

5. Detailed study guide

A The UK Tax system and its administration

1. The overall function and purpose of taxation in a modern economy

- a) Describe the purpose (economic, social etc) of taxation in a modern economy.^[1]
- b) Explain the difference between direct and indirect taxation.^[2]
- c) Identify the different types of capital and revenue tax.^[1]

2. Principal sources of revenue law and practice

- a) Describe the overall structure of the UK tax system.^[1]
- b) State the different sources of revenue law.^[1]
- c) Describe the organisation HM Revenue & Customs (HMRC) and its terms of reference.^[1]
- d) Explain the difference between tax avoidance and tax evasion, and the purposes of the General Anti-Abuse Rule (GAAR).^[1]
- e) Appreciate the interaction of the UK tax system with that of other tax jurisdictions.^[2]
- f) Appreciate the need for double taxation agreements.^[2]
- g) Explain the need for an ethical and professional approach.^[2]

Excluded topics

- *Specific anti-avoidance legislation.*

3. The systems for self-assessment and the making of returns

- a) Explain and apply the features of the self-assessment system as it applies to individuals.^[2]
- b) Explain and apply the features of the self-assessment system as it applies to companies, including the use of iXBRL.^[2]

4. The time limits for the submission of information, claims and payment of tax, including payments on account

- a) Recognise the time limits that apply to the filing of returns and the making of claims.^[2]
- b) Recognise the due dates for the payment of tax under the self-assessment system, and compute payments on account and balancing payments/repayments for individuals.^[2]
- c) Explain how large companies are required to account for corporation tax on a quarterly basis and compute the quarterly instalment payments.^[2]
- d) List the information and records that taxpayers need to retain for tax purposes.^[1]

Excluded topics

- *The payment of capital gains tax by annual instalments.*
- *The calculation of payments on account for disposals of residential property where there is more than one residential property disposal during a tax year.*
- *Simple assessments.*
- *Quarterly accounting by companies for income tax.*
- *Quarterly instalments for very large companies.*

5. The procedures relating to compliance checks, appeals and disputes

- a) Explain the circumstances in which HM Revenue & Customs can make a compliance check into a self-assessment tax return.^[2]
- b) Explain the procedures for dealing with appeals and First and Upper Tier Tribunals.^[2]

Excluded topics

- *Information powers.*
- *Pre-return compliance checks.*
- *Detailed procedures on the carrying out and completion of a compliance check.*

6. Penalties for non-compliance

- a) Calculate late payment interest and state the penalties that can be charged.^[2]

B Income tax and NIC liabilities

1. The scope of income tax

- a) Explain how the residence of an individual is determined.^[1]

Excluded topics

- *The split year treatment where a person comes to the UK or leaves the UK.*
- *Foreign income, non-residents and double taxation relief.*
- *Income from trusts and settlements.*

2. Income from employment

- a) Recognise the factors that determine whether an engagement is treated as employment or self-employment.^[2]
- b) Recognise the basis of assessment for employment income.^[2]

- c) Recognise the income assessable.^[2]
- d) Recognise the allowable deductions, including travelling expenses.^[2]
- e) Discuss the use of the statutory approved mileage allowances.^[2]
- f) Explain the PAYE system, how benefits can be payrolled, and the purpose of form P11D.^[1]
- g) Explain and compute the amount of benefits assessable.^[2]
- h) Recognise the circumstances in which real time reporting late filing penalties will be imposed on an employer and the amount of penalty which is charged.^[2]

Excluded topics

- *The calculation of a car benefit where emission figures are not available.*
- *The calculation of a car benefit for cars which have emissions below 50g/km and are neither electric nor hybrid.*
- *Tax free childcare scheme.*
- *Share and share option incentive schemes for employees.*
- *Payments on the termination of employment, and other lump sums received by employees.*
- *Optional remuneration arrangements*

3. Income from self-employment

- a) Recognise the basis of assessment for self-employment income.^[2]
- b) Describe and apply the badges of trade.^[2]
- c) Recognise the expenditure that is allowable in calculating the tax-adjusted trading profit.^[2]

