

Chapter 1

THE UK TAX SYSTEM

1 The overall function and purpose of taxation in a modern society

1.1 Economic factors

Spending by the government and the system of taxation impacts on the economy of a country.

Taxation policies have been used to influence economic factors such as employment levels, inflation and imports/exports

Taxation policies are also used to direct economic behaviours of individuals and businesses. For example they encourage individual saving habits (Individual Savings Accounts, savings income and dividend income nil rate bands) and giving to charity (Gift Aid Scheme).

Further they may discourage motoring (fuel duties), smoking & alcohol (duties and taxes) and environmental pollution (landfill tax).

As government objectives change, taxation policies may be altered accordingly.

1.2 Social justice

The taxation system accumulates and redistributes wealth within a country.

Different taxes have different social effects.

(a) Progressive taxation:

As income rises the proportion of taxation raised also rises, for example UK income tax

(b) Regressive taxation

As income rises the proportion of taxation paid falls, for example, tax on cigarettes is the same regardless of the level of income of the purchaser, so as income rises it represents a lower proportion of income.

(c) Proportional taxation

As income rises the proportion of tax remains constant, for example Latvian/Lithuanian income tax

(d) Ad Valorem principle

A tax calculated as a percentage of the value of the item, for example Value Added Tax

2 Types of taxes

Income Tax	Payable by individuals on most income
National Insurance Contributions	Payable by individuals who are employed or self employed and businesses in relation to their employees
Capital Gains Tax	Payable by individuals on the disposal of capital assets
Inheritance Tax	Payable by individuals on lifetime and death transfers of assets.
Corporation Tax	Payable by companies on income and chargeable gains
Value Added Tax (VAT)	Payable by the final consumer on purchases of most goods and services

3 Direct and indirect taxation

3.1 Direct taxation

Taxes are paid directly to the Government, based on income and profit.

Examples are:

- Income tax
- Corporation tax
- Capital gains tax
- Inheritance tax

3.2 Indirect taxation

Taxes are collected via an intermediary who passes them on to the government for example:

- VAT where the consumer pays VAT to a supplier trader, and the trader then pays to the government

4 Structure of the UK tax system

4.1 HM Revenue and Customs (HMRC)

The treasury formally imposes and collects taxation. The management of the treasury is the responsibility of the Chancellor of the Exchequer. The administration function for the collection of tax is undertaken by HMRC

4.2 Commissioners

At the head of HMRC are the commissioners whose duties are:

- (a) to implement statute law
- (b) oversee the process of UK tax administration

The main body of HMRC is divided into District offices and accounting and payment offices

4.3 District Offices

The Commissioner appoints Officers of HMRC to implement the day to day work of HMRC

4.4 Accounts and payment offices

These concentrate on the collection and payment of tax.

5 Sources of tax law

5.1 Tax legislation / statutes

Adherence is mandatory. It is updated every year by the annual Finance Act.

The Government may issue Statutory Instruments which are detailed notes on an area of tax legislation.

5.2 Case law

This refers to decisions made in tax cases. The rulings in the courts are binding and so provide guidance on the interpretation of tax legislation.

5.3 HMRC guidance

This is issued due to the complexity of the legislation

- (a) Statements of practice – sets out how HMRC intend to apply the law
- (b) Extra statutory concessions – sets out circumstances in which HMRC will not apply the strict letter of the law where it would be unfair.
- (c) Internal guidance manuals – HMRC's own manuals which are available to the public
- (d) Press releases – provide details of a specific tax issue, for example, used to communicate the information stated in the annual budget
- (e) Pamphlets – provide explanations of various tax issues in non technical language.

6 The interaction of the UK tax system and overseas tax systems

6.1 Other countries

The UK has entered into Double Tax Treaties with various countries. These contain rules which prevent income and gains being taxed twice, but may include a non-discrimination provision preventing a non-resident individual from being treated less favourably than a resident individual.

Where there is no double tax treaty the UK system will allow relief for double taxation.

6.2 The European Union

The UK officially left the EU on 31 January 2020 and the Brexit transition period came to an end on 31 December 2020.

