SMAR

SMART STUDY ACCA

SMART NOTES

50 Pages only

ACCA - ATX

P6

Advance Taxation

ACCA Online Classes

Plan 1: Live Interactive classes
Plan 2: Offline Recorded Lectures
Plan 3: Live plus Recorded Lectures

Mob/ Whatsapp: 00923346853808

Aziz Ur Rehman (ACCA)
Teaching Experience: 12 Years

For Exams up-to March 2026 (FA24)

CONTENTS

CHAPTER 1
Income Tax Computation, Trust Income, Tax Reducer

INCOME TAX is paid by individuals on his taxable income in a tax year.
Taxable income: Income from all sources except exempt income, *minus* reliefs & personal allowance.
Tax Year: income tax is calculated for tax year which runs from 6th April to 5th April. 6th April 24 to 5th April 25.
Individual: All individuals including children are called taxable person and pay income tax. *Non-UK Residents* Pay UK Income tax on their UK Income only while *UK residents* Pay UK income tax on their worldwide income.

1 UK RESIDENT PERSON:

STEP 1: Automatic Overseas Resident:
A person will *automatically be treated as overseas resident* (*not resident* in UK) if he is present in UK for:
- Maximum 15 days in a tax year.
- Maximum 45 days in a tax year and who has not been UK resident in previous three tax years.
- Maximum 90 days in a tax year, and who works full-time overseas.

STEP 2: Automatic UK resident person:
- A person who is in the UK for 183 days or more during a tax year.
- A person whose only home is in the UK.
- A person who carries out full time work in the UK.

Remember:
- *If a person meets both step 1 &step 2 then step 1 will be preferred and he will be considered non UK resident.*
- *Individual is in UK if he is in UK at midnight*

STEP 3: Sufficient ties test:
If a person is not treated UK resident as per automatic tests, then his status will be based on *no of ties* with the UK and *no of days* they stay in the UK during a tax year.
UK Ties:
- Having close family (a spouse/civil partner or minor child) in the UK. (family)
- Having a house in the UK which is made use of during the tax year. (accommodation)
- Doing substantive work in the UK where 40 days or more is regarded as substantive. (work)
- Being in UK for more than 90 days during either of the two previous tax years. (Days in UK)
- Spending more time in the UK than in any other country in the tax year. (Country)

Days in UK	Not UK Resident in any of previous 3 tax years	UK Resident in any of previous 3 tax years
Upto 15	Automatically non resident	Automatically non resident
16 to 45	Automatically non resident	Resident if ≥4 UK ties
46 to 90	Resident if ≥4 UK ties	Resident if ≥3 UK ties
91 to 120	Resident if ≥3 UK ties	Resident if ≥2 UK ties
121 to 182	Resident if ≥2 UK ties	Resident if ≥1 UK ties

2 TYPES OF INCOME

Exempt Income:
- Interest from national savings and investments certificates
- Gaming winning, Batting, lottery and premium bonds winnings
- Scholarship paid to taxpayer is exempt while scholarship paid to taxpayer's family member is taxable.
- Income received from individual saving account (ISA)
- State benefits paid in the event of accident, sickness or disability.
- Interest on repayment of tax

Chargeable Income:
- **Employment income** (salary, bonus & Benefits.)
- **Property income** (e.g. Rental income)
- **Dividend Income**
- **Trading income**
- **Pension income:** Income received after retirement.
- **Saving income**

Individual Saving account

ISA can be opened by individual aged ≥18 (16 for cash ISA) and resident in UK.
Income received is exempt from income tax and gain on disposal of investment is exempt from CGT.
- **Types of Investment:** a) Cash and cash like equity Products: b) Stocks and Shares:
- **Subscription limits:** For the tax year 2024/25 a person can invest up to £20,000 in ISA. The £20,000 limit is completely flexible, so a person can invest £20,000 in a cash ISA, or they can invest £20,000 in a stocks and shares ISA, or in any combination of the two – for example £10,000 in a cash ISA and £10,000 in a stocks and shares ISA.
- **Additional Allowance:** ISA limit of £20,000 will be extended by ISA deposit balance of the deceased person.

3 INCOME TAX PRO FORMA

Mr. A Income Tax computation 2024/25

		Non-Saving Inc	Saving Income	Dividend Income
Trading income		XX		
Employment income		XX		
Property income		XX		
Interest income			XX	
Dividend income				XX
Income from discretionary trust	Gross income= Net X 100/55	XX		
Income from interest in possession trust.				
Paid from other income	Gross income= Net X 100/80	XX		
Paid from saving income	Gross income= Net X 100/80		XX	
Paid from dividend income	Gross income= Net X 100/91.25			XX
Total Income		XX	XX	XX
Less: Reliefs	(See Note 1)	(1)	(2)	(3)
Net Income		XX	XX	XX
Less: Personal Allowance	(See Note 2)	(1)	(2)	(3)
Taxable Income		XX	XX	XX

Calculation of income tax liability: (See Note 3 & 4)

Other Income X Tax rate of other income		XX
Saving income X tax rate of saving income		XX
Dividend income X tax rate of dividend income		XX
Income Tax		XX
Less: Marriage Allowance	(See later in this chapter)	(XX)
Less: Tax Reducer	(See later in this chapter)	(XX)
Less: Double Taxation Relief		(XX)
Income Tax Liability		XX
Less: Tax Deducted at Source		
PAYE		(XX)
Trust (8.75%, 20%, 45%)		(XX)
Income Tax Payable		XX

Remember:
All incomes are included GROSS in the pro-forma.

NOTE 1: Reliefs against Total Income:

Trading losses (covered in next chapters)

Qualifying interest: interest paid on *qualifying loan* is qualifying interest. Loan is qualifying if taken:

• To purchase plant or machinery used in business, by a partner • To invest in partnership by a partner. • To purchase shares in close trading company. (companycontrolled by ≤ 5 shareholders)	• To purchase plant or machinery by an employeefor use in job. • To purchase shares in an employee-controlledtrading company by a full time employee.

NOTE 2: Personal Allowance: Tax free income of a person is called personal allowance. It is deducted in the following order: **(i)** other income **(ii)** saving income **(iii)** dividend income. Any unused personal allowance will be wasted.

Personal Allowance	£12,570
Adjusted net Income	£100,000

Adjusted net income (ANI):

Total Net income	XX
Less: Gross Gift aid donation (100/80)	(XX)
Less: Gross Personal Pension Contribution (100/80)	(XX)
Adjusted net income (ANI):	XX

- If ANI less than or equal to £100,000 personal allowance is £12,570.
- If ANI £125,140 or more then personal allowance is Nil.
- If ANI is between £100,000 and £125,140 P.A would be reduced by 50% of the amount which is above £100,000

Transferable amount of personal allowance or Marriage Allowance:

- If both parties in spouse are basic rate tax payer, then they can transfer personal allowance 1,260 to each other called marriage allowance.
- Spouse/civil partner receiving the marriage allowance do not have to increased personal allowance instead income tax reduced by £1,260 × 20% = £252. If income tax liability is less than £252 than it cannot create repayment.

NOTE 3: Calculation of Income Tax Liability:

		Effective Amount	Non Saving	Saving In	Dividend In
Starting Band Rate:	£1 ------------ £5,000	£5,000	20%	0%	8.75%
Basic Rate Band:	£5,001 ----------- £37,700	£32,700	20%	20%	8.75%
Higher Rate Band:	£37,700 ----------- £125,140	£87,440	40%	40%	33.75%
Additional Rate Band:	£125,140-------------- Above		45%	45%	39.35%

Note: First £500 of the dividend income will always be taxed @ 0% for all taxpayers (Basic, higher, additional)

Special Relaxation on Saving income for Basic and Higher rate tax Payer:

Interest income will be taxed at 0% on amount of £1,000 for Basic Rate Tax Payer and £500 for Higher Rate tax payer. These relaxations are applied after utilization of starting rate band.

NOTE 4: Extension of Basic and Higher Rate Band:

Effective amount of Basic rate band (32,700) will be extended by the gross amount of gift aid donations and personal pension contribution. Gross amount = Net amount X (100/80)

- **Relief:** *Basic rate tax payer* 20%, *higher rate tax payer* 40% and *Additional rate taxpayer* 45%.

4 DONATIONS

Donation under payroll deduction scheme: (Paid gross & deducted from employment income), don't extend bands.

Donation under gift aid scheme:

Individuals contribute net donation of 80% while remaining 20% will be contributed by HMRC. However basic & higher rate bands will be extended by gross amount. Gross amount = Net amount X (100/80)

5 Taxation of Spouses Family:

Spouse: Normally Income received on jointly owned assets will be taxable on both partners on equal basis (50:50). However, **election is available** for actual proportion of income to be assessed on each partner by declaring to HMRC.

Children: All children are taxable persons and required to pay income tax if their income is above personal allowance.

6 Child benefit tax charge:

Child benefit is a tax-free payment from the Government that can be claimed in respect of children.

Child benefit income tax charge arises if adjusted income of tax payer or his/her spouse is more than £60,000.

Income	Tax charge
Between £60,000 and £80,000	1% of child benefit for each £100 of income over £60,000
Over £80,000	100% of child benefit received

7 TAXATION OF TRUSTS

Trust: "A trust (also known as a settlement) is an arrangement in which a property is transferred to a group of persons (known as the trustees) by a person (known as the settlor) for the benefit of other persons (known as the beneficiaries)." The powers and duties of the trustees and the wishes of the settlor are laid out in the trust deed.

Discretionary trusts:	Interest in possession trusts (or life interest trust):
"A discretionary trust is a flexible settlement where the beneficiaries have no legal right to benefit from the income or capital of the trust; any distribution of income or capital out of the trust is at the complete discretion of the trustees."	"An interest in possession (IIP trust) exists where a beneficiary has an interest in the assets of the trust." "An IIP can be the legal right to receive income generated by the trust assets, and/or to use a trust asset or live in a property owned by the trust." ➢ **Life tenant of Trust:** Beneficiary who receives the right to income or use of an asset under an IIP. ➢ **Remainder man:** Beneficiary who receives the capital assets in the trust when the life interest comes to an end.

7.1 Income tax implication of Trusts:

Income from discretionary trust	***Income from interest in possession trust:***	
Gross income= Net income X 100/55	If paid from non-saving	Gross income= Net income X 100/80
	If paid from saving income	Gross income= Net income X 100/80
	If paid from dividend income	Gross income= Net income X 100/91.25

7.2 IHT charge on discretionary trust

The principal charge IHT is changed on the value of the property in the trust at each tenth anniversary of trust. The IHT principal charge rate is 6% (30% of the lifetime rate of 20%) of the value of property in the trust at the tenth anniversary.

Exit charge before first principal charge: If relevant property leaves the trust before ten years of creating a trust then the exit charge IHT is 6% (30%) of the lifetime rate of 20%) of value of property at the time relevant property leaves the trust.

Exit charge after a principal charge: If a property leaves the trust after principal charge then IHT charge is 6% (30% of the lifetime rate of 20%) of the value of property reduced by a fraction that reflects the time elapsed since the tenth anniversary. The fraction is x/40, where x is the number of complete quarters since the last tenth anniversary.

8 TAX REDUCERS

<table>
<tr><th></th><th>Enterprise Investment Scheme (EIS)</th><th>Seed Enterprise Investment Scheme (SEIS)</th><th>Venture Capital Trust (VCT)</th></tr>
<tr><td>Objective</td><td>Designed to encourage investors to purchase shares of unquoted trading companies.</td><td>Designed to encourage investors to purchase shares of unquoted trading companies.</td><td>Designed to provide funds to unquoted companies through a quoted company.</td></tr>
<tr><td>Investor</td><td>• Subscribe new ordinary shares for cash
• Not employee or director of company
• Owns 30% or less ordinary shares</td><td>• Subscribe new ordinary shares for cash
• Not employee but can be director of company
• Owns 30% or less ordinary shares</td><td>Anyone can invest.</td></tr>
<tr><td>Annual Limit</td><td>Max investment is £1,000,000 in a tax year.</td><td>Max investment is £200,000 in a tax year.</td><td>Max investment is £200,000 in a tax year.</td></tr>
<tr><td>Carry back facility</td><td>If an individual wants to invest more than annual limit then he can utilize unused annual limit of previous year & claim tax reducer in previous year</td><td>If an individual wants to invest more than annual limit then he can utilize unused annual limit of previous year & claim tax reducer in previous year</td><td>Not available</td></tr>
<tr><td>IHT</td><td>BPR Available if conditions are satisfied (see IHT).</td><td>BPR Available if conditions are satisfied (see IHT).</td><td>Not Available</td></tr>
<tr><td>Income Tax Implication</td><td>IT Reducer: Income tax reducer of 30% of investment. Can't create tax repayment
As max annual investment is £1million so max IT reducer is = £300,000.
Shares sold after 3 years:
No Income tax or NIC Implication.
Shares sold before 3 years:
• Repay full IT reducer If not sold at MV
• If sold at MV then repay lower of:
a) Full income tax reducer &
b) 30% of selling price
Dividend: Whenever received is taxable</td><td>IT Reducer: Income tax reducer of 50% of investment. Can't create tax repayment
As max annual investment is £200,000 so max IT reducer is = £100,000.
Shares sold after 3 years:
No Income tax or NIC Implication.
Shares sold before 3 years:
• Repay full IT reducer If not sold at MV
• If sold at MV then repay lower of:
a) Full income tax reducer &
b) 50% of selling price
Dividend: Whenever received is taxable</td><td>IT Reducer: Income tax reducer of 30% of investment. Can't create tax repayment
As max annual investment is £200,000 so max IT reducer is = £60,000.
Shares sold after 5 years:
No Income tax or NIC Implication.
Shares sold before 5 years:
• Repay full IT reducer If not sold at MV
• If sold at MV then repay lower of:
a) Full income tax reducer &
b) 30% of selling price
Dividend: Whenever received is exempt.</td></tr>
<tr><td>CGT Implication</td><td>Capital gain: Capital gains exempt if shares are sold after 3 years and taxable if sold before 3 years.
Capital Loss:
• Relief is available for capital loss if shares are sold within or after three years:
– Deduct capital loss from capital gains or
– Deduct capital loss from total income of the current and previous tax years.
Note: If loss then cost of shares is calculated as follows:
Proceeds – cost = Loss – EIS Reducer = Capital loss</td><td>Capital gain: Capital gains exempt if shares are sold after 3 years and taxable if sold before 3 years.
Capital Loss:
• Relief is available for capital loss if shares are sold within or after three years:
– Deduct capital loss from capital gains or
– Deduct capital loss from total income of the current and previous tax years.
Note: If loss then cost of shares is calculated as follows:
Proceeds – cost = Loss – EIS Reducer = Capital loss</td><td>Capital gain on disposal of shares is exempt whether sold before or after 5 years.</td></tr>
</table>

CHAPTER 2
PROPERTY INCOME & INVESTMENT INCOME

1 Premium Received on Grant of Short Lease (lease for a period of ≤50 years)

Taxable Premium = Total Premium X (51 - Number of complete years of lease)/50

Grant of Sub Lease: In case of sublease premium received by tenant is taxable and calculated as follows:

Amount assessable on sub lease	XX	Relief = Taxable premium for head lease × $\frac{\text{Duration of sub lease}}{\text{Duration of head lease}}$
Less: Relief *	(XX)	
	XX	

2 Rental income

Cash basis: The cash basis is now the default basis for calculating property income for individuals and partnerships. However, it is still possible to opt to use the accruals basis, and the accruals basis must be used if property income receipts exceed £150,000.

In many cases, there will be no difference between the cash basis and the accruals basis. The following are treated the same under both the cash basis and the accruals basis:

- Security deposits (these are returned to the tenant on the cessation of a letting so not treated as income).
- Replacement furniture relief.
- Relief for property income losses.
- Premiums received.

	£
Rent	**XX**
Less: Allowable Expenses (only revenue expenditure)	
- Repairs, Redecoration, or replacements (not capital expenses)	(XX)
- Insurance, Agents fees, Advertisement, Management expenses	(XX)
- Water rates (if paid by landlord)	(XX)
- Council tax (if paid by landlord)	(XX)
- Bad Debts (actual bad debts not provisions)	(XX)
- Other expenses incurred for earning the above rent	(XX)
- Replacement furniture & furnishing allowance	(XX)
Property Business Profit/Loss	**XX**

- Depreciation is not an allowable expense.
- Individuals can now use HM Revenue and Customs' (HMRC) approved mileage allowances when calculating property income. This is as an alternative to using the actual motor expenses incurred.

Replacement furniture relief

Individuals and companies can now deduct the actual cost of replacing furniture and furnishings when calculating the property income from renting out a residential property. Furnishings include items such as beds, televisions, fridges and freezers, carpets and floor coverings, curtains, and crockery and cutlery.

There is no relief for the initial cost of furniture and furnishings. There is only **relief when assets are replaced**.

The amount of **relief is reduced** by any proceeds from selling the old asset which has been replaced.

Also, relief is **not given** for any cost which represents an **improvement**. For example, if a washing machine is replaced with a washer & dryer, only the cost of an equivalent washing machine qualifies for relief.

Replacement furniture relief does not apply to **furnished holiday lettings** because the cost of furniture and furnishings in such properties qualifies for **capital allowances**.

3 Property Business Loss

a) If there are more than one property which are let out then profit or loss of each property will be calculated in the same way and then profits or losses are aggregated together to find Net property income or loss.

b) Remaining loss will be carried forward indefinitely and set off against first available future property business profit.

4 Rent a Room Relief

- If an individual lets furnished room in his main residence, then rental income will be lower of:

1		2	
Rent	XX	Rent	XX
Less: allowable deductions	(XX)	Less: £7,500 (rent a room relief)	(XX)
Profit	XX	Profit	XX/Nil

NOTE: Rent received from room/rooms is shared within spouses; the lower value will be shared between them in 50:50.

5 Property income finance cost

Loan taken for FHL or Non-residential property: Interest expense is 100% deductible from property income.

Loan taken for residential property:

- Interest expense is not deductible from property income instead 20% of interest expense will be deducted from income tax liability.

6 Furnished Holiday Letting (FHL)

FHL income is calculated on cash basis unless gross rental income exceeds £150,000.

Conditions to qualify as FHL:

- Property must be situated in UK or EEA (European Economic Area) may qualify as FHL.
- Must be furnished and let commercially to earn profit.
- Available for letting to general public for ≥210 days in a tax year.
- Actually, let for ≥105 days in a tax year (Excluding long term letting) (≥105 days on average if more than one FHL acc.)
- Total of all long term lettings during the tax year should not exceed 155 days.

NOTE: Letting of more than 31 consecutive days to same person is called long term letting.

Benefits of FHL:

- Capital allowances will be available in respect of furniture & equipment instead furniture replacement allowance.
- FHL profits are considered as relevant earnings for personal pension contributions.
- On gift of FHL property BPR @100% is available in IHT.
- CGT Rollover relief is available if the owner invests in another furnished holiday letting.
- CGT Gift holdover relief is available on the gift of a furnished holiday letting.
- CGT Business asset disposal relief is available on the disposal of a furnished holiday letting.

NOTE: Loss of FHL can only be set off against future income of same FHL

7 Real Estate Investment Trust (REIT)

It is a trust which is quoted/ listed in stock exchange and it holds diversified portfolio of investment property to earn rentals and capital appreciation. Dividend received from REIT is net of 20% tax and not treated as dividend income instead it will be treated as property income and grossed up by 100/80.

8 Accrued Income Scheme

It is applicable upon Govt. securities & debentures having value more than £5,000 at any time during tax year. In this scheme interest is deemed to be accrued on daily basis (calculate on monthly basis in exams) so the price of debenture is apportioned between interest & capital element.

CHAPTER 3
EMPLOYMENT INCOME

1 Determination of Employment

The following factors are considered in order to determine whether a person is employee or not.

- **Contract of Service**
- **Obligation of Work:**
- **Place of work:** Decided by employer
- **Payment:** Fix Monthly/ weekly payment.
- **Equipment:** Provided by employer.
- **Insurance:** Provided by employer.
- **Financial risk:** Employees have No financial risk.
- **Control:** Employer decides work and time of work.

2 Calculation of Employment Income:

Earnings: It includes salary, bonus, commission, statutory sick pay, statutory maternity pay, golden hellos, third party payments, golden handshake and restrictive covenant payments.

Earnings (Receipt basis rule)	X
Add: Benefits	X
	X
Less: allowable deductions	(X)
Employment income	X

Receipt Basis Rule:

Earnings are calculated for a tax year (6April—5April) on receipt basis rule.

Receipt basis rule for all employees

Earnings are deemed to be received on earlier of:

a) Payment date
b) Entitlement date

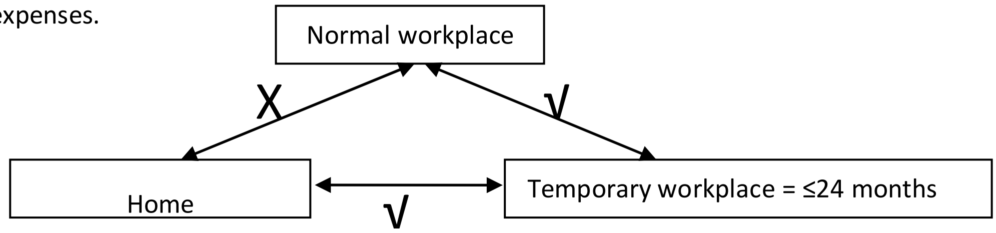
Receipt basis rule for all Directors

Earnings are deemed to be received on **earlier of:**

a) Payment date
b) Entitlement date
c) When amount is received as liability in company accounts.
d) Later of year end date of employer or determination date of earnings.

3 ALLOWABLE DEDUCIONS

- Qualifying travel expenses.



- Fee and subscriptions to professional bodies
- Gift aid donations under payroll deduction scheme.
- Payment to charity under payroll deduction scheme.
- Cost of any shares acquired in an approved Share incentive plan (SIP)
- Contribution to occupational pension scheme.
- Capital Allowances in respect of equipment which is being used in employment.

Approved Millage Allowance (AMA): Millage allowance is paid by employer to employee if employee used his own vehicle. Amount up to AMA is exempt, excess is taxable and less is allowable deduction.

Car/Van	10,000 miles	£0.45 per mile
	Above 10,000 miles	£0.25 per mile
Motor Cycle		£0.24 per mile
Cycle		£0.20 per mile
Passenger Allowance		5 pence per mile

(For passenger allowance, allowable deduction is not allowed in case of less than 5 pence /mile. If above 5 pence /mile, there will be taxable benefit in kind on the amount above 5 pence)

4 EXEMPT BENEFITS

- Free or subsidized meals at on-site canteen or restaurant if available to all employees.
- Provision of parking space at or near place of work including reimbursement of cost of such parking place.
- Workplace childcare, sports or recreation facilities.
- Payment to approved child career is exempt per week upto £55 for basic, £28 for higher and £25 for additional rate taxpayer.
- The provision of one mobile phone including balance.
- Employer's contribution to an approved pension scheme (both occupational and personal).
- Entertainment to employee by reason of his employment, by a third party, e.g. a ticket at sporting or cultural event.
- Gifts, received, by a reason of his employment, from genuine third parties, provided the cost from any one source doesn't exceed £250 in a tax year.
- Long service awards in kind (e.g. gold watches) are exempt up to £50 for each year of service of 20 years or more.
- Home workers additional household expenses of up to £6 per week can be paid tax-free without any evidence.
- Work buses, subsidized public bus service, and the provision of bicycles and cycling safety equipment.
- Trivial benefits which don't cost more than £50/ employee provided these benefits are not cash or cash voucher.
- The cost of work-related training course.
- Christmas parties, annual dinner dances, etc for staff are exempt, if employer incurs up to £150 p.a. per head.
- The provision of a security asset or security service by reason of employment.
- Welfare counseling service if available to all employees
- Relocation and removal expenses are exempt up to £8000; excess is taxable.
- Premium paid by employer for employee's Permanent Health Insurance and death in service benefits. Private health insurance is taxable.
- Reimbursement of expenses by employer when employee is away from home.
  - £5/night in UK and £10/night if overseas. If exceeds whole amount is taxable.
- Pension advice of upto £500 per employee per tax year is exempt if available to all employees.
- Awards for upto £25 under staff suggestion scheme, which is available to all employees for suggestions outside their duties.
- Some beneficial loans (see later)
- An annual £500 exemption per employee has been introduced where an employer pays for medical treatment due to ill-health or injury.
- Scholarship paid to taxpayer is exempt while scholarship paid to taxpayer's family member is taxable.

