

INCOME TAX: LEARNING NOTES

Income Tax (IT) Liability

Tax Year Ended 05.04.XX					
Income	Non-Savings	Savings	Dividends	Total	
Employment (W1)	X			X	Employee: Cash and 'cash value' of benefits from employment; Class 1 NI
Trading (W2)	X			X	Sole trader/Partner: trading profits from business; Class 4 NI Cash basis is default method from 24/25 Trading allowance £1k (no expenses deductible)
Property	X			X	Cash basis is default method if income ≤£150k Deduction for replacement items, not enhancement Rent-a-room relief £7.5k (no expenses deductible) Property allowance £1k (no expenses deductible)
Interest		X		X	Exempt: ISA, NSC, IT repayment
Dividends			X	X	Exempt: ISA
Termination Payment	X			X	Compensation Discretionary / non-PENP payment (Excess over £30k)
Pension	X			X	Pensioner: Income from pension
Trading Losses / Reliefs	(X)	(X)	(X)	(X)	CY / PY trading loss claim Charity gifts of assets Interest on loan for: close company share purchase; assets for partnership/employment; IHT payment
Net Income	X	X	X	X	Over £100k (after deducting gross personal pension contributions and Gift Aid) = taper PA Over £60k = Child Benefit charge (HTT p15)
PA	(X)	(X)	(X)	(X)	£12,570 (blind: additional £3,130)
Taxable Income	X	X	X	X	Exempt: prize winnings, most benefits, scholarship
SRB@0%		X		X	£5k: only available if Non-Savings ≤£5k
PSA@0%		X		X	£1k (BRB), £500 (HRB), £0 (ARB)
DA@0%			X	X	£500
BRB@20%	X	X		X	Increase band for gross amount of: Personal pension contributions Gift Aid
BRB@8.75%			X	X	
HRB@40%	X	X		X	Increase band for gross amount of: Personal pension contributions Gift Aid
HRB@33.75%			X	X	
ARB@45%	X	X		X	
ARB@39.35%			X	X	
Tax on transition profits				X	Sole trader/Partner basis period transition
Tax reducers				(X)	Finance costs on residential property (20% of interest/property income/taxable income) Marriage Allowance (Transfer £1,260 of PA if partner taxed at BRB)
Tax increasers				X	Child Benefit charge (HTT p15) (1% of CB for every £200 that income > £60k)
Tax Liability				X	
DTR				(X)	Lower of: UK tax / foreign tax
Tax already paid				(X)	PAYE / Tax withheld on pension income
Tax Payable				X	

Employment Income: Employee

Employment Income (W1)		Employee - IT & NI	Employer - NI
CASH			
Salary, Bonus, Lump sum	Cash received	IT & Class 1 Primary	Class 1 Secondary
Termination: Contractual payment, PILON, PENP, Bonus	Cash received	IT & Class 1 Primary	Class 1 Secondary
Vouchers	Cost to employer	IT & Class 1 Primary	Class 1 Secondary
Entertaining allowance	Minus amounts spent on entertaining	IT	
Mileage payments	Excessive payment taxable (HTT p73)	IT & Class 1 Primary	Class 1 Secondary
Reimbursed expenses	Not taxable as no income received		
BENEFITS: Taxable			
Accommodation	Annual value (or rent paid) + MV/Cost to employer - £75k x interest rate No benefit if job-related	IT	Class 1A
Accommodation expenses	Capped at 10% of net earnings if job-related	IT	Class 1A
Cars	List price x CO ₂ based % (HTT p62) Add 4% to non-RDE2 diesel cars (37% max) Employee capital contribution capped at £5k	IT	Class 1A
Car Fuel	Fuel benefit charge x CO ₂ based % (HTT p62 & 65)	IT	Class 1A
Van	Flat rate (HTT p71) / £0 if zero emissions	IT	Class 1A
Van Fuel	Flat rate (HTT p72)	IT	Class 1A
Loans	Loan ≥ £10k: benefit is interest saved	IT	Class 1A
Asset use	20% x MV (or rent if higher)	IT	Class 1A
Asset transfer	Higher of: Current MV / MV when provided minus amounts already taxed	IT	Class 1A
Other	Cost to employer	IT	Class 1A
Salary sacrifice	Higher of: benefit amount / cash sacrificed	IT	Class 1A
BENEFITS: Exempt			
Employer pension contribution	Occupational and personal schemes		
Trivial	<£50 for non-work reason		
Mobile phone			
Computer equipment	Private use insignificant		
Car parking/charging / Bikes / Bus	Car parking near work		
Social events	≤£150		
Canteen / gym / childcare facilities	Available to all employees		
Training	Work related		
Relocation	≤£8k		
Health screening, eye tests	Not private health insurance		
Working from home (WFH)	£6 per week if no evidence provided		
Staff suggestion / long service	≤£5,000 / £50 per year of service		
Pension advice	≤£500		
IT: Allowable deductions (100% work purpose)			
Travel	To client; secondment ≤24m Site-based/working from home employee	(IT)	
Mileage payments	Underpayment deductible (HTT p70)	(IT)	
Professional subs not reimbursed	e.g. ICAEW	(IT)	
Employee charity/pension contribution to workplace scheme	Not Gift Aid / personal pension contribution	(IT)	