Tax avoidance and tax evasion

6.3 Tax evasion

Any action taken to evade taxes by illegal means, for example

- (a) suppressing information - failing to declare taxable income to HMRC
- (b) providing false information - claiming expenses that have not occurred

Tax evasion carries a risk of fines and/or imprisonment

6.4 Tax avoidance

Any legal method of reducing your tax burden, for example taking advantage of an Individual Savings Account, making best use of available allowances, exemptions and reliefs, or spouses and civil partners dividing ownership of income producing assets to avoid higher rates of tax and enjoy lower rates of tax.

The term is also used to describe tax schemes that utilise loopholes in the tax legislation.

HMRC have introduced new disclosure obligations regarding Disclosure Of Tax Avoidance Schemes (DOTAS) and a "General Anti-Abuse Rule" (GAAR) to back up the existing specific legislation - the rule targets abusive arrangements (action that cannot be regarded as reasonable) arising from tax arrangements designed to achieve tax advantages such as decreasing a source of income or overstating a deduction.

7 Professional and ethical guidance

Accountants often act for taxpayers in dealings with HMRC.

Their duties and responsibilities should be towards both clients and HMRC

7.1 The accountant must uphold standards of the ACCA, that is

- (a) to adopt an ethical approach to work, employees and clients
- (b) acknowledge the professional duty to society as a whole
- (c) maintain an objective outlook
- (d) provide professional high standards of service, conduct and performance at all times.

7.2 The ACCA “Code of Ethics and Conduct”

The ACCA “Code of Ethics and Conduct” sets out five fundamental principles which members should adhere to meet these expectations, namely:

- (a) Integrity
- (b) Objectivity
- (c) Professional competence and due care
- (d) Confidentiality
- (e) Professional behaviour

EXAMPLE 1

Identify which taxes apply to the following situations and state whether the tax is direct or indirect

- (a) A sole trader earns £100,000 profit in a year
 - (b) A company has profit of £250,000 in a year and employs 30 employees
 - (c) An individual sells an antique table for £100,000 which cost £40,000 eight years ago
 - (d) A business buys raw materials from a supplier
 - (e) A company sells a factory for £750,000 bought for £250,000 three years ago
 - (f) An individual dies and bequeaths his estate of £1,000,000 to his children
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Chapter 2

INCOME TAX COMPUTATION

1 Introduction

There are two main parts to the Income Tax computation, firstly the computation of the taxpayer's Taxable Income and secondly the calculation of the Income Tax Liability and/or Income Tax Payable thereon.

The Taxable Income will be divided into three possible analysis columns, Dividend income, Savings Income (which is interest income) and Non-Savings Income which will be made up of employment income, trading profits of the self-employed and property income. This analysis is required as different tax rates may apply to the different types of income.

In computing Taxable Income UK taxpayers may be entitled to a deduction of a Personal Allowance (PA), a level of tax free income. The details of this are in Section 3 of this chapter, but the normal PA available is £12,570 for the 2021/22 tax year.

One of the 15 mark questions in section C of the exam will be on income tax which in many cases will require the candidate to prepare an income tax computation.

2 Computation of Taxable Income

An Income Tax Computation is prepared for each taxpayer and records the income to be taxed for that individual for a tax year. The tax year runs from April 6 to following April 5. The tax year 2021/22 runs from 6 April, 2021 to 5 April, 2022. Therefore each source of taxable income requires its own basis of assessment to determine how much of that income is to be assessed to tax in each such tax year.