- d) Explain and compute the assessable profits using the cash basis for small businesses.^[2]
- e) Recognise the relief which can be obtained for pre-trading expenditure.^[2]
- f) Compute the assessable profits on commencement and on cessation.^[2]
- g) Recognise the factors that will influence the choice of accounting date.^[2]
- h) Capital allowances
 - i) Define plant and machinery for capital allowances purposes.^[1]
 - ii) Compute writing down allowances, first-year allowances and the annual investment allowance.^[2]
 - iii) Compute capital allowances for cars.^[2]
 - iv) Compute balancing allowances and balancing charges.^[2]
 - v) Compute structures and buildings allowances.^[2]
 - vi) Recognise the treatment of short life assets.^[2]
 - vii) Recognise the treatment of assets included in the special rate pool.^[2]
- i) Relief for trading losses
 - i) Understand how trading losses can be carried forward.^[2]
 - ii) Understand how trading losses can be claimed against total income and chargeable gains, and the restriction that can apply.^[2]
 - iii) Explain and compute the relief for trading losses in the early years of a trade.^[1]
 - iv) Explain and compute terminal loss relief.^[1]
 - v) Recognise the factors that will influence the choice of loss relief claim.^[2]
- j) Partnerships and limited liability partnerships
 - i) Explain and compute how a partnership is assessed to tax.^[2]
 - ii) Explain and compute the assessable profits for each partner following a change in the profit sharing ratio.^[2]

- iii) Explain and compute the assessable profits for each partner following a change in the membership of the partnership.^[2]
- iv) Describe the alternative loss relief claims that are available to partners.^[1]

Excluded topics

- *Change of accounting date.*
- *Capital allowances for patents and research and development expenditure.*
- *Enterprise zones.*
- *Freeports*
- *Investment income of a partnership.*
- *The allocation of notional profits and losses for a partnership.*
- *Farmers averaging of profits.*
- *The averaging of profits for authors and creative artists.*
- *Loss relief following the incorporation of a business.*
- *Loss relief for shares in unquoted trading companies.*
- *The loss relief restriction that applies to the partners of a limited liability partnership.*
- *Trading allowance of £1,000.*
- *Non-deductible capital expenditure under the cash basis other than cars, land and buildings.*

4. Property and investment income

- a) Compute property business profits.^[2]
- b) Explain the treatment of furnished holiday lettings.^[1]

- c) Understand rent-a-room relief.^[1]
- d) Compute the amount assessable when a premium is received for the grant of a short lease.^[2]
- e) Understand and apply the restriction on property income finance costs.^[2]
- f) Understand how relief for a property business loss is given.^[2]
- g) Compute the tax payable on savings and dividends income.^[2]
- h) Recognise the treatment of individual savings accounts (ISAs) and other tax exempt investments.^[1]
- i) Understand how the accrued income scheme applies to UK Government securities (gilts).^[1]

Excluded topics

- *Premiums for granting subleases.*
- *Junior ISAs.*
- *The additional ISA allowance for a surviving spouse or registered civil partner.*
- *Help-to-buy, innovative finance and lifetime ISAs.*
- *Savings income paid net of tax.*
- *The detailed rules for establishing whether higher or additional rate tax is applicable for the purposes of the savings income nil rate band.*
- *Property allowance of £1,000.*
- *Non-deductible capital expenditure under the cash basis other than cars, land and buildings.*
- *The cap in respect of the property income finance costs tax reducer.*
- *Carry forward of the property income finance costs tax reducer.*

5. The comprehensive computation of taxable income and income tax liability

- a) Prepare a basic income tax computation involving different types of income.^[2]
- b) Calculate the amount of personal allowance available.^[2]
- c) Understand the impact of the transferable amount of personal allowance for spouses and civil partners.^[2]
- d) Compute the amount of income tax payable.^[2]
- e) Understand the treatment of interest paid for a qualifying purpose.^[2]
- f) Understand the treatment of gift aid donations and charitable giving.^[1]
- g) Explain and compute the child benefit tax charge.^[1]
- h) Understand the treatment of property owned jointly by a married couple, or by a couple in a civil partnership.^[1]

Excluded topics

- *Consideration of the most beneficial allocation of the personal allowance to different categories of income.*
- *The blind person's allowance and the married couple's allowance.*
- *Tax credits.*
- *Maintenance payments.*
- *The income of minor children.*

6. National insurance contributions for employed and self-employed persons

- a) Explain and compute national insurance contributions payable:
 - i) Class 1 and 1A NIC.^[2]
 - ii) Class 2 and 4 NIC.^[2]

