

ACCA TX-UK

ANSWERS TO EXAMPLES

Chapter 1

Answer to Example 1

- (a) Income Tax and NIC - both direct taxes
- (b) Corporation tax on profits and NIC in respect of employees - both direct taxes. Employees pay income tax and NIC on salary
- (c) Capital gains tax - direct tax
- (d) The business is charged VAT – indirect tax
- (e) Corporation tax (companies pay corporation tax on their chargeable gains) - direct tax
- (f) Inheritance tax - direct tax

Chapter 2

Answer to Example 1

Mr Smith Income tax computation 2021/22

	<i>Non-savings £</i>	<i>Total £</i>
Employment Income	62,500	62,500
Total income	62,500	62,500
Less: Personal Allowance	(12,570)	(12,570)
Taxable income	49,930	49,930

Tax calculation:

Non Savings

37,700 @ 20%	7,540
12,230 @ 40%	4,892
49,930	
Tax liability	12,432
Less: tax suffered at source (PAYE)	(12,000)
Tax Payable	432

Answer to Example 2

Billy Income Tax Computation 2021/22

	<i>Non-savings income £</i>	<i>Savings income £</i>	<i>Total £</i>
Trading income	27,500		27,500
Bank Deposit interest		10,000	10,000
Total Income	27,500	10,000	37,500
Less: Personal Allowance	(12,570)		(12,570)
Taxable Income	14,930	10,000	24,930

Tax calculation:

Non Savings

14,930 @ 20% 2,986

Savings

1,000 @ 0% 0

9,000 @ 20% 1,800

Tax liability £ 4,796

Billy is a basic rate taxpayer, so his savings income nil rate band is £1,000. The 0% starting rate for savings income is not applicable as non savings taxable income (£14,930) exceeds £5,000

Answer to Example 3

Billy Income Tax Computation 2021/22

	<i>Non-savings income</i> £	<i>Savings income</i> £	<i>Total</i> £
Trading income	27,500		27,500
Bank Deposit interest		25,000	25,000
Total Income	27,500	25,000	52,500
Less: Personal Allowance	(12,570)		(12,570)
Taxable income	14,930	25,000	39,930

Tax calculation:

Non Savings

14,930 @ 20% 2,986

Savings

500 @ 0% 0

22,270 @ 20% 4,454

2,230 @ 40% 892

Tax liability 8,332

Billy is a higher rate taxpayer and therefore has a savings income nil rate band of £500. The savings income nil rate band of £500 counts towards the basic rate threshold of £37,700

The 0% starting rate for savings income is not applicable as non savings taxable income (£14,930) exceeds £5,000

Answer to Example 4

Molly Income Tax Computation 2021/22

	<i>Savings</i> £	<i>Total</i> £
Bank interest	22,500	22,500
Total Income	22,500	22,500
Less: Personal Allowance	(12,570)	(12,570)
Taxable income	9,930	9,930

Tax calculation:

Savings

5,000 @ 0% 0

1,000 @ 0% 0

3,930 @ 20% 786

Income Tax liability 786

As Molly has no non savings taxable income, the full £5,000 0% starting rate band is available on the taxing

of the savings income

Molly is a basic rate taxpayer and therefore has a savings income nil rate band of £1,000

Answer to Example 5

Polly Income Tax Computation 2021/22

	<i>Non-savings income</i> £	<i>Savings income</i> £	<i>Total</i> £
Trading income	13,500		13,500
Bank interest		18,000	18,000
Total Income	13,500	18,000	31,500
Less: Personal Allowance	(12,570)		(12,570)
Taxable income	930	18,000	18,930

Tax calculation

Non Savings

930 @ 20% =

186

Savings

(5,000 – 930 = 4,070 starting rate band)

4,070 @ 0%

0

1,000 @ 0%

0

12,930 @ 20%

2,586

Income tax liability

2,772

Polly has non savings taxable income of £930, so has a 0% starting rate band available for her savings income of £4,070.