Proforma income tax computation for 2021/22

	<i>Non-savings income</i>	<i>Savings income</i>	<i>Dividends</i>	<i>Total</i>
	£	£	£	£
Trading Profit	X			X
Less Trading Loss relief – brought forward	(X)			(X)
	X			X
Employment Income*	X			X
Property Income	X			X
Dividends from UK companies			X	X
Building society interest		X		X
Bank deposit interest		X		X
Other interest		X		X
TOTAL INCOME	X	X	X	X
Less**				
Qualifying interest	(X)			(X)
Other Trading Loss reliefs	(X)			(X)
NET INCOME	X	X	X	X
Less: Personal Allowance (PA)	(X)			(X)
TAXABLE INCOME	X	X	X	X

* Employment income, salaries or wages, must be included gross before deduction of taxes at source by the employer and will always be stated gross within the question

** Deductions from Total Income and the deduction of the PA from Net Income are deducted in order from firstly non savings income, then savings income and finally dividend income for purposes of this exam. Loss reliefs are covered in detail in Chapter 7 and should not be studied until you reach that chapter.

2.1 Exempt Income

The following are the main examples of sources of income that are exempt from income tax

- (a) Interest or bonuses on National Savings & Investment Certificates
- (b) Interest and dividends within an Individual Savings Account [ISA]
- (c) Gaming, lottery and premium bond winnings

2.2 Tax liability and Tax Payable

Having calculated the taxable income, the next part of the computation is to compute the Tax Liability and / or the Tax Payable of the taxpayer

- (a) Tax liability = income tax on taxable income
- (b) In calculating the Tax Liability it is necessary to take each part of the Taxable Income in order, non savings income followed by savings income and finally the dividend income as these sources of taxable income have different tax rates that apply to them and rates that also change depending on how much taxable income the taxpayer has
- (c) Tax payable = tax liability
LESS
tax already deducted at source, Pay As You Earn (PAYE) on employment income

2.3 Taxation of non-savings income.

Non-savings taxable income is taxed at the following rates:

£1 to £37,700	20%	(basic rate)
£37,701 – 150,000	40%	(higher rate)
£150,001 +	45%	(additional rate)

Non-savings income consists of:

- (a) Trading Profit - see chapters 4-8
- (b) Employment Income - see chapter 9
- (c) Property Income - see chapter 3

EXAMPLE 1

Mr Smith has been working for many years and received a salary of £62,500 per annum in 2021/22 (PAYE deducted in 2021/22 £12,000). He has no other sources of taxable income.

Calculate the income tax payable by Mr Smith for 2021/22.

3 Savings income

Savings income is interest income which is received gross without any deduction of tax at source by the payer and will include interest from banks, building societies (financial institutions that lend money for the purchase of property), government securities and corporate bonds, but watch out for the exempt sources of interest noted in 1.1 above

3.1 Basis of assessment

Savings income is assessed in the tax year that it is **received**.

3.2 Calculation of tax on savings income

- Taxable interest received is included in the saving income column of the computation
- Any deductions in the income tax computation (personal allowance and reliefs) are for purposes of this exam deducted first from non-savings income, then savings income, then dividend income, hence the order in which the analysis columns are listed.
- Non-savings income is treated as the first slice of taxable income to be taxed followed by savings income then dividend income. The total of this tax is the Tax Liability of the taxpayer
- Tax suffered at source (PAYE) is deducted from the tax liability in order to arrive at tax payable..
- The different types of taxable income are taxed as follows and in this order:

Non Savings	£1 to £37,700	20%	basic rate
	£37,701 – 150,000	40%	higher rate
	£150,001 +	45%	additional rate

- Savings**
- The taxation of savings income is more “interesting” due to the introduction of a nil rate band of £1,000 for basic rate taxpayers and £500 for higher rate taxpayers. Additional rate taxpayers do NOT benefit from any savings income nil rate band.
 - The savings income nil rate band counts towards the basic rate and higher rate thresholds
 - This supplements a 0% starting rate of tax that is however ONLY available to taxable savings income that falls within the first £5,000 of total TAXABLE income

Savings income is taxed using the same rates as non-savings income listed above, but the starting rate of tax of 0% will apply to a maximum £5,000 of taxable savings income where any part of the taxable savings income falls within the first £5,000 of the total taxable income.

