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These materials are reviewed by the ACCA examining team. The objective of the review is to ensure that the material properly covers the syllabus and study guide outcomes, used by the examining team in setting the exams, in the appropriate breadth and depth. The review does not ensure that every eventuality, combination or application of examinable topics is addressed by the ACCA Approved Content. Nor does the review comprise a detailed technical check of the content as the Approved Content Provider has its own quality assurance processes in place in this respect.

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## Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1</td>
<td>The UK tax system</td>
<td>1</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Basic income tax computation</td>
<td>17</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>Investment income</td>
<td>65</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Property income</td>
<td>101</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>Employment income</td>
<td>127</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>Pensions</td>
<td>183</td>
</tr>
<tr>
<td>Chapter 7</td>
<td>Income from self-employment</td>
<td>215</td>
</tr>
<tr>
<td>Chapter 8</td>
<td>Capital allowances: Plant and machinery</td>
<td>251</td>
</tr>
<tr>
<td>Chapter 9</td>
<td>Sole traders: Basis of assessment</td>
<td>301</td>
</tr>
<tr>
<td>Chapter 10</td>
<td>Partnerships</td>
<td>321</td>
</tr>
<tr>
<td>Chapter 11</td>
<td>Trading losses for individuals</td>
<td>343</td>
</tr>
<tr>
<td>Chapter 12</td>
<td>National insurance</td>
<td>381</td>
</tr>
<tr>
<td>Chapter 13</td>
<td>Tax administration for individuals</td>
<td>407</td>
</tr>
<tr>
<td>Chapter 14</td>
<td>Introduction to corporation tax</td>
<td>443</td>
</tr>
<tr>
<td>Chapter 15</td>
<td>Taxable total profits</td>
<td>459</td>
</tr>
<tr>
<td>Chapter 16</td>
<td>Losses for companies</td>
<td>497</td>
</tr>
<tr>
<td>Chapter 17</td>
<td>Groups of companies</td>
<td>535</td>
</tr>
<tr>
<td>Chapter 18</td>
<td>Tax administration for a company</td>
<td>565</td>
</tr>
<tr>
<td>Chapter 19</td>
<td>Computation of gains and tax payable</td>
<td>587</td>
</tr>
<tr>
<td>Chapter 20</td>
<td>Computation of gains: Special rules</td>
<td>611</td>
</tr>
<tr>
<td>Chapter 21</td>
<td>CGT: Shares and securities for individuals</td>
<td>645</td>
</tr>
<tr>
<td>Chapter 22</td>
<td>CGT: Reliefs for individuals</td>
<td>667</td>
</tr>
<tr>
<td>Chapter 23</td>
<td>Chargeable gains for companies</td>
<td>725</td>
</tr>
<tr>
<td>Chapter 24</td>
<td>Inheritance tax</td>
<td>757</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------</td>
<td>-----</td>
</tr>
<tr>
<td>Chapter 25</td>
<td>VAT: Outline</td>
<td>817</td>
</tr>
<tr>
<td>Chapter 26</td>
<td>VAT: Administration and overseas aspects</td>
<td>853</td>
</tr>
<tr>
<td>Chapter 27</td>
<td>Questions &amp; Answers</td>
<td>881</td>
</tr>
</tbody>
</table>
Introduction
How to use the Materials

These Kaplan Publishing learning materials have been carefully designed to make your learning experience as easy as possible and to give you the best chance of success in your examinations.

The product range contains a number of features to help you in the study process. They include:

1. Detailed study guide and syllabus objectives
2. Description of the examination
3. Study skills and revision guidance
4. Study text
5. Question practice

The sections on the study guide, the syllabus objectives, the examination and study skills should all be read before you commence your studies. They are designed to familiarise you with the nature and content of the examination and give you tips on how to best approach your learning.

The Study Text comprises the main learning materials and gives guidance as to the importance of topics and where other related resources can be found. Each chapter includes:

- The learning objectives, which have been carefully mapped to the examining body’s own syllabus learning objectives or outcomes. You should use these to check you have a clear understanding of all the topics on which you might be assessed in the examination.

