

## INCOME TAX: LEARNING NOTES

### Income Tax (IT) Liability

#### Tax Year Ended 05.04.x1

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 2 and 4 NI Can elect for cash basis if income < £150k Trading allowance £1k (no expenses deductible)
Property	X			X	Cash basis automatic 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	
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
<b>Net Income</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	Over £100k (after deducting gross personal pension contributions and Gift Aid) = taper PA Over £50k = Child Benefit charge (HTT p14)
PA	(X)	(X)	(X)	(X)	
<b>Taxable Income</b>	<b>X</b>	<b>X</b>	<b>X</b>	<b>X</b>	Prize winnings exempt
SRB@0%		X		X	Only available if Non-Savings <£5k
PSA@0%		X		X	£1k (BRB), £500 (HRB), £0 (ARB)
DA@0%			X	X	£2k
BRB@20%	X	X			Increase band for gross amount of: Personal pension contributions Gift Aid
BRB@7.5%			X		
HRB@40%	X	X			Increase band for gross amount of: Personal pension contributions Gift Aid
HRB@32.5%			X		
ARB@45%	X	X			
ARB@38.1%			X		
<b>Tax Liability</b>				<b>X</b>	
Tax reducers				(x)	Finance costs on property (20% of interest/property income/taxable income) Child Benefit charge (HTT p14) (1% of CB for every £100 that income > £50k) Marriage Allowance (Transfer 10% of PA if partner taxed at BRB)
<b>Tax Liability</b>				<b>X</b>	
DTR				(x)	Lower of: UK tax / foreign tax
Tax already paid				(x)	PAYE
<b>Tax Payable</b>				<b>X</b>	

**Employment Income: Employee**

Employment Income (W1)		Employee - IT & NI	Employer - NI
<b>CASH</b>			
Salary, Bonus, Lump sum	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 p71)	IT & Class 1 Primary	Class 1 Secondary
Reimbursed expenses	Not taxable as no income received		
<b>BENEFITS: Taxable</b>			
Accommodation	Annual value + MV/Cost to employer - £75k x interest rate Not if job-related	IT	Class 1A
Accommodation expenses	Capped at 10% of income if job-related	IT	Class 1A
Cars	List price x CO2 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 CO2 based % (HTT p67)	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
<b>BENEFITS: Exempt</b>			
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 / Trips back to UK	£8k / when working abroad		
Health screening, eye tests	Not private cover		
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		
<b>IT: Allowable deductions (100% work purpose)</b>			
Travel	To client Secondment <24m Site-based/working from home employee	(IT)	
Mileage payments	Underpayment deductible (HTT p71)	(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

- Answer this question second as trading income is calculated in same way as for an unincorporated business
- 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 (50%: payment dates 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)

## CGT 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 one 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, GW)
    - 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

**CGT: MASTER PLAN**

AREA	TOPIC	VIDEO CLASS	QUESTIONS	ICAEW Workbook
CGT	Basics	CGT: Basics	M16 (Q28.1) M18 (Q68.1)	Ch 11
	Reliefs	CGT: Reliefs	M16 (Q28.3) - GR, BADR J16 (Q33.1) - PRR [REDACTED]	Ch 12
	International	CGT: International	S16 (Q38.1) J17 (Q53.1) [REDACTED]	Ch 13.3

**Key**

Small topic

Medium topic

Large topic

Exam paper reference: Month-Year Question e.g. M16 = March 2016 exam.

All CGT questions are Q3 in the exam.

SAMPLE - NOT FOR USE

SAMPLE - NOT FOR USE

SAMPLE - NOT FOR USE