20%).

A savings nil rate band of £1,000 and £500 is available to basic and higher rate tax payers respectively.

A dividend nil rate band of £2,000 is available to all taxpayers.



Exam focus

Exam kit questions in this area:

OT case (section B) question:

- Philip and Charles

Constructed response (section C) questions:

- Patience
- Richard Tryer
- Petula
- John Beach
- Dill
- Danh

Reliefs

- Reliefs are an allowable deduction from the total income of an individual, subject to a maximum amount.
- Main examples:
 - Qualifying interest
Employees:
interest on loans to purchase plant and machinery for use in employment
Partners:
interest on loans to purchase a share in a partnership or to contribute capital/loan to a partnership
 - Trading losses (Chapter 7).
- **Maximum amount of relief** deductible from total income is the **greater of**:
 - £50,000, or
 - 25% of adjusted total income.

Note that the maximum restriction will only be examined in the context of loss relief (see Chapter 7).

Personal allowance (PA)

- Available to all individuals.
- £12,500 for 2019/20.
- Deducted from net income to give taxable income.
- Lost if not used in the year.

Reduction of PA – higher rate taxpayers

- If adjusted net income (ANI) > £100,000:
 - reduce PA by:
 $50\% \times (\text{ANI} - £100,000)$
- If ANI > £125,000:
 - no PA
- Effective rate of tax on income between £100,000 to £125,000: 60%

- ANI is calculated as:

	£
Net income (per IT comp)	X
Less: Gross gift aid	(X)
Less: Gross personal pension contributions	(X)
ANI	<u>X</u>

Exam focus

Exam kit questions in this area:

OT case (section B) questions:

- Philip and Charles

Constructed response (section C) questions:

- Petula
- John Beach
- Dill

Marriage Allowance (Transferable amount)

- A spouse or civil partner can elect to transfer a fixed amount of the PA to their spouse/civil partner.
- This is known as the marriage allowance (MA).
- Neither spouse/civil partner may be a higher or additional rate taxpayer.

**Key Point**

Electing for the MA will be beneficial provided the transferor spouse/civil partner does not fully utilise their PA but the recipient spouse/civil partner does, so that their total income tax liability as a couple is reduced.

Method:

- The fixed amount of PA to transfer = £1,250 for 2019/20.
- There is no provision for transferring less than this amount.
- Relief is given by reducing the recipient's income tax liability by a maximum of £250 (i.e. £1,250 x 20% BR income tax).

Child benefit tax charge

A child benefit charge arises where:

- an individual receives child benefit, and
- they, or their spouse/civil partner, have adjusted net income (ANI) $\geq$ £50,000.

ANI = as for the restriction of the PA.

Income	Tax charge
£50,000 – £60,000	1% of child benefit for each £100 of income over £50,000
Over £60,000	The amount of child benefit received

Both the appropriate percentage and the tax charge are rounded down to the nearest whole number.

Where the charge applies the taxpayer must:

- complete a tax return
- pay the charge through the self-assessment system.

The tax charge can be avoided by choosing not to claim child benefit.

Calculating income tax

- (1) Dividends, savings income and non-savings income need to be totalled separately.
- (2) To ensure that tax is saved at the highest rates, reliefs and the PA should be deducted from:
 - non-savings income
 - then savings income
 - then dividends.
- (3) Order of calculation

Tax should be calculated in the same order:

- non-savings income
- then savings income
- then dividends.

Tax rates

- Different tax rates apply depending on the amount and type of income.

	Non-savings	Savings	Dividends
Basic rate band (first £37,500)	20%	20% (Note)	7.5% (Note)
Higher rate band (£37,501 – £150,000)	40%	40%	32.5%
Additional rate band (over £150,000)	45%	45%	38.1%

Note: If savings income falls into the first £5,000 of taxable income, it is taxed at 0% (not 20%).

A savings nil rate band is available as follows

- Basic rate taxpayers £1,000
- Higher rate taxpayers £500

All taxpayers are entitled to a £2,000 dividend nil rate band.

Pension contributions

- Personal pensions

Relief for contributions paid by an individual into a personal pension scheme, is given as follows:

- Paid net of basic rate tax (20%)
 - Basic and higher rate bands extended by the gross amount: (Amount paid x 100/80).
- Occupational pensions
 - Contributions deducted from employee's gross pay before PAYE is applied.

