

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 business; IHT payment
Net Income	X	X	X	X	Over £100k (after deducting gross personal pension contributions and Gift Aid) = taper PA Over £50k = Child Benefit charge
PA	(X)	(X)	(X)	(X)	
Taxable Income	X	X	X	X	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		
Tax Liability				X	
Tax reducers				(x)	Finance costs on property (20% of interest/property income/taxable income) Child Benefit charge (1% of CB for every £100 that income > £50k) Marriage Allowance (Transfer 10% of PA if partner taxed at BRB)
Tax Liability				X	
DTR				(x)	Lower of: UK tax / foreign tax
Tax already paid				(x)	PAYE
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
Vouchers	Cost to employer	IT & Class 1 Primary	Class 1 Secondary
Entertaining allowance	Minus amounts spent on entertaining	IT	
Mileage payments	Excessive payment taxable	IT & Class 1 Primary	Class 1 Secondary
Reimbursed expenses	Not taxable as no income received		
BENEFITS: Taxable			
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) 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)	IT	Class 1A
Van	Flat rate (HTT)	IT	Class 1A
Van Fuel	Flat rate (HTT)	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	Car parking near work		
Social events	<£150		
Staff canteen	Available to all employees		
Training	Work related		
Relocation / Trips back to UK	£8k / when working abroad		
Health screening, eye tests	Not private cover		
Childcare	Available to all employees		
IT: Allowable deductions (100% work purpose)			
Travel	To client Secondment <24m Site-based employee	(IT)	
Mileage payments	Underpayment deductible	(IT)	
Professional subs not reimbursed	e.g. ICAEW	(IT)	
Employee charity/pension contribution to workplace scheme	Not Gift Aid / personal pension contribution	(IT)	

Reliefs

Deferral Reliefs

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
- HOR if new asset is P&M (depreciating asset); 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 assets used in business / Total chargeable assets

CGT: MASTER PLAN

AREA	TOPIC	VIDEO CLASS	QUESTIONS	ICAEW Workbook
CGT	Basics	CGT: Basics	M16 (Q28.1) D17 (Q63.1) M18 (Q68.1)	Ch 11
	Reliefs	CGT: Reliefs	M16 (Q28.3) - GR, BADR J16 (Q33.1) - PRR D16 (Q43.1) - PRR, GR, BADR M17 (Q48.1) - GR S17 (Q58.1) - GR, BADR S18 (Q78.1) - PRR S19 (Q83.1) - IR	Ch 12
	International	CGT: International	S16 (Q38.1) J17 (Q53.1) J18 (Q73.1) D19 (Q88.1)	Ch 13 p381-385

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.

IHT: EXAM TECHNIQUE GUIDANCE

Question approach

- Read requirement to identify sub requirements and allocate time to each
- Identify any life transfers made - these are often at the end of the scenario information
- Work through the transfers one at a time, considering:
 - Value of transfer (fall in value of estate, related property)
 - Exemptions
 - Life: AE, ME, Spouse, Charity, Political
 - Death: Spouse, Charity, Political
 - Reliefs
 - Life: BPR, APR, DTR
 - Death: BPR, APR, TR, FIV, RNRB, 36% rate, QSR, DTR
 - NRB available
 - Reduced by chargeable transfers in last 7 years
 - PETs do not impact NRB on later life transfers until individual dies and additional death tax is calculated
- 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

Watch the video class for practical demonstration.