Polly is a basic rate taxpayer, so her savings income nil rate band is £1,000

Answer to Example 6

Daisy Income Tax Computation 2021/22

	<i>Non-savings income</i> £	<i>Savings income</i> £	<i>Dividends</i> £	<i>Total</i> £
Employment Income	19,500			19,500
Bank deposit interest		10,000		10,000
Dividends			1,000	1,000
Total Income	19,500	10,000	1,000	30,500
Less: Personal Allowance	(12,570)			(12,570)
Taxable income	6,930	10,000	1,000	17,930

Tax calculation:

Non Savings

6,930 @ 20%

1,386

Savings

1,000 @ 0%

0

9,000 @ 20%

1,800

Dividends

1,000 @ 0% =

0

Income Tax liability

3,186

Less tax deducted @ source

PAYE

(1,400)

Income Tax Payable

1,786

Daisy has non savings taxable income in excess of £5,000, so the 0% starting rate for savings income is not applicable

Daisy is a basic rate taxpayer, so her savings income nil rate band is £1,000

Daisy has less than £2,000 of dividend income so the dividend income nil rate band applies to all the dividend income.

Answer to Example 7

Daisy Income Tax Computation 2021/22

	<i>Non-savings income</i>	<i>Savings income</i>	<i>Dividends</i>	<i>Total</i>
	£	£	£	£
Employment Income	37,500			37,500
Bank interest		13,000		13,000
Dividends			1,000	1,000
Total Income	37,500	13,000	1,000	51,500
Personal Allowance	(12,570)			(12,570)
Taxable income	24,930	13,000	1,000	38,930

Tax calculation:

	£
Non savings	
24,930 @ 20%	4,986
Savings	
500 @ 0%	0
12,270 @ 20%	2,454
230 @ 40%	92
Dividends:	
1,000 @ 0%	0
Income Tax liability	7,532
Less: Tax suffered at source	
PAYE	(5,000)
Income Tax Payable	2,532

The starting rate for savings income is not applicable as non savings taxable income exceeds £5,000

Daisy is a higher rate taxpayer, so has a savings income nil rate band of £500.

Dividends received are less than £2,000 so the dividend income nil rate applies.

Answer to Example 8

Mike Income Tax Computation 2021/22

	<i>Non-savings £</i>	<i>Total £</i>
Employment income	108,000	108,000
Total income	108,000	108,000
Less: Personal Allowance (W1)	(8,570)	(8,570)
Taxable Income	<u>99,430</u>	<u>99,430</u>

Income Tax calculation:

Non Savings

37,700 @ 20% 7,540

61,730 @ 40% 24,692

99,430

Income Tax Liability 32,232

Less: Tax deducted at source

PAYE (32,000)

Income tax Payable 232

(W1) Normal personal allowance	12,570
Less ½ [108,000 – 100,000]	<u>(4,000)</u>
Revised Personal Allowance	<u>8,570</u>

Answer to Example 9

Ken Income Tax Computation 2021/22

	<i>Non-savings £</i>	<i>Savings £</i>	<i>Dividends £</i>	<i>Total £</i>
Trading income	130,000			130,000
Bank interest		40,000		40,000
Dividends			36,000	36,000
Total Income	<u>130,000</u>	<u>40,000</u>	<u>36,000</u>	<u>206,000</u>
Less: Personal allowance (W1)	(–)			(–)
Taxable Income	<u>130,000</u>	<u>40,000</u>	<u>36,000</u>	<u>206,000</u>

Income Tax calculation:

Non Savings

37,700 @ 20% 7,500

92,300 @ 40% 37,000

Savings

20,000 @ 40% 8,000

20,000 @ 45% 9,000

Dividends

2,000 @ 0% 0

34,000 @ 38.1% 12,954Income Tax Liability 74,454

Ken is an additional rate taxpayer so has no savings income nil rate band. As non savings taxable income exceeds £5,000 there is no 0% starting rate band to utilise.