Charitable giving

Tax relief is available as follows:

- Gift aid scheme:
 - Paid net of basic rate tax (20%).
 - Basic and higher rate bands extended by the gross amount: (amount paid) x 100/80.
- Payroll deduction scheme
 - Donations deducted from employee's gross pay before PAYE is applied.

Effect of extending bands

Income equivalent to gross personal pension contributions (PPC) and/or gross gift aid donations is

- taxed at 20% rather than 40% (if higher rate taxpayer) and in addition
- taxed at 40% rather than 45% (if an additional rate taxpayer).

This increases the amount of income taxed at a lower rate as opposed to a higher rate of tax.

Reduction of PA

In addition, remember that:

Gross PPCs and gift aid = also deducted from net income to arrive at ANI when comparing with the income limit for the reduction of the PA.



Exam focus

Exam kit questions in this area:

Constructed response (section C) questions

- Patience
- Richard Tryer
- John Beach

Tax deducted at source

- If tax deducted at source i.e. PAYE exceeds the income tax liability, the excess is repayable.

Property income

- Taxes income from land and property.
- The cash basis is the default basis in the TX examination. In certain circumstances the accruals basis is used.
- Calculation of profits:

	£
Rental income received	X
Less: Related expenses paid	<u>(X)</u>
Assessable income	<u>X</u>

- Expenditure is deductible if it is incurred 'wholly and exclusively' for the purposes of the letting (e.g. repairs, insurance, impairment loss).
- Interest paid = allowable deduction for non-residential property.

- Interest paid for residential property
 - 25% of finance costs: allowable deduction from property income
 - 75% of finance costs: basic rate tax relief deduction from income tax liability.
- If a property is let furnished, the cost of replacement domestic items (i.e. not the original acquisition) is an allowable deduction.
- Where there is more than one property the profits and losses from each property are aggregated.
- Taxed as non-savings income at:
 - 20%, 40% or 45%
- Property losses
 - for individuals, can only be carried forward against future property income.



Exam focus

Exam kit questions in this area:

Constructed response (section C) questions:

- Patience
- Danh
- Richard Tryer
- Tonie
- Kat

Premiums for granting a short lease

Where a premium is paid on the grant of a short lease (≤ 50 years):

- Landlord is assessed on property income of:

Premium	£
Less: 2% x premium x (n – 1)	X
	(X)
Assessment on landlord	Y
	—

where

n = number of years of lease.

Alternative calculation:

$$= \text{Premium} \times \left(\frac{51 - n}{50} \right)$$

Furnished holiday lettings (FHL)

- Assessed as property income but:
 - treated as arising from a single and separate trade.
- Advantages:
 - Business asset for CGT rollover relief, gift relief and entrepreneurs' relief.
 - Relevant earnings for pensions relief.
 - Deduction available on a paid basis for P&M including furniture when using the cash basis.
 - Capital allowances on all P&M including furniture when using the accruals basis.
 - 100% of finance costs deductible from FHL income.

- Any losses made on a qualifying FHL property may only be set against profits from other qualifying FHL properties:
 - firstly in the same tax year
 - then carried forward against future profits from FHL properties only.
- Conditions:
 - Let furnished on commercial basis.
 - Available to let for ≥ 210 days in the year.
 - Actually let for ≥ 105 days in the year.
 - Not let for periods of long-term occupation (occupied by same person > 31 days) in excess of 155 days in a year.

Rent-a-room relief

- Furnished room in a main domestic residence.
- Gross rents $\leq$ £7,500
 - exempt, unless elect for loss.
- Gross rents $>$ £7,500
 - normal property income calculation unless elect for excess over £7,500 to be taxed (with no deduction for expenses).



Exam focus

Exam kit question in this area:

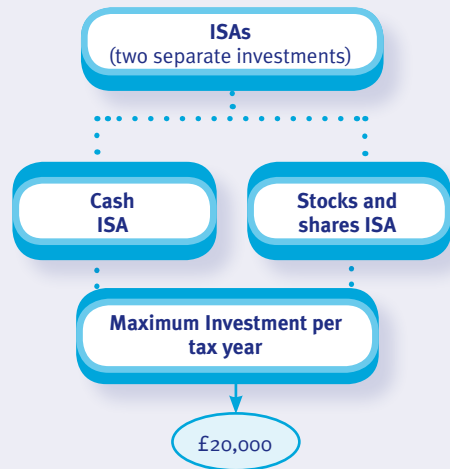
Constructed response (section C) questions:

- Petula
- Tonie

Joint income

- Applies to married couples and civil partnerships.
- Normal assumption = 50/50 split.

