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EXP **ACCESS** **Notes**
ACCA Paper F6 (UK)

Taxation (UK)

For exams in 2012



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START About ExPress Notes

We are very pleased that you have downloaded a copy of our ExPress notes for this paper. We expect that you are keen to get on with the job in hand, so we will keep the introduction brief.

First, we would like to draw your attention to the terms and conditions of usage. It's a condition of printing these notes that you agree to the terms and conditions of usage. These are available to view at www.theexpgroup.com. Essentially, we want to help people get through their exams. If you are a student for the ACCA exams and you are using these notes for yourself only, you will have no problems complying with our fair use policy.

You will however need to get our written permission in advance if you want to use these notes as part of a training programme that you are delivering.

WARNING! These notes are not designed to cover everything in the syllabus!

They are designed to help you assimilate and understand the most important areas for the exam as quickly as possible. If you study from these notes only, you will not have covered everything that is in the ACCA syllabus and study guide for this paper.

Components of an effective study system

On ExP classroom courses, we provide people with the following learning materials:

- The ExPress notes for that paper
- The ExP recommended course notes / essential text or the ExPeditte classroom course notes where we have published our own course notes for that paper
- The ExP recommended exam kit for that paper.
- In addition, we will recommend a study text / complete text from one of the ACCA official publishers, but we do not necessarily give this as part of a classroom course, as we think that it can sometimes slow people down and reduce the time that they are able to spend practising past questions.

ExP classroom course students will also have access to various online support materials, including:

- The unique ExP & Me e-portal, which amongst other things allows "view again" of the classroom course that was actually attended.
- ExPand, our online learning tool and questions and answers database

Everybody in the World has free access to ACCA's own database of past exam questions, answers, syllabus, study guide and examiner's commentaries on past sittings. This can be an invaluable resource. You can find links to the most useful pages of the ACCA database that are relevant to your study on ExPand at www.theexpgroup.com.

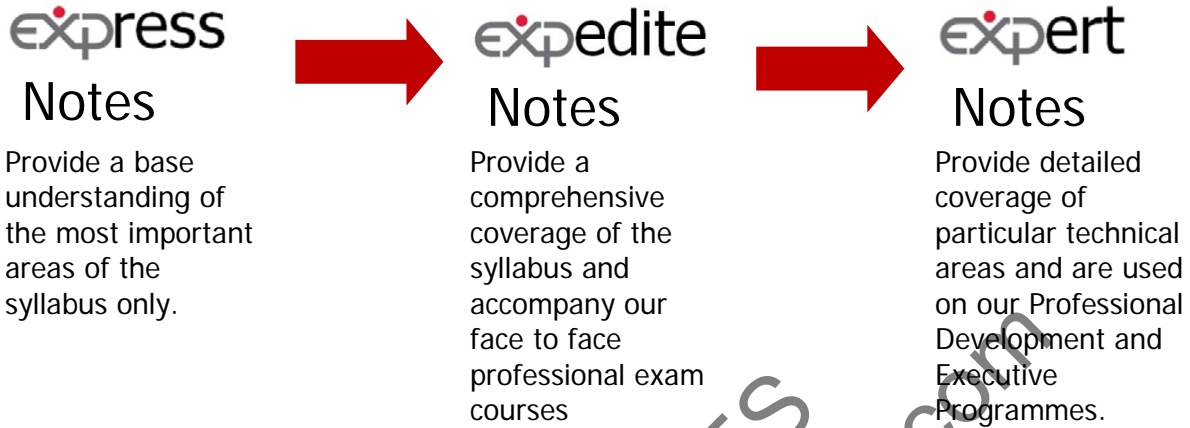
How to get the most from these Express notes

For people on a classroom course, this is how we recommend that you use the suite of learning materials that we provide. This depends where you are in terms of your exam preparation for each paper.