The first £2,000 of dividend income benefits from the dividend income nil rate band irrespective of the level of other income

(W1) Normal personal allowance	12,570
Less ½ [206,000 – 100,000]	<u>(53,000)</u>
Restricted to	<u>Nil</u>

[Alternatively and recommended if answering a written question simply state that as adjusted net income exceeds £125,140 the personal allowance is reduced to nil]

Answer to Example 10

James Income Tax Computation 2021/22

	<i>Non-savings</i>	<i>Savings</i>	<i>Total</i>
	£	£	£
Trading income	102,000		102,000
Bank interest		4,000	4,000
Total Income	<u>102,000</u>	<u>4,000</u>	<u>106,000</u>
Less: Personal allowance (W1)	<u>(9,570)</u>		<u>(9,570)</u>
Taxable income	<u>92,430</u>	<u>4,000</u>	<u>96,430</u>

Income Tax calculation:

Non Savings

37,700 @ 20%	7,540
<u>54,730 @ 40%</u>	<u>21,892</u>

Savings

500 @ 0%	0
<u>3,500 @ 40%</u>	<u>1,400</u>

Income Tax Liability

30,832

James is a higher rate taxpayer, so has a savings income nil rate band of £500. As his non savings taxable income exceeds £5,000 there is no 0% starting rate band available.

(W1) As adjusted net income exceeds £100,000, the normal personal allowance is restricted

Normal personal allowance	12,570
Less ½ [106,000 – 100,000]	<u>(3,000)</u>
Revised personal allowance	<u>9,570</u>

Answer to Example 11

David Income Tax Computation 2021/22

	£
Trading Profit	10,000
Revised PA (12,570 - 1,260)	<u>(11,310)</u>
Taxable Income	<u>Nil</u>

Victoria Income Tax Computation 2021/22

	£
Employment Income	30,500
PA	<u>(12,570)</u>
Taxable Income	<u>17,930</u>

Tax Calculation

Non Savings 17,930 @ 20%	3,586
PA tax reduction (1,260 x 20%)	<u>(252)</u>

Tax Liability

3,334

The election must be made within 4 years of the end of the tax year ie by 5 April 2026

Answer to Example 12

Kathy Income Tax Computation 2021/22

	<i>Non-savings £</i>	<i>Total £</i>
Trading income	52,000	52,000
Total income	52,000	52,000
Less reliefs – Qualifying interest	(1,000)	(1,000)
Net Income	51,000	51,000
Less: Personal Allowance	(12,570)	(12,570)
Taxable Income	38,430	38,430

Tax calculation:

Non Savings

37,700 @ 20% = 7,540

730 @ 40% = 292

38,430

Income Tax Liability 7,832

Answer to Example 13

Elliot Income Tax Computation 2021/22

	<i>Non-savings £</i>	<i>Total £</i>
Trading income	53,000	53,000
Total Income	53,000	53,000
Less: Personal Allowance	(12,570)	(12,570)
Taxable income	40,430	40,430

Tax calculation

Non Savings

39,700 (W1) @ 20% 7,940

730 @ 40% 292

40,430

Income Tax Liability 8,232

(W1) $37,700 + (1,600 \times 100/80) = 39,700$

Answer to Example 14

Thomas Income Tax Computation 2021/22

	<i>Non-savings £</i>	<i>Total £</i>
Trading income	160,000	160,000
Total Income	160,000	160,000
Less: PA (note 1)	(-)	(-)
Taxable income	160,000	160,000
Income Tax		
Non Savings		
(W2) 45,700 @ 20% =	9,140	
(W3) 112,300 @ 40% =	44,920	
2,000 @ 45% =	900	
160,000		
Income Tax Liability	54,960	

note 1 The PA is reduced to nil as the adjusted net income exceeds £125,140

(W1) Net Income	160,000
Less Gross gift aid payment ($6,400 \times \frac{100}{80}$)	(8,000)
Adjusted Net income	152,000

$$(W2) \quad 37,700 + (6,400 \times \frac{100}{80}) = 45,700$$

$$150,000 + (6,400 \times \frac{100}{80}) = 158,000$$

$$(W3) \quad 158,000 - 45,700 = 112,300$$

Answer to Example 15

Kerry Income Tax Computation 2021/22

	<i>Non-savings</i> £	<i>Savings</i> £	<i>Dividends</i> £	<i>Total</i> £
Trading income	98,000			98,000
Bank interest		4,000		4,000
Dividends			6,000	6,000
Total Income	98,000	4,000	6,000	108,000
Less reliefs:				
Qualifying interest	(3,000)			(3,000)
Net Income	95,000	4,000	6,000	105,000
Less: PA (W1)	(12,570)			(12,570)
Taxable income	82,430	4,000	6,000	92,430