If therefore the first £5,000 of taxable income consists of non-savings income then the 0% rate will not apply

If applicable the starting rate is applied first to taxable savings income followed by the savings income nil rate band if available and thereafter the normal rates

- Dividends**
- After taxing the non savings and savings income the taxable dividend income will also firstly benefit from a 0% rate on the first £2,000 of dividend income received but is available irrespective of whether dividends fall within the basic rate, higher rate or additional rate bands, AFTER which the dividend tax rates are as follows:

£1 – £37,700	@ 7.5%	dividends falling in basic rate band
£37,701 – £150,000	@ 32.5%	dividends falling in higher rate band
£150,001 +	@ 38.1%	dividends falling in additional rate band

Note however that the dividend nil rate band counts towards the basic rate and higher rate limits.

EXAMPLE 2

Billy had a trading profit of £27,500 and received bank deposit interest of £10,000 in 2021/22

Calculate Billy's income tax liability in 2021/22

EXAMPLE 3

Recalculate Billy's income tax liability, assuming the bank deposit interest is now £25,000

EXAMPLE 4

Molly receives bank interest of £22,500 and no other income in 2021/22.

Calculate Molly's income tax liability in 2021/22

EXAMPLE 5

Polly has a trading profit of £13,500 assessable in 2021/22 and receives bank interest of £18,000

Calculate the income tax liability of Polly for 2021/22

EXAMPLE 6

Daisy received a salary of £19,500 (PAYE £1,400) and also received £10,000 bank deposit interest and dividend income of £1,000 in 2021/22

Calculate Daisy's income tax payable for 2021/22

EXAMPLE 7

Recalculate Daisy's income tax payable, assuming Daisy received a salary of £37,500 (PAYE £5,000), bank deposit interest of £13,000 and dividend income of £1,000.

3.3 Accrued Income Scheme

In Chapter 12 you will learn that gilt edged securities (government securities) and qualifying corporate bonds (corporate loan stock) are exempt from CGT when sold, so without the accrued income scheme a taxpayer would be able to avoid income tax on interest income if the security was sold just prior to the interest becoming payable, by effectively converting what would have been taxable income into an exempt gain, for example:

On 1st July 2021 a taxpayer purchased £120,000 (nominal value) of 2.5%pa Exchequer Stock (government security) at an actual cost of £125,000. Interest was payable on the nominal value at 30 June and 31 December. On 1st December 2021 the taxpayer sold the stock for £127,000 including the accrued interest.

The disposal is exempt from CGT but under the accrued income scheme the following amount will be treated as income and included in the 2021/22 income tax computation of the taxpayer:

$$£120,000 \times 2.5\% \times 5/12 = £1,250$$

The purchaser will receive £1,500 ($120,00 \times 2.5\% \times 6/12$) of interest on 31 December 2021 but will only be assessed on £250 ($1,500 - 1,250$)

4 Personal allowance

The Personal Allowance (PA) is a level of tax free income available to UK taxpayers and is deducted from Net Income to derive Taxable Income on the Income Tax Computation and as can be seen on the pro forma computation on page 6 is deducted from the analysis columns in the order of firstly non-savings income, followed if necessary by savings income and finally dividend income.

- The normal PA for 2021/22 is £12,570. However if an individuals' Adjusted Net Income (ANI) exceeds £100,000 then the PA is reduced by:

$$\frac{1}{2} \times [\text{ANI} - £100,000]$$
- Once adjusted net income is therefore $\geq £125,140$, the PA is reduced to nil (this information is contained within the Tax rates and allowances pages provided in the exam).
- Net income is total income less qualifying interest payments and trading loss reliefs (see pro forma page 5)
- ANI is net income less gross personal pension contributions and less gross gift aid payments (see later in section 6)

EXAMPLE 8

Mike received gross employment income of £108,000 in 2021/22 on which £32,000 was deducted at source under PAYE in 2021/22.

Calculate Mike's income tax payable for 2021/22.

EXAMPLE 9

Ken made trading income of £130,000, received bank interest of £40,000 and dividend income of £36,000 in 2021/22.

Calculate Ken's income tax liability for 2021/22.

EXAMPLE 10

James has a trading income assessment in 2021/22 of £102,000 and received bank interest of £4,000.