Dispensation: It is an arrangement between employer and HMRC not to report certain benefits provided to employee to reduce administration burden.

5 TAXABLE BENIFITS

GENERAL RULE: As a general rule *cost of providing Benefits* (mean Marginal or Additional cost) is taxable to employees unless they are specific statutory rules.

Remember that:

- Where a benefit is only available for part of the year; the assessable amount is time apportioned.
- Where an employee contributes towards the benefit, the employee contribution is an allowable deduction (exception = the provision of private fuel).

5.1 Vouchers: All kinds of vouchers (e.g. cash vouchers, goods vouchers, lunch vouchers) provided to employees are taxable on the cost to employer.

5.2 Living Accommodation: Taxable benefit will be

Annual value	X
Plus: Additional Benefit if cost of accommodation is > 75000	X
	X
Reduction for unavailability	(X)
Contribution by employee for use of house.	(X)
Taxable benefit	X

Additional Benefit

Duration between Purchase date and provision Date

Less than 6 Years		More than 6 years	
Purchase Price	XX	Market Value @ Provision Date	XX
Plus: Capital Improvements before 6 April 2024	XX	Plus: Capital Improvements after provision date but before 6 April 24	XX
Less: (Fix Amount 75,000)	(75,000)	Less: (Fix Amount 75,000)	(75,000)
	XX		XX
Additional Benefit @2.25%	XX	Additional Benefit @2.25%	XX

- **Accommodation Provided is Rented By Employer:**

Taxable benefit will be higher of:

a) Rent actually paid by employer

b) Annual value/Ratable value.

No Additional Benefit in this case.

- **Job Related Accommodation:** It is Exempt.

Accommodation is job related if provided for:

a) Proper performance of the employee's duties

b) Better performance of the employee's duties

c) Security arrangement for threat to employees' life.

* Directors can claim exemption under first two points.

5.3 Expenses Connected with Living Accommodation: Expenses such as lighting and heating are taxable on the employee if they are paid by employer. If accommodation is job related, taxable limit is 10% of employment income.

5.4 Car Benefit:

Pool cars: No taxable benefit will arise if car provided is a pool car. Car is considered pool car if:

a) It is used by more than one employee. **b)** Any private use is incidental.

c) It is not normally kept overnight at or near the residence of an employee.

Not Pool Car: if car is not pool car then Taxable benefit will be.

Adjusted List price (Note 1) x CO2 emission %	X
Less: Non availability (if car not available whole year)	(X)
Less: Employee contribution for private use	(X)
Taxable benefit	X

Adjusted List Price:

- List Price (market price including taxes but ignoring the bulk discount)
- ***Plus*** cost to employer of additional accessories.
- ***Less*** any capital contribution by employee for use but maximum of £5,000.

Appropriate Percentage for Petrol- & Diesel-Powered Motor Cars:

CO2 Emission	Petrol Car	Diesel Car (Meet RDE-2 Standard)	Diesel Car (Not Meet RDE-2 Standard)
51g/km -------------54g/km	15%	15%	19%
55g/km	16%	16%	20%
Above 55g/km	If CO2 emission >55g/km then 1% increase for each complete additional 5 grams of CO2 emission. Maximum percentage is 37%		

Appropriate Percentage for Electric Powered Motor Cars:

2% percentage applies to electric-powered motor cars with zero CO2 emission.

Appropriate Percentage for Hybrid Electric Motor Cars: For hybrid-electric motor cars with CO_2 emissions between 1 to 50 grams per kilometer, the electric range of a motor car is relevant:

Electric range	%
130 miles or more	2%
70 to 129 miles	5%
40 to 69 miles	8%
30 to 39 miles	12%
Less than 30 miles	14%

No extra benefit will arise for cost of insurance, repair & maintenance and running cost because it is included in car benefit. An additional separate benefit (cost to employer) will arise if driver is also provided for private use of car.

5.5 Fuel Benefit: If Employer provide fuel for private use of motor car, then fuel benefit will be calculated as:

Fuel benefit = £27,800 x CO2% (calculated for car benefit)

If employee reimburses the full fuel cost to employer, then no fuel benefit will arise however full fuel benefit will arise if employee reimburses partial fuel cost to employer. Fuel benefit will be reduced if not available for whole year.

5.6 Van Benefit:

If van is provided to employee for private use then taxable benefit of ***£3,960 p.a.*** will arise. If employer also provides fuel for the van then additional taxable benefit of ***£757 p.a.*** will arise. Both Van benefit & fuel benefit will be divided equally if van is used by more than 1 employee. Both benefits will be reduced if van is not available for whole year.

Vans producing zero CO2 emissions (zero emission vans) have a zero benefit charge.

There is no fuel benefit for a company van which produces zero CO2 emissions (a zero emission van).

5.7 Use Of Asset:

If employer provides asset (except those which have special rules e.g. car, vans etc.) to an employee for private use Then Taxable Amount is the higher of:

a) 20% × market value of the asset when first provided (reduce if not available whole year)

b) Rent paid by employer (if asset is rented)

5.8 Gift Of Asset:

- **Gifted New Asset to Employee:** Taxable benefit will be equal to ***cost to employer.***
- **Gifted Used/2nd hand Asset to Employee:** Market value at time of transfer is taxable.
- **1st Asset was Provided for Use Then Subsequently Gifted to Employee:** Taxable benefit will be higher of:

1		2	
Market value when gifted to employee	X	Market value of Asset when 1st provided	X
		Less: benefits already taxed for use of Asset	(X)
Less: Price paid by employee	(X)	Less: Price paid by employee	(X)
Benefit	X	Benefit	X

5.9 Beneficial Loans:

A beneficial loan is one made to an employee below the official rate of interest of 2.25%.

Taxable benefit will be calculated as follows:

Interest expense as per HMRC	X
Interest expense actually paid	(X)
Taxable benefit	X

- **Interest Expense as per HMRC:** Interest as per HMRC is lower of:

1) Average Method:	***2) Strict Method/Precise Method***
{(Loan outstanding at start of tax year + Loan outstanding at end of tax year)/2} x 2.25% (official rate %)	Balance of Loan outstanding in months X $\frac{\text{months}}{12}$ X 2.25%

- If amount of loan is <£10,000 then this will be treated as small loan and is exempt.
- Qualifying loan (see ch. 1) is not taxable.
- Amount of Loan written off is taxable.

7 Redundancy payment/ Termination Benefits

Fully Exempt	Fully Taxable	Partially Exempt
• Payment for injury, disability or death. • Lump sum payment from an approved pension scheme. • Statutory redundancy payment.	• Payment in lieu of notices • Payment which is contractual or usual employer practice. • Restrictive covenants.	• Genuine ex gratia termination payment – First £30,000 is exempt. (Limit reduced by statutory redundancy payment)

Genuine ex gratia termination payments include Compensation for loss of office, Damages for breach of contract of wrongful dismissal, compensation for impact on employee's goodwill.

Payment in lieu of notices: If it is neither contractual nor the usual custom of the employer need to be thought of as having two parts:

(i) An amount equal to the pay which the employee would have received if he/she had been allowed to work their notice period. This is subject to income tax and class 1 NIC.

(ii) Any amount remaining. This qualifies to be exempt from both income tax and NIC under the £30,000 rule.

Note: Termination payments are received *Net of PAYE if paid before the employer issues the employee's P45, or Net of 20% tax if received after the cessation of employment* (i.e. after the P45 has been issued). Taxed as top slice means taxed after dividend income.

If a person is receiving ex-gratia payments and he is approaching his retirement age then £30,000 exemption will be withdrawn and it will become fully taxable. It is called unapproved retirement benefit.

8 Approved and Unapproved Share option Schemes:

	Grant of option	Exercise of option	Disposal of Shares
Approved	No tax	No tax (may arise in EMI only)	**Capital gain arises.** Sale proceed X Cost of option (X) Exercise price (X) Capital Gain/Loss (Note:1) X
Unapproved	No tax	**Income tax charge:** MV @ exercise date X Cost of option (X) Exercise price (X) Employment income X Class 1 employee & employer NIC arise if quoted and Class 1A NIC if unquoted.	**Capital gain arises.** Sale proceed X MV @ exercise date (X) Capital Gain/Loss X

Cost of operating all approved schemes is an allowable trading expense for the company.

Approved Share Option Scheme

Company share option plan (CSOP): Company allocates share options to selected employees (on its own discretion) and no contribution from employees is required.

Conditions to set up scheme:

- Company can allocate share option to any employee (part time or full time) or full time working director or director working ≥25 hours per week.
- Participation need not to be opened to all employees nor on equal terms.
- Share options must be exercised between a period of 3 – 10 years from grant date.
- Market value of shares held under options could be ≤£60,000/employee at grant date.
- Exercise price must be fixed at grant date will be equal to market value at grant date.
- Employees already having ≥ 30% shares of CO. are not eligible.

Tax implication: Same as for approved scheme. (see above table)

Enterprise Management Incentive (EMI): Company allocates share options to selected employees (on its own discretion) and no contribution from employees is required.

Conditions to set up scheme:

- An employee is granted share options having value ≤£250,000. However total value of share options granted under this scheme should not exceed £3 million.
- Company must be a trading company, ≤250 full time employees, Gross assets of ≤£30 million.
- The options must be exercised within 10 years from grant date.
- Business asset disposal relief will be available even if employee owns less than 5% shares.
- Share options can be granted at any price (at discount or at premium).
- Employee must be working for at least 25 hours per week or if less than at least 75% of his working time should be engaged with the company. (for e.g. if an employee works 20 hours in a week then at least 15 hours (i.e. 75%) are with that company in order to qualify for the scheme)

Tax implication:

Exercise Price ≥ Market Value at grant date		Normal Approved scheme Tax Implication
Exercise Price < Market Value at grant date	**Grant Date:**	No Tax Implication
	Exercise Date:	Income tax & NIC will are arise on: = MV @ grant date – Exercise price
	Disposal Date:	Sale proceed X MV @ grant date (X) Capital Gain/Loss X

Saving Related Share option scheme (SAYE):

- Under this scheme companies provides small no of share options to their employees.
- Employees pay maximum £500/month for a period of 3, or 5 years.
- Amount in fund is reinvested and related interest is added into funds on tax free basis. At the withdrawal date accumulated amount in fund will be used to take up Share options free of income tax & CGT. Alternatively he can withdraw his cash on tax free basis.

Conditions to set up scheme:

- Participation in scheme should be available to all employees on similar terms;
- It is acceptable to exclude employees who have worked less than 5 years for the company.
- Exercise price of the option must be fixed at grant date of option and should greater than 80% of the market value of shares at grant date.

Tax implication: Same as for approved scheme. (see above table)

9 Share Incentive

Unapproved Share incentives:

Grant Date:		Disposal Date:	
MV of shares @ grant date	XX	Disposal Proceeds	XX
Less: price paid (if any)	(XX)	Less: MV of shares @ grant date	(XX)
Taxable benefit for income tax.	XX	Capital gain/loss.	XX/(XX)
NIC: Class 1 employee & Class 1 employer NIC will arise if quoted shares and Class 1A if unquoted.			

Approved Share incentives:

Share Incentive Plan (SIP)

- Under this scheme employer can grant shares having value up to £3,960/ employee free of cost.
- On the basis of free shares employee can purchase further share up to £1,800 these are called partnership shares. The cost of partnership shares incurred by employee is an allowable deduction under employment income but up to maximum of 10% of salary.
- On the basis of partnership shares employer can further grant free shares as 2 for 1 matching shares.
- Dividend upon shares in plan can be invested into purchase of further shares in tax free environment.

Conditions to set up scheme and Tax implication:

- All the employees can participate in the scheme.
- Plan should not have any arrangement for loan to employees.

Income tax	• Shares in plan are retained for ≥5 years then No income tax or NIC arise. • Shares are withdrawn after 3 years but before 5 years, income tax and NIC arise on lower of: a) Value of shares when assigned and b) Value at date of withdrawal. • Shares are withdrawn before 3 years; income tax and NIC arise on market value of the shares at the date of withdrawal.
CGT	• Capital gain arises on disposal of shares and calculated as: Capital gain = Disposal proceeds less value of shares at withdrawal date.

10 Personal Service Company (IR35):

These rules may apply where workers provide their personal services to a client via an intermediary. In the ATX-UK exam, the intermediary will always be a personal service company (PSC).

Services provided via a PSC to a small organization:

The deemed salary will be calculated as follows:	
Total receipt of the company	XX
Less: statutory deduction (5% of total receipt)	(XX)
Less: Actual salary paid by company	(XX)
Less: Class 1 employer NIC paid by company	(XX)
Less: Allowable expenses incurred for employee	(XX)
Deemed salary including NIC	XX (B)
Less: Class 1 employer NIC upon deemed Salary:	
(B x 13.8%)/113.8%	(XX)
Net Deemed Salary liable to income tax	XX .

Services provided via a PSC to a medium or large sized organisation

In this situation it is the client, rather than the PSC, which is responsible for determining the status of the individual. The client will issue a Status Determination Statement to the individual.

Where it is determined that the IR35 rules apply, the client is then required to calculate and pay the income tax and NIC on the deemed direct payment (DDP). The DDP is calculated as follows:

	£
Payment in respect of services provided (net of VAT)	X
Less: direct cost of materials incurred by the PSC	(X)
Less: deductible employee expenses incurred by the PSC	(X)
DDP	X

CHAPTER 4
INCOME FROM SELF EMPLOYMENT

BADGES OF TRADE: These are the factors which indicates that an individual is trading.

- **Subject matter of transaction (S).** - are the goods of a type normally used for trading?
- **Ownership Duration (O).** – short period of ownership is more likely to indicate trading.
- **Frequency of similar transactions by the same person (F).** – frequent transactions indicate trading.
- **Improvements and marketing (I). –** work performed on goods to make them more marketable indicates trading.
- **Circumstances/reason for the sale (R).** – forced sale to raise cash indicates not trading.
- **Motive (M).** – intention to profit may indicate trading

TRADING PROFIT ADJUSTMENTS

	Net profit per accounts	X
ADD BACK:	Disallowed expenses which has been deducted	X
LESS:	Allowable expenses which has not been deducted	(X)
LESS:	Non-trading income and gains which has been added in trading profit	(X)
	Tax adjusted trading profit	X

- **Income included but NOT taxable under trading profit:** Capital Gains, Property Income, Interest Income and Dividend received.

ALLOWED AND DISALLOWED EXPENSES

- Qualifying (eligible) interest is disallowed.
- Interest paid on borrowings for trading purposes is allowable.
- Interest paid to HMRC on overdue tax is not deductible and interest received from HMRC on overpaid tax is not taxable.
- Payment for infringement of Law (e.g. Fines) is disallowed unless car parking fine paid on behalf of an employee.
- Damages are allowable if related to trade and not a fine for breaking the law.
- Provisions for future costs as per IAS are allowable.
- Pre-trading expenditure is allowable if it is incurred in the seven years before a business start to trade and follows the above rules.
- Expenditure relating to proprietor's car, telephone ------ etc is disallowed.
- Salaries accrued at year end, Redundancy, loss of office, Removal expenses and counseling service for redundant employees is allowable
- Insurance expense and Patent Royalties are allowable.
- Loss due to theft or fraud by employee (not owner or not director) is allowable if not covered by insurance.
- Payment of class 1 (employee) NIC, Class 2 NIC, Class 4 NIC are disallowed.
- Payment of class 1 (employer) NIC, and Class 1A NIC is allowable.
- Employer contribution to pension scheme for employee is allowable.
- Business portion of owner's private expenses is allowable (e.g telephone).
- Capital allowances are allowable.

Capital Expenditure is disallowed and Revenue Expenditure is Allowable.

- Initial purchase price and improvement is capital expenditure and is disallowed.
- Replacement of an asset with extended capacity is disallowed.
- Repair to an asset is revenue expenditure and is allowable while initial repair to bring an asset in useable condition is disallowed.
- Depreciation, amortisation and profit or loss on sale of non-current asset is disallowed.

Entertaining and Gifts

- entertaining is disallowed, unless entertaining employees
- gifts to employees are allowable
- gifts to customers are only allowable if
  - They cost less than £50 per person per year, and
  - Gift is not food, drink, tobacco or vouchers exchangeable for goods and services
  - Gift carries a conspicuous advertisement for the business.

If cost exceeds £50 per year then whole amount of gift is disallowed.

- Gift of samples of goods for advertisement purpose is allowable.

Rental/Lease Expense

- Any rent paid for the purpose of trade is allowable.
- Leasing charge of car emitting 50 g/km Co2 or less is allowable.
- If CO2 emission of car exceeds 50g/km then 15% of Rental/leased charges are disallowed.
- Premium received is considered as property income.
- Premium paid on grant of short lease is allowable and is calculated as follows:

$$\frac{51 - n}{50} \times \text{Premium} = \text{Answer}/n = \text{Allowable Expense}$$

N = Number of years of lease

Legal and Professional Charges

- Legal and professional charges are allowable if for trade and not capital.
- Cost incurred for new issue of shares is disallowed.
- Cost incurred for purchase of new assets is disallowed.
- Costs of; obtaining loan finance for trade, renewing a short lease (50 years or less) or issuing debt finance, registering patents is specifically allowed by statute

Subscriptions and Donations

- Subscriptions related to trade are allowable
- Donation to a local charity is allowable and to National charity & political parties is disallowed.
- Donations to other parties are allowable only if
  - It must be wholly and exclusively for trading purposes.
  - It must be reasonable in size in relation to the business.
  - Charity must be working for educational, religious, cultural etc. purpose.

Drawings

- Drawing by the owner in the form of salary, cash or goods, Interest on capital are disallowed.
- Excessive salary paid to owner's family member is disallowed.

Bad Debts/Allowance For Receivables

- Bad debts are allowable and Recovery of bad debts is taxable income.
- Doubtful debts or allowance for receivable are allowable as per IAS and reduction in allowance is taxable income.
- Non-trade bad debts are disallowed. (E.g. bad debt on loan given to employees, customers and suppliers.)

General Rule:

- The **general rule** is that expenditure not wholly and exclusively for the purpose of the trade is not allowable.
  Remoteness test (expense has no link with trade) and the **duality principle** (expense has more than one purpose) are considered for this purpose.

CHAPTER 5
CAPITAL ALLOWANCES

Capital allowances are available on plant and machinery, *calculated for a trader's period of account and deducted from trading profit.* If Period of account exceeds 18 months then it must be split in two periods of account 1st of 12 moths and 2nd of remaining months. Capital allowances are calculated for each period of account separately.

- Plant and machinery is something with which a trade is carried on except doors, walls, windows, ceiling, floors and water wiring, electrical wiring, gas wiring.
- If a business is VAT registered all additions of plant and machinery are recorded at the VAT exclusive price except cars which are included at the VAT inclusive price.
- If a business is not VAT registered all additions are included at the VAT inclusive amounts.
- Pre trading capital purchases (if incurred in the seven years before trade commenced) are treated as acquired on the first day of trade at its market value on that day.
- Capital allowances are given on original cost and any subsequent capital expenditure. Cost of alterations to the building needed for installation of plant and computer software cost will also become part of plant & machinery.
- **Replacement expenditure** also qualifies for capital allowance where more than 50% of an asset is replaced in a 12-month period. This prevents substantial repairs being treated as revenue expenditure for tax purposes.
- **Hire Purchase (finance lease) assets** are recorded as plant & machinery at date of contract at market value exclusive interest. Interest paid is allowable trading expense.
- Partial claim for capital allowances are allowed so an individual claim full, partial or no capital allowance if he considers it advantageous.
- **Examples of P&M:** • computers and software • machinery • cars and lorries • office furniture • movable partitions • air-conditioning • alterations of buildings needed to install plant and machinery

Categories of Plant and machinery

Special Rate Pool

Following P&M will become part of special rate pool

- **Long-life assets:** it includes P&M with a working life of 25 years or more (when asset is brought into use for the first time) and annual running cost of ≥£100,000.
- **'Integral features' of a building:** it includes Electrical & general lighting systems, Cold water systems, Space or water heating systems, Powered systems of ventilation, cooling or air purification and Lifts and escalators
- **Motor cars (both new & second hand) with co2 emissions more than 50g/km**
- **Thermal insulation of building.**

General Pool Or Main Pool

- The cost of most of the plant and machinery purchased by a business becomes part of a pool called main pool on which capital allowances may be claimed.
- New or second hand Cars having co2 emission between 01g/km–50g/km are included in main pool.
- Addition increases the amount of pool and disposal reduces the amount of pool.

Short-Life Assets (SLA)

- P&M which individual wishes to sell or scrap within 8 years of the end of period of account in which asset is purchased are called short-life assets. Every short life asset is kept in separate pool.
- Cars can never be classified as short life asset.
- AIA and WDA are available on net value as normal.
- Balancing allowance or charge arises on disposal within 8 years after the accounting period of purchase.
- If no disposal takes place within eight years after the accounting period of purchase the remaining balance is transferred to the general pool immediately.

Private Use Assets

- If owner uses an asset for private purposes, capital allowances are given only on business proportion. Every private use asset is kept in separate pool.
- On disposal of asset, balancing charge (if profit) or a balancing allowance (if loss) will arise which is then reduced to business proportion.
- Private use of an asset by an employee has no effect on capital allowances.

Sale Of Plant And Machinery

On disposal of P&M deduct the lower of the sale proceeds and the original cost from the total of; TWDV brought forward on the pool **plus** Additions to the pool.

Categories of Capital Allowance.

ANNUAL INVESTMENT ALLOWANCE (AIA)

- It is allowance of £1,000,000 p.a. on new purchased P&M other than cars.
- Value of new purchased P&M which exceeds £1,000,000 p.a. will be transferred to relevant pool.
- £1,000,000 limit is prorated for short and long period of accounts.
- No AIA is available in the year of cessation of trade.
- It is most beneficial to claim the AIA in the following order:

a) Special rate pool **b)** General pool **c)** Short life assets **d)** Private use assets

Related Businesses

- Only one AIA is available to related businesses.
- Businesses owned by the same individual are regarded as related where they engage in the same activities or share the same premises.

In such circumstances the owner of the businesses can choose how to allocate a single AIA between them.

WRITTEN DOWN ALLOWANCE (WDA)

- WDA is available on **net value** (WDV plus addition less disposal).
- WDA of 18 % on reducing balance method is given each year on "Main Pool".
- WDA of 6% on reducing balance method is given each year on "Special Rate Pool" net value is positive.
- If net value in special rate pool or main pool is negative then Balancing charge will arise and deducted from capital allowance column.
- Full WDA is given in year of purchase and no WDA is given in the year of disposal.
- WDA of 6% or 18% is prorated where a period of account is ≤ 12 months.
- If **Net Value** in the main pool or special rate pool remains less than £1000 then WDA @ 100% called small pool WDA (£1000 limit is for 12 month period so it must be prorated for short and long period of accounts)

FIRST YEAR ALLOWANCE (FYA)

- FYA of 100% is available in the year of purchase on Purchase of new electric-powered motor cars with zero CO_2 emission.
- FYA is not time apportioned.
- No FYA is available in year of cessation of trade.