- b) Understand the annual employment allowance.^[2]

Excluded topics

- *The calculation of directors' national insurance on a month by month basis.*
- *The offset of trading losses against non-trading income.*
- *The exemption from employer's class 1 NIC in respect of employees aged under 21 and apprentices aged under 25.*
- *Group aspects of the annual employment allowance.*

7. The use of exemptions and reliefs in deferring and minimising income tax liabilities

- a) Explain and compute the relief given for contributions to personal pension schemes, and to occupational pension schemes.^[2]
- b) Understand how a married couple or a couple in a civil partnership can minimise their tax liabilities.^[2]
- c) Basic income tax planning.^[2]

Excluded topics

- *The conditions that must be met in order for a pension scheme to obtain approval from HM Revenue & Customs.*
- *The anti-avoidance annual allowance limit of £4,000 for pension contributions (the tapering of the annual allowance down to a minimum of £4,000 is examinable).*
- *The threshold level of income below which tapering of the annual allowance does not apply.*

- *The enterprise investment scheme and the seed enterprise investment scheme.*

- *Venture capital trusts.*

- *Tax reduction scheme for gifts of pre-eminent objects.*

C Chargeable gains for individuals

1. The scope of the taxation of capital gains

- a) Describe the scope of capital gains tax.^[2]
- b) Recognise those assets which are exempt.^[1]

Excluded topics

- *Assets situated overseas and double taxation relief.*
- *Partnership capital gains.*

2. The basic principles of computing gains and losses

- a) Compute and explain the treatment of capital gains.^[2]
- b) Compute and explain the treatment of capital losses.^[2]
- c) Understand the treatment of transfers between a married couple or between a couple in a civil partnership.^[2]
- d) Understand the amount of allowable expenditure for a part disposal.^[2]
- e) Recognise the treatment where an asset is damaged, lost or destroyed, and the implications of receiving insurance proceeds and reinvesting such proceeds.^[2]

Excluded topics

- *Assets held at 31 March 1982.*

- *Small part disposals of land, and small capital sums received where an asset is damaged.*
- *Losses in the year of death.*
- *Relief for losses incurred on loans made to traders.*
- *Negligible value claims.*

3. Gains and losses on the disposal of movable and immovable property

- Identify when chattels and wasting assets are exempt.^[1]
- Compute the chargeable gain when a chattel or a wasting asset is disposed of.^[2]
- Calculate the chargeable gain when a private residence is disposed of.^[2]

Excluded topics

- *The disposal of leases and the creation of sub-leases.*
- *The two year pre-occupation period exemption for private residence relief (PRR)*

4. Gains and losses on the disposal of shares and securities

- Recognise the value of quoted shares where they are disposed of by way of a gift.^[2]
- Explain and apply the identification rules as they apply to individuals including the same day and 30 day matching rules.^[2]
- Explain and apply the pooling provisions.^[2]
- Explain and apply the treatment of bonus issues, rights issues, takeovers and reorganisations.^[2]
- Identify the exemption available for gilt-edged securities and qualifying corporate bonds.^[1]

Excluded topics

- *The small part disposal rules applicable to rights issues, takeovers and reorganisations.*
- *Gilt-edged securities and qualifying corporate bonds other than the fact that they are exempt.*

5. The computation of capital gains tax

- Compute the amount of capital gains tax payable.^[2]
- Explain and apply business asset disposal relief.^[2]
- Explain and apply investors' relief.^[2]

Excluded topics

- *Business asset disposal relief for associated disposals.*
- *Mixed use property being property with both commercial and residential parts.*
- *Expanded definition of the 5% shareholding condition for business asset disposal relief.*
- *Availability of business asset disposal relief where shareholding is diluted below the 5% qualifying threshold.*
- *Business asset disposal relief lifetime limit prior to 6 April 2020.*

6. The use of exemptions and reliefs in deferring and minimising tax liabilities arising on the disposal of capital assets

- Explain and apply capital gains tax reliefs:
 - rollover relief.^[2]
 - gift holdover relief for the gift of business assets.^[2]
- Basic capital gains tax planning.^[2]