Can elect for income to be taxed according to actual percentage ownership.



Applies to individuals holding gilts with a total nominal value in excess of £5,000.

- Gains made on gilts by individuals are exempt.
- Without the scheme, interest accrued up to the date of sale would increase the value of the gilt and be included as part of the exempt gain.
- When the accrued income scheme applies, the **interest accrued up to the date of sale** will be treated as **savings income** for the individual selling the gilt. All individuals resident in the UK = assessed to income tax on their **worldwide income** (UK and overseas).



Key Point

Knowledge of the residency definition is important. However in computational questions, the individual will always be:

- resident in the UK, and
- taxed on worldwide income.

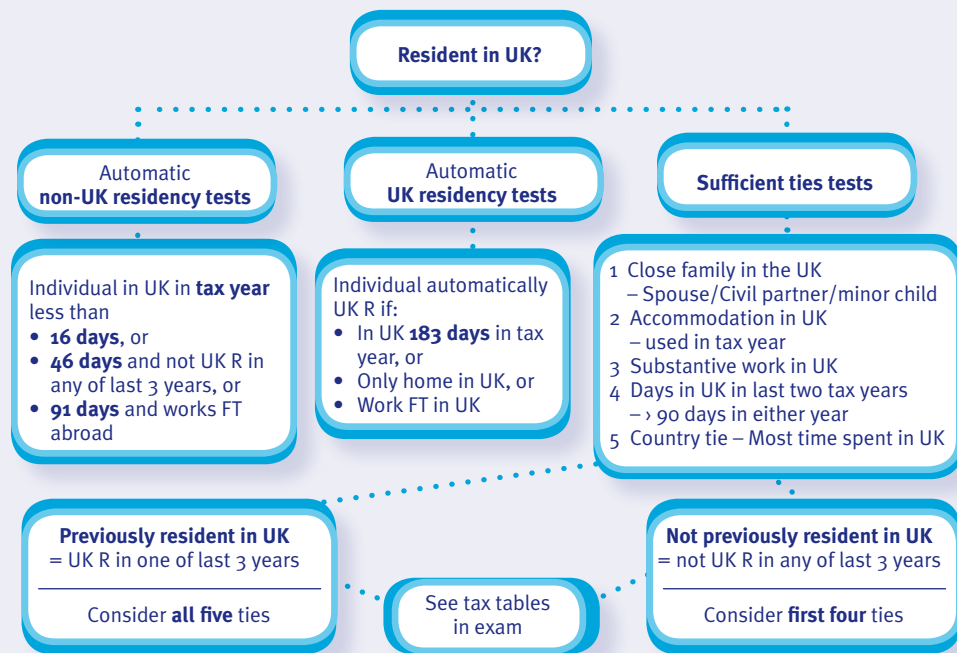
Residence



Definition

An individual is resident in the UK for a tax year if they:

- do not meet one of the **automatic non-UK residence tests**, and
- meet one of the **automatic UK residence tests**, or
- meet one or more of the **sufficient ties tests**.



Application of sufficient ties test

Days spent in the UK	Previously resident (Leaver)	Not previously resident (Arriver)
Less than 16 days	Automatically not UK resident	Automatically not UK resident
16 to 45 days	Resident if: 4 UK ties (or more)	Automatically not UK resident
46 to 90 days	Resident if: 3 UK ties (or more)	Resident if: 4 UK ties
91 to 120 days	Resident if: 2 UK ties (or more)	Resident if: 3 UK ties (or more)
121 to 182 days	Resident if: 1 UK tie (or more)	Resident if: 2 UK ties (or more)
183 or more days	Automatically resident	Automatically resident

Application of sufficient ties test

The above table is included in the tax rates and allowances provided to you in the examination. No other information relating to residence is included in the tax rates and allowances.



Exam focus

Sections A and B will almost certainly include some questions on income tax. In addition, one of the questions in section C will focus on income tax for 15 marks, and the 10 mark section C question may also include income tax aspects.

It is highly likely, therefore, that a question will involve the calculation of income tax liability or payable.

It is important that you familiarise yourself with the various types of income, along with the order in which they are taxed, and also how to apply the different rates of tax for interest and dividends.

As with all areas of the TX syllabus, question practice is the key to success and is invaluable when it comes to taxing the different sources of income at the correct tax rates accurately under time pressure.

Exam kit questions in this area:

Constructed response (section C) questions:

- Dill
- Danh
- Auy Man and Bim Men
- Tonie