CARS

- New electric-powered motor cars with zero CO_2 emissions are eligible for FYA of 100%.
- Secondhand electric-powered motor cars with zero CO_2 emissions are eligible for WDA of 18%.
- Both new and secondhand Cars emitting CO_2 between 01 g/km to 50 g/km are included in main pool.
- Both new and secondhand Cars emitting CO_2 over 50 g/km are included in special rate pool.
- If there is private usage of car by proprietor (Not employee) than only business proportion of the capital Allowance can be claimed.

Cessation of trade

- Not FYA, AIA and WDA is available in last year of trade.
- Add addition and deduct disposals made in last period of account from the relevant pool.
- Calculate balancing allowance (if loss) or balancing charge (if profit) as appropriate.
- If business is sold to a connected person or to his own controlling company as a going concern; an election can be made to HMRC to transfer the asset TWDV (instead of market value) and avoid Balancing Charge or Balancing Allowance.

Balancing Allowance (BA)/Balancing Charge (BC)

Net Value (WDV plus addition less disposal).

Main Pool **(MP)** and Special Rate Pool **(SRP)**		Private Use Asset and Short Life Asset	
NET value Positive	**NET value Negative**	**NET value Positive**	**NET value Negative**
Regular years = WDA (6% /18%) Cessation Year = BA	Regular years = BC Cessation year = BC	Regular years = WDA (6% /18%) Disposal Year = BA Cessation year = BA	Regular years = BC Disposal Year = BC Cessation year = BC

<u>Proforma capital allowances computation:</u>

		Main Pool	Special Rate Pool	Short Life asset 1	Short Life asset 2	Private Use Assets 1 (Business %)	Private Use Assets 2 (Business %)	Allowance
	£	£	£	£		£		£
WDV b/f		X	X	X		X		
Purchase of CAR which Qualify for FYA								
New Electric Cars Nil CO2	X							
FYA @ 100%	(X)							X
Purchase of CAR which don't Qualify AIA								
Cars CO2 emission 01 – 50 g/km		X						
Cars CO2 emission of > 50 g/km			X					
Additions qualify for AIA (£ 1,000,000)								
a) Special Rate Pool Additions	X							
Less: AIA	(X)		X					X
b) Main Pool Additions	X							
Less: AIA (Remaining Amount)	(X)	X						X
c) Short Life Assets	X							
Less: AIA (Remaining Amount)	(X)				X			X
d) Private Use Assets	X							
Less: AIA (Remaining Amount)	(X)						X	X
Disposals:								
Lower of cost and Selling Price		(X)	(X)	(X)		(X)		
		X	X	X/(X)	X	X/(X)	X	
WDA @ 18%		(X)						X
WDA @ 6%			(X)					X
WDA @ 18%/6%					(X)		(X)	X
Balancing Allowance/Balancing Charge				X/(X)		X/(X)		X/(X)
		X	X	X	X	X	X	X

Structures and buildings allowance (SBA)

This relief is given as an annual straight-line allowance of 3% over a 33⅓ year period (33 years and four months).

The SBA is only available where a building (or structure) has been constructed after 29 October 2018. However, a question will only be set where construction is on or after 6 April 2020 (1 April 2020 for limited companies).

- Offices, retail and wholesale premises, factories and warehouses can all qualify for SBA (as can walls, bridges and tunnels)
- The value of land is excluded, as is any part of a building used as a dwelling house.
- Expenditure which qualifies as plant and machinery cannot also qualify for the SBA. Similarly, expenditure which qualifies for the SBA cannot also qualify for the plant and machinery annual investment allowance.
- Where an unused building is purchased from a builder or developer, then the qualifying expenditure will be the price paid less the value of the land.
- The building (or structure) must be used for a qualifying activity such as a trade or property letting.
- The SBA can only be claimed from when the building (or structure) is brought into qualifying use. This means that the SBA will be time apportioned for the period when first brought into use, unlike plant and machinery allowances which are always given in full for the period of purchase.
- A separate SBA is given for each building (or structure) qualifying for relief.
- Relief is also given for the cost of subsequent improvements, or where a building is renovated or converted.
- **Disposal:** Unlike plant and machinery, there is no balancing charge or balancing allowance when a building (or structure) that has qualified for the SBA is sold. Instead, the purchaser simply continues to claim the 3% allowance for the remainder of the 33⅓ year period based on original cost. However, on a disposal, the allowances that have been claimed are effectively clawed back by adding them to the sales proceeds in order to determine the chargeable gain or allowable loss arising.

Note: You should assume that for any question involving the purchase (as opposed to a new construction) of a building, the SBA is not available unless stated otherwise

CHAPTER 6
TRADING LOSSES

*Remember trading loss can never be overlapped and Current Year means year of loss.

Loss relief against total net income:

a) Trading Losses may be deducted from total net income of Current year but upto CAP limit of Current Year **and/or**
b) Trading Losses may be deducted from total net income of previous year but upto CAP limit of Previous Year

CAP limit for Current Year: H*igher of:*	***CAP limit for Previous Year:*** *Trading Profit Plus* H*igher of:*
• £50,000 • 25% of (Total net income – gross personal pension contribution)	• £50,000 • 25% of (Total net income – gross personal pension contribution)

- Partial deduction is not allowed.

Relief of trading losses against capital gains

a) Trading loss may be deducted from Net Chargeable Gains of current year but after deduction of trading loss from total net income of current year. **And/or**
b) Trading loss may be deducted from Net Chargeable Gains of previous year but after deduction of trading loss from total net income of previous year.

Net chargeable gain = Current year capital gain less current year capital loss less brought forward capital loss

- Partial deduction is not allowed.

Carry forward of trading losses `

Trading loss may be carried forward and set-off from first available future trading profits from same trade. Losses may carry forward for indefinite number of years until all the loss is relieved.

- Partial deduction is not allowed.
- This option is considered after considering all other options because:
  – It delays loss relief • time value of money, • uncertainty about future profit

Opening years loss relief

Trading loss of any of first Four Tax years of trade may be deducted from total net income of previous 3 tax years on FIFO basis. Partial deduction is not allowed.

Terminal loss relief:

Terminal loss is loss of last tax year of business and will be given in exams.
Terminal loss may be deducted from trading profit of previous 3 tax years on LIFO basis.

Incorporation Relief:

- If an unincorporated trade is transferred into a company and there were trading losses in the year of conversion into company, against such losses, incorporation relief will be available, but only if ≥ 80% consideration is received inthe form of shares.
- Trading loss is carried forward indefinitely and deducted against first available incomes coming from the company, losses should be carried forward indefinitely unless loss is consumed, or company ceases to trade or individual sellsits shareholding in the company.

Summary of Loss Reliefs:

	Opening year	Ongoing years	Cessation year
Relief against total income	√	√	√
Relief against chargeable gains	√	√	√
Carry forward of trading losses	√	√	x
Opening years loss relief	√	x	x
Terminal loss relief	x	x	√
Incorporation relief	x	x	√

Choice between loss reliefs:

a) Quick loss Relief **b)** maximum tax saving **c)** personal allowance do not waste

Claim of trading loss:

- Time limit for making a claim for Current year trading loss relief, carry back trading loss relief, early year trading loss relief, trading loss relief against capital gain is by 2nd 31 January after end of tax year (by 2nd 31 January after the end of tax year of loss. 31/01/27 for loss in 2024/25).
- Time limit for making a claim for carry forward trading loss and terminal loss is 4 years after end of tax year of loss (05/04/29 for loss in 2024/25).

CHAPTER 7
PARTNERSHIP

A partnership is a single trading entity. Each individual partner is effectively treated as trading in his own right and is assessed on his/her share of the adjusted trading profit of the partnership.

- **Trading income:** Partnership's tax adjusted profits or loss for an accounting period is computed in the same way as for a sole trader and Partners' salaries & interest on capital are not deductible: these are an allocation of profit.
- **Allocations of trading profit/trading loss:** Trading profit/trading loss for the accounting period is divided between partners according to their profit-sharing ratio but after deduction of Partner's salaries and interest on capital.
- **A change in the profit-sharing agreement:** If the profit-sharing agreement is changed during a period of account, the profit must be time apportioned before allocation to partners.
- **Partnership capital allowances:** Capital allowances are deducted as an expense in calculating trading profit. If assets are used privately, the business proportion is included in the partnership's capital allowances computation.
- **Change in members of partnership:** Until there is at least one partner common to business before and after the change, partnership continues. Commencement or cessation rules apply to individual joining or leaving partnership.
- **Partnership Losses:** Losses are allocated between partners in same way as profits & Loss relief claims available are same as for sole traders. A partner joining the partnership may claim opening year loss relief, for losses in the first four years of his membership of partnership. A partner leaving a partnership may claim terminal loss relief.
- **Partnership investment income:** Interest and dividend income is kept separate from trading profit but are shared among partners according to their profit-sharing ratio. After sharing income each partner is taxed independently.
- **Limited Liability Partnership:** If partnership is limited liability partnership then the partners share the trading loss among themselves up to maximum of capital, they have contributed in the partnership.

PARTNERSHIP CAPITAL GAINS

- Each partner Deemed to own a fractional share (as per profit sharing ratio) of every asset of partnership.
- Each partner Taxed in his own right on his share of partnership gains along with his own personal gains.
- Each partner Annual exemption and CGT relief is available in normal way.

Disposal of partnership Assets to third party:	**Distribution to partners**
• Calculate gains as normal • Allocate the gain between partners	Chargeable gain arises on a partner selling his partnership share Partner purchasing partnership share is also liable to gain as per partnership share but it can be deferred against base cost of asset.

- **Change in partnership agreement after Revaluation:**
- No charge to CGT unless occurs after a revaluation in the accounts.
- If revaluation, Normal gain computation Using statement of financial position value of asset as consideration.

CASH BASIS FOR SMALL BUSINESSES

Cash basis means profit will be calculated based on cash received and expenses paid in the period of account.

Unincorporated businesses (i.e. sole traders and partnerships) having revenue less or equal to £150,000) can choose to calculate profits / losses on **cash basis rather than the normal accruals basis.**

- The cash basis option is not available to companies, and limited liability partnerships (LLPs)
- If annual turnover exceeds £300,000 then business will not be allowed to use this scheme.

Under the cash Basis:

- A business can prepare its accounts to any date in the year based on cash receipts and payments.
- there is no difference between capital and revenue expenditure on plant & machinery for tax purposes:
  - Purchases are allowable deductions when paid for, (cost of motor cars & land and buildings is not deductible
  - Proceeds are treated as taxable cash receipts when an asset is sold.
- *A flat rate expense deduction for motor car expenses is claimed instead of capital allowances.*

Advantages of cash basis:

- Simpler accounting requirements as there is no need to account for receivables, payables and inventory
- Profit is not accounted for and taxed until it is realised so cash is available to pay the associated tax liability.

Disadvantages of cash basis:

- Losses can only be carried forward to set against future trading profits, whereas under the accrual's basis many more options for loss relief are available.

➢ **Flat rate expense deduction option for any unincorporated business**

The flat rate expense adjustments replace the calculation of actual cost incurred in the following cases:

Type of expense	Flat rate expense adjustment
Motoring expenses	Allowable deduction = Approved millage allowance of 45p and 25p as in employment
Private use of part of a commercial building	Private use adjustment re household goods and services, food and utilities = fixed amount based on the number of occupants (will be given in exam question)

CHAPTER 8

NATIONAL INSURANCE CONTRIBUTIONS

All types of NIC are payable if an individual is aged 16 or over until he reaches state pension age(minimum 55 years).

Class 1 NIC

Class 1 employee and class 1 employer NIC are exempt after state pension age however class 1A NIC is still payable by employer

Cash Employment income of Employee/Cash Earnings

(Wages, salary, overtime pay, Commission, Bonus, tips and gratuities from employer, quoted shares, vouchers, payment of travel between home and work, Approved millage allowance of above45p/mile)

Class 1 Employee NIC (Paid by Employee)

Cash Earnings	Rates
£1 – £12,570 per year	Nil
£12,571 – £50,270 per year	8%
Above £50,270 per year	2%

- Contribution is not allowable deductions for employee.
- Contributions are payable by 19th of each month while 22nd of each month in case of electronic return.

Class 1 Employer NIC (Paid by Employer)

Cash Earnings	Rates
£1 – £9,100/Annum	Nil
Above £9,100	13.8%

- **Employment Allowance:** It is relaxation of £5,000/annum for employer.

NIC payable to HMRC = Total class 1 employer NIC of all employees less £5,000

- The employment allowance is not available if director is sole employee.
- If last year (2023/24) employers' NI was £100,000 or more.
- Employer can deduct this NIC from trading profit.

Non-Cash Employment Income of employee

(e.g. living accommodation benefit, car benefit, fuel benefit, beneficial loan, use of asset, gift of asset etc.)

Class 1A NIC (Paid by Employer)

- It is payable by employer on **taxable non-cash benefits** @ 13.8%
- Employer can deduct this NIC from trading profit.

It is paid by 19th July following the end of the tax year. 19 July 2025 for 2024/25.

NIC Paid by Self Employed

Class 4 NIC

It is calculated on taxable trading profits after deducting brought forward trading losses if any follows:

Trading Profit	Rates
£1 – £12,570 per year	Nil
£12,571 – £50,270 per year	6%
Above £50,270 per year	2%

- It is not allowable deduction from trading profit.
- Payable with income tax under self-assessment system.

Class 2 NIC

Class 2 NIC has been removed for most taxpayers and will not be examined

PENSION

OCCUPATIONAL PENSION SCHEME (OPC)

- Employee Contribution is deducted from his employment income and employer contribution (exempt benefits for employee) is deducted from his trading profit.
- Contribution made to OPC is gross.

PERSONAL PENSION SCHEME (PPC):

- PPC is managed by private institutions. (eg banks)
- Contribution in PPC is gross up by 100/80 and basic & higher rate bands will be extended by this gross amount

Benefits of Pension contribution: The following benefits are available if pension is registered with HMRC.

(i) Tax relief
(ii) Employer contribution into pension is exempt benefit for employee.
(iii) On retirement some pension benefit can be obtained as tax-free lump-sum payment.

Relief: Only available if individual is UK resident, aged less than 75 years and member of a registered pension scheme.
Maximum Relief is available on higher of
a) £3,600
b) Relevant earning. (Trading Profit + Employment income + Furnished holiday letting Profit)
Annual Allowance (AA): Annual limit is only available if a person is a member of a pension scheme in that tax year.

		Annual Limits available
2021/22 (£40,000)	(£40,000 – Employee & Employer pension contribution)	XX/Nil if negative
2022/23 (£40,000)	(£40,000 – Employee & Employer pension contribution)	XX/Nil if negative
2023/24 (£60,000)	(£60,000 – Employee & Employer pension contribution)	XX/Nil if negative
2024/25	➢ **Threshold Income ≤ £260,000** = Annual Allowance £60,000 ➢ **Threshold Income > £260,000** then calculate adjusted income **a)** Adjusted Income ≤ £260,000 = Annual Allowance £60,000 **b)** Adjusted Income ≥ £360,000 = Annual Allowance £10,000 **c)** Adjusted Income £260,000 to £360,000 Annual Allowance =£60,000 less (Adjusted income – £260,000)/2	XX
Total Annual Limit Available		XXX

Threshold Income = Total Net Income Less Individual personal pension contribution
Adjusted Income = Total Net Income plus individual occupational pension contribution plus any employer contributions to either occupational or personal pension schemes
Annual allowance charge: If actual contribution (employee plus employer) exceeds total available annual limit than excessive contribution will be added in main Performa (other income) by name of **annual allowance charge.**
Pension Benefit:
Received when an individual is aged 55 years or more. Pension can be claimed before this age if the individual is incapacitated due to ill health.
At eligible age Individual can take tax free lump sum payment 25% of Amount in fund.
Remainder 75% amount in the fund will be taxable when withdrawn as other income and taxed at 20%/40%/45%.
Benefits of Pension contribution: The following benefits are available if pension is registered with HMRC.
(i) Tax relief
(ii) Employer contribution into pension is exempt benefit for employee
(iii) On retirement some pension benefit can be obtained as tax free lump-sum payment

CHAPTER 9
CAPITAL GAIN TAX - INDIVIDUALS

CGT is charged on gains arising on chargeable disposals of chargeable assets by chargeable persons.

1 Chargeable Disposal

An asset is regarded as disposed, if its ownership changes. E.g. Sale of whole or part of an asset, Gift of an asset, Loss or total destruction of an asset.

Date of disposal:

Event	Date of disposal
Normal	Date of contract or agreement for disposal of asset.
Conditional contract	Date when all the conditions are satisfied and contract become legally binding.
Death transfer or transfer to charity	No CGT implication

Disposal Proceeds:
Sold at Arm's length: Actual Selling Price will become disposal proceeds.
Not Sold at Arm's Length: Market Value will become disposal proceeds.
Transaction between Spouse/Civil Partner: Disposal proceeds will be equal to cost, so no gain/no loss transaction.
Disposal to a Connected Person other than spouse:
An individual is connected to the following persons:
- Spouse
- Direct relatives and their spouses
- Spouse's direct relatives and their spouses
- Business partners and their spouses and direct relatives.

Tax Implication:
- Disposal Proceeds = Market Value (always)
- If a disposal results in an allowable loss, it can only be set against gains from disposals in the current or future years to the same connected person.

Chargeable Assets:

All assets are chargeable unless specifically exempt. E.g. land & building, goodwill, short lease, long lease, unquoted shares, quoted shares, unit trusts, some chattels.

Exempt assets include:

- Motor vehicles (including vintage cars)
- National Savings & Investment certificates
- Cash, Debtors and trading inventory
- Decorations awarded for bravery
- Damages for personal injury
- Shares in VCT
- Endowment policy proceeds
- Foreign currency for private use
- Works of art given for national use
- Gilt edged securities
- Qualifying Corporate Bonds
- Company loan notes
- Some Chattels
- Investments held in an ISA
- Prizes and betting winning

Chargeable Person:

An individual who is resident in the UK is liable to pay UK CGT on his worldwide gains and non-resident person in UK will pay CGT on UK assets used in a trade based in the UK, and residential property situated in the UK.

Pro Forma to Calculate Capital Gain/Loss on Individual Assets

Disposal proceeds	X
Less: Incidental cost of disposal	(X)
Net proceeds	X
Less: Purchase price	(X)
Less: Incidental cost for purchase	(X)
Less: Capital improvements	(X)
Capital Gain / (Capital loss)	X/(X)

Purchase Price: Normally actual purchase price or market value in case the asset is received as a gift or probate value for inherited assets.)

Incidental costs: Fee & commission of agent, legal fee, advertising cost, auctioneers fee, agency fee

2 Pro Forma to Calculate Capital Gain Tax (CGT)

Capital Gain on disposal of asset	X
Less: Capital loss on disposal of asset	(X)
Net Chargeable gain	X
Less Annual exempt Amount	(3,000)
Net Capital Gains	X
Less: Capital losses brought forward	(X)
Taxable Gains	X

- **Annual exemption:** Every individual has an exempt amount for each tax year. For 2024/25 it is £3,000. Annual exemption is deducted from capital gains of residential property first.
- **Rates of CGT:** Calculate unused basic rate band from income tax.

	Falling in basic rate band	**In excess of basic rate band**
Normal rates	10%	20%
Residential property rates	18%	24%

- **Payment of CGT**

  Normally: CGT is due in one amount with income tax under self-assessment on 31 January following the tax year (2024/25 by 31 January 2026)

  Payment by installments:

  a) If consideration or proceeds received from the sale of an asset will be received in installments of more than 18 months, in this case relevant CGT will be paid in shorter of:
  - Eight years.
  - Period during which installments would be received.

  b) CGT upon gifts of:
  - Land and share in land
  - Shares of unquoted companies regardless of percentage of holding of donor.
  - Shares of such a quoted company in which individual has control

  In this case relevant CGT would be paid in ten equal installments starting from normal due date.

Payments on account for disposals of residential property

A payment on account must now be made within 60 days where capital gains tax is payable on sale of residential property. A return must be submitted to HMRC at the same time.

The calculation of the payment on account takes into account the annual exempt amount, any capital losses incurred in the same tax year prior to the disposal of residential property, plus any brought forward capital losses. Any other chargeable gains and capital losses incurred subsequent to the disposal of the residential property are ignored.
It is necessary to make an estimate as to how much of taxpayer's basic rate tax band will be available for the tax year.
The residential property gain is still included in the taxpayer's self-assessment capital gains tax computation following the end of the tax year, with the payment on account being deducted from the total capital gains tax liability. Any additional tax is payable on 31 January following the tax year. If a repayment is due, then this will be claimed when the self-assessment tax return for the tax year is submitted.
A payment on account of capital gains tax has nothing to do with the normal self-assessment payments on account due on 31 January in the tax year, and 31 July following the tax year.

3 Capital Losses

Capital losses are deducted from capital gains of same tax year; the unrelieved capital losses may be carried forward and deducted from future capital gains but up to the level that the annual exemption of future years do not waste.

Death year capital loss: Deducted from net capital gain of last 3 years on LIFO basis but upto the extent that annual exempt amount of previous years does not waste.

Negligible Value Claim: If an asset's value becomes negligible, a claim may be made to treat the asset as sold and immediately purchased it at its current market value. This claim will usually give rise to an allowable loss.

4 Capital Gains: Special Rules

4.1 Lease **Assignment of lease** means complete disposal of the leasehold interest in property.

Assignment of short lease (≤ 50 years)	Assignment of long lease (> 50 years)
Allowable cost = original cost X $\frac{\text{\% of remaining life of lease}}{\text{\% of total life of lease}}$	Treat as normal disposal

4.2 Part Disposal if there is a part disposal of an asset then gain or loss on that asset can be calculated as follows.

Disposal Proceed	X	A= market value of part disposed off
Less: Allowable cost [Cost x A/A+B]	(X)	B= market value of remaining part
	X	

Small Part Disposal of Land and Buildings:

- It is applicable on land and buildings only. Proceeds are considered small if proceed from part disposal:

a) ≤ 20% of M.V of land & buildings before part disposal and
b) Proceeds are ≤ £20,000 from all land sales in whole tax year

If elected as small: there is no disposal so no gain/loss calculation. Deduct Disposal proceed from original cost of land and building.