Your stage in study for each paper	These Express notes	EXP recommended course notes, or EXPedite notes	EXP recommended exam kit	ACCA online past exams
Prior to study, e.g. deciding which optional papers to take	Skim through the Express notes to get a feel for what's in the syllabus, the "size" of the paper and how much it appeals to you.	Don't use yet	Don't use yet	Have a quick look at the two most recent real ACCA exam papers to get a feel for examiner's style.
At the start of the learning phase	Work through each chapter of the Express notes in detail before you then work through your course notes. Don't try to feel that you have to understand everything – just get an idea for what you are about to study. Don't make any annotations on the Express notes at this stage.	Work through in detail. Review each chapter after class at least once. Make sure that you understand each area reasonably well, but also make sure that you can recall key definitions, concepts, approaches to exam questions, mnemonics, etc.	Nobody passes an exam by what they have studied – we pass exams by being efficient in being able to prove what we know. In other words, you need to have effectively input the knowledge and be effective in the output of what you know. Exam practice is key to this. Try to do at least one past exam question on the learning phase for each major chapter.	Don't use at this stage.

Your stage in study for each paper	These Express notes	ExP recommended course notes, or ExPeditate notes	ExP recommended exam kit	ACCA online past exams
Practice phase	Work through the Express notes again, this time annotating to explain bits that you think are easy and be brave enough to cross out the bits that you are confident you'll remember without reviewing them.	Avoid reading through your notes again. Try to focus on doing past exam questions first and then go back to your course notes/ Express notes if there's something in an answer that you don't understand.	This is your most important tool at this stage. You should aim to have worked through and understood at least two or three questions on each major area of the syllabus. You pass real exams by passing mock exams. Don't be tempted to fall into "passive" revision at this stage (e.g. reading notes or listening to CDs). Passive revision tends to be a waste of time.	Download the two most recent real exam questions and answers. Read through the technical articles written by the examiner. Read through the two most recent examiner's reports in detail. Read through some other older ones. Try to see if there are any recurring criticisms he or she makes. You must avoid these!
The night before the real exam	Read through the Express notes in full. Highlight the bits that you think are important but you think you are most likely to forget.	Unless there are specific bits that you feel you must revise avoid looking at your course notes. Give up on any areas that you still don't understand. It's too late now.	Don't touch it!	Do a final review of the two most recent examiner's reports for the paper you will be taking tomorrow.
At the door of the exam room before you go in.	Read quickly through the full set of Express notes, focusing on areas you've highlighted, key workings, approaches to exam questions, etc.	Avoid looking at them in detail, especially if the notes are very big. It will scare you.	Leave at home.	Leave at home.

Our Express notes fit into our portfolio of materials as follows:



To maximise your chances of success in the exam we recommend you visit www.theexpgroup.com where you will be able to access additional free resources to help you in your studies.



START About The Exp Group

Born with a desire to be the leading supplier of business training services, the Exp Group delivers courses through either one of its permanent centres or onsite at a variety of locations around the world. Our clients range from multinational household corporate names, through local companies to individuals furthering themselves through studying for one of the various professional exams or professional development courses.

As well as courses for ACCA and other professional qualifications, our portfolio of expertise covers all areas of financial training ranging from introductory financial awareness courses for non-financial staff to high level corporate finance and banking courses for senior executives.

Our expert team has worked with many different audiences around the world ranging from graduate recruits through to senior board level positions.

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Question 1 in the exam will focus on income tax and question 2 will focus on corporation tax.

Paper F6 has a comprehensive syllabus. These Express notes are designed to provide guidance on the core areas of the syllabus. Whilst we believe that the items contained herein have a strong chance of being examined, no guarantee can be provided as to what will be examined.

Taxation legislation can change rapidly. These notes are designed to provide assistance for students taking the F6 (UK) ACCA exam in 2012. These notes should not be used for any other purpose.

The ExP Group explicitly denies liability for any action taken as a result of using these notes. The ExP Group does not warrant in any form that these notes represent the tax legislation as at the date of reading of these notes.

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KEY KNOWLEDGE

Pro-forma Tax Computation – 2011/12

This is the base document for calculating an individual's liability to income tax.

The pro-forma income tax computation is as follows:

INCOME TAX COMPUTATION – 2011/12

	£
Employment income	10,000
Trading income	25,000
Property income	5,000
Bank interest (x 100/80)	1,000
UK dividends (x 100/90)	1,000
Total income	42,000
Less: reliefs	<u>(2,000)</u>
Net income	40,000
Less: Personal allowance (PA)	<u>(7,475)</u>
Taxable income	<u>32,525</u>

Certain income is exempt from income tax including:

- Income from certain National Savings Products
- Income from Individual Savings Accounts (ISA)
- Gambling or betting winnings

Personal Allowances (PA)

Every tax payer is entitled to a PA. For 2011/12 this amount is £7,475. It is an income tax personal allowance and cannot be set against any other tax liability such as CGT.