Calculate the income tax liability of James for 2021/22

4.1 Transferable amount of Personal allowance

An election may be made to transfer a fixed amount of the PA to a spouse or civil partner - the amount is set at £1,260 for 2021/22. The election is only available when both taxpayers are either just basic rate taxpayers or non taxpayers. The election is only likely to be made when one spouse is a non taxpayer and has an amount of unused PA that would otherwise be wasted and the other spouse is only a basic rate taxpayer.

The election must be made within 4 years of the end of the tax year to which it should apply though if made within the tax year concerned the election will remain in force for future years until it is either withdrawn or the conditions are not met.

The relief is NOT given as an increase in the PA of the transferee but as a tax credit to be deducted in deriving the tax liability of the transferee taxpayer and is taken at the basic rate of tax 20%:

for 2021/22, computed as $1,260 \times 20\% = 252$.

This amount can only reduce the tax liability, it cannot create a repayment. The amount of the transferable PA will be given in the tax rates and allowances provided in the exam.

This is also known as the marriage allowance or marriage tax allowance.

EXAMPLE 11

David and Victoria are married and in 2021/22 David had a trading income assessment of £10,000 and Victoria received a salary of £30,500.

Calculate the income tax liabilities of David and Victoria assuming that an election is made to transfer the transferrable amount of David's personal allowance to Victoria and state the date by which the election should be made.

5 Deductions from Total Income

5.1 Reliefs are tax deductible

The only reliefs examinable in the TX-UK exam are:

- (a) qualifying interest
- (b) certain trading loss reliefs - These reliefs are deducted from total income in deriving net income and as with the deduction of the PA from net income they are deducted firstly from non savings income before savings income and then dividend income

5.2 Qualifying interest is:

- (a) On a loan to purchase an interest in a partnership or a contribution to the partnership of capital or a loan
- (b) On a loan to purchase plant or machinery used in the business, by a partner
- (c) On a loan to purchase plant and machinery by an employee if used in the performance of duties
- (d) On a loan to purchase an interest in a close company

5.3 Loss reliefs

These will be explained in chapter 7

EXAMPLE 12

Kathy has trading profit of £52,000 in 2021/22 and paid £1,000 interest on a loan to purchase plant & machinery used in the business of her partnership.

Calculate Kathy's income tax liability for 2021/22

6 Payments to charity under the Gift Aid System and Personal Pension Contributions

6.1 The gift aid system is a tax efficient way by which to give money to charity and is available to individual taxpayers

6.2 Basic rate taxpayers

Payments to charity under gift aid are treated as being paid net of the basic rate of tax (20%). For a basic rate taxpayer tax relief at the basic rate is automatically obtained as payments are made to the charity net of basic rate relief being given at source ie to give a charity £100 the taxpayer need only make a gift aid payment of £80. The charity will then be able to claim back from HMRC the basic rate tax of £20 thereon collected by HMRC from the taxpayer's income. Therefore the donation is NOT shown as a deduction in the calculation of Taxable Income.

A question may tell you what is the amount paid, by the taxpayer, for example £80 and you must gross up this amount ($80 \times 100/80$) to compute the gross figure, or instead may state amount paid £100 (gross) and give you the already grossed up figure for you to use - read the information in the question carefully - as ever!!

6.3 Higher rate tax payer

For higher rate taxpayers, 40% tax relief is given as follows:

- (a) 20% at source (as noted above), and
- (b) 20% through the income tax computation, obtained by extending the basic rate band by the **gross donation** (so that more income is taxed at 20% and less at 40%)

The taxpayer can elect to treat gift aid payments made by 31 January to have been made in the previous tax year, ie a payment made by 31 January 2023 can be treated as if paid in tax year 2021/22. This would be advantageous if the taxpayer was likely to be a basic rate taxpayer in 2022/23 but was a higher rate taxpayer in 2021/22.

This would also be advisable if in 2021/22 the taxpayer had adjusted net income between £100,000 and £125,140 and was therefore suffering a loss of their PA as seen in section 4 of this chapter.