4.3 Asset Lost or Destroyed

No Insurance Proceed	**Insurance Proceed Received**		
	No Replacement of Asset	**Replacement of Asset within 12 Months**	
Disposal Proceed Nil Allowable cost (X) Capital Loss ...X....	Normal CGT calculation.	**Full Reinvestment:** No gain/no Loss Insurance Proceed X Less: Allowable cost (X) Capital Gain X Roll-Over Relief (X) Nil Base Cost of New Asset. Cost of new Asset X Gain Roll Over (X) Base cost of new asset ...X...	**Partial Reinvestment:** Some gain is chargeable immediately which is lower of: a) Total gain b) Proceed not reinvested Gain Deferred will be = total gain less gain chargeable immediately

4.4 Asset Damaged

No Insurance Proceed	**Insurance Proceed Received**	
No Disposal	**Not Used to Restore the Asset:** Treat as Part Disposal. Disposal Proceed X Allowable cost: Original cost X $\frac{A}{A+B}$ (X) Gain/ Loss X . A= insurance proceed B= M.V of damaged asset	**USED TO RESTORE ASSET WITHIN 12 MONTHS** **Option 1:** **Normal Part Disposal** **Other Options:** **Used ≥ 95% of insurance proceed to restore asset:** Cost of restored asset (original + restore cost) X Less: Insurance Proceed (X) Revised base cost (X)

		<u>Used < 95% of insurance proceed to restore asset:</u> Still it will be part disposal but using after restoration value as: DP (insurance proceed – restoration cost) X Allowable cost: Original cost X $\frac{A}{A+B}$ (X) Gain/ Loss X A= insurance proceed – restoration cost B= M.V of asset after restoration

4.5 Chattels: A chattel is a tangible moveable asset.

➢ **Non-Wasting Chattels:**

Chattels with remaining life of >50 years are called **Non-wasting chattels.** E.g. Antiques, paintings, jewelry.
chargeable gain or capital loss is calculated as follows:

Cost	Proceeds	Treatment
≤ £6,000	≤ £6,000	Exempt
> £6,000	> £6,000	Normal calculation

➢ **Wasting Chattels:**

Chattels with remaining life of ≤50 years are called **wasting chattels.** These are exempt from CGT. E.g. racehorses, boats, and greyhounds.

➢ **Plant & Machinery:** If P&M is sold at a gain then gain is taxable, however if asset is sold at loss it will be ignored for CGT purpose.

➢ **Other Wasting Assets not Chattels:**
It includes those wasting assets that are not tangible and/or not moveable. E.g. Immovable plant & machinery, patent right, copy right.

Disposal Proceed	X
Less: Allowable cost = (Cost – Scrap Value) X $\frac{\text{Remaining life at disposal}}{\text{Total useful life}}$	(X)
Less: Scrap Value	(X)
Chargeable Gain/Loss	X

5 DISPOSAL OF SHARES (individuals)

5.1 Valuation rule for shares

➢ **Unquoted shares:** Market value will be given in exam.

➢ **Quoted shares:**
(Highest quoted price + Lowest quoted price)/2

Note: Valuation of quoted shares on death

➢ Market value of shares will be lower of:

a) Lowest quoted price + 1/4 (highest quoted price – lowest quoted price)

b) (Highest marked bargain + Lowest marked bargain)/2

❖ **Matching Rules on Sale of Shares (Individuals)**

Shares sold will be matched in the following order:

a) Shares purchased on the same day
b) Shares purchased on the following 30 days of sale
c) Shares from Share Pool

Share Pool: Contains all shares purchased before date of disposal and consist of two columns; 1st of Number of shares and 2nd of Cost of shares.

5.2 RIGHT SHARES: The right shares are added in previous shareholding as normal acquisition in the share pool

5.3 BONUS SHARES: Treated in the same way as right shares except that the Bonus Shares do not have cost.

5.4 Sale of right nil paid: If shareholder who is offered right issue does not wish to purchase further shares instead sell right to buy shares to another person this is known as sale of right nil paid.

Selling Price received is: ≤5% of the value of shares on which right offered **or** Amount is ≤£3,000	
NO	**YES**
Deemed part disposal of original shares held.	• No disposal at time of sale of right nil paid • SP is deducted from original cost of shares

5.5 REORGANISATION AND TAKEOVER

REORGANISATION: Exchange of existing shares in a company for other shares of another class in the same company.

TAKE-OVER: When a company acquires shares in another CO. either in exchange for shares, cash or mixture of both.

➢ **<u>Consideration in Shares only</u>**

- No CGT at the time of takeover or reorganisation.
- Cost of original shares becomes cost of new shares
- Where more than one type of shares is received, then cost of original shares is allocated to new shares by reference to market value of new shares.

➢ **<u>Consideration in cash and shares</u>**

- **Value of cash element is small:** If cash received is <u>*≤5% of Market value of total consideration received*</u> **or** <u>*≤ £3,000*</u>.
No CGT implications deduct cash from original cost of shares
- **Value of cash element is not small:** It is treated as part disposal and gain or loss is calculated is follows:

Disposal Proceed (cash)	X
Less: Allowable cost	
Cost of original shares X $\frac{\text{Cash Received}}{\text{Cash Received + M.V of new shares}}$	(X)
	X

➢ **Mixed consideration including QCBs:**
Capital gain is calculated at the time of takeover as QCB were cash but gain is not taxable at that time instead it is frozen until the disposal of QCBs at later date.
At subsequent disposal gain arise on QCBs is exempt but gain frozen previously will be taxable at that date.

5.6 Transfer of assets into trust:

Lifetime gift to trust: considered as chargeable disposal for CGT and disposal proceeds will be the market value at date of gift. Gift holdover relief may be available as there is an immediate charge to IHT (see later in the chapter)
Death Gift to Trust: Exempt from CGT. Trustees acquire the asset at probate value (market value at death date)

5.7 Liquidation of a company: Assets & liabilities of business are settled and surplus assets are distributed among shareholders. Shareholders are deemed to dispose their shares for receipt from liquidator resulting capital gain/loss

CAPITAL GAIN	CAPITAL LOSS (we have two choices)	
Normal treatment	Normal treatment.	Treat it as trading loss and deduct it from total income of current year and/or previous year if following conditions are satisfied: **Conditions:** • Loss has arisen at liquidation of the company. • Loss has arisen from ordinary shares of unquoted company. • Company must be a trading company not involved in excluded trading activities. • Shares must have been subscribed for not purchased.

6 CGT Reliefs for Individuals

6.1 Private Residence Relief (PR relief): It applies when an individual dispose off his only or main private residence or dwelling house which he owned. If an individual has more than one residence, he can nominate one residence as his principal residence by notifying HMRC in written. *Married Couple/Civil Partners* are entitled to only one residence between them for the purpose of Private Residence exemption.

➢ **Calculating the Relief:** If a person lives in PR during the whole period of ownership the whole gain is exempt. Where there has been a period of absence from PR the procedure is as follows.

Capital gain on disposal	X
Less: PR Relief = Gain X $\frac{\text{Period of occupation}}{\text{Period of ownership}}$	(X)
Chargeable gain after relief	X

➢ **Periods of occupation:** Period of occupation includes periods of both ***Actual occupation and Deemed occupation***

Deemed occupation: Periods of deemed occupations are:

a) Last 09 months of ownership
b) Up to 3 years of absence for any reason
c) Any period spent working abroad
d) Up to 4 years of absence while working in the UK.

- Point's ***b-d*** will only apply if at some time both before & after period of absence there is a period of actual occupation by the owner. Reoccupying is not necessary for point c and d if prevented by terms of his employment.

➢ **Business use:** Where part of a residence is used for business purposes throughout period of ownership, relief is not available on gain related to that part.

➢ **Letting relief:** Letting relief is available to cover any gain not covered by PR if Owner is absent (not covered by deemed occupation rules) and Part of the property is rented out, the remaining part being occupied by the taxpayer. Letting relief is the *lower of*:
a) PR relief given
b) £40,000
c) Gain related to letting period **{**Total gain x (letting period/ownership period)**}**

However, letting relief is now only available where a property is let out and the property owner is in shared occupancy with the tenant. This means that there is no longer any relief where the whole property is let out.

6.2 Business asset disposal relief:

➢ **Qualifying Business Disposals:**

- Disposal of the whole or part of a business (which can operate independently) runs as an unincorporated business (both sole trader & partnership.)
- Disposal of assets of sole trader or partnership trading business within 3 years from cessation.
- Disposal of shares if:
  – Shares are in individual's *personal trading company* and he is also an *employee* (full time or part time) of CO.

(CO. in which individual owns ≥5% of ordinary shares & ≥5% voting right is called personal trading company.)

- **Qualifying Ownership Period:** The assets must have been *owned for two years* prior to the date of disposal
- **Relief:** The qualifying gain is taxed at a lower capital gains tax rate of 10% regardless of a person's taxable income.
- **Life time limit:** Relief is available on qualifying gains but upto maximum of £1Million in whole life.
- **Further points**

- Relief is not available on gains arising from disposal of individual assets or assets held for investment purpose.
- The annual exemption and any capital losses should however be deducted from gains that do not qualify for Business asset disposal relief as they are taxed at a higher capital tax gains rate (24% and/or 20%)
- Easy way is to keep the gains, qualifying for Business asset disposal's relief and not qualifying in separate column.

- **Claim:** Relief must be claimed by 2nd 31th January after end of tax year of disposal. For 2024/25 by 31/01/2027.
- **Restriction of ER in respect of goodwill:** gains in respect of goodwill will not qualify for ER if the goodwill is transferred to a close company and individual and company are related (individual is shareholder in company or an associate of a shareholder.)

ER is available on the disposal of goodwill to a close company where either:

- the individual holds less than 5% of the company's ordinary share capital or voting rights, or
- the individual holds 5% or more of the company's ordinary share capital or voting rights, but sells the whole shareholding to another company (company A) within 28 days. The individual must hold less than 5% of company A's ordinary share capital or voting rights

- **Associated disposals:** Business asset disposal relief is also available in respect of associated disposals.

Associated disposals are disposals of assets:

- owned by an individual but used by his personal trading company or a partnership in which he is a partner **and**
- Disposal takes place at the same time as the sale of the partnership/company.

For full relief the individual must not have charged rent from business for use of these assets.

Investor Relief: This relief is introduced from 6 April 2016. Capital gain on disposal of shares of unquoted trading companies will be taxed @ 10% if:

a) Shares are subscribed (newly issued shares) on/after 17 march 2016.
b) Owned for 3 years after 6 April 2016.
c) the investor must not be an employee or a director of the company whilst owning the shares

Investor relief is available on capital gains of 10 million in whole life.

6.3 Roll-Over Relief: Roll-over relief means postponed or deferred gain. The gain is not taxed immediately but is postponed until the individual makes a disposal of the replacement asset.

- This relief is available if a *qualifying business asset is sold* and another *qualifying business asset is purchased* within the *qualifying time period*.
- Base cost of new asset is calculated by deducting the gain on old asset against the cost of new/ reinvested asset.
- An individual must claim the relief within 4 years from the end of the tax year of later of:
  a) When the disposal is made **or**
  b) Replacement asset is acquired

- **Qualifying Business Asset:** Rollover relief is available on assets which are used in business. Qualifying assets include *Land and buildings, Fixed plant & machinery (unmovable) and Goodwill.*
- **Qualifying Time Period:** New asset must be purchased within *1 year before and 3 years after disposal* of old asset.
- **Partial Reinvestment of Proceeds:** If there is full reinvestment of net sale proceeds roll-over relief is available on full gain. If there is partial reinvestment of net proceeds, then part of the gain is taxable at the time of disposal. Gain Chargeable at the time of disposal **is lower of: a) Amount of proceed not reinvested. b) Full gain**
- **Non-business use** Full rollover relief is only available if asset being disposed was used entirely for business during whole period of ownership. If there is private use of asset rollover relief is only available on business portion.
- **Reinvestment in depreciating assets** "An asset with an expected life of ≤60 years (e.g. Fixed plant & machinery) is called depreciating asset." If replacement asset is a depreciating asset, then gain deferred is not deducted from cost of new asset (no calculation of base cost) Instead gain is postponed and will be taxable on earlier of:
  (i) disposal of new asset **(ii)** Date the new asset ceases to be used in trade
  (iii) 10 years after new asset was acquired
- **Tax planning**

- Unused annual exemption of current year & b/f capital losses is also available then do not claim roll over relief.
- If individual wants to retain some amount of cash out of disposal proceeds before reinvestment, then it should be equal to the b/f capital loss plus annual exemption.
- If on disposal of whole of business, individual decide to reinvest the disposal proceeds then rollover relief and Business asset disposal relief both will be available. However individual has to claim 1st rollover & then Business asset disposal relief.

6.4 RELIEF FOR THE GIFT OF BUSINESS ASSETS

Donor (person making the gift) is treated as making a disposal at market value and donee (person receiving the gift) is treated as if he had acquired a gift at market value. *When Gift holdover relief is claimed, the gain is deducted from the donee's cost (market value).* ***In order to claim Gift holdover relief Donee must be Uk resident.*** This can be illustrated as follows:

DONOR		→	DONEE	
Proceed	MV		Cost	MV
Less: Cost	(X)		Less: gain deferred	(X)
Gain	X			X
Less: Gain held over	(X)			
	Nil			

- **Availability of the relief:** Claim must be made by both donor & donee and must be made 4 years from the end of the tax year in which the disposal occurred. For a gift made in 2024/25 the claim must be made by 5 April 2029.

NOTE: Gift holdover relief is optional, if not claimed the donor has a capital gain so he can utilize his annual exemption, Business asset disposal relief, and may have to pay tax @ 0%, 10%, 20%.

- **Qualifying assets:** Gift holdover relief may be claimed on the gift of the following assets:
  - **a)** Assets used in the trade of Donor (Sole trader or partner in partnership) or Donor's personal trading company
  - **b)** Unquoted shares and securities of any trading company.
  - **c)** Quoted shares or securities of the individual donor's personal trading company. (CO. in which individual owns ≥5% of ordinary shares & ≥5% voting right is called personal trading company.)
  - **d)** Agricultural property provided agricultural property relief is available in IHT.
  - **e)** Chargeable Life time transfer (CLT, means gift to trust during life)
- **Non-business use**: if an asset has some private use then only the business portion of the gain is eligible for relief.
- **Sale at undervalue:** (Gift holdover relief is also available for sales made below market value and above cost.) Proceeds received above original cost are chargeable to CGT immediately and the remaining gain can be deferred.
- **Gift of Shares:**

Gift of shares

Unquoted shares of any CO.	Quoted shares: Personal trading company	Quoted shares: Not Personal Trading Company
Gift holdover relief = Gain X $\frac{\text{Chargeable business assets}}{\text{Chargeable assets}}$		No Gift holdover relief is Available

- **Chargeable assets (CA):** Any asset, if sold would give rise to capital gain or loss is called chargeable asset.
- **Chargeable business assets (CBA):** Any chargeable asset that is used by business in his trade is called chargeable business asset. Shares, securities and other assets held as investments are not chargeable business assets.

- **The emigration of Donee:** Gift holdover relief is available if Donee is UK resident at gift date. If donee emigrates from UK within 6 years from end of tax year of gift, then amount of Gift holdover relief will be taxable for Donee the day before emigration. However, Gift holdover relief will not become taxable if: done goes overseas for full time job; don't dispose of the asset whilst abroad and resume his status as UK resident within next 3 years.

6.5 Incorporation relief:

Incorporation relief is available when an individual transfer his business into company. On transfer into company, assets of the business are deemed to be disposed of at market value to the company.

Conditions for the relief:	**Operation of the relief:**
• All the assets of the business (other than cash) must be transferred • The transfer must be of a business as a going concern • Consideration must be wholly or partly in shares.	Capital gain on business assets transferred to company is deferred by deducting it from the market value of the company's shares acquired. If some consideration given by company for the assets is not shares(e.g. in cash) the capital gain eligible for incorporation relief is: Capital Gain X $\frac{\text{Value of share consideration}}{\text{Total consideration}}$

- **Election to disapply incorporation relief:**

- An individual can elect not to receive incorporation relief. Election must be made by 31 January, 34 months after the end of tax year of disposal. This election might be made if the taxpayer has losses and/or annual exemption which would otherwise be deferred under incorporation relief.
- Incorporation involves disposal of whole or part of business so Business asset disposal relief can also be claimed. If election is made to disapply incorporation relief, Business asset disposal relief can then be claimed. This may be beneficial if only a very small amount of gains is left in charge and are taxable at the advantageous rate of 10%.

6.6 EIS deferral relief:

- An individual may defer a gain arising on disposal of any chargeable asset if he reinvests the disposal proceed into Enterprise Investment Scheme (EIS) shares.
- Reinvestment must be in the form of subscription of new shares for cash; in an unquoted UK trading company.
- Reinvestment must be made within four years which runs one year before and three years after disposal.
- The investor must be UK resident at time of disposal and at the time the reinvestment.
- Relief should be claimed by 5th April 2031 for disposal in 2024/25.

The operation of the relief:

- Deferred gain is not deducted from EIS shares but frozen and become chargeable on:
  a) Disposal of EIS shares or **b)** investor becomes non-UK resident within 3 years of issue of share.
- The amount of the gain that can be deferred is the *lower of:*
  A) Total gain **B)** The amount subscribed by the investor for his shares, and
  C) Any smaller amount than (a) and (b).

6.7 SEIS reinvestment relief:

- This relief is available if an individual sold any chargeable asset which results a gain; and Reinvests the proceeds in qualifying SEIS shares:
- Reinvestment must be made within **four years** which runs one year before and three years after disposal.
- Relief should be claimed by 5th April 2031 for disposal in 2024/25.

➢ **The operation of the relief:**

Some of the gain arising on old asset will be exempt and calculated as follows:
Maximum SEIS exemption = **50% of the lower of:**

a) The amount of the gain
b) The amount reinvested in qualifying SEIS shares.

- Maximum investment can be made in SEIS shares is **£200,000/annum**; so maximum CGT **exemption is £100,000**

➢ **Withdrawal of SEIS relief:** Relief will be withdrawn if shares of SEIS are sold within 3 years.

Not Sold at arm's length: Full Capital gain exempted will become taxable.
Sold at arm's length: A proportion of the gain previously exempted will become taxable and calculated as follows:
SEIS Relief Withdrawn = Gain exempted X (Amount of IT relief withdrawn/original IT relief given)

7 Capital gains tax for non-UK residents

UK resident: Both UK and overseas assets are taxable.
Non-UK resident: Both UK and overseas assets are exempt except the following:
a) UK assets used in a trade based in the UK
b) UK residential properties (since 6 April 2015) (Property purchased before 5 April 2015 is not examinable in P6)
c) All UK land and buildings, not just residential properties (since 6 April 2019)

Calculation of gain/loss on Land and Building acquired prior 6 April 2019:

a) the gain/loss arrived at by deducting the market value of the property as at 5 April 2019 from the sale proceeds, or
b) the whole of the gain calculated in the normal way. This alternative method requires an election.

Rollover relief: Where the UK land/building is used for business purposes, rollover relief may be available. However, the replacement asset would have to be UK land/buildings (and not, for example, fixed plant and machinery).

Gift holdover relief: Normally, Gift holdover relief is not available if donee is not UK resident. However, where the asset disposed of is subject to CGT despite the owner being non-UK resident, Gift holdover relief will be available regardless of the resident status of donee.

PR relief: Non-UK resident individuals will only qualify for PR relief on UK residential property if:

- Were resident in the UK for that tax year
- Stayed in the property for a total of at least 90 nights in the tax year.

Note: Period of actual and deemed occupation is calculated in the normal way.

7 STAMP DUTY & STAMP DUTY LAND TAX

➢ **STAMP DUTY:** Stamp duty is ***charged on the transfer of shares and securities.*** It only applies to transfers made using a stock transfer form (i.e. paper transactions). Stamp duty is ***paid by the purchaser at the rate of 0.5%*** of the consideration. The duty is rounded up to the nearest £5.

➢ **STAMP DUTY RESERVE TAX:** As seen above, stamp duty only applies to the paper transfer of shares and securities. Where transfers are made electronically, stamp duty reserve tax applies. SDRT is charged at the same rate as stamp duty.

➢ **STAMP DUTY LAND TAX:** SDLT is payable by purchaser on transactions of UK property. The value on which SDLT is charged includes any VAT payable on the transaction. SDLT is payable with the return which should be submitted within 30 days of completion date (date when contract become legally enforceable).

Rates of duty (The following table will be provided in the exam)

Residential Property		**Non-Residential Property**	
£125,000 or less	Nil	£150,000 or less	Nil
£125,001– £250,000	2%	£150,001– £250,000	2%
£250,001 – £925,000	5%	Above £250,000	5%
£925,001 - £1,500,000	10%		
Above £1,500,001	12%		

- **EXEMPTIONS:** The following exemptions apply to all three forms of stamp duty: stamp duty, SDRT and SDLT. However, for simplicity, the text only refers to stamp duty.
  - **a) Gifts:** If the transfer is a gift, there is no consideration and hence no stamp duty is payable. This contrasts with the treatment of gifts for CGT purposes, where market value is used if there are no sale proceeds.
  - **b) Transfers within groups:** Transfers of assets between 75% group companies are exempt from stamp duty provided that, at the time of the transfer, no arrangements exist for the transferee company to leave the group. However, stamp duty becomes payable if the transferee company does leave the group within three years of the transfer whilst still holding the asset.
    Stamp duty is also not chargeable on company reconstructions where there is no change in ownership.
  - **c) Miscellaneous:** The following transfers are also exempt from stamp duty:
    - Assets transferred as part of divorce arrangements
    - Property passing to a beneficiary under a will or intestacy
    - Variation of a will within two years of the date of death
    - Reorganization and takeover
    - Unit trust and Changes in trustees.
    - Government stock
    - Securities traded on AIM (Alternative Investment Market)
    - Most company loan notes except convertible loan notes

Note: To qualify for an exemption, the transfer document must state which exemption is being claimed.

CHAPTER 10
OVERSEAS ASPECTS OF INCOME TAX & CGT

1 UK Resident:

Rules for UK resident and NON-UK resident have already been discussed in chapter 1.

Availability of Personal Allowances Personal allowances are available to UK resident individuals. However, Citizen of EEA, Island of man & the Channel Islands may also claim personal allowance.

Splitting a tax year:

If and individual becomes UK-residence or non-UK resident during the tax year then split year rule is applicable. ***This applies to both income tax and capital gains tax.***

- **Non-UK Resident Individual arriving in the UK**

A non-UK resident	***Date when UK part begins***
a) Comes to UK, acquires his only home in the UK.	***Acquires UK home.***
b) Comes to UK to work full-time for ≥ 1 year	***Starts the UK work.***
c) The individual ceases working full-time overseas and returns to the UK.	***Stops working overseas.***
d) Accompanies or later joins his spouse in UK who has ceased working overseas & comes to UK (Point c)	***Later of date:*** • *Spouse stops overseas work* • *Joins spouse in the UK.*

- **UK Resident Individual is Leaving The UK**

A UK resident	***Date when Overseas Part begins***
a) Individual starts full-time work in overseas.	***Start overseas work.***
b) Accompanies or later joins his spouse in Overseas who has started working overseas & left UK (Point a)	***Later of date:*** • *Spouse starts overseas work* • *Joins spouse in overseas.*
c) Sold his UK home, spends a minimal amount of time in the UK (≤15 days) and establishes ties with the overseas country; (e.g. becoming resident in overseas)	***Ceases to have a home in the UK.***

2 Domicile

A person is domiciled in the country in which they have their permanent home.

Domicile of origin:	A person acquires a domicile of origin at birth; this is normally the domicile of their father
Domicile of Dependency:	Until the age of 16 the domicile dependent of father, if father changes domicile the children also changes domicile.
Domicile of Choice:	Individual aged ≥16 can change his domicile by his choice but must sever his ties with former domicile country and settle in other country with clear intention permanent residence.

Deemed UK Domicile

Long term residents: An individual is deemed to be UK domiciled in a tax year if they have been UK resident for 15 of the previous 20 tax years, however long-term residents will not be deemed domiciled if they have not been UK resident in any tax year after 6 April 2017.

Formerly domiciled residents: An individual is deemed domiciled in a tax year if: he was born in the UK, and have their domicile of origin in the UK in the past, and is UK resident in that tax year.

3.1 Taxation Of UK Income

As a general rule, all income arising in the UK is subject to UK income tax regardless of the status of the individual.

