

INCOME TAX: LEARNING NOTES

Income Tax (IT) Liability

Tax Year Ended 05.04.x0

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
Property	X			X	
Interest		X		X	Exempt: ISA, NSC, IT repayment
Dividends			X	X	Exempt: ISA
Pension	X			X	Pensioner: Income from pension
Net Income	X	X	X	X	Over £100k (after deducting gross Gift Aid) = taper PA
PA	(X)	(X)	(X)	(X)	
Taxable Income	X	X	X	X	Exempt: Prize winnings
SRB@0%		X		X	Only available if Non-Savings <£5k
PSA@0%		X		X	£1k (BRB), £500 (HRB), £0 (ARB)
DA@0%			X	X	£1k
BRB@20%	X	X			Increase band for gross amount of Gift Aid donation (can elect to carry back donation to prior year)
BRB@8.75%			X		
HRB@40%	X	X			Increase band for gross amount of Gift Aid donation (can elect to carry back donation to prior year)
HRB@33.75%			X		
ARB@45%	X	X			
ARB@39.35%			X		
Tax Liability				X	
Tax reducers				(x)	Marriage Allowance (Transfer £1,260 of PA if partner taxed at BRB)
Tax Liability				X	
Tax already paid				(x)	PAYE
Tax Payable				X	

Trading Income: Unincorporated Business (Sole trader/Partnership)

Trading Income (W2)		
Profit before Tax	X	Expenses already deducted / Income included
Add back:		
Depreciation / Loss on disposal	x	Capital allowances claimed instead
Appropriation of profit	x	Withdrawal of cash by owner Withdrawal of stock by owner: adjust so profit is same as if normal sale
Personal expenses of owner	x	e.g. owner's IT and NI (class 2 and 4)
General provision	x	Specific provision: deductible when expense in P&L General provision: deductible when paid
Wages	x	Disallow amount unpaid within 9m of year end; deductible when paid
Pension contributions by employer	x	Disallow amount unpaid at year end; deductible when paid
Third party entertaining / gifts	x	Allowable if <£50; advertise; and not food, drink, tobacco, vouchers Staff entertaining and gifts allowable
Donations	x	Allowable if local charity donation or gift
Non-trade expenditure	x	Only business expenditure deductible
Private use by owner	x	Only business expenditure deductible
Fines	x	Except parking fine incurred by employee
Capital related - Assets	x	New asset: claim capital allowances instead Repairs allowable; enhancement of asset disallowable
Capital related - L&P	x	e.g. legal fees for buying new assets Renewal of short lease (<50 years) allowable
Leased cars	x	Disallow 15% if CO ₂ emissions >50g/km
Irrecoverable VAT on above items	x	
Income not in the accounts	x	Include if taxable as part of trading income
Deduct:		
Capital allowances (W3)	(x)	Separate working
Expenditure not in the accounts	(x)	Deduct if business related e.g. employer's NI (Class 1 Secondary and 1A)
Interest receivable	(x)	Taxed elsewhere - Interest
Property income	(x)	Taxed elsewhere - Property
Profit on tangible asset disposal	(x)	Taxed elsewhere - CGT
Trading Profit (Loss)	X / (X)	

	Treatment	Already included	Not included
Expenses	Allowable	Do nothing	Deduct
	Disallowable	Add back	Do nothing
Income	Taxable	Do nothing	Add in
	Non-taxable	Deduct	Do nothing

VAT: LEARNING NOTES

Output VAT

- A business making taxable supplies will charge VAT to its customers at either 0%, 5% or 20%
- A business making exempt supplies will not charge VAT to its customers
- A business making supplies outside the scope of VAT will not charge VAT
- VAT collected from customers is paid to HMRC
- A supply includes:
 - Sale of goods/services
 - Gifts of goods (unless <£50 or trade samples) – not services
 - Private use of goods/services by owner or employee
 - Motor fuel provided to employee

Input VAT

- A business making taxable supplies will reclaim the VAT it paid on purchases used to make those taxable supplies
- Must have VAT invoice to reclaim VAT
- Must have used goods/services purchased for business purpose
 - providing goods/services to employees (excluding directors) is business use
- Cannot recover input VAT on:
 - cars which are available for private use
 - third party entertaining
- Can reclaim input VAT on goods purchased up to 4 years before registration
- Can reclaim input VAT on services purchased up to 6 months before registration

VAT RETURN		
OUTPUT VAT		
Sales		
Taxable supplies	Charge 0%, 5% or 20% to customer	X
Exempt supplies	No VAT charged to customer	0
INPUT VAT		
Purchases		
Used to make taxable supplies	Reclaim 5% or 20% paid to supplier	(X)
VAT Payable (Repayable)	Output VAT – Input VAT	X / (X)

Returns

- VAT period: each quarter (three-month period)
- Submitted 1 month and 7 days after end of quarter

Payments

- Paid when VAT return submitted
- Businesses with annual VAT liability > £2.3m make payments on account
- Each payment is 1/24 of prior year VAT liability
- Payments due at end of month 2 and 3 of VAT quarter