6.4 Additional rate tax payer

For additional rate taxpayers, 45% tax relief is given as follows:

- (a) 20% at source (as noted above) and
- (b) 25% through the income tax computation by extending both the basic rate band and higher rate band limits by the gross donation (so that more income is taxed at 20% instead of 40% and 40% instead of 45%)

The same treatment as gift aid payments will also apply to payments made by individuals into their Personal Pension Scheme (see later in chapter 10)

See section 4 on page 10 that both the gross gift aid payments and personal pension contributions are deducted in arriving at the adjusted net income figure used to restrict the personal allowance of the taxpayer.

EXAMPLE 13

Elliot has trading profit of £53,000 in 2021/22. He paid £1,600 to charity under the gift aid system.

Calculate Elliot's income tax liability for 2021/22

EXAMPLE 14

Thomas earned £160,000 trading profit in 2021/22. In the tax year he paid £6,400 to charity under the gift aid scheme.

Calculate Thomas's income tax liability for 2021/22.

EXAMPLE 15

Kerry made a trading profit of £98,000 in 2021/22. In addition she received bank interest of £4,000 and dividend income of £6,000. She paid interest of £3,000 on a loan to contribute capital into a partnership of which she is a partner. She made a payment of £4,800 to charity under the gift aid scheme.

Calculate Kerry's income tax liability for 2021/22.

7 Jointly owned assets of a married couple, or by a couple in a civil partnership

Spouses and civil partners are taxed as two separate people. Each spouse / civil partner has their own Income Tax Computation and includes within it their own taxable income.

Joint property

When spouses/civil partners own income generating assets jointly, it is assumed that they are entitled to equal shares of the income and it is split accordingly on a 50:50 basis between them. However they may make a joint election to HMRC to split the income according to their actual ownership proportions, (except in the case of jointly held bank or building society accounts).

The rules allow couples to rearrange joint income between them to better use their personal allowances and lower tax rates thereby reducing their overall tax liabilities

The 50:50 rule may also be used to reduce income tax liabilities where a higher rate taxpayer currently owns outright an income producing asset while their spouse is not fully using either their personal allowance or basic rate band. A transfer of a nominal amount of the capital ownership eg 5% would allow 50% of the income to be assessed on the transferee spouse! Clearly if the taxpayer was happy to transfer the entire ownership of the asset to the spouse then an even greater amount of tax would be saved!

EXAMPLE 16

Elton is a higher rate taxpayer (but with an adjusted net income of $\leq$ £100,000). This includes £20,000 of rental income on a property owned entirely by Elton on which he pays tax at 40%, a tax liability therefore of £8,000 thereon. David his civil partner has no income.

Discuss how Elton and David could reduce their income tax liabilities

8 Child Benefit Income Tax Charge

Child benefit is a tax free benefit payable to parents irrespective of the level of taxpayer they may be. If, however a person's Adjusted Net Income (ANI) (or whose partner) exceeds £50,000 and they receive child benefit, a child benefit income tax charge will arise to gradually remove the benefit from such higher income earners such that when the ANI reaches £60,000 the benefit will be entirely removed.

If both partners have income over £50,000 the partner with the higher income is liable for the charge.

Where ANI falls between £50,000 and £60,000 the income tax charge would amount to 1% of the child benefit received for every £100 of income in excess of £50,000.

The following information will therefore be provided in the tax rates and allowances section of the examination paper:

Where income is between £50,000 and £60,000 the charge is 1% of the amount of child benefit received for every £100 of income over £50,000.

The income tax charge is added in deriving the income tax liability of the taxpayer.

ILLUSTRATION 1

Catherine received child benefit of £1,056 in 2021/22 and has ANI for the year of £54,000.

As Catherine's ANI is between £50,000 and £60,000 the child benefit income tax charge is £422 ($£1,056 \times 40\%$ ($54,000 - 50,000 / 100$))

ILLUSTRATION 2

Victoria receives child benefit of £3,147 in respect of her 4 children and has ANI of £77,000.

As Victoria's ANI exceeds £60,000 the child benefit income tax charge is £3,147, being the full amount of the child benefit received.