Status	**UK income**	**Overseas income** (must be gross up for overseas tax suffered)
R and D in the UK	All taxable	All taxable
R but ND in UK	All taxable	All taxable but remittance basis can be used.
NR in UK	All taxable	Exempt

R= Resident; **D**=Domicile

3.2 Remittance Basis for overseas income:

The term remittance includes

- Bringing overseas income into UK,
- Using overseas income to settle debts in UK,
- Using overseas income to purchase goods or services which are subsequently brought into the UK;

<table>
<tr><td colspan="3">Resident but Not Domiciled in UK</td></tr>
<tr><td rowspan="4">Overseas income Remitted to UK
Arising Basis</td><td colspan="2">Unremitted Overseas income and gains totaling</td></tr>
<tr><td>≤ £2000</td><td>> £2000</td></tr>
<tr><td>Automatic Remittance Basis
➢ Personal allowance Available
➢ Unremitted overseas income will be exempt</td><td>Automatically Arising Basis
➢ Personal allowance available
OR
Remittance basis can be claimed
If claimed:
➢ Personal allowance is not available
➢ <u>Remittance Basis charge</u> can arise</td></tr>
<tr><td colspan="2">If remittance applies all overseas incomes (including interest, Dividend) are treated as other income and taxed at 20%, 40% or 45%.</td></tr>
<tr><td colspan="3">Double tax Relief (DTR) is available in all cases
DTR is <u>lower of:</u>
(i) Overseas income tax on overseas income (ii) UK income tax on overseas income.</td></tr>
</table>

➢ **Remittance Basis Charge (RBC):**

It is fix tax on unremitted overseas incomes & gains it will arise if individual:

- Aged 18 or over
- Claim remittance basis
- Unremitted income & gains >£2,000
- UK resident for at least 7 years out of previous 9 years but not UK domiciled
- Amount of RBC
  - £30,000 if UK resident for ≥7 of previous 9 tax years
  - £60,000 if UK resident for ≥12 of previous 14 tax years

3.3 Overseas Travel and Subsistence Expenses

Where an employee works under a contract of employment for a non-UK resident employer:

<table>
<tr><td colspan="2">Travel costs between individual's UK home and place of work abroad, at the beginning and end of the employment</td></tr>
<tr><td>Paid by the employee
Allowable deduction from employment income</td><td>Paid by the employer
Exempt benefit for employee.</td></tr>
</table>

➢ **Additional travel costs** incurred for the employee to make any number of return visits to the UK and overseas subsistence costs (for example, board and lodgings whilst abroad) are treated as a tax-exempt benefit where:

- The employment duties can only be performed abroad, and the costs are incurred by the employer.

➢ **Additional travel costs** (from UK home) incurred for the spouse (or civil partner) and/or the employee's children (under 18 at the start of outward journey) to visit the employee are also treated as a tax-exempt benefit where:

- The individual has worked overseas for at least 60 consecutive days, and costs are incurred by the employer.

Note: Up to two return trips per tax year per person are allowable.

3.4 Overseas Saving Income: Overseas saving income is taxable in the normal way as UK saving income. *unless remittance basis is applied*. Interest on all gilt-edged securities (UK government securities) is exempt from UK income.

3.5 Overseas Dividend Income: Taxable as UK Dividend income *unless remittance basis is applied*.

3.6 Overseas Property Income:

- Overseas Property income is taxable in normal way as UK Property income *unless remittance basis is applied*.
- Overseas property cannot be treated as furnished holiday letting unless in European Economic area.
- *Overseas property loss* can be carry forward and can only deducted from future overseas Property income.

3.7 Foreign Pensions: Foreign pension is taxable to UK income tax *unless remittance basis is applied.*

3.8 Overseas Trading Income:

- Overseas Trading income is taxable as UK Trading income *unless remittance basis is applied*.
- Following **travel and subsistence expenses** will be allowable deduction *unless remittance basis is applied*:
  - Travel to and from any place in the UK to the place where the trade is carried on overseas
  - Board and lodging at that overseas place
  - Cost for spouse and children (under age 18) visiting the overseas place of work up to two return trips in any year of assessment, once the individual has been absent from the UK for 60 or more continuous days.

Overseas losses: Overseas trading loss can be relieved in the same way as UK trade losses maximum loss which is relieved is *restricted to total overseas income*.

Overseas Aspects of CGT

CGT implication of UK Resident

UK resident persons will pay UK CGT on both UK capital gains and overseas capital gains. While non UK resident will not pay any CGT on both UK and overseas gains except on UK residential property.

<table>
<tr><th colspan="3">Resident but Not Domiciled in UK</th></tr>
<tr><td rowspan="4">Overseas gains
Remitted to UK
Arising Basis</td><td colspan="2">Unremitted Overseas income and gains totaling</td></tr>
<tr><td>≤ £2000</td><td>> £2000</td></tr>
<tr><td>Automatic Remittance Basis
➢ Annual Exemption Available
➢ No tax on unremitted overseas gains
➢ Overseas losses allowable</td><td>Automatically Arising Basis
➢ Annual Exemption available
OR
Remittance basis can be claimed
If claimed:
➢ Annual Exemption is not available
➢ Remittance Basis charge can arise</td></tr>
<tr><td colspan="2">If remittance applies all overseas gains are taxed @ 20%</td></tr>
<tr><td></td><td colspan="2">Double tax Relief (DTR) is available in all cases
DTR is lower of:
(i) Overseas tax on overseas gains (ii) UK tax on overseas gains.</td></tr>
</table>

Note: only 1 remittance Basis Charge for unremitted incomes and unremitted gains.

Temporary Non-Resident in UK:

A temporary non-resident is an individual who is:

a) UK resident for ≥4 tax years out of last 7 tax years preceding the tax year of departure and
b) Absence period is ≤5 years.

If absence period is ≥5 years then no CGT on disposals in absence period while gain on disposals after return will be liable to CGT.

Tax Implication: Capital gain on disposal of assets which are:

a) Purchased and sold before leaving UK will be taxed before leaving UK.
b) Purchased before leaving UK and sold in absence period will be taxed in the year of return.
c) Purchased and sold in the absence period will be exempt.
d) Purchase in absence period and sold after tern will be taxed after return.

CHAPTER 11
INHERITANCE TAX

1 INTRODUCTION:

IHT is charged on *transfer of value* of *chargeable property* by a *chargeable person*.

- **Chargeable property:** Every asset to which the individual is beneficially entitled is called chargeable asset.
- **Chargeable person:** An individual who is domiciled in UK will liable to IHT on transfer of their worldwide assets and individual who is not domiciled in UK will liable to IHT on transfer of their UK assets only.
- **Transfer of value:** It is calculated by applying *diminution in value* rule also called *loss to donor* as follows:

Value of estate before transfer	X
Value of estate after transfer	(X)
Diminution in value/ transfer of value	X

Remember:
- *Gratuitous disposition means gift*

2 VALUATION RULES (For Specific Assets)

2.1 Valuation rule for shares:

- **UNQUOTED SHARES & SECURITIES:** Market value will always be given in exams.
- **Quoted shares:** When quoted shares are gifted, Market value of shares will be lower of:
  c) Lowest quoted price + 1/4 (Highest quoted price – lowest quoted price)
  d) (Highest marked bargain + Lowest marked bargain)/2
- For quoted shares and securities always use cum-dividend and cum-interest value. If value of quoted shares and securities is given as ex-dividend or ex-interest then, *Cum-dividend and cum-interest value is calculated as follows:*

	Shares	Securities
Value using "Lower of Rule"	XX	XX
Add: Next Dividend to be received	XX	
Add: Next Interest to be received		XX
	XX	XX

- **UNIT TRUST:** Unit trusts are only valued at lowest quoted price at gift date.

2.2 Related Property Rule:

- The property is related property if the *some kind of property is held by Donor's spouse (or civil partner) or Exempt party (charity, Housing society, National body as a result of gift.) as a result of gift from that person or their spouse (or civil partner)*
- This rule is *applicable upon transfer of unquoted shares, antiques & chattels and adjacent plots of land.*
- **Transfer of Value:**

Value of combined property before transfer X [A/ A + B]	XX
Value of combined property after transfer X [A/ A + B]	(XX)
	XX

A = Market value of Donor's Property (No of shares for shares)
B = Market Value of related party's Property (spouse or exempt party) (No of shares for shares)

TYPES OF IHT:

a) Life time IHT on life time gift
b) Death IHT on life time gifts
c) Death IHT on Death estate.

3 LIFE TIME IHT ON LIFE TIME GISTS:

POTENTIALLY EXEMPT TRANSFER (PET)

- **It includes transfer between individuals other than spouse**

Transfer of value	XX
Less: Reliefs	(X)
Less: Exemptions	(X)
Chargeable Amount	**X**

CHARGEABLE LIFETIME TRANSFER

- **It includes transfers to trust.**

Transfer of value		XX
Less: Reliefs		(XX)
Less: Exemptions		(XX)
1) Chargeable Amount		XX
2) Calculate unused Nil Rate Band (NRB)		
NRB (tax year of gift)	X	
Less: GCA of CLT's in previous 7 years from gift date	(X)	(XX)
Taxable Amount		XX
3) Calculate IHT ***@ 25% if paid by donor and @20% if paid by donee.***		XX

	4) Calculate Gross Chargeable Amount as: • **If donor paid IHT** Gross chargeable Amount = chargeable amount + IHT • **If donee paid IHT** Gross chargeable Amount = chargeable amount	XX

EXEMPTIONS

➢ **Gifts on marriage:**
- £5,000 by parent.
- £2,500 if from a remoter ancestor or grandparents.
- £2,500 if from a party to marriage or civil partnership.
- £1,000 if from any other person.

➢ **Gifts between spouses:**

Any transfers of value between spouses are exempt. However if the spouse receiving the gift is non-UK domiciled a limit of £325,000 is applied and any excess amount is chargeable to IHT.

However non-UK domiciled individuals whose spouse is UK domiciled can elect to be treated as UK domiciled through an election to HMRC.

➢ **The annual exemption (AE):**
- A.E of £3,000 is available for lifetime transfers and available on both PET and CLT in chronological order.
- Unused A.E can be carry forward for one year only. But A.E of current year must be used first & then any b/f A.E.
- It is beneficial to make CLT before PET.

➢ **Normal expenditure out of income**

A transfer of value is exempt if:
- Made as part of a person's normal expenditure out of income and
- Does not affect the donor's standard of living.

➢ **Small gifts exemption:**

Transfer of assets having value ≤£250/recipient per tax year are exempt if exceeds then whole amount is taxable

➢ **Transfers to charities**

➢ **Transfers to Qualifying Political Party**

Gift to qualifying political party is exempt. Political party qualifies if, at general election prior the gift, either:
- ≥ 2 members were elected to the House of Commons, or
- One member elected & party polled at least 150,000 votes.

Due Date of Payment of IHT

For life time tax on CLTs, the due date depends upon date of the gift:

Date of CLT	Due Date of tax payment
6 April------------------- 30 September	30 April of next calendar year
1 October ---------------5 April	Six months after the end of the month of the transfer

DEATH IHT ON LIFE TIME GIFTS:

1)	B/F Gross Chargeable amount		XX
2)	Fall in value Relief		(XX)
3)	Unused NRB		
	NRB (Death Tax Year)	XX	
	Less: GCA of CLT's in previous 7 years from gift date	(XX)	
	Less: GCA of PET's		
	(from 7years before death till gift date)	(XX)	
	Unused NRB		(XX)
	Taxable Amount		XXX
4)	Calculate IHT on remaining amount@ 40%.		XX
5)	Deduct *Taper Relief* from IHT liability.		(X)
6)	Deduct Tax paid in lifetime.		(X)
7)	Remaining amount is IHT Payable.		XX

Taper Relief:

Years between Transfer & death	Reduction in IHT
3 years or less	0 %
More than 3 but less than 4	20%
More than 4 but less than 5	40%
More than 5 but less than 6	60%
More than 6 but less than 7	80%

Note: Death IHT on lifetime gifts is always paid by recipient of gift, (trustees of trust if CLT and Donee if PET)

FALL IN VALUE RELIEF:

- It is available for both PET and CLT if they become chargeable at death but has no effect on lifetime IHT already paid.
- It is deducted from Gross Chargeable Amount
- **Amount of Fall in Value relief:**
  - It is decrease in market value of an asset between gift date and Death date.
  - If donee sold the asset before death of donor, then FIV relief will be reduction in market value of an asset between gift date and disposal date by donee.
- Any increase in value of asset transfer between the date of transfer and death is ignored
- This rule is not applicable on assets whose value is expected to decrease over time e.g. plant & machinery and wasting chattels.

Business Property Relief

It is available *on Worldwide Relevant Business Property.*

It is *available on both lifetime & death transfer* but deducted before any other Exemptions and reliefs.

Relevant Business Property:

a) Un-incorporated business or interest in partnership.
b) Unquoted securities of controlling company before gift (control may be achieved by taking into account related property)
c) Unquoted shares of any company
d) Quoted shares and securities of controlling company before gift (control may be achieved by taking into account related property)
e) Any land or building, machinery or plant which, immediately before the transfer, was used wholly or mainly for Controlling company or partnership in which transferor is a partner.

BPR is available @ 100% for assets within (a), (b) or (c) above, and 50% for assets within Paragraph (d) or (e) above.

➢ **Point to Note:**

- BPR is not available on gift of investment business (Business dealing in securities, stocks and shares **OR** Dealing in land or buildings) or investment asset.
- BPR on shares is calculated as follows:

$$\text{BPR} = \text{Transfer of value} \times \frac{\text{Trading Assets}}{\text{Total assets}} \times \text{BPR \%}$$

Trading Asset = total asset less investment asset

Minimum Period of Ownership:

- Asset being transferred must be retained for a period of 2 years.
- If the asset was inherited on the death of a spouse (or civil partner), the couple's combined ownership period should be ≥2 years.
- If the existing business property is ***replaced*** by relevant business property then combined period of ownership should be at least ***2 year out of last 5 years***. BPR is given on ***lower of two property value.***
- **Successive Transfer:** No need to consider ownership period for BPR if following conditions are fulfilled
  a) The property being transferred was inherited and first donor qualified for BPR. and
  b) Any of two:
    - Either the property was transferred due to death of first donor or;
    - Property is now chargeable due to death of second donor or;

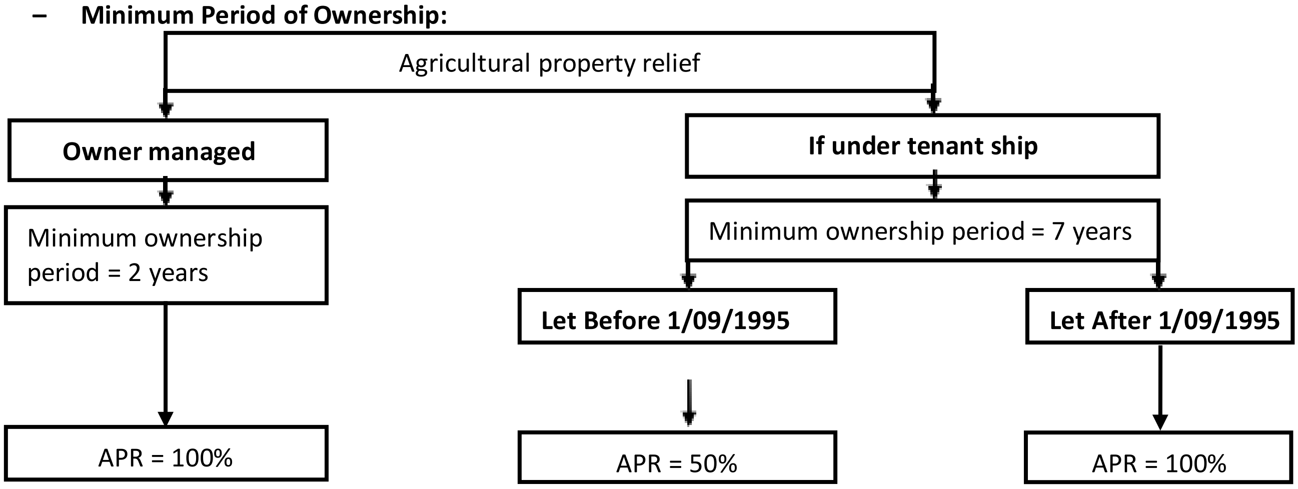
Withdraw of BPR

GCA will be recalculated at gift date by ignoring BPR if:

a) The relevant business property is not used for business purposes at the date of death of donor.
b) Business property has been sold by donee before the date of death of donor and replacement business property was not purchased.

Agricultural Property Relief:

- It is *automatic relief* on *Property situated in the UK* can *reduce transfer of valueof property by 50% or 100%*
- It is *available on both lifetime & death transfer* but deducted before any other Exemptions and reliefs.
- It is available upon agricultural value of agricultural property if it is held for minimum period of ownership.
  – **Agricultural Property**: It includes Farmland, farm building/farm houses, milking parlours / pastures, cottages.
  – **Agricultural Value:** The value of the property because of the agricultural capacity is called agricultural value.
  – **Minimum Period of Ownership:**



- If donor has inherited the Property on the death of spouse the combined period of ownership of both spouses should be greater than minimum ownership period.

- If the existing agricultural property has replaced the previous agricultural property, then APR will be available if period of ownership of both the properties is at least _2 years out of last 5 year if property is owner managed_ and _7 years out of 10 years if property is under tenant ship_.
- **Successive Transfer:** No need to consider ownership period and APR will be available if following conditions are fulfilled.
  a) The property being transferred was inherited and first donor qualified for BPR. and
  b) Any of two:
    - Either the property was transferred due to death of first donor or;
    - Property is now chargeable due to death of second donor or;

➢ **Shares in a farming Company:**
If individual has shares in farming company APR will be available if:
– Individual has controlling interest in the company
– The minimum period of ownership is satisfied
APR = Agricultural Value of C0. X % shareholding gifted X APR %

➢ **Withdraw of APR**
GCA will be recalculated at gift date by ignoring APR if:
a) Agricultural property is not used for agricultural purposes anymore.
b) Agricultural property has been sold by donee by the date of death of donor and has not purchased any replacement agricultural property.

Note: if both APR & BPR are available then APR should be deducted first and then BPR should be available on remaining value.

8 Death Estate Computation

Pro forma Death Estate Computation

Freehold Property less any Repayment mortgage & interest only mortgages (Endowment mortgages is not deductible)			XX
Foreign Property (translated @ lowest rate on death date If given in foreign currency.)		XX	
Less: valuation expenses (max 5% of property value)		(XX)	XX
Other Assets: Leasehold property, Unincorporated business, Shares & Securities (cum dividend and interest), Personal chattels and Motor cars, All receivables, Insurance policy proceeds, Cash at bank & ISAs,			XX
Less: Allowable deductions:			
Funeral expenses, legally enforceable debts, Outstanding taxes (e.g. income tax, CGT, NICs)			(XX)
Less: Exempt legacies (e.g. to spouse or civil partner, charity, political party)			(XX)
Net free estate			**XX**
Gift with reservation (GWR)			XX
Settled Property (will be dealt with in trusts)			XX
Gross chargeable estate			**XX**
Less: Death unused NRB **(Note 1)**			
Nil Rate Band (Tax year of death)	XX		
Less: GCA of PET & CLT in previous 7 year from death date	(XX)		(XX)
Taxable Estate			**XX**
IHT @ 40% or 36% Reduced Rate			XX
Less: Quick succession Relief (QSR)			(XX)
			XA
Less: Double Tax Relief: Lower of:			
a) Foreign tax suffered			
b) AER x foreign property value in estate			(XX)
Average estate Rate (AER) = (IHT after QSR (XA) /Gross chargeable estate) X 100			
IHT payable			XX

- No annual exemption available on death transfers but APR and BPR may be available if conditions are satisfied.
- Cost of administrating the estate by executor is not an allowable expense as it is incurred after the death.

(Note 1) Residence nil rate band

It is an additional £175,000 NRB is available if death estate of a deceased person includes main residence which is inherited by direct descendants (children and grandchildren).
Value of residence is calculated after deduction of repayment mortgage or interest only mortgage. However, if value of residence is below £175,000 then residence nil rate band is reduced to value of residence. E.g. value of residence is £80,000 residence nil rate band will be £80,000 as well.
Any other type of property, such as a property which has been let out, does not qualify for the residence nil rate band.

Tapered withdrawal of the RNRB: The RNRB will be withdrawn If net value of estate (before deducting APR, BPR and exemptions) exceeding £2 million at a rate of £1 for every £2 exceeding the threshold. The RNRB will therefore be reduced to nil when the net estate is £2,350,000 or more (£2 million + (£175,000 × 2)).

Life insurance Policies payment:

Life insurance Policies payment will be included in death estate by proceeds received if for deceased individual.
If life insurance policy proceeds are received by a beneficiary (spouse or children) instead of deceased person then it will not be added in death estate computation of deceased person.

Joint Property

If a property is owned jointly by two or more persons then it will be apportioned between owners at the death of any one owner as per agreed ratio. A fix deduction for valuation is 10% of value of property.

Settled Property:

If the deceased person is a beneficiary of a trust then any amount received from the trust on his death is called settled property. Death IHT of beneficiary which relates to settled property will be paid by trust.

Reduced IHT Rate (36%) on death estate:

Reduced IHT Rate (36%) on death estate is applied instead of 40% if 10% or more of the baseline amount is left to charity. Baseline amount = Taxable amount + Payment to charity + Residence Nil rate band

Single Gross up:

- 'Single grossing up' (SGU) is required if in the will of a deceased person; specific gift(s) of UK assets are left to a chargeable person(s), and the residue of the estate is left to an exempt person.
  IHT payable = (Net chargeable estate – NRB available) × 40/60
  Gross chargeable estate = (Net chargeable estate plus IHT payable)
- If the UK death estate is transferred to exempt recipient (e.g spouse or charity) and residue is left to chargeable persons then no grossing up is required. Foreign property need not to be gross up.

Quick Succession Relief:

It arises when two death IHT arise within five years and available to 2nd deceased person. It is deducted from IHT liability and calculated as follows: ***QSR = IHT paid on first death X % age***

IHT paid on first death = (Total IHT paid on 1st death / Gross chargeable estate on 1st death) X value of gift

Years between Transfer and death of transferee	
1 year or less	100 %
More than 1 but less than 2	80 %
More than 2 but less than 3	60 %
More than 3 but less than 4	40%
More than 4 but less than 5	20%

Remember:
- *%ages are not given in exams.*
- *QSR is given before DTR.*

Allocation of IHT payable:

- The IHT payable on the estate is apportioned between different elements of the estate at the AER (after QSR).
- The tax on settled property is payable by the trustees.
- The tax on a GWR is payable by the beneficiary receiving the GWR.
- The remaining tax on death is initially paid by the executors. The remainder of the tax relating to the UK assets is paid from the estate, and so is effectively borne by the person who inherits the residue of the assets after the specific legacies have been paid (known as the residuary legatee).

Due Dates of Payment of Death IHT: IHT arising on death is payable by the Personal Representatives (PRs). The time limit for this is 6 months from the end of the month in which the death occurred.

The installment option

- IHT on certain property can be paid by ten equal annual installments on CLTs where tax is borne by the donee, or on the transfer of a person's death estate. The first installment is due for payment on normal due date.
- Installment option may be used for IHT payable due to death of donor within seven years of making a PET. In this case, donee must have kept the property (or replacement property) until donor's death (or his own, if earlier),
- The installment option applies to:
  a) Land and buildings
  b) Shares or securities in a company controlled by the transferor immediately before the transfer
  c) Other holdings in unquoted companies where the tax on them together with that on other installment property represents at least 20% of the total liability on the estate on a death, or where the tax cannot all be paid at once without undue hardship
  d) Shares in an unquoted company (including an AIM listed company) representing at least 10% of the nominal value of the issued share capital and valued for IHT purposes at not less than £20,000
  e) A business or an interest in a business

If the property is sold by Donee, all outstanding tax must then be paid.