- The chapter diagram provides a visual reference for the content in the chapter, giving an overview of the topics and how they link together.

- The content for each topic area commences with a brief explanation or definition to put the topic into context before covering the topic in detail. You should follow your studying of the content with a review of the illustration/s. These are worked examples which will help you to understand better how to apply the content for the topic.

- Test your understanding sections provide an opportunity to assess your understanding of the key topics by applying what you have learned to short questions. Answers can be found at the back of each chapter.

- Summary diagrams complete each chapter to show the important links between topics and the overall content of the examination. These diagrams should be used to check that you have covered and understood the core topics before moving on.

- Questions to practice are provided at the back of the Study Text.
Quality and accuracy are of the utmost importance to us so if you spot an error in any of our products, please send an email to mykaplanreporting@kaplan.com with full details, or follow the link to the feedback form in MyKaplan. Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

**Icon Explanations**

- **Definition** – Key definitions that you will need to learn from the core content.

- **Key point** – Identifies topics that are key to success and are often examined.

- **Supplementary reading** – These sections will help to provide a deeper understanding of core areas. The supplementary reading is **NOT** optional reading. It is vital to provide you with the breadth of knowledge you will need to address the wide range of topics within your syllabus that could feature in an examination question. **Reference to this text is vital when self studying.**

- **Helpful tutor tips** – These sections give tips on the examinability of topics and whether information is provided in the tax rates and allowances in the examination.

- **Test your understanding** – Following key points and definitions are exercises which give the opportunity to assess the understanding of these core areas. Within the Study Text the answers to these exercises are at the end of the chapter; within the online version the answers can be hidden or shown on screen to enable repetition of exercises.

- **Illustration** – To help develop an understanding of topics the illustrative examples and the Test Your Understanding (TYU) exercises can be used.

- **Exclamation Mark** – This symbol signifies a topic which can be more difficult to understand. You may need to take extra time to carefully review these areas in detail.

- **Progression** – This symbol links the topics in the chapter to other relevant papers in the ACCA syllabus.
Online subscribers
Our online resources are designed to increase the flexibility of your learning materials and provide you with immediate feedback on how your studies are progressing.

If you are subscribed to our online resources you will find:

(1) Online reference material: reproduces your Study Text online, giving you anytime, anywhere access.

(2) Online testing: provides you with additional online objective testing so you can practice what you have learned further.

(3) Online performance management: immediate access to your online testing results. Review your performance by key topics and chart your achievement through the course relative to your peer group.

Ask your local student experience staff if you are not already a subscriber and wish to join.

ACCA Performance Objectives
In order to become a member of the ACCA, as a trainee accountant you will need to demonstrate that you have achieved nine performance objectives. Performance objectives are indicators of effective performance and set the minimum standard of work that trainees are expected to achieve and demonstrate in the workplace. They are divided into key areas of knowledge which are closely linked to the exam syllabus.

There are five Essential performance objectives and a choice of fifteen Technical performance objectives which are divided into five areas.

The performance objectives which link to this exam are:

1. Ethics and professionalism (Essential)
2. Stakeholder relationship management (Essential)
3. Record and process transactions and events (Technical)
4. Prepare external financial reports (Technical)
5. Analyse and interpret financial reports (Technical)

The following link provides an in depth insight into all of the performance objectives:
Progression

There are two elements of progression that we can measure: first how quickly students move through individual topics within a subject; and second how quickly they move from one course to the next. We know that there is an optimum for both, but it can vary from subject to subject and from student to student. However, using data and our experience of student performance over many years, we can make some generalisations.

A fixed period of study set out at the start of a course with key milestones is important. This can be within a subject, for example ‘I will finish this topic by 30 June’, or for overall achievement, such as ‘I want to be qualified by the end of next year’.