9 Residence

A taxpayer's liability to income tax, CGT and IHT is based upon their residence and / or domicile. At TX-UK a UK resident will be liable to income tax on worldwide income and a non UK resident will be liable on only UK income. It is essential therefore to determine the residence of the taxpayer to be able to determine their UK tax liability

These rules are detailed and based on the number of days that the individual spends in the UK and the following table will therefore be given in the tax rates and allowances section of the examination paper.

<i>Days in UK</i>	<i>Previously Resident (R)</i>	<i>Not Previously Resident (R)</i>
<16	Automatically NOT R	Automatically NOT R
16 – 45	R if 4 UK ties	Automatically NOT R
46 – 90	R if 3 UK ties	R if 4 UK ties
91 – 120	R if 2 UK ties	R if 3 UK ties
121 – 182	R if 1 UK tie	R if 2 UK ties
>183	Automatically R	Automatically R

In the above table a taxpayer is Previously Resident if they have been resident in any of the previous 3 tax years.

The above table shows that the following persons will automatically be treated as NOT resident in the UK:

- Anyone in the UK for less than 16 days in tax year.
- A person in the UK for less than 46 days in tax year and who was not resident in previous 3 tax years

In addition a person who works full time overseas and who has not been in the UK for more than 90 days in the tax year is automatically not resident.

The above table also shows that any person in the UK for at least 183 days in the tax year is automatically RESIDENT. The following persons are also treated as automatically resident, unless they meet one of the automatic non-resident tests:

- A person whose only home is in the UK
- A person who carries out full time work in the UK

Where none of the automatic tests apply then based on the above table a person's status will be based on both how many days they are in the UK and how many ties they have with the UK in a tax year.

There are 5 UK ties as follows:

- Spouse/civil partner or minor child in the UK
- House in UK which is used during tax year
- In UK for more than 90 days in either of 2 previous tax years
- More time in UK than in any other country in tax year
- Doing substantive work in UK

A UK day is where the person is in the UK at midnight.

The detailed rules are far more complex but only the above rules are examinable.

ILLUSTRATION 3

Sebastian was not previously resident in the UK but spent 35 days in the UK during 2021/22.

Sebastian is automatically not resident, as in UK for less than 46 days and not previously resident.

ILLUSTRATION 4

Fernando was not previously resident in UK but bought a holiday home in the UK on 1 May, 2021 and lived in it for 140 days in the 2021/22 tax year. The remainder of the year he lived in his home in Spain.

Fernando was in the UK too long (>45 days) to be automatically treated as not resident, but not long enough to be treated as automatically resident (<183 days) nor did he have his only home in the UK.

Using the table therefore as he has been in UK for between 121 days and 182 days and has only one tie with the UK (made use of UK house), so as he was not previously UK resident he is therefore not UK resident in 2021/22.

ILLUSTRATION 5

Lewis was in the UK for 80 days in 2021/22 when he lived in the only home that he owns.

Lewis has been in the UK too long to be treated as automatically not resident, irrespective of his previous residence. He will, however be treated as automatically UK resident as his only home is in the UK.

ILLUSTRATION 6

Jensen has always been UK resident spending about 10 months of the year in the UK, but on 1 May, 2021 he purchased an apartment overseas where he lived for most of the tax year returning to the UK for a further 50 days in 2021/22 when he stayed at the family home with his wife and children.

Jensen has spent more than 15 days in UK in 2021/22 so will not be automatically not resident. He will also not be automatically resident in the UK as he has not spent 183 days in the UK nor does he have his only home in the UK.

As he was in the UK for between 46 and 90 days he will remain resident for 2021/22 as he has 3 UK ties:

- Spouse/children in UK
- A house in the UK that he uses
- In the UK for more than 90 days in previous 2 years

You should now work through the following part of the ACCA Finance Act 2021 technical article written by the TX-UK examining team:

- Income Tax section working through to Example 10 and then the section on the transfer of the PA and work Example 13

You should then attempt Practice Questions 1-6 which you will find after the Answers to Examples Section at the end of these Study Notes