CORPORATION TAX: EXAM TECHNIQUE GUIDANCE

Question approach

- Read requirement to identify sub requirements and allocate time to each
- Review scenario at high level to identify which parts of the scenario need to be read for each sub requirement
- Only read the parts of the scenario which are relevant to the sub requirement you are answering
- Each question will have easy marks, medium marks and hard marks. You only need the easy and medium marks to pass with a good score

This approach will help you save time in the exam. Watch the video class for practical demonstration.

Basics

- Read the question carefully to see if the expenses have already been deducted
- Look out for short and long periods of account

Reliefs

- Disposal of L&B/P&M: consider if ROR/HOR available
- Disposal of shares: state whether SSE applies

Groups

- Draw group structure to see:
 - Associates (51%: payment dates, tax rate/marginal relief limits and AIA group)
 - Group relief (75%: trading, NTLR and property CY and bf losses)
 - CG group (75%/51%: NGNL transfers/degrouping charges, group ROR, reallocation of gains/losses)
- Remember that use of brought forward losses is restricted to 50% of the profits which the loss can be used against (subject to £5m allowance)

Reliefs

Tax Deferral Reliefs

- Helps cash flow but does not reduce tax payable as gain is just deferred until future

Rollover Relief (ROR)

- Disposal of trading asset and replacement with new trading asset
 - Applies to:
 - L&B and P&M used in unincorporated trading business
 - Goodwill
- Replacement trading asset can be purchased 1 year before disposal/3 years after
- Any proceeds not reinvested are taxable now
- Gain on the old asset reduces base cost of the new asset
- When new asset is sold, gain will be higher as the base cost is lower
- Holdover Relief (HOR) if new asset has UEL ≤ 60 years; gain held over for maximum of 10 years

Gift Relief (GR)

- Gift of business assets or shares
 - Applies to:
 - Trading assets used in unincorporated trading business (L&B, P&M, Goodwill)
 - Shares in donor's trading company (5% of shares and voting rights)
 - Shares (unquoted) in a trading company
 - Gift amount reduces the gain chargeable now and the base cost of the assets/shares
 - When donee sells asset/shares, gain will be higher as the base cost is lower
 - Restriction when shares are transferred to exclude non-trading/investment assets
 - GR: Chargeable trading assets / Total chargeable assets

Incorporation Relief (IR)

- Unincorporated business transferring assets to company
 - Applies to disposal of:
 - Sole trader/Partners transferring assets to company in exchange for shares
 - Going concern
 - All assets transferred (except cash)
- Gains on old assets reduce base cost of the shares
- When shares are sold, gain will be higher as the base cost is lower

CGT: MASTER PLAN

AREA	TOPIC	VIDEO CLASS	QUESTIONS	ICAEW Workbook
CGT	Basics	CGT: Basics	Q45 Q48.1a Q52 Q54.1 Q55 Q56.1 Q57	Ch 11
	Reliefs	CGT: Reliefs	Q10.4 BADR Q20.4 BADR Q22.3 BADR Q45 GR/Inv R Q48.1a GR	Ch 12
	International	CGT: International	Q43	Ch 13.3

Key

Small topic

Medium topic

Large topic