Gift with Reservation: A 'gift with reservation of benefit' (GWR) is a lifetime gift in which the legal ownership of an asset is transferred, but the donor retains some benefit in the asset gifted.

Exception: If Donor pay commercial rent or circumstances of the donor have changed in a way that was not foreseen at the time of the gift (fell ill) then it can be treated as normal transfer.

- **Examples of a GWR include:**
  - the gift of a house, but the donor continues to live in it
  - the gift of shares, but the donor retains the right to future dividends
  - the gift of assets into a discretionary trust, but the donor is a potential beneficiary of the trust fund.
- **The treatment of GWR**

Reservation still in place when donor dies	Reservation lifted before donor's death
Asset included in donor's death estate as GWR @ MV on date of death	Deemed Lifetime gift @ MV of asset on date reservation lifted (but annual exemptions are not deducted)

Associated operations: *"Two or more transactions affecting the same property (directly or indirectly)"*
All associated operations are treated as one disposition made at the time of the last one of associated operations.

9 Transfer of Unused Nil Rate Band

If any partner in the spouse dies with unused nil rate band then the other partner may claim to increase his/her nil rate band by the percentage of unused nil rate band of deceased partner.

10 Will Planning

- Leave chargeable estate for exempt legacies
- Leave exempt estate for chargeable legacies
- If Nil Rate Band available, transfer to chargeable legacies up to amount of NRB available
- **Skipping a generation:** Rather than leaving property directly to children, it may be more advantageous to miss out a generation and to leave the property to grandchildren instead.

Deed of Variation: The will of a person could be changed even after death of that person by entering into deed of variation. Following conditions must be fulfilled;

1. It must be in written form & signed by all beneficiaries of previous & new will
2. It should not be for any consideration in return for change in will
3. Should be submitted within two years of death
4. It should state that change was for tax efficiency

11 Overseas Aspects

Deemed UK Domicile

a) An individual who has been domiciled in the UK, moves abroad and makes another country their permanent home, retains their UK domicile for three years.

b) **Long term residents:** An individual is deemed to be UK domiciled in a tax year if they have been UK resident for 15 of the previous 20 tax years, however long term residents will not be deemed domiciled if they have not been UK resident in any tax year after 6 April 2017.

c) **Formerly domiciled residents:** An individual is deemed domiciled in a tax year if: he was born in the UK, and have their domicile of origin in the UK in the past, and is UK resident in that tax year.

The location of assets: For someone not domiciled in the UK, the location of assets is clearly important:

- Land and buildings, freehold or leasehold, are in country in which they are physically situated.
- A debt is in the country of residence of debtor
- Life policies are in the country where the proceeds are payable.
- Registered shares and securities are in country where they are registered.
- Bearer securities are where the certificate of title is located at the time of transfer.
- Bank accounts are at the branch where the account is kept.
- An interest in a partnership is where the partnership business is carried on.
- Goodwill is where business to which it is attached is carried on.
- Tangible property is at its physical location.

12 Advantages of making life time transfers

- It a donor makes a PET, then it will be exempt from IHT and will remain exempt is the donor dies after 7 years of making the PET.
- If a donor makes CLT and survives for 7 years after making the CLT. Then the overall IHT will have been reduced as there will be no additional IHT on death.
- The availability of annual exemptions, small gift exemptions and marriage exemptions are available to reduce the value of life time transfers for IHT purpose.
- If the value of the property is increasing then it is advisable to make life time gift of that property, because if it becomes chargeable to IHT due to death within 7 years of making the transfer then any increase between gift date and death date will be ignored.
- If the donor does not survive for 7 years after making life time transfer and the lifetime transfer are taxed on death then taper relief (provided the donor survives for at least 3 years) will be available to reduce the tax.

CHAPTER 12
CORPORATION TAX

Companies resident in the UK pay corporation tax on worldwide income and gains.

UK Resident Company:

a) If it is incorporated in UK **OR** **b)** Not Incorporated in UK but centrally managed and controlled from UK.

Centrally controlled and managed means meetings of board if directors.

Period of Account and Chargeable accounting period:

Period of Account: Duration for which company prepares it accounts. It is generally 12 months long, but can be longer or shorter.

Chargeable Accounting Period: Period according to which corporation tax is paid. It can be ≤12 months but never >12 months

➢ **When accounting period start?** - When a company starts to trade - When the previous accounting period ends.	➢ **When accounting period end?** It ends on earlier of: - 12 months after its start - The end of the company's periods of account - The company's ceasing to be resident in the UK - When a co. ceases to trade, or when its profits being liable to corporation tax are ceased

Calculation of Corporation Tax Liability:

X LTD; Corporation Tax Computation For P/E ended XX/XX/XX

	£
Trading Profits	XX
Interest Income	XX
Income From Foreign Sources	XX
Rental Income	XX
Chargeable Gains (profit on disposal of assets)	XX
Total profit	XX
Less: Qualifying Charitable Donations	(XX)
Total Taxable Profit (TTP)	XX
Add: Dividend received from non-associated companies	XX
Augmented Profit	XX

Financial Years (FY):

The tax rates to be used for corporation tax are set for Financial Years (FY). Financial starts on 1st April and ends on 31 march.

FY 2024 = 1 April 2024 to 31 March 2025

Qualifying Charitable Donations:

Donations are made gross by companies and deducted from main proforma.

Exceptions: Donation allowable from trading profit and donation to political party are not deducted as QCD in proforma

If donations exceed total profit, then unrelieved donations are wasted except 75% group relief is claimed (see later).

Rate of corporation tax

For the financial years 2021 and 2022, the rate of corporation tax was 19%. This single rate applied regardless of the level of a company's profits.

For the financial year 2023 and 2024 there are two rates of corporation tax:

A small profits rate of 19% which applies where a company's augmented profits do not exceed a lower limit of £50,000; and A main rate of 25% which applies where a company's augmented profits are £250,000 or more (the upper limit).

The lower and upper limits are proportionately reduced for short accounting periods and also according to the number of associated companies (see later for an explanation of associated companies).

Augmented profits are a company's taxable total profits plus dividends received. However, dividends from 51% group companies are excluded.

Marginal relief

Marginal relief eases the transition from the small profits rate to the main rate of corporation tax where augmented profits fall between £50,000 and £250,000.

Corporation tax is calculated at the main rate of 25%, with this figure then reduced by marginal relief. The formula for calculating marginal relief is:

$$(\text{Upper limit} - \text{Augmented profits}) \times \text{Standard fraction} \times \frac{\text{Taxable total profits}}{\text{Augmented profits}}$$

If no dividends are received, the final part of the formula (Taxable total profits/Augmented profits) can be omitted since both taxable total profits and augmented profits are the same amount.

Associated companies

The lower and upper corporation tax limits are effectively shared if a company has associated companies.

- Companies are associated if they are under the same control. This basically means a shareholding of more than 50%.
- Companies that are only associated for part of an accounting period count as associated companies for the whole of that period.

- Dormant companies (not carrying on a trade or business) do not count as associated companies.
- For associated company purposes, it is irrelevant where a company is resident. Therefore, companies which are resident overseas can be included.
- Do not forget to include the parent company in the number of associated companies.

Short accounting periods

The lower and upper limits are proportionately reduced if a company's accounting period is less than 12 months in length.

Long Periods of Accounts:

- If period of account >12 month, it will split into two Acc. periods, 1st of 12 months and 2nd of remaining months.
- The following rule applies in the allocation of profits and charges between the two chargeable accounting periods:

Income / Charges	Method Of Allocation
Trading Profit (before capital allowances)	Time apportioned
Capital allowances and balancing charges	Calculated for each period
Rental Income	Accruals Basis
Interest Receivable	Accruals Basis
Chargeable Gains	Allocated to accounting period
Qualifying charitable donation	Deducted in period in which paid
Dividends income	Allocated to accounting period

Interest Income:

- Interest received or paid is dealt with on accruals basis.
- **Loan Relationship Rule:** Interest payable on loan taken for trade is deducted from trading profit while Interest on a loan taken for any other purpose will be deducted from interest income.
- Interest received from HMRC is taxable and interest paid to HMRC is allowable trading expense.

Loan Relationship Deficits:

Non trading interest income	XX
Non trading interest expense	(XX)
	XX/(XX)

Net Interest Income	Non trading interest Expense			
	Option 1	**Option 2**	**Option 3**	**Option 4**
Put in Performa as interest income	Set off against total profit before QCD of current accounting Period	Carry back against interest income of previous 12 months (or 36 months if current year is cessation year.)	Carry forward and deducted from total profits of future periods.	Group relief

- Partial claim is allowed so company has the option to relieve loss as it wants.
- Claim for current period & carry back must be made within 2 years from end of Acc. period of loss

Dividend Income:

- Dividend received from any company is totally exempt.

Property Income:

- Property income is calculated on accrual basis for chargeable accounting period.
- Interest expense on a loan to buy a rental property is deductible from interest income not property income.
- There is no rent a room relief for companies.

Property loss must be deducted from total profits before QCD of current period and any remaining loss will be deducted from future total profits before QCD. Partial claims not allowed

Trading Profit:

Calculation of Taxable Trading Profit
For the year ended xx/xx/xx

Profit from Financial Accounts	XX
Add: Disallowable Expenses	XX
Taxable Income (not included in the profit figure)	XX
Less: Allowable Expenses	(XX)
Disallowable Income (included but not taxable under trading profit)	(XX)
Taxable Trading Profit	XX

- Private use by owner and employee both allowable
- Dividend payable by company is not an allowable trading expense.

CAPITAL ALLOWANCES:

- No private use asset column (Because private by owner is allowed.)
- If POA is >12 months there will be two CAP and capital allowances will be calculated separately for each CAP.
- Only one AIA is available to Group of CO's however, AIA can be shared between group CO. s in any way.

Related Companies:

- Only one AIA (of £1,000,000) is available to ***Related companies*** (companies involved in same activities or share same premises) which are owned by the same individual and owner of companies can allocate it as he wants to.
- Unrelated companies owned by the same individual(s) will each be entitled to the full AIA.

Trading Losses

Carry forward relief:

Carry forward and deducted from 1st available total profit of future years.

Set Off Trading Loss Against Total Profit:

- Deduct trading loss from total profits before QCD of the current year and only then deduct remaining loss from total profits before QCD of previous 12 months.
- No CAP Limit

Terminal Loss Relief:

If trading loss arises in last 12 months of trade, then this loss can be set off against the total profit of previous three years on LIFO basis. Partial claim is not allowed.

Restriction on Trading Loss: The restrictions apply in two situations:

- where there is both a change in ownership and a major change in the nature or conduct of the trade within a five year period beginning no more than three years before the change in ownership, or
- when at any time after the scale of activities of the trade has become small or negligible, and before any considerable revival of the trade, there is a change in the ownership of the company.

Restriction:

- Losses before change in ownership cannot be deducted from profits which arise after change in ownership.
- Losses after change in ownership cannot be deducted from profits which arise before change in ownership.

- Change in nature or conduct means major change in property dealt in or services provided, customers, product, management, outlets or markets,

Foreign Income:

Any foreign income must be included in TTP. Foreign income is gross up by foreign tax suffered.

Chargeable Gains:

Indexation allowance: Indexation allowance gives a company some allowance for the effect of inflation in calculating a gain. It is given from the date of expenditure to the date of disposal. IA cannot create nor increase a capital loss.

Indexation Allowance = Cost X Indexation Factor

$$\text{Indexation Factor} = \frac{\text{RPI of Later Date} - \text{RPI of Previous date}}{\text{RPI of previous date}}$$

- When an asset is purchased prior to December 2017 and subsequently sold, then the indexation allowance will be given from the month of acquisition up to December 2017.
- When an asset is purchased from January 2018 onwards and subsequently sold, then no indexation allowance will be available.

Calculation of gains and losses for companies

Disposal proceeds (or market value)	X
Less incidental costs of disposal	(X)
Net proceeds	X
Less allowable costs	(X)
Un-indexed gain	X
Less indexation allowance	(X)
Chargeable gain	X

Calculating net chargeable gains of a company

Capital gains arising on disposals in CAP	X
Less: Allowable losses arising on disposals in CAP	(X)
Less: b/f capital losses	(X)
Net chargeable gains	X

DISPOSAL OF SHARES AND SECURITIES:

All rules are same as individuals except

Matching Rule:

a) Shares acquired on same day
b) Shares acquired on previous 9 days
c) Shares in share pool.

On disposal or acquisition of shares indexation allowance is added in cost.

Bonus Issues:

- Bonus shares are added in share pool with no increase in cost.
- Not index the cost of original shares to the date of bonus

Rights Issues

- It increases the number of shares and cost of share pool.
- Pool is indexed to the date of the rights issue.

ROLLOVER RELIEF:

Rollover relief is the only capital gains relief available to companies. It allows the deferral of the indexed gains arising on the disposal of **qualifying business assets**.

All rules for rollover relief are same as individuals except that the qualifying assets for companies are:

- Land and buildings used in business
- Fixed plant and machinery (unmovable)

Goodwill is not a qualifying asset for rollover relief for CO.

Capital losses:

Capital losses are relieved against Current year capital gains, then Capital gains of future CAPs

Transfer Pricing Legislation:

- It is applicable upon transactions between connected companies. Companies are connected if:
  - On company directly or indirectly participate in the management, control or capital of the other company, or
  - A third party directly or indirectly participates in the management, control or capital of both companies.

Large Company → Transaction with any company → Transfer pricing rules apply

Small OR Medium Company → Transaction with overseas company resident in non-qualifying territory → Transfer pricing rules apply

Small OR Medium Company → Transaction with UK SME or overseas company resident in qualifying territory → Transfer pricing rules not apply.

- If transfer pricing rules apply then the transaction between related parties are recorded at an arm's length price.
- Non-qualifying territory is one which is not in UK and has no DTR agreement with UK.

Goodwill and intangible non-current assets

Expenditure relating to Intangible Assets other than goodwill
(e.g patents, copyright, trademark, brands, intellectual property and know-how)

→ **Deduct expenses as per accounting Rules**
Research Expense, royalties, Amortisation, Impairment losses

→ **Elect to disapply accounting deductions**
Claim tax allowance @ 4%/annum on straight line basis

- Election for choice of treatment is irrevocable and should be made within 2 years from year of acquisition of asset
- If a company disposes off an intangible assets then profit or loss will be the difference between the disposal proceeds and carrying value.
- Company has the option to elect to rollover the trading profit upon disposal of intangible assets if disposal proceeds are reinvested within 1 year before or 3 year after disposal.

Tax treatment of goodwill No amortisation or impairment on goodwill are allowable for tax purposes.

On a disposal of goodwill profit is taxable as trading income but a **loss is a non-trading loss** which can be**:**

- Set off against total profits of the current period
- Carry forward and deducted from total profits of future period.
- Transferred to a 75% group member as group relief.

Special intangible rollover relief

- If a profit is made on disposal of any intangible asset and a new intangible asset is acquired within 12 months before or up to 36 months after disposal:
  - part of the taxable profit may be deferred.
- The maximum deferral = (Lower of disposal proceeds or amount reinvested) Less: Cost of the original intangible asset
- Special intangible rollover relief is available for goodwill as well as other types of intangible asset.

Substantial Shareholding Exemption (SSE)

Substantial shareholding is, *holding of ≥10% shares in another CO. which are owned for ≥12 months out of 6 years before date of disposal.*

- For substantial shareholding exemption investee company should be trading companies.
- It is not necessary for company selling the shares to be either a trading company or a member of a trading group
- Gain on disposal of shares out of substantial shareholding is exempt and loss is not allowable.
- If disposal of shares qualifies for SSE and remaining shareholding falls below 10% then remaining shares will also qualify for SSE if sold with in next 5 years.
- In order to determine substantial shareholding, the *shares held by connected companies will also be considered.*
- If there is a share for *share exchange, then the combined period of ownership* of both the holdings will be considered to determine minimum period of ownership.
- SSE will be available even if the shares are not owned for 12 months if:
  a) the shares being disposed of are in a new company, and
  b) the new company received assets from another 75% group company, and
  c) the assets transferred were held and used in trade of another group company for 12 months before transfer.

Research and development expenditure (R&D expenditure credit (RDEC) scheme)

R&D expenditure credit (RDEC) scheme.

The RDEC scheme works as:

1. 20% of R&D expenditure will create additional taxable trading income; and
2. 20% of R&D expenditure will create tax credit, which reduces corporation tax liability.

For a company that has qualifying R&D expenditure of £100,000 and pays corporation tax at the main rate, the overall effect would be as follows.

Additional income (£100,000 x 20%)	£20,000
Corporation tax on additional income (£20,000 x 25%)	£5,000
Tax credit deducted from corporation tax liability	£20,000
Corporation tax saved (£20,000 – £5,000)	£15,000

Overall a 15% reduction in corporation tax. Where the available tax credit exceeds the company's corporation tax liability, the remaining amount of credit can be:

- carried forward and offset against corporation tax liability of future years; or
- in the case of a group company, surrendered to another member of the group; or
- paid to the company.

There is a cap on the amount that can be used in these alternative ways. This cap is not examinable.

Qualifying R&D expenditure consists of revenue expenditure and may include the following:

- staffing costs in respect of staff directly involved in the R&D work, including NICs (class 1 employer contributions) and pension contributions but excluding taxable benefits
- software, data licences, and cloud computing services directly used in R&D
- materials, water, fuel and power for R&D
- externally provided workers (i.e. agency staff) for R&D
- qualifying payments to subcontractors who are carrying out the work on the company's behalf.

It should be noted that the cost of renting property is not qualifying expenditure for the purposes of the RDEC scheme.
Payments in respect of externally provided workers and subcontractors
Payments made to an UNCONNECTED person: the qualifying R&D expenditure is 65% of the expenditure incurred.
Payments to a CONNECTED person: the 65% restriction does not apply. However, the qualifying R&D expenditure is restricted to the lower of:

- the payment made to the connected person, and
- the relevant expenditure incurred by the connected person.

Unconnected parties can choose to make a joint election to be treated as connected. This would remove the 65% restriction that would otherwise apply. The election would apply to all payments made under the same contract. Two companies are classed as connected if either:

- they are controlled by the same person, or
- one of them controls the other.

BUSINESS FINANCIAL MANAGEMENT

➢ **Sources of Finance:**

	Equity Finance	**Debt Finance**
Amount	Company can issue shares up to maximum of authorized share capital.	There is no limit of debt finance which a company can raise through debt instruments and banks loan until investor is ready to invest.
Return	Company is required to pay dividend which is based on profits and this will not be treated as allowable expense.	Entity is required to pay mandatory interest which is regardless of profit and it is treated as allowable expense.
Investor	• If investor is a company any dividend received by company is exempt. • If investor is an individual dividend will be liable to income tax.	• If investor is an individual interest will be liable to income tax. • If investor is a company then interest will be received gross and it will liable to CT.

➢ **Differences between sole trader and company:**

Sole Trader	**Company**
Trading profits are liable to income tax on tax year basis.	Trading profits are liable to corporation tax for accounting period.
Application of basis period.	No application of basis period.
Capital allowances are available but with Private use adjustment.	Capital allowances are available but No Private use adjustment is required.
Personal Allowance is available	No personal allowance is available.
Class 4 NIC will become payable.	No payment of NIC is required for trade.
Six Loss relief options are available.	3 loss relief options are available Group relief is also available.
No tax implication at the time of withdrawal of profit after tax from business.	Profit after tax from company can be withdrawn in form of dividend or employment income.
Business may have VAT registered.	Company may have VAT registered.
Upon disposal of business it will be treated as chargeable disposal however Business asset disposal relief, Gift holdover relief, and rollover relief is available.	Upon disposal of shares it will be treated as chargeable disposal however rollover relief is available.
If an individual has expected losses in initial years of trade then individual should preferably start business as sole trader to take advantage of tax saving at high rate.	If an individual has profit in initial years of trade and has no intention to withdraw funds in initial years then it is better to operate in form of company to take advantage of low corporation tax rates.

➢ **Extraction of Funds from a Company:**

Salary	**Dividend**
Income tax payable @ 20%, 40% or 45% by individual.	Income tax payable @ 8.75%, 33.75% or 39.35%.
Class 1 employee NIC payable by individual @ 12% or 2%	NO NIC is payable by individual.
Company is liable to pay class 1 Employer	NO NIC is payable by company.
Salary and NIC paid to individual is treated as allowable expense for company.	Dividend is not an allowable for company.
Individual can make personal pension contribution in respect of salary received from the company.	Don't qualify as relevant earning for personal pension cont. because it is not a earned income.

- **Rental Income from company**
  - Individual should try to own the assets of the company instead of owning assets through the company in this way individual will be able to withdraw profits after tax from the company in the form of rental income although this will be liable to income tax as a property income but company will be able to claim allowable deduction in respect of rent paid for the property from trading profits.
  - If asset is being used in trade in such a manner as mentioned above individual can avoid double taxation at the time of disposal of asset. However, BPR would be reduced to 50% for the IHT purpose.
- **Interest income from the company**
  - If an individual makes a loan to the company then any interest income received by individual will be taxed in the year of receipt of interest @20%, 40% or 45%.
  - Interest paid by company is an allowable expense from company trading profit on accrual basis.
- **Personal pension contribution**
  - Individual can withdraw funds from the company by making persona pension contribution for himself as an employee through other company however pension funds are not withdrawn up to the age of 55 years.
- **Purchase of Non-Current Assets**
  - If an asset is purchased capital allowances are available in normal way. (AIA, WDA)
  - If individual is VAT registered, then Capita allowance will be claimed upon VAT exclusive amount.
- **Hire Purchase Agreement/Finance Lease.** Assets acquired under hire purchase agreement will be treated as outright purchase of the asset and capital allowance will be claimed in normal way upon cash equivalent value of asset. Any interest paid along with installment amount will be treated as allowable expense.
- **Operating Lease** Any rent paid for asset acquired under operating lease for trading purpose is allowable trading expense apart from high emission car (CO_2 >50 gram/km) for which 15% of rent paid is disallowed.

Close Company

Company controlled by 5 or less than 5 shareholders or if there are more than 5, all shareholders should be directors.
Control means holding >50% of: ''share capital or voting rights, or distributable profits or net assets on winding up"
Note: Husband and wife are considered as one shareholder for the purpose of close company only.

Provision of benefits from Close Company to an individual who is shareholder and director:

- For directors it will be a taxable benefit liable to income tax calculated using the rules of employment income.
- For company cost of providing benefit will be allowable expense from company's trading profit.

Provision of benefits from Close Company to an individual who is just a shareholder:

- For individual it is dividend income equal to taxable value of benefit calculated using employment income rules.
- For company it will be assumed that company has pay dividend equal to value of taxable benefit.

Loan taken by shareholder to make a loan or purchase shares of a Close Company:

Loan will be called qualifying loan and any interest paid is deductible expense from his total income provided the company is personal trading company (owns ≥ 5% shares).

Benefit in respect of interest: If company provides loan to employee at less than 2.25% then:

- If individual is a shareholder it will deemed to have been received net of dividend equal to value of taxable benefit which will be calculated using employment income rules and
- If individual is shareholder & director, then it will be taxable benefit for related individual.