The PA is deducted from an individual's income to give taxable income.

From 2010/11 the PA is reduced for individuals with income >£100,000.

The reduction is based on adjusted net income (ANI).

Adjusted Net Income:

Net income	X
Less: gross gift aid donations	X
Less: gross personal pension contributions	<u>X</u>
ANI	<u>X</u>

If ANI is >£100,000, the PA is reduced by $50\% \times (\text{ANI} - £100,000)$. Therefore, individuals with ANI >£114,950 do not get a PA.

Personal Age Allowances (PAA)

Individuals who are aged ≥ 65 years old are entitled to a PAA (in effect, a higher rate of PA).

Individuals aged 65 – 74: 2011/12 PAA = £9,940

Individuals aged ≥ 75 : 2011/12 PAA = £10,090

The PAA is given in full in the year the individual becomes 65 or 75.

The PAA is aimed to protect elderly people with lower incomes. If however a person who is entitled to a PAA has ANI above £24,000 (2011/12) the PAA is reduced by:

$$50\% \times (\text{ANI} - £24,000)$$

The PAA can never be reduced to less than the standard PA (£7,475) but note that if an individual has ANI > £100,000 there will be a reduction in the PA as mentioned above.

Income Tax Liability and Income Tax Payable

Once the **taxable income** has been calculated, the income tax liability can be calculated. Note that taxable income is after Personal Allowances.

The rate of income tax depends on the type of income.

Employment income, trading income, property income and bank interest (i.e. all income except dividends) are taxed at the following rate for 2011/12:

Basic rate	£1 to £35,000	20%
Higher rate	£35,001 to £150,000	40%

Additional rate £150,001 and above 50%

Income tax on Dividend income is either at 10%, 32.5% or 42.5%.

The summarised income tax rates are:

	Other income	Saving income *	Dividend income
£1 to £35,000	20%	20%	10%
£35,001 to £150,000	40%	40%	32.5%
£150,001 and above	50%	50%	42.5%

(these rates will be provided in the exam)

* Note that special rates of tax may apply to savings income if it is in the first £2,560 of income.

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Benefits

Benefits are regularly tested at Paper F6.

Exempt benefits include:

- One mobile phone.
- Relocation and removal expenses up to £8,000.
- Employer funded training (if training relevant for the job).
- Staff canteen or restaurant (provided it's made available to all employees)

The calculation of the taxable benefit is reduced proportionally if the benefit is provided for only part of the tax year.

In most cases, contributions towards the provision of the benefit are deducted in the calculation of the benefit.

Assessable benefit – Living Accommodation

An employee provided with living accommodation as a result of his employment and which is not exempt job related accommodation would be assessed as follows:

	Benefit
All properties	Higher of: <ol style="list-style-type: none"> 1. Annual value of the accommodation (figure will be given in the exam). 2. The rent paid by the employer.
Additional charge for "expensive properties"	$(\text{Cost}^* \text{ minus } \pounds 75,000) \times \text{official rate of interest}$ (interest rate will be provided in the exam).

* If the employer acquired the property more than 6 years before providing it to the employee the market value, when first provided to the employee, should be used rather than cost.

Assessable benefit – motor cars

This is one of the most common benefits provided to employees and is examined on a regular basis.

Benefit:

List price when new x "relevant %".

Note the list price is the published brochure price when the car was first registered.

The relevant % depends on the CO2 emissions of the car with the broad concept being that the more un-environmentally friendly the car is the higher the tax charge.

For petrol cars the % is calculated as follows:

<u>CO2 emissions</u>	<u>% (for petrol cars)</u>
≤75 grams	5%
76 - 120 grams	10%
121 to 125 grams	15%
Each complete 5 grams above 125 grams	Add an additional 1% to the 15% up to a maximum of 35%.

For diesel cars 3% is added to the figures above but the maximum is still 35%.



EXAMPLE 1
Petrol Car

John is provided with a petrol car with a list price of £22,000 and CO2 emissions of 147 grams. He makes a contribution of £100 per month for the use of the car.