Your qualification is cumulative, as earlier papers provide a foundation for your subsequent studies, so do not allow there to be too big a gap between one subject and another. We know that exams encourage techniques that lead to some degree of short term retention, the result being that you will simply forget much of what you have already learned unless it is refreshed (look up Ebbinghaus Forgetting Curve for more details on this). This makes it more difficult as you move from one subject to another: not only will you have to learn the new subject, you will also have to relearn all the underpinning knowledge as well. This is very inefficient and slows down your overall progression which makes it more likely you may not succeed at all.

In addition, delaying your studies slows your path to qualification which can have negative impacts on your career, postponing the opportunity to apply for higher level positions and therefore higher pay.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.
The Examination

Examination format
The syllabus is assessed by a three-hour computer-based examination.
All questions are compulsory. The exam will contain both computational and
discursive elements.
Some questions will adopt a scenario/case study approach.
Section A of the examination comprises 15 objective test (OT) questions of 2
marks each.
Section B of the examination comprises three objective test cases (OT cases),
each of which includes five OT questions of 2 marks each.
Section C of the examination comprises one 10 mark and two 15 mark
constructed response (long) questions.
The two 15 mark questions will focus on income tax (syllabus area B) and
corporation tax (syllabus area E).
The section A OT questions, section B case OT questions and the other
constructed response question in section C can cover any areas of the syllabus.

Examination tips
Spend time reading the examination carefully, paying particular attention to
sections B and C, where questions will be based on longer scenarios than the 2
mark OTs in section A.

- **Divide the time** you spend on questions in proportion to the marks on
  offer.
- One suggestion for this examination is to allocate 1.8 minutes to each
  mark available (180 minutes/100 marks), so a 10 mark question should be
  completed in approximately 18 minutes.

TX is divided into three different sections, requiring the application of different
skills to be successful.
Section A

Stick to the timing principle of 1.8 minutes per mark. This means that the 15 OT questions in Section A (30 marks) should take 54 minutes.

Work steadily. Rushing leads to careless mistakes and the OT questions are designed to include answers which result from careless mistakes.

If you don’t know the answer, eliminate those options you know are incorrect and see if the answer becomes more obvious.

Remember that there is no negative marking for an incorrect answer. After you have eliminated the options that you know to be wrong, if you are still unsure, guess.

Practice section A questions can be found at the end of each chapter.

Section B

There is likely to be a significant amount of information to read through for each case. You should begin by reading the OT questions that relate to the case, so that when you read through the information for the first time, you know what it is that you are required to do.

Each OT question is worth two marks. Therefore you have 18 minutes (1.8 minutes per mark) to answer the five OT questions relating to each case. It is likely that all of the cases will take the same length of time to answer, although some of the OT questions within a case may be quicker than other OT questions within that same case.

Once you have read through the information, you should first answer any of the OT questions that do not require workings and can be quickly answered. You should then attempt the OT questions that require workings utilising the remaining time for that case.

Practice section B questions can be found in Chapter 27.

All of the tips for section A are equally applicable to each section B question.

Section C

The constructed response questions in section C will require a typed response rather than being OT questions. Therefore, different techniques need to be used to score well.

Unless you know exactly how to answer the question, spend some time planning your answer. Stick to the question and tailor your answer to what you are asked. Pay particular attention to the verbs in the question e.g. 'Calculate', 'State', 'Explain'.

If you get completely stuck with a question, leave it and return to it later.

If you do not understand what a question is asking, state your assumptions. Even if you do not answer in precisely the way the examining team hoped, you should be given some credit, provided that your assumptions are reasonable.
You should do everything you can to make things easy for the marker. The marker will find it easier to identify the points you have made if your answers are clear.

Computations: It is essential to include all your workings in your answers. Many computational questions require the use of a standard format. Be sure you know these formats thoroughly before the examination and use the layouts that you see in the answers given in this Study Text and in model answers. Adopt a logical approach and cross reference workings to the main computation to keep your answers tidy.

Practice section C style questions can be found as 'comprehensive examples' in most chapters and also in Chapter 27.

All sections
Do not skip parts of the syllabus. The TX exam has 33 different questions so the examination can cover a very broad selection of the syllabus each sitting.

Spend time learning the rules and definitions.

Practice plenty of questions to improve your ability to apply