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The **ExP** Group

ACCA TX | **Express Notes**

Taxation (UK)

SBL

SBR

AFM

APM

ATX

AAA

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MA

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LW

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TX

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Steve Crossman
CEO The ExP Group

Thank you for downloading a copy of these ExPress notes and I hope you find them useful for your studies.

We provide these ExPress notes free of charge to individual students as part of our CSR initiatives. The notes are designed to help students assimilate and understand the most important areas for the exam as quickly as possible.

A word of warning though in that they have not been designed to cover everything in the syllabus so you should only use these notes for either an overview of the key areas before you start your main studies or as part of your final revision in the run up to your exams.

Importantly though, we want you to be successful in your exams so good luck with your studies and please do let us know how you get on.

All the best,

Steve



About The ExP Group

We were born with one passion, with one aim, with one desire. To use technology the way it should be used. To use technology to open up education, and in particular financial education, to whoever needs it regardless of their income, wealth, race, sex, religion or location.

We wanted to use technology to empower individuals to develop themselves through financial expertise, organisations to improve their performance through enhanced human capital and ultimately communities and families to benefit as a result.

We're on target and since our birth we have had the privilege of working with and learning from inspirational individuals and organisations from all 4 corners of the world in countries as varied as the UK in the north, Indonesia in the east, South Africa in the south and Columbia in the west.

We're only part way through our journey but we're doing better than we expected. The best is yet to come though,

Education + Technology = Ethical Empowerment.

Thank you for being part of our story.

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Introduction

The Big Picture

The Taxation (TX - UK) paper introduces candidates to the core principles of taxation in the UK. The paper is mainly computational. Taxation can get very complicated as there are many detailed calculations and lots of intricate rules to remember. A successful candidate must have a good understanding of the core areas of taxation. It is vital therefore that candidates understand the key areas and do not get bogged down in the detail.

The main taxes are:

- **Income tax** – payable by individuals.
- **Corporation tax** – payable by companies.
- **Capital Gains tax (CGT)** – payable by individuals (companies pay corporation tax on their capital gains).
- **Value Added Tax (VAT)** – payable by both companies, and unincorporated businesses.
- **National Insurance Contributions (NIC)** – not strictly a tax but payable by individuals and employers.

Section A of the exam comprises 15 Objective Test (OT) questions worth 2 marks each.

Section B of the exam comprises three short scenarios. Each scenario has five OT questions worth 2 marks each.

Section C of the exam comprises one 10 mark and two 15 mark constructed response questions. The 15 mark questions in section C will cover income tax and corporation tax. Other questions in the paper may ask about any topic of the syllabus.

The TX (UK) paper 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 assist students taking the TX (UK) ACCA exam from June 2023 to March 2024. 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 UK tax legislation as at the date of reading of these notes.

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The Big Picture

Income tax is a key area and will be examined.

Key Knowledge – Income tax: an introduction

Individuals who are UK tax resident will be taxed on their worldwide income. The period of assessment is the **tax year**. The tax year runs from 6 April to 5 April. For example, the tax year 2022/23 runs from 6 April 2022 to 5 April 2023 (2021/22 runs from 6 April 2021 to 5 April 2022 and so on) All income of the individual arising in the tax year will be assessed in the tax year.

Key Knowledge – pro forma tax computation 2022/23

This is the base document for calculating an individual's liability to income tax. The pro-forma income tax computation is as follows (note the numbers are for illustrative purposes):

INCOME TAX COMPUTATION – 2022/23		£
Non-savings income		
Employment income		10,000
Trading income		23,000
Pension income		2,000
Property income		5,000
Savings income		
Bank interest		1,000
Dividends		<u>1,000</u>
Total income		42,000
Less: Reliefs		<u>(2,000)</u>
Net income		40,000
Less: Personal allowance (PA)		<u>(12,570)</u>
Taxable income		<u>27,430</u>

Certain income is exempt from income tax including:

- Income from certain National Savings and Investments certificates
- Income from Individual Savings Accounts (ISA)
- Gambling, trading and premium bond winnings

Personal Allowances (PA)

Every tax payer is entitled to a PA. For 2022/23, this amount is £12,570. 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 net income to give taxable income.

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% x (ANI - £100,000). Therefore, individuals with ANI >£125,140 do not get a PA.

Income Tax Liability and Income Tax Payable

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

The rate of income tax depends on the type of income. The rates for 2022/23 are:

		Normal rates	Dividend rates
Basic rate	£1 to £37,700	20%	8.75%
Higher rate	£37,701 to £150,000	40%	33.75%
Additional rate	£150,001 and above	45%	39.35%

Savings nil rate band - basic rate taxpayers £1,000
- higher rate taxpayers £500

Dividend nil rate band - all taxpayers £2,000

* Note that a starting rate of tax of 0% applies to savings income if it falls within the first £5,000 of taxable income. *These rates will be provided in the exam.*

Marriage Allowance (MA)

The MA allows a spouse or civil partner to transfer a fixed amount of the personal allowance to their spouse/civil partner.

The MA is NOT available if either spouse/civil partner is a higher rate or additional rate taxpayer.

The amount that can be transferred is fixed at 10% of the PA (i.e. $10\% \times £12,570 = £1,260$).

The maximum tax saving is $20\% \times £1,260 = £252$.

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Income Tax – Employment Income

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The Big Picture

Employment income represents all income and benefits an individual receives from his or her employment.

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Key Knowledge – income tax: employment income

Earnings

Earnings are taxed on the “receipts” basis, i.e. the amount of earnings received in the tax year. There are special rules for directors to prevent them manipulating the receipt date.

“Earnings” include salaries, wages, bonuses, commission, round sum allowances and benefits received by an individual.

As an example, if an individual receives a salary of £20,000 and benefits of £6,500 the total employment income will be £26,500. This figure is then included in the income tax computation.

Benefits

Benefits are regularly tested in the TX (UK) paper. The general rule is to tax the employer’s cost of providing the benefit unless there are specific rules for exempting it or valuing it.

Exempt benefits include:

- One mobile phone for private use by the employee.
- Relocation and removal expenses up to £8,000.
- Employer funded training (if training is 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 from the taxable amount of the benefit.

Assessable benefit – Living Accommodation

An employee provided with living accommodation by their employer, and which is not exempt job-related accommodation, would be assessed as follows:

All properties	Higher of: 1. Annual value of the accommodation (figure will be given in the exam), and 2. Rent paid by the employer.
Additional charge for "expensive properties"	$(\text{Cost} * \text{minus } £5,000) \times \text{financial rate of interest at the start of the year, 2\% for 2022/23 (interest rate will be provided in the exam)}.$

* 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 benefit 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. It may be reduced by a maximum employee contribution paid towards the car of £5,000.

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 hybrid-electric motor cars with CO₂ emissions between 1 – 50 grams per km the electric range of the car is relevant:

<u>Electric range in miles</u>	<u>%</u>
≥ 130	2
70-129	5
40-69	8
30-39	12
<30	14

For electric-powered cars with zero CO₂ emissions the benefit is 2%.