Excluded topics

- *Incorporation relief.*
- *Reinvestment relief.*

D Inheritance tax**1. The basic principles of computing transfers of value**

- Identify the persons chargeable.^[2]
- Understand and apply the meaning of transfer of value, chargeable transfer and potentially exempt transfer.^[2]
- Demonstrate the diminution in value principle.^[2]
- Demonstrate the seven year accumulation principle taking into account changes in the level of the nil rate band.^[2]

Excluded topics

- *Pre 18 March 1986 lifetime transfers.*
- *Transfers of value by close companies.*
- *Domicile, deemed domicile, and non-UK domiciled individuals.*
- *Trusts.*
- *Excluded property.*
- *Related property.*
- *The tax implications of the location of assets.*
- *Gifts with reservation of benefit.*
- *Associated operations.*

2. The liabilities arising on chargeable lifetime transfers and on the death of an individual

- Understand the tax implications of lifetime transfers and compute the relevant liabilities.^[2]
- Understand and compute the tax liability on a death estate.^[2]
- Understand and apply the transfer of any unused nil rate band between spouses.^[2]
- Understand and apply the residence nil rate band available when a residential property is inherited by direct descendants.^[2]

Excluded topics

- *Specific rules for the valuation of assets (values will be provided).*
- *Business property relief.*
- *Agricultural property relief.*
- *Relief for the fall in value of lifetime gifts.*
- *Quick succession relief.*
- *Double tax relief.*
- *Post-death variation of wills and disclaimers of legacies.*
- *Grossing up on death.*
- *Post mortem reliefs.*
- *Double charges legislation.*
- *Endowment mortgages.*
- *The reduced rate of inheritance tax payable on death when a proportion of a person's estate is bequeathed to charity.*

- *The tapered withdrawal of the residence nil rate band where the net value of the estate exceeds £2 million.*
- *The protection of the residence nil rate band where an individual downsizes to a less valuable property or where a property is disposed of.*
- *Nominating which property should qualify for the residence nil rate band where there is more than one residence.*

3. The use of exemptions in deferring and minimising inheritance tax liabilities

- Understand and apply the following exemptions:
 - small gifts exemption.^[2]
 - annual exemption.^[2]
 - normal expenditure out of income.^[2]
 - gifts in consideration of marriage.^[2]
 - gifts between spouses.^[2]
- Basic inheritance tax planning^[2]

Excluded topics

- *Gifts to charities.*
- *Gifts to political parties.*
- *Gifts for national purposes.*

4. Payment of inheritance tax

- Identify who is responsible for the payment of inheritance tax and the due date for payment of inheritance tax.^[2]

Excluded topics

- *Administration of inheritance tax other than listed above.*
- *The instalment option for the payment of tax.*

- *Interest and penalties.*

E Corporation tax liabilities

1. The scope of corporation tax

- Define the terms 'period of account', 'accounting period', and 'financial year'.^[1]
- Recognise when an accounting period starts and when an accounting period finishes.^[1]
- Explain how the residence of a company is determined.^[2]

Excluded topics

- *Investment companies.*
- *Close companies.*
- *Companies in receivership or liquidation.*
- *Reorganisations.*
- *The purchase by a company of its own shares.*
- *Personal service companies.*
- *Freeports.*

2. Taxable total profits

- Recognise the expenditure that is allowable in calculating the tax-adjusted trading profit.^[2]
- Recognise the relief which can be obtained for pre-trading expenditure.^[1]
- Compute capital allowances
 - as for income tax.^[2]
 - for disposal of assets on which the main pool super deduction of 130% and special rate pool first year allowance of 50% for expenditure incurred from 1 April 2021 to 31 March 2023 were claimed.^[2]

- d) Compute property business profits and understand how relief for a property business loss is given.^[2]
- e) Understand how trading losses can be carried forward.^[2]
- f) Understand how trading losses can be claimed against income of the current or previous accounting periods.^[2]
- g) Recognise the factors that will influence the choice of loss relief claim.^[2]
- h) Recognise and apply the treatment of interest paid and received under the loan relationship rules.^[1]
- i) Recognise and apply the treatment of qualifying charitable donations.^[2]
- j) Compute taxable total profits.^[2]
- b) Explain and compute the indexation allowance available using a given indexation factor.^[2]
- c) Explain and compute the treatment of capital losses.^[1]
- d) Understand the treatment of disposals of shares by companies and apply the identification rules including the same day and nine day matching rules.^[2]
- e) Explain and apply the pooling provisions.^[2]
- f) Explain and apply the treatment of bonus issues, rights issues, takeovers and reorganisations.^[2]
- g) Explain and apply rollover relief.^[2]