Loan from close company to its shareholders only or shareholder plus employee:

Tax Charge: If a close company lends a loan to its shareholders then company has to pay a tax charge @33.75% uponthe amount of loan.
Due date to pay tax charge is same as due date to pay corporation tax (9 month& 1 day or quarterly basis).
No tax charge will be due by company if individual repays loan before due date of payment of tax by company.

- **Exemption from tax charge:** No tax charge will arise if following three conditions are satisfied:
  a) Amount of loan is ≤ £15,000. **b)** Individual is full time employee of CO. **c)** Individual owns ≤5% shares in CO.
- This **tax charge is refundable** into a situation:
  a) When shareholder repay the loan to company.
  b) When the company writes off the loan into its own books.
  Note: Amount of loan written off by company will be treated as dividend income of shareholder. Loan written off will not be an allowable expense for company.

Companies with investment Business:

- Companies holding investments are called companies with investment business.
- Management expenses of company is allowed to be deducted from total profit before QCDs of current year and any unrelieved management expenses will carry forward against the total profit of future years **OR** Company can choose to transfer the unrelieved management expenses to 75% group member.

- Management expense includes remuneration of the employees, audit fee, bank interest, head office overheads, commissions, office rent and rates.

75% Loss Relief Group:

75% Loss Relief Group is formed when at-least 75% main holding at every level and effective holding of at-least 75%.

- Group can be formed without ultimate parent company and one company can be part of more than one group.
- Overseas Companies can become part of this group but relief is only available to UK resident companies unless overseas company is EEA and loss can't be utilized in any other way.

Tax Implications:

Surrendering company can transfer current year:	**Surrendering company can transfer brought forward:**
– Trading losses (no need to claim against its own profit first) – Non trading interest expense (no need to claim against its own profit first). – Unused QCD. – Unused Property business loss. – Unused management expense (if investment CO.)	– trading losses – Non trading interest expense – management expenses of an company with investment business – property losses

- Only corresponding period losses are eligible for relief.

Surrendering CO:

(CO. that surrenders its loss) may surrender as much of loss as it wants to (partial claim is allowed) & it is not necessary to relieve loss against its own income & gains 1st

Claimant CO:

(CO. to which loss is surrendered) can offsets loss against Taxable Total Profits of its corresponding Accounting Period but after offsetting its own b/f trading loss.

- Claimant CO. may make payments to surrendering CO. for group relief. Any payment up to the amount of loss surrendered is ignored for corporation tax purposes.
- Losses which arise before joining the group or after leaving the group are not eligible for group relief.
- Group relief restriction applies where there has been a change of ownership of a company, A Ltd. A Ltd's pre-acquisition losses carried forward cannot be surrendered to companies in its new group for a period of five years from the date of the change in ownership. This restriction operates in one direction only, i.e new group companies can transfer losses to new entrant in the group.

Consortium

When two or more companies (UK or overseas) mutually owns ≥75% shareholding in another company provided each company own at least 5% but up to maximum of 74%. This is called **consortium arrangement.**

- Investor Company is called consortium member and Investee Company is called Consortium Company.
- A consortium company can transfer its loss upward to consortium member but up to maximum of the %age holding of a consortium member but for this purpose consortium company has to offset loss against its own total profit 1st.
- Consortium Member CO. can also transfer its loss downward to consortium CO. but up to maximum of its %age holding. There is no need to consortium member to offset the loss against its own total profit 1st.
- Losses cannot be transferred between consortium members. Overseas company can become part of consortium arrangement but it cannot take advantage of consortium features.

75% Capital gains Group

75% Capital gain Group is formed when at-least 75% main holding at every level and effective holding of at-least 50%.

- Group cannot be formed without ultimate parent CO. and one CO. cannot be part of more than one group.
- Overseas Companies can become part of this group but relief is only available to UK resident companies.

Tax Implications:

- Group CO.s can *transfer assets between themselves at no gain / no loss* & deemed to take place at indexed cost.
- Group companies can *transfer only Current year capital gains or capital losses* to other group members. While b/f capital loss is not allowed to transfer. Election must be made in 2 years from end of accounting period of disposal
- Rollover relief is available on a group wide basis Where:
  - one company sells qualifying asset, and
  - Another company buys a qualifying asset within the rollover relief qualifying time period.

Gain can be rolled over against purchased asset of other CO.

De-grouping charge:

It can arise if a 75% gain group member leaves the group, and still holds an asset which it had received from another 75% group member via no gain no loss transfer in previous 6 years. It will be calculated as:

M.V at date of original intra group transfer	XX
Less: original cost plus indexation allowance	(XX)
De-grouping Charge	XX .

- Charge is taxable to Transferor CO. however it will be exempt in case of substantial shareholding exemption.
- Transferor Company can choose to transfer de-grouping charge to the other 75% gain group members.

Stamp Duty:

SDLT is exempt on transfer between 75% gain group companies but exemption will be withdrawn if recipient company leaves the group within 3 years from date of intra-group transfer.

Pre Entry Capital Loss:

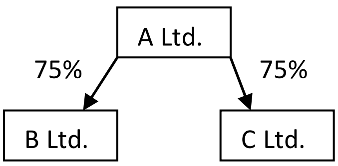
Capital losses of a company before joining 75% gain group can be offset against gains:

a) From disposal of assets before joining the group

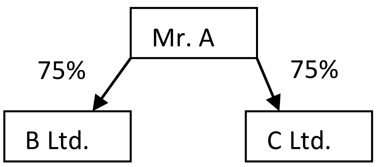
b) From disposal of assets which were owned before joining the group and sold after joining group.

c) From disposal of assets which were acquired after joining the group and sold to third party.

Transfer of trade within a group



Transfer of assets from B Ltd. to C Ltd.
Special rules apply and this is a gain group



Transfer of assets from B Ltd. to C Ltd.
Special rules apply but this is not a gain group

Transfer of trade and Assets without change in ownership			
Special Rules		**Capital Gain**	
Trade Losses	Capital Allowances	If gains group	If no gains group
Transferred with trade & deducted from future trading profits of C Ltd.	• P&M will be transferred at WDV. • No BC/BA for transferor • No AIA or FYA for transferee co.	Assets transferred at no gain no loss	Capital gain/loss arises on chargeable assets sold.

Overseas Aspects

UK Resident Company:

Companies incorporated in the UK, or incorporated overseas but centrally managed and controlled in the UK are called UK resident companies.

All UK resident Companies are chargeable to corporation tax on their worldwide income and chargeable gains.

Permanent establishment:

Means having a place of management or a branch or an office or a factory or any work related area.

Overseas Subsidiary

- Will be classed as an associated company (reduces the limits) if ownership is > 50%
- Profits will be subject to overseas Corporate Tax but are not charged to UK corporation tax
- UK capital allowances are not available
- Intra-group transactions between overseas subsidiary and a UK resident group member will be subject to the Transfer Pricing rules.
- No group relief is available for trading losses of an overseas subsidiary
- Dividend received from overseas subsidiary will be exempt and ignored in computing augmented profits.

Overseas Branch

- An overseas branch of a UK company is effectively an extension of the UK trade, and 100% of the branch profits will be assessed to UK corporation tax.
- Trading profits are treated as UK profits and will be calculated in same way.
- UK capital allowances are available on oversees plant and machinery purchased.
- Trading losses of an overseas branch are available for set off, against the profits of other companies in the group.
- All implications of capital gains of overseas companies are same as UK capital gains.
- Corporation tax limits are not divided.

Double Tax Relief (DTR) DTR is lower of:

(i) Overseas tax on overseas income.

(ii) UK corporation tax on overseas income.

Exemption of overseas Branch:

- An irrevocable election can be made for exemption of profits of overseas branch. In this case branch profits (trading, interest, rent, capital gains) are exempt from UK tax.
- No loss relief available, no capital allowance is available.
- If election is made it will be irrevocable and will be applicable to all overseas branches.

CONTROLLED FOREIGN COMPANY (CFC):

An overseas resident company will be CFC if:

a) controlled by UK resident companies and/or individuals, and

b) has incorporated or acquired to artificially divert profits from UK

CFC Charge:

Individuals control (E.g. Mr A, & Mr. B)

UK Resident companies | CFC

UK Resident company control Owns CFC (can be controlled by more than 1 UK resident co. in which case each co. must own at least 25% interest in CFC)	
CFC Charge will arise on UK Resident Companies	No CFC Charge

CFC Charge:

	£
(Amount of CFC **chargeable profit** caught by CFC Legislation X % shareholding of UK company X main rate of corporation tax)	X
Less: DTR	(X)
CFC charge	X

Chargeable Profits

- Income of CFC (but not chargeable gains) that are artificially diverted from the UK, calculated as per UK tax rules is called chargeable profit
- CFCs will have **no chargeable profits** (so no CFC charge) if any of the following conditions are satisfied:
  - the CFC does not hold any assets or bear any risks intended to reduce UK tax
  - the CFC does not hold any assets or bear any risks that are managed in the UK
  - the CFC would continue in business if the UK management of its assets and risks were to cease

Exemptions to CFC charge

The CFC charge is not applied if any one of the following exemptions applies (even if CFC has chargeable profit):

Exempt period exemption	No CFC charge will arise in first year (first 12 months) if it will be CFC in the second accounting period and no CFC charge in second year.
Excluded territories	CFC is resident in an excluded territory *(Territory approved by HMRC where rate of corporation tax is higher than UK)* than no CFC charge arises.
Low profits	The CFC's TTP ≤£500,000 of which non trading profits is ≤£50,000.
Low profit margin	CFC's accounting profit is ≤10% of relevant operating expenditure.
Tax exemption	The tax paid in the overseas country is at least 75% of the UK corporation tax which would be due if the CFC were a UK resident company

Re-Construction & Re-Organization

Share for share exchange:

Step-1

Claim substantial shareholding exemption if available.

- No gain/loss on shares transferred due to SSE
- Cost of shares received will be MV

Step-2

If substantial shareholding exemption is not available

- Claim share for share exchange rule.
- Cost of old shares will become cost of new shares.
- No Gain NO loss arise

Consequences of Disposal of Shares:

- Substantial shareholding exemption can be available.
- Stamp duty @ 0.5% will be payable.
- The company being disposed of will be treated associated company for whole accounting period
- There may be de-grouping charge.
- Transfer of trade special rules might be applicable.

Liquidation

At the time of liquidation, liquidator is appointed, assets of the company are realized, any obligations of the company are paid and finally the surplus amount is distributed to shareholders.

Payment received by shareholder before appointment of liquidator is treated as dividend while proceeds received after appointment of liquidator will be treated as capital receipt and gain (DP – cost) will be liable to capital gain tax.

Winding Up (closure of company without appointment of liquidator):

In this case consideration received will be considered as capital proceeds, if all of the following conditions are fulfilled:

a) Shareholder was paid, when company has been wound up.
b) All of the liabilities have been agreed and paid.
c) Total payment is not more than £25,000.

If any of the above condition is not fulfilled amount received would be considered as Dividend Income.

Purchase of its own shares by company (Buy Back)

Proceeds received by individual may be taken as income distribution (dividend) or a capital payment.

Capital Repayment:

Conditions:

a) Company must be an unquoted trading CO. and Buy back of shares by CO. must be for benefit of trade.
b) Shares must have been owned for at least five years if purchased and it will be 3 years if inherited.
c) The shareholder is resident in UK
d) Shareholding after buy back should be ≤75% of the shareholding before buy back
e) After buy back individual must not be able to exercise more than 30% control of the company.

Capital gain/loss = Disposal Proceeds – purchase price

Note: *If Co. buy back its shares from another CO. HMRC will always treat the event as capital disposal (substantial shareholding exemption may apply.*

Income Distribution: If any of the above conditions is not satisfied then dividend income:

Dividend = Proceeds received less Original subscription price (issue price)

CHAPTER 13

VALUE ADDED TAX (VAT)

INTRODUCTION:

- VAT is an **indirect tax** which is **borne by final consumer** and **VAT non-registered business.**
- VAT is collected by VAT registered business and paid to HMRC.
- **Output VAT:** VAT received on sales. Only VAT registered business can charge output VAT.
- **Input VAT:** VAT paid on purchases is called **input VAT**. Everybody pays input vat whether registered for vat or not.

1 Types of supply.

Taxable Sales			Exempt Sales
Zero Rated (VAT @ %)	Low Rated (VAT @ 5%)	Standard Rated (VAT @ 20%)	
• Non-luxury food • Books and newspapers • Public transport (not taxis) • Children's clothing • Medicines • Exports outside the EU	Fuel for domestic purpose, energy saving materials	On most goods and Services supplied	• Insurance • Financial services • Postal services • Land including rents

➢ **Basic Computation**

OUT PUT VAT (VAT Charged to customers on sales)	XX
INPUT VAT (VAT paid an purchases)	(XX)
Net VAT Payable / (Recoverable)	XX/(XX)

➢ **Tax Point:** Tax point or time of supply determines when output VAT will be due.

- The basic tax point is the date goods are made available to the customer or service completed.
- If an invoice is issued or payment received before the basic tax point, then this becomes the actual tax point.
- If an invoice is issued within 14 days of the basic tax point, the invoice date will becomes the actual tax point.

Exception:

Goods supplied on sale or return are treated as supplied on the earlier of adoption by the customer or 12 months after dispatch.

Continuous supplies of services paid for periodically normally have tax points on the earlier of the receipt of each payment and the issue of each VAT invoice, unless one invoice covering several payments is issued in advance for up to a year. The tax point is then the earlier of each due date or date of actual payment. However, for connected businesses the tax point will be created periodically, in most cases based on 12 month periods.

- **VAT Periods:** VAT period (also known as Tax Period) is the period covered by a VAT return. It is usually three months (quarterly returns). VAT return must be submitted and VAT must be paid within one month after the period. A registered person can elect for monthly VAT returns if his input tax regularly exceeds his output tax.

2 REGISTRATION

Compulsory Registration (Historical Test)

- Taxable supplies (VAT exclusive) in last 12 months (or since business commenced if shorter) exceed £90,000.
- HMRC must be informed within 30 days after the end of the month in which taxable supplies exceed £90,000 by completing form VAT1 or using HMRC's online services.
- The trader will be registered for VAT from next day of 30 days notification period.
- VAT registration is not required if taxable supplies in the following 12 months will not exceed £88,000.

Compulsory Registration (Future Test)

- Taxable supplies in next 30 days expected to exceed £90,000.
- Notify HMRC – before end of 30 day period.
- Registration effective from – start of 30 day period.

Voluntary Registration: A person making taxable supplies may apply for VAT registration on voluntary basis by writing an application to HMRC even if taxable supplies are below £90,000.

- It will be considered VAT registered from date of application.
- It is beneficial if business is making zero-rated supplies or supplies to VAT registered customer.

Advantages	Disadvantages
• Avoids penalties for late registration.	• Must follow VAT administration rules
• Can recover input VAT	• Administrative Burden
• Can disguise the small size of business	• Makes product prices more expensive (vat inclusive prices)

VAT Group registration: Companies under common control may apply for group registration. Group appoints a representative member who calculates all input VAT and output VAT for the group.

Advantages of group registration:

- No VAT implication on intra-group transactions between members of VAT group.
- Group members will file single VAT return on group basis which will save administration costs.
- An application to create, terminate, add or remove a CO. from a VAT group may be made at any time and there is no compulsion to include every member into VAT group.

Disadvantages of group registration:

- All VAT group members are jointly and severely responsible for group VAT liability.
- Administrative difficulties for making single VAT return.

Output VAT: Normally based on price charged by supplier. Must deduct maximum discount, except for Early Settlement or Cash discount, as it would only be deducted if availed by the Customer.

- **Output VAT at Replacement Cost:**
  - Goods for own use (Drawings)
  - Gifts of inventory or non current assets.
- **No output VAT** on:
  - goods to the same person which cost the trader £50 or less in a 12 month period
  - Business samples, regardless of the number of same samples given to the recipient
  - Gifts of services, whether to employees or customers, are not taxable supplies.

Recovery of Input VAT: Input VAT is recoverable by taxable persons on goods and services which are supplied to them for business purposes. A VAT invoice is needed to support the claim.

- **Recovery of Pre-Registration Input VAT on Goods:** It will be recoverable if Goods were acquired in previous 4 years from date of registration for business purpose and are still on hand upon the date of registration.
- **Recovery of Pre-Registration Input VAT on Services:** It will be recoverable if Services were acquired in previous 6 months from date of registration for business purpose.
- **Recovery of Normal Input VAT:**

- **Capital vs revenue expenditure:** There is no distinction between capital and revenue expenditure for VAT. Output VAT and input VAT is calculated as normal if these expenditures are incurred for trade.
- **Business entertaining:** Input VAT on entertainment expenses incurred for employees and overseas customers is recoverable. However Input VAT on entertainment expenses incurred for suppliers and UK customers is irrecoverable.
- **Private Use:** input VAT cannot be claimed for goods or services that are not used for business purpose.
- **Motor cars:** Input VAT upon purchase of car is irrecoverable unless there is 100% business use (Pool Car) in which case 100% recovery available. In case of leased car 50% of input VAT is recoverable where the car has some private use.

Note that if input VAT cannot be recovered on purchase of a motor car, no output VAT will be due on its disposal.

- **Motor Expenses:** Input VAT upon fuel cost and repair & maintenance incurred for employees is recoverable even if there is private use of car by employee. If employee reimburses full fuel cost then output VAT will be payable upon reimbursed expenses. However If employee reimburses partial fuel cost or don't reimburse then output VAT will be payable but as per HMRC scale charge. Note that VAT is not charged on the insurance and road fund licence
- **Relief for Bad Debts:** Input VAT on bad debts is recoverable if:
  a) ≥6 months elapsed from due date of payment and
  b) Amount written off as bad debts in the seller's books.
  Relief is obtained by adding the VAT element of the impaired debt to the input tax claimed.
  Claims for relief for impaired debts must be made within four years and six months of the payment being due.
- **Business and non-business expenses:** Input VAT on business expenses is recoverable. VAT on non- business items passed through the business accounts is irrecoverable.

Important Note: For propose of Income Tax, Capital Gain Tax, Corporation Tax, If VAT is recoverable than the cost must be VAT exclusive (e.g. Plant & machinery cost for capital allowances) and If the VAT is irrecoverable than the cost must be VAT inclusive (e.g. Car with private use for capital allowances).

3 Deregistration

Compulsory Deregistration: Deregistration is compulsory if:

- Business is ceased or
- Business is Sold or
- Taxable sales are ceased

Individual should inform HMRC within 30 days and individual would be considered as VAT deregistered right from date of cessation or sale.

Voluntary Deregistration:

If individual identifies that his taxable supplies will not exceed £88,000 in the following 12 month then individual can apply for VAT deregistration on voluntary basis by writing an application to HMRC. Individual will be considered VAT deregistered from date of application.

Consequences of Deregistration:

Output VAT must be accounted for on replacement cost of inventory and capital assets on hand at date of deregistration.

If it has less than £1000 it will be waived off.

4 Transfer of business as a going concern:

- **Conditions:**
- The business is transferred as a going concern.
- There is no significant break in the trading.
- The same type of trade is carried on after the transfer.
- The new owner is or is liable to be registered for VAT, immediately after the transfer.

Note that all these conditions must be met.

- **Tax Implication:** If all conditions are satisfied, then the sale/transfer will not be treated as a taxable supply
- No output tax will be charged on assets transferred by seller, and No input tax is recoverable by the purchaser.
- **Transfer of registration:**

On the sale of a business it is normally compulsory to deregister. However, instead of doing so, both the transferor and the transferee may make a joint election, for the transferor's registration to be transferred to the transferee.

Where this is done, the transferee assumes all rights and obligations in respect of the registration, including the liability to pay any outstanding VAT. Therefore, this may not be a good commercial decision.

5 SPECIAL SCHEMES

5.1 Cash Accounting Scheme:

VAT is accounted for on the basis of cash receipts and payments, rather than on the basis of invoices issued and received (therefore *automatic relief for bad debts*).

***Conditions to be satisfied to join the scheme*:**

- Taxable turnover (exclusive of VAT) not exceeding £1,350,000 per annum.
- VAT returns must be up-to-date and no convictions for VAT offences or penalties in past.
- If taxable turnover exceeds £1,600,000 trader will have to exit the scheme.

Advantages:

- Businesses selling on credit do not have to pay output VAT to HMRC until they receive it from customers.
- This gives automatic relief for impaired debts.

Disadvantages:

- Input tax cannot be claimed until the invoice is paid. This delays recovery of input VAT.
- Not suitable for businesses with a lot of cash sales or zero•rated supplies which would simply suffer a delay in the recovery of input VAT.

5.2 ANNUAL ACCOUNTING SCHEME

A single VAT return for a 12 month period (Normally accounting period of the business) is filed within two months from end of the period.

VAT is paid in nine equal installments each will be 10% of previous year's VAT liability and one balancing payment. Installments are payable at the end of month 4 to 12 of accounting period. Balancing payment (or repayment) is made when the return is filed. Due date for balancing payment is 2 months after the end of 12 month period.

Conditions to join the scheme are same as cash accounting scheme.

Advantage: Only one VAT return each year so less occasions for VAT penalty and batter management of Cash flows.

Disadvantage: Have to ensure that supplies does not exceed turnover limit and Timings of VAT payments may create problem for business.

5.3 FLAT RATE SCHEME

VAT = Sale (VAT inclusive) X Flat rate (16.5% or given in exams)

- This scheme is available to small businesses. Under this scheme VAT liability is calculated by simply applying a flat rate percentage (16.5% or given in exams) to total turnover including zero rate & exempt supplies.
- No input VAT is recoverable with the exception of non-current assets having cost more than £2,000.

Conditions to join the scheme:

- Taxable turnover (exclusive of VAT) not exceeding £150,000 per annum.
- VAT returns must be up-to-date and no convictions for VAT offences or penalties in past.
- If the taxable turnover exceeds £230,000 the trader will have to exit the scheme.

DISAGGREGATION

If HMRC finds that a person split its business into parts to avoid vat registration then HMRC will issue a direction and sales revenue from all parts will be taken into account to determine VAT registration limit. However direction cannot have retrospective effect.

6 Land and Buildings

Type of supply:

- Sale of new commercial building is *standard rated.* ('New' means < 3 years old)
- Sale (or lease for > 21 years) of residential or charitable property is *zero-rated*.
- All other supplies of land and building are ***exempt,*** unless ***opted to tax.***

Opting to Tax*:* A VAT registered seller can opt to waive exemption and elect to opt for VAT.

- **Conditions:** An election must be made within 30 days from date of contract. However it could be withdrawn within 1st 6 months or after 20 years otherwise it is irrevocable. A separate election should be made for each building (election can't be made for part of building).
- **Tax Implication:**
- Supply of Land & Building will become taxable for VAT.
- Rent received from that building (if rented) will become liable to VAT @ standard rate (20%).
- Landlord can recover any input tax on the purchase and running costs of the building
- The new owner (purchaser) has once again has both options exempt and option to tax.

7 Partially Exempt Business

Businesses which are engaged in both taxable and exempt supplies are called partially exempt business.

a) Input VAT for making taxable supplies is *fully recoverable*.
b) Input VAT for making exempt supplies is *not recoverable*.
c) Input VAT, Non-attributable or related to overheads is Recoverable in "*proportion of taxable supplies*"

$$\text{Recoverable VAT} = \text{Non-attributed input VAT} \times \frac{\text{Taxable supplies}}{\text{Total Supplies}}$$

Taxable & total supplies will be excluding VAT. Supplies of capital goods are excluded when calculating this proportion.