Answer 1:

Percentage:

Base %	15%
Plus 1% for each complete 5 grams of CO2 above 125 grams (i.e. 125 to 145 = 4%)	4%
Relevant %	19%
% x list price = 19% x £22,000	£4,180
Less contributions (£100 x 12 months)	(£1,200)
Taxable benefit	£2,980

Note that the benefit present when a car is provided is inclusive of servicing and maintenance costs but does not include any private fuel that is paid for by the employer.

Assessable benefit – private fuel

Some employers may pay all or part of the private fuel bill of an employee. The provision of fuel for private use is a separate benefit from the provision of a car.

The benefit is calculated as follows:

“Relevant %” as calculated for the car benefit x “base figure”.

For 2011/12 the base figure is £18,800 and will be given in the exam.

Using the previous example, if the individual had been provided with fuel for private use the calculation of the benefit for the provision of private fuel would be:

$$\begin{aligned} & \text{("Relevant %" as calculated for the car benefit x "base figure")} = \\ & 19\% \times £18,800 = £3,572. \end{aligned}$$

Assessable benefit – private use of vans

The benefit for the private use of a van is a flat rate scale of £3,000 pa.

Private use of employer's assets

For private use of assets other than cars, vans and mobile phones (which have different rules) the general rule is that the benefit is:

20% of an asset's market value at the time it was first provided.

Gift of asset – no previous private use

If an employer buys an asset and then it is given to an employee the benefit is the cost of the asset to the employer.

Gift of asset – after previous private use

If an asset has been used by an employee and then given to him the benefit is calculated as follows:

Higher of:

1. The market value of the asset when gifted.
2. The market value of the asset when first made available less the benefits assessed on the individual during the time the individual used it but didn't own it.

Note that a person can receive both employment income (e.g. he has a part time job) and trading income (e.g. he has a part-time business whereby he trades by selling items on eBay)

Badges of trade

This is the term which refers to various tests (or badges) to ascertain whether a particular transaction that an individual undertakes is a capital item (and hence treated under CGT) or a trading item (and hence treated under income tax).

Badges:

1. Subject matter – are the items that were transacted typically items that are used for trading?
2. Frequency of transactions – the more often the transaction is undertaken the more likely it is that the item will be trading.
3. Length of ownership – a shorter period of ownership is more likely to indicate trading.
4. Profit motive – a clear indication to make a profit may indicate a trading item.
5. Supplementary work and marketing – additional work undertaken on the items to make them more marketable may indicate trading.
6. Method of acquisition – an involuntary acquisition of the item (e.g. through inheritance) may indicate capital.

Basis of assessment

An individual who is self-employed must prepare accounts. These accounts can be for whatever accounting period end that he chooses. The accounts are then adjusted for tax purposes to get the trading income figure (see adjustment of accounting profit section below).

The trading income figure is then assessed on the individual using the **current year basis** rules. This is where the trading income assessed in a tax year is the amount in the 12 month accounting period ending in that tax year.

For example, an individual that prepares accounts to 31 December and has adjusted trading income of £35,000 for the year ended 31 December 2011 would have trading income of £35,000 in the tax year 2011/12.

Adjustment of the accounting profit

An individual's accounts must be adjusted to obtain the tax adjusted trading profit.

Tax adjusted trading profit

Net profit per accounts		28,000
Add:		
Disallowed expenditure	5,000	
Taxable trading income not included in accounts	<u>4,250</u>	
		<u>9,250</u>
		37,250
Less:		
Income included within the accounts but not taxable as trading income	1,000	
Expenditure not in the accounts but allowable as a trading deduction	250	
Capital allowances	<u>3,000</u>	
		<u>(4,250)</u>
Tax adjusted trading profit		<u>33,000</u>

Disallowable expenditure

General rule – Only expenditure incurred wholly and exclusively for the purposes of the trade is allowable.

Some of the more common forms of **disallowable** expenditure include:

- Capital expenditure
- Depreciation or amortization charges
- Appropriations (withdrawals) of funds from the business by the sole trader
- Excessive salary paid to a sole trader's family member
- 3rd party entertaining (note that employee entertaining is allowable)
- The write off of a non-trade debt
- Subscriptions that are not related to the trade
- Gifts to customers are disallowable unless they satisfy all of the following:
 - Cost less than £50 per recipient per year
 - The gift is not food, drink or tobacco
 - The gift carries the name, logo or advert for the business