Excluded topics

- *Research and development expenditure.*
- *Non-trading deficits on loan relationships.*
- *Relief for intangible assets.*
- *Patent box.*
- *Carried forward losses prior to 1 April 2017.*
- *Restriction on carried forward losses for companies with profits over £5 million.*
- *Apportionment in order to determine the amount of main pool super deduction where a period of account straddles 1 April 2023.*

3 Chargeable gains for companies

- a) Compute and explain the treatment of chargeable gains.^[2]

Excluded topics

- *A detailed question on the pooling provisions as they apply to limited companies.*
- *Substantial shareholdings.*
- *Calculation of indexation factors.*
- *Restriction on carried forward capital losses for companies with chargeable gains over £5 million.*

4. The comprehensive computation of corporation tax liability

- a) Compute the corporation tax liability and apply marginal relief.^[2]

Excluded topics

- *The tax rates applicable to periods prior to financial year 2017*
- *Franked investment income*

5. The effect of a group corporate structure for corporation tax purposes

- a) Define a 75% group, and recognise the reliefs that are available to members of such a group.^[2]
- b) Define a 75% chargeable gains group, and recognise the reliefs that are available to members of such a group.^[2]

Excluded topics

- *Relief for trading losses incurred by an overseas subsidiary.*
- *Consortia.*
- *Pre-entry gains and losses.*
- *The anti-avoidance provisions where arrangements exist for a company to leave a group.*
- *The tax charge that applies where a company leaves a group within six years of receiving an asset by way of a no gain/no loss transfer.*
- *Overseas aspects of corporation tax.*
- *Transfer pricing.*

6. The use of exemptions and reliefs in deferring and minimising corporation tax liabilities:

The use of such exemptions and reliefs is implicit within all of the above sections 1 to 5 of part E of the syllabus, concerning corporation tax.

F Value added tax (VAT)

1. The VAT registration requirements

- a) Recognise the circumstances in which a person must register or deregister for VAT (compulsory) and when a person may register or deregister for VAT (voluntary).^[2]

- b) Recognise the circumstances in which pre-registration input VAT can be recovered.^[2]
- c) Explain the conditions that must be met for two or more companies to be treated as a group for VAT purposes, and the consequences of being so treated.^[1]

2. The computation of VAT liabilities

- a) Calculate the amount of VAT payable/recoverable.^[2]
- b) Understand how VAT is accounted for and administered.^[2]
- c) Recognise the tax point when goods or services are supplied.^[2]
- d) List the information that must be given on a VAT invoice.^[1]
- e) Explain and apply the principles regarding the valuation of supplies.^[2]
- f) Recognise the principal zero rated and exempt supplies.^[1]
- g) Recognise the circumstances in which input VAT is non-deductible.^[2]
- h) Recognise the relief that is available for impairment losses on trade debts.^[2]
- i) Understand the treatment of the sale of a business as a going concern.^[2]
- j) Understand when the penalties for late submission/filing and late payment, and the interest for late payment will be applied.^[1]
- k) Understand the VAT treatment of imports, exports and trade outside the UK.^[2]
- l) Understand postponed accounting for VAT on imports.^[2]

Excluded topics

- *VAT periods where there is a change of VAT rate.*

- *Partial exemption.*
- *In respect of property and land: leases, do-it-yourself builders, and a landlord's option to tax.*
- *Penalties apart from those listed in the study guide.*
- *The reverse charge for building and construction services.*
- *Rules applying to imported goods with a value below £135.*

4. Present data and information effectively using the appropriate tools.

3. The effect of special schemes

- a) Understand the operation of, and when it will be advantageous to use, the VAT special schemes:
- i) cash accounting scheme.^[2]
 - ii) annual accounting scheme.^[2]
 - iii) flat rate scheme.^[2]

Excluded topics

- *The second-hand goods scheme.*
- *The capital goods scheme.*
- *The special scheme for retailers.*

G Employability and technology skills

- 1. Use computer technology to efficiently access and manipulate relevant information.**
- 2. Work on relevant response options, using available functions and technology, as would be required in the workplace.**
- 3. Navigate windows and computer screens to create and amend responses to exam requirements, using the appropriate tools.**