De Minimis limits

Whole irrecoverable input VAT will become recoverable if business is below the *following De Minimis limits*:

a) Total input VAT ≤ £625/month and exempt supplies are less than 50% of total supplies.
b) Total input VAT less input VAT directly related to taxable supplies is ≤ £625/month and exempt supplies are less than 50% of total supplies.
c) Input VAT related to exempt supplies ≤ £625/month and input VAT relating to exempt supplies is ≤50% of total input VAT.

Annual test: The business can apply the de minimis tests once a year rather than every return period if:
– the business was de minimis in the previous year, and
– the annual test is applied consistently throughout the current year, and
– the input VAT for the current year is not expected to exceed £1 million.

At the end of the accounting period, the de minimis status must be reviewed based on the year as a whole and an annual adjustment made if necessary

8 Capital Goods Scheme

This scheme is available to partially exempt businesses only and applicable upon:

(i) *Purchase of land and building having value £250,000 or more*. The related adjustment period is 10 years however it will be 5 years if the land and building is acquired under lease agreement.

(ii) P*urchase of computers equipment's having value £50,000 or more* and the related adjustment period is 5 years.

If the scheme applies, the initial deduction of input VAT is made in ordinary way and then reviewed over the adjustment period. Adjustments are made over the adjustment period if proportion of the exempt supplies changes and is calculated as follows:

$$\text{Annual adjustment} = \frac{\text{Total input VAT}}{\text{Adjustment period}} \times (\text{\% of taxable supplies now} - \text{\% of taxable supplies in year of purchase})$$

➢ ***Adjustments for sale***

On the disposal of an asset under the capital goods scheme during the adjustment period:

- The annual adjustment is made as normal in the year of disposal (as if the asset had been used for the full year).
- If the disposal was taxable (e.g. option to tax exists):

$$\text{Adjustment for sale} = \frac{\text{Total input VAT}}{\text{Adjustment period}} \times (100\% - \text{\% of taxable supplies in year of purchase}) \times \text{Remaining Adjustment period}$$

- If the disposal was exempt:

$$\text{Adjustment for sale} = \frac{\text{Total input VAT}}{\text{Adjustment period}} \times (0\% - \text{\% of taxable supplies in year of purchase}) \times \text{Remaining Adjustment period}$$

9 IMPORTS and EXPORTS

The same VAT treatment now applies to all imports of goods, whether these are from the EU or from outside the EU (so anywhere in the world).

A system of postponed accounting has been introduced so that VAT does not have to be paid at the time of importation. Instead, the import VAT is declared on the VAT return as output VAT, but can be reclaimed as input VAT on the same VAT return. This reverse charge procedure is similar to the system which previously applied to acquisitions from the EU before the UK left the EU.

Import VAT is accounted for on the VAT return covering the date that the goods are imported.

Therefore, for most businesses, there is no VAT cost because the output VAT and corresponding input VAT are equal.

The only time that there is a VAT cost is if a business makes exempt supplies, since an exempt business cannot reclaim any input VAT.

International services

As far as TX-UK is concerned, there has been no change to the VAT treatment of services.

Services supplied to a VAT registered business are generally treated as being supplied in the country where the customer is situated. Therefore, where a UK VAT registered business receives international services, the place of supply will be the UK.

The supply of international services by a UK VAT registered business will generally be outside the scope of UK VAT as the place of supply will be outside the UK.

10 ADMINISTRATION OF VAT

VAT return and payment procedures

Normal VAT accounting

- VAT return periods are normally three months long, but traders who regularly receive repayments, can opt to have monthly return periods to receive their repayments earlier.
- VAT returns show total output VAT and total input VAT for the period.
- All businesses must file their VAT return and pay VAT electronically.
- The deadline for filing and payment online is One month and seven days after the end of the quarter.

VAT refunds

- VAT refunds are normally made within 21 days.
- Where it is discovered that VAT has been overpaid in the past, the time limit for claiming a refund is four years from the date by which the return for the accounting period was due

Penalties for late payment and late filing

New penalties for the late payment of VAT and the late filing (submission) of VAT returns have been introduced. The new penalties for VAT replace the default surcharge system, and will only be examined in the context of quarterly VAT returns.

Default surcharges are no longer examinable.

The default surcharge system applied to both late payments of VAT liabilities and late filing (submission) of VAT returns. There are now two separate sets of penalties for each type of lateness.

- Late filing penalty (points based)
- Late payment penalty

There is also

- Late payment interest

Late filing (submission) penalties

Under a points-based system, a business incurs a penalty point each time a quarterly VAT return is submitted late.

- If a penalty threshold of four points is reached, a £200 penalty is then charged.
- Thereafter, subsequent late VAT returns also incur a £200 penalty.
- Penalty points normally expire after two years. However, they do not expire once the penalty threshold has been reached.
- Once the penalty threshold has been reached, a business has to submit VAT returns on time over a period of twelve months (so four quarterly returns) for their penalty points total to be reset to zero.

Late payment penalties

Each late payment is considered separately.

- No penalty is charged if the VAT liability is paid within 15 days of the due date.
- A 2% penalty is charged if the VAT liability is paid within 16 and 30 days of the due date.
- The penalty is increased to 4% if the VAT liability is paid later than 30 days of the due date.
- In addition, where the VAT liability is paid more than 30 days late, a daily penalty at an annual rate of 4% is charged beginning after the initial 30-day period.
- Regardless of whether any late payment penalties are incurred, late payment interest is charged from the due date until the date that the VAT liability is paid.

These late payment penalties can be summarised as follows:

	Up to 15 days late	16 to 30 days late	More than 30 days late
Penalty	None	2%	4%
Daily penalty	No	No	Yes
Interest	Yes	Yes	Yes

Two aspects of the new late payment penalty regime are not examinable. These are time to pay arrangements, and the soft touch approach applied by HM Revenue and Customs during the first year of the new regime.

Late payment and late submission penalties will not be charged if a business has a reasonable excuse for the late payment or the late submission. For example, an unexpected stay in hospital should count as a reasonable excuse for either late payment or late submission. However, having insufficient funds will not normally be accepted by HM Revenue and Customs as a reasonable excuse for late payment.

Late payment interest

Late payment interest for VAT has been aligned with the way interest is charged on other taxes.

Normal VAT invoices: VAT invoice should be issued within 30 days of the date of taxable supply.

- A VAT invoice must be issued when a standard rated supply is made to a VAT registered business.
- **No invoice** is required if the supply is exempt, zero rated or to a non-VAT registered customer
- **No invoice** is required for payments of up to £25 including VAT which are for telephone calls, or car park fees, or made through cash operated machines. In such cases, input tax can be claimed without a VAT invoice.

VAT invoice must include following detail:

a) The supplier's name, address and registration number
b) The date of issue, the tax point and an invoice number
c) The name and address of the customer
d) A description of the goods or services supplied, giving for each description the quantity, the unit price, the rate of VAT and the VAT exclusive amount
e) The rate of any cash discount
f) The total invoice price excluding VAT (with separate totals for zero-rated and exempt supplies)
g) Each VAT rate applicable and the total amount of VAT

If an invoice is issued, and a change in price then alters the VAT due, a credit note or debit note to adjust the VAT must be issued. The invoice can be sent electronically provided the customer agrees.

Less Detailed VAT invoices

A **less detailed VAT invoice** may be issued by a taxable person where the invoice is for a total including VAT of up to £250. Such an invoice must show:

a) The supplier's name, address and registration number
b) The date of the supply
c) A description of the goods or services supplied
d) The rate of VAT chargeable
e) The total amount chargeable including VAT

Zero-rated and exempt supplies must not be included in less detailed invoices.

VAT Records: The business should retain all record for 6 years. Record should include record of all outputs, inputs, invoices, vat account and any supporting documents for claim of recovery of input VAT.

PENALTIES AND INTEREST

- **Failure To Notify HMRC About Registration:**

If a person who is exempted from registration, fails to notify liability for registration or change in nature of supplies there will be a standard penalty based on a percentage of the VAT lost during the period from when the notification should have been made until it is actually made. Actual penalty payable is linked to the taxpayer's behaviour.

- ***No penalty*** if reasonable excuse for failure to notify
- ***30% unpaid tax*** if non-deliberate failure to notify
- ***70% unpaid tax*** if deliberate failure to notify
- ***100% unpaid tax*** if deliberate failure to notify with concealment.

Note: Penalty will be reduced where a taxpayer make a disclosure, especially when this is unprompted by HMRC.

Errors in a VAT return: ***De-minimis level is the greater of***: £10,000 and 1% × turnover (maximum limit £50,000)

Error	Disclosure	Correction	Penalty	Interest charged
< De-minimis	Voluntarily	entering Errors in next VAT return	Possible	No
> De-minimis	By application	Voluntarily by application	Possible	Yes (Given in exam)
Discovered by control visit			Apply	Yes (Given in exam)

- **Interest on Unpaid VAT:** Interest is charged on VAT paid after due date & runs from due date till paymentdate
- **Penalties for Errors in VAT Return:** Amount of the penalty for error is based on the *Potential Lost Revenue (PLR)* to HMRC as a result of the error. The maximum amount of the penalty for error depends on the type of error:

Maximum Penalty:

Types of error	Maximum penalty payable (% of PLR)
Careless	30%
Deliberate not concealed	70%
Deliberate and concealed	100%

Minimum Penalties: Unprompted disclosure is one made at a time when HMRC has not discovered, or is not about to discover error.

Types of error	Unprompted (% of PLR)	Prompted (% of PLR)
Careless	0%	15%
Deliberate not concealed	20%	35%
Deliberate and concealed	30%	50%

CHAPTER 14
SELF ASSESSMENT FOR INDIVIDUALS

1 NOTIFICATION OF LIABILITY TO INCOME TAX AND CGT

Individuals who are chargeable to income tax or CGT shall receive a notice to file a return from HMRC. An individual who does not received a notice to file a return are required to give notice of chargeability to an Officer of the Revenue and Customs within six months from the end of the tax year i.e., by 5 October 2024 for 2023/24. However, notification is not necessary if there is no actual tax liability.

Electronic Return	Non-Electronic Return
Later of: **(a)** 31 January after end of tax year **(b)** 3 months after the issue of notice to file a return **NOTE:** In case of electronic return income tax liability is calculated automatically through online process.	**Later of:** **(a)** 31 October after end of tax year **(b)** 3 months after the issue of notice to file a return **NOTE:** In case of paper return HMRC will calculate income tax liability on taxpayer's behalf if return is submitted by the 31 October deadline which is called self-assessment.

2 PENALTIES FOR LATE FILING OF TAX RETURN

- **Tax return Late upto 3 Months**: Penalty is £ 100
- **Tax return Late by more than 3 Months but upto 6:** £100 + (£ 10 per day between 3 months to 6 months)
- **Tax return late by more than 6 months but upto 12 months:** Penalty is greater of: *5% of Tax Liability and £300*
- **Tax return late by more than 12 months**

Type of conduct	Careless	Deliberate not concealed	Deliberate and concealed
PENALTY	Greater of: • 5% of Tax Liability • £300	Greater of: • 70% of Tax Liability • £300	Greater of: • 100% of Tax Liability • £300

3 AMMENDMENTS IN TAX RETURN:

A return may be amended by HMRC to correct any obvious error or omission within 9 months after the day on which the return was filed.

The taxpayer may amend his return (including the tax calculation) until 2nd 31st January after the end of the tax year. E.g. 31 January 2026 for 2023/24.

4 DETERMINATIONS OF TAX DUE IF NO RETURN IS FILED:

if tax return is not submitted by due filings date even If notice has received from HMRC. An officer of HMRC may decide of the amounts liable to income tax and CGT tax and there is no appeal against it. Such a determination can be made within 3 years of filling date and can be replaced with actual self-assessment.

5 PAYMENT OF INCOME TAX AND CAPITAL GAINS TAX

Normal due Date: the due date to pay tax liabilities (income tax, class 4 NIC and CGT) are 31 January after the end of the tax year. E.g 31 January 2025 for 2023/24.

Payment on Account: Payment on account is required if income tax payable in previous year.

DATE	PAYMENT
31 January in the tax year and 31 July after the tax year	1st payment on account 2nd payment on account
31 January after the tax year	Final Balancing payment

Payment on Account = Relevant Amount X 50%

Relevant Amount = Previous year Income Tax payable + Previous year Class 4 NIC

Final Balancing Amount: Current year Income Tax payable + Current year Class 4 NIC + Current year CGT - Both Payment on Accounts.

POA is not required:

- If relevant amount of previous year is less than £1000 or
- Tax deducted at source of previous year is ≥80% of previous year income tax liability or
- Expected income tax liability of current year is nil.

6 PENALTIES ON LATE BALANCING PAYMENT OF TAX

PAID	Penalty
More than 30 days but Within 6 months after the due date	5%
More than 6 months but not more than 12 months after the due date	10%
More than 12 months after the due date	15%

7 INTEREST ON LATE PAID TAX: Interest is chargeable on late payment on both payments on account and balancing payments. Interest runs from due date till actual date of payment. (Interest Rate will be given in exam)

8 REPAYMENT INTEREST:

Interest may be paid by HMRC on any overpayment of tax:

(i) It runs from due date of tax or the date HMRC received the tax till

(ii) The date of repayment.

9 KEEPING OF RECORDS:

All records must be retained until 5 years after the 31 January following the tax year where **taxpayer is in business** (eg. a sole trader or partner or letting property).

For all other taxpayers (e.g. employees) records must be retained until later of:

a) 1 year after the 31 January following tax year.

b) Date of completion of compliance check

c) The date on which start of compliance check becomes impossible.

Maximum penalty to each failure to retain records is £3,000 per tax year.

***10* CLAIMS:** All claims and elections must be made in a tax return. *Time limit for making a claim for Current year trading loss relief, carry back trading loss relief, early year trading loss relief and rent a room relief is by 2nd 31st January after the end of tax year. For all other claims time limit is 4 years after end of tax year.*

11 TAX EVASION and TAX AVOIDANCE: Tax evasion is illegal and Tax avoidance is legal way to reduce tax liability

12 DISCOVERY ASSESSMENTS: If an officer of HMRC discovers an error an assessment may be raised to recover the tax lost. The normal time limit for discovery assessment is 4 years after the end of the tax year, but it may be extended to 6 years in case of careless error and 20 years where tax is lost due to deliberate understatement.

Discovery assessment may be appealed against.

13 PENALTIES FOR ERRORS:

Maximum Penalty:

Types of error	Penalty (% of PLR)
Careless	30%
Deliberate not concealed	70%
Deliberate & concealed	100%

Minimum Penalties: Unprompted disclosure is one made at a time when HMRC has not discovered, or is not about to discover error.

Types of error	Unprompted	Prompted
Careless	0%	15%
Deliberate not concealed	20%	35%
Deliberate and concealed	30%	50%

14 PENALTIES FOR LATE NOTIFICATION: There is a common penalty regime for submission of incorrect returns (of any tax) late notifications of chargeability of tax or register for tax, including income tax, NICs, CGT, corporation tax and VAT. Penalties may be reduced if a taxpayer makes unprompted or prompted disclosure.

	Maximum Penalty	***Minimum Penalties:***	
Types of error	(% of PLR)	Unprompted (% of PLR)	Prompted (% of PLR)
Careless	30%	0%	10% or 20%
Deliberate not concealed	70%	20%	35%
Deliberate and concealed	100%	30%	50%

15 Compliance check enquiries

Unprompted disclosure is one made at a time when HMRC has not discovered, or is not about to discover error.

➢ **Starting compliance check enquiry:**

HMRC have the right to enquire into the completeness and accuracy of any self-assessment tax return under their compliance check powers. HMRC do not have to state a reason for the enquiry and an enquiry can be made even if HMRC calculated the taxpayer's tax liability.

• HMRC must give written notice before commencing an enquiry.

• The written notice must be issued within 12 months of the date the return is filed with HMRC.

Compliance check can be started as a result of any of the following.

- A suspicion that income is undeclared
- Deductions being incorrectly claimed

- Other information in HMRC's possession
- Being part of a random review process.

➢ **During the compliance check enquiry:**

HMRC can demand taxpayer to produce Documents, Accounts or any other information required.
The information requested by HMRC should be limited to that connected with the return.
An appeal can be made against the request.

➢ **Completion of compliance check enquiry:**

The enquiry ends when HMRC gives written notice that it has been completed. The notice will state the outcome of the enquiry. The closure notice must include either:

- Confirmation that no amendments are required
- HMRC's amendments to the self-assessment.

The taxpayer has 30 days to appeal against any amendments by HMRC. The appeal must be in writing.

16 Disputes and appeals

Disputes between taxpayers and HMRC can be dealt with by an HMRC internal review or by a Tribunal hearing.

➢ **Internal reviews**

For direct taxes, appeals must first be made to HMRC, which will assign a 'caseworker'.
For indirect taxes, appeals must be sent directly to the Tax Tribunal, although the taxpayer can continue to correspond with his caseworker where, for example, there is new information.
At this stage the taxpayer may be offered, or may ask for, an **'internal review'**, which will be made by an objective HMRC review officer not previously connected with the case. This is a less costly & effective way to resolve disputes informally, without need for Tribunal hearing. An appeal to Tax Tribunal cannot be made until any review has ended.
The taxpayer must either accept the review offer, or notify an appeal to the Tax Tribunal within 30 days of being offered the review; otherwise the appeal will be treated as settled.
HMRC must usually carry out the review within 45 days, or any longer time as agreed with the taxpayer.
The review officer may decide to uphold, vary or withdraw decisions.
After the review conclusion is notified, **the taxpayer has 30 days to appeal to the Tax Tribunal.**

➢ **Tribunal hearings:**

If there is no internal review, or the taxpayer is unhappy with the result of an internal review, the case may be heard by the Tax Tribunal. The person wishing to make an appeal (the appellant) must send a notice of appeal to the Tax Tribunal. The Tax Tribunal must then give notice of the appeal to the respondent (normally HMRC).
The Tax Tribunal is made up of two 'tiers':
a) A First Tier Tribunal b) An Upper Tribunal
The case will be allocated to one of four **case 'tracks':**
(a) Complex cases, which the Tribunal considers will require lengthy or complex evidence or a lengthy hearing, or involve a complex or important principle or issue, or involves a large amount of money.
Such cases will usually be heard by the Upper Tribunal
(b) Standard cases, heard by the First Tier Tribunal, which have detailed case management and are subject to a more formal procedure than basic cases
(c) Basic cases, also heard by the First Tier Tribunal, which will usually be disposed of after a hearing, with minimal exchange of documents before the hearing
(d) Paper cases, dealt with by the First Tier Tribunal, which applies to straightforward matters such as fixed filing penalties and will usually be dealt with in writing, without a hearing
A decision of the First Tier Tribunal may be appealed to the Upper Tribunal.
Decisions of the Upper Tribunal are binding on the Tribunals and any affected public authorities. A decision of the Upper Tribunal may be appealed to the Court of Appeal.

17 Dishonest conduct of tax agents:

a) There is a civil penalty of up to £50,000 for dishonest conduct by a tax agent.
b) If the amount of penalty being imposed is exceeding £5,000 HMRC have a right to publish details of penalised dishonest tax agent.
c) With agreement of tax tribunal HMRC could also access working papers of dishonest agent.

SELF ASSESSMENT FOR COMPANIES

1 Notification of chargeability:

A company falling within the scope of corporation tax for the first time must notify HMRC within 3 months of start of the accounting period. Failure to notify chargeability to tax within 12 months of the end of the accounting period will lead to a standard penalty based on a percentage of the tax unpaid 12 months after end of the accounting period.

2 Corporation tax return:

- **Notification of chargeability:** Company receives a notice of chargeability to corporation tax after end of Acc. Period and must notify HMRC within 12months from end of accounting period if does not receive a notice.
- **Return:** Company's tax return is filed electronically and must include self-assessment of tax with their accounts.
  The return is due for filling on/or before the later of:
  - 12 months after the end of the period to which return relates
  - 3 months after the date on which the notice to file the return is received

Failure to submit the return on time will result in penalty as follows:

Return late by	Penalty (1st & 2nd consecutive failure)	Penalty (3nd & consecutive failure)
Upto 3 months	£100	£500
More than 3 upto 6 months	£200	£1000
More than 6 upto 12 months	£200 + 10% of tax	£1000 + 10% of tax
More than 12 months	£200 + 20% of tax	£1000 + 20% of tax

3 Payment of tax:

Normal: corporation tax is payable 9 months and one day after the end of each accounting period.

Quarterly Installments: If **augmented profit** of company exceed **corporation threshold of £1500,000.**

- **Augmented Profit:** Taxable total Profit + Dividend from non-Associated companies
- **corporation threshold of £1500,000:**

Reduction of Corporation threshold of **£1500,000**= $\frac{\text{£1500,000}}{\text{No of Associated co.}} \times \frac{\text{Months (if short POA)}}{12}$

  - **Short POA:** If POA is less than 12 months corporation tax Threshold (i.e £1,500,000) will be reduced.
  - **Company Acquired During Accounting Period:** If a company Acquires ≥51% in any accounting period. Such a company would not affect CT threshold limit in that accounting period in which it's acquired, rather it would from the next accounting period in which acquired.
  - **Company Sold During Accounting Period:** If a company becomes non-associated during any accounting period it would still be included in connected companies and will effect CT threshold limit in the accounting period in which its been sold. But it won't from next accounting period.
- **Installments Date:** In 4 equal quarterly installments from start of accounting period:
  1. By 14th of 7th month 3 Months tax (Corporation tax X 3/CAP months)
  2. By 14th of 10th month 3 Months tax (Corporation tax X 3/CAP months)
  3. By 14th of 13th month 3 Months tax (Corporation tax X 3/CAP months)
  4. By 14th of 16th month Remaining corporation tax
- **Exceptions:**

a) Quarterly payments are not required if current profits ≤£10 million and company was not large in previous year.
b) Quarterly payments are not required if company is large in current year but corporation tax is ≤£10,000

4 Claims:

If a company believes it has made an error in a return, an error or mistake claim may be made within four years from the end of the accounting period. Other claims must be made within four years of the end of the accounting period unless a different time limit specified.

5 Records:

Companies must keep records until the latest of:

- **Six years** from the end of accounting period
- Date any enquiries are completed
- Date after which enquiries may not be commenced

Failure to keep records can lead to a penalty or up to £3,000 for each accounting period.

6 Determinations and Discovery assessments:

If a return is not delivered by the filing date, HMRC may issue a determination of the tax payable within 3 years of the filing date. There is no appeal against it.

Discovery assessment: HMRC can raise an assessment within 4 years from the end of the accounting period; this is extended to 6 years if there is a careless error or 20 years if there is a deliberate error or failure to notify chargeability to tax.

7 Appeals and Disputes

The company can appeal against amendments to the corporation tax return. The appeal must be normally be made within 30 days of the amendment and must state the grounds for appeal. The appeals procedure is as per VAT.

8 Penalties for incorrect returns

- No penalty where a taxpayer simply makes a mistake
- 30% unpaid tax where a tax payer fails to take reasonable care.
- 70% unpaid tax if error is deliberate.
- 100% unpaid tax if deliberate failure with concealment.

Note: Penalty will be reduced where a taxpayer makes a disclosure, especially when this is unprompted by HMRC.

ABOUT THE AUTHOR

Mr. Aziz Ur Rehman is an ACCA and well-known educationalist having more than 12 years of teaching experience in subjects of F3, F6, F7, P3 & P6 of ACCA along with subjects of Business Strategy, Business analysis & Advanced Taxation of ICAEW. Apart from the aforesaid, Mr. Aziz-Ur-Rehman is also involved in preparation of books, notes and other helping material for different subjects of professional qualifications. He invites feedback from students, visitors and teachers to help make this publication and others even better.

Please feel free to contact at:
azizurrehman89@hotmail.com