Income Tax

Non Savings

(W3) 43,700 @ 20%	8,740
<u>38,730 @ 40%</u>	<u>15,492</u>

Savings 500 @ 0%	0
3,500 @ 40%	1,400

Dividends 2,000 @ 0%	0
<u>4,000 @ 32.5%</u>	<u>1,300</u>

Income Tax Liability	<u>26,932</u>
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Ken is a higher rate taxpayer so his savings income nil rate band is £500. As non savings taxable income exceeds £5,000 there is no 0% starting rate band to utilise

The first £2,000 of dividend income benefits from the 0% dividend rate irrespective of the level of other income. The remaining dividend income falls within the higher rate band and is taxed at 32.5%

(W1) As Adjusted Net Income does not exceed 100,000 (W2) the PA is not reduced

(W2) Net Income	105,000
Less Gross gift aid payment ($4,800 \times 100\%$)	<u>(6,000)</u>
Adjusted Net income	<u>99,000</u>

(W3) $37,700 + (4,800 \times 100\%) = 43,700$

$150,000 + (4,800 \times 100\%) = 156,000$

Answer to Example 16

If Elton transfers a 5% (say) holding in his property to David, they will automatically be treated as jointly owning the property for tax purposes and each will be taxed on 50% of the income. Elton's tax liability will be reduced by £4,000 ($10,000 \times 40\%$) and David's liability will be computed as:

	£
Property income	10,000
Less: Personal Allowance	<u>(12,570)</u>
	nil
 Tax liability	 <u>nil</u>

This will save the couple £4,000

If Elton transferred the entire ownership then all the income would be assessed on David and his taxable income of £7,430 ($20,000 - 12,570$) would be taxed at 20% giving a tax liability of £1,486 compared to Elton's current tax liability on the property income of £8,000 ($20,000 \times 40\%$) achieving a total tax saving therefore of £6,514. The election to transfer £1,260 of the personal allowance from David to Elton would not be available here as Elton is not just a basic rate taxpayer.

Chapter 3**Answer to Example 1**

The cash basis has become the default setting for individuals and partnerships in assessing property income instead of the accruals basis.

If the rental income is received quarterly in advance then amounts would be received on 1 July and 1 October 2021 and 1 January and 1 April 2022 amounting to £6,000 - typically in an exam question you might be told however that the amount due on 1 April 2022 was not received until say 15 April 2022 and therefore only £4,500 would have been received in the 2021/22 tax year.

If the rent was received quarterly in arrears then amounts would be received on 30 September and 31 December 2021 and on 31 March 2022 amounting to £4,500 - again in an exam question you might be told that the amount due on 31 March 2022 was not received until 9 April 2022 and therefore only £3,000 would be received and assessed in 2021/22.

The £300 allowable expenses paid in November 2021 will be the only allowable deduction in 2021/22 as the repairs expenditure though incurred in 2021/22 was not paid until the 2022/23 tax year.

If therefor the rental income is received quarterly in advance the property income assessment will be £5,700 ($6,000 - 300$) whereas if the rental income is received quarterly in arrears the assessment will be £4,200 ($4,500 - 300$)

The Accruals basis

The rent assessable in each case is the rental income accrued for the period 1 July 2021 to 5 April 2022 irrespective of when the amounts were due to be received or were actually received. Expenses incurred in the same period are deductible irrespective of the date when paid.

	£	£
Rent due $\frac{1}{2} \times 6,000$		4,500
Expenses:		
Redecoration	300	
Repairs	<u>500</u>	
		800
Property Income for 2021/22		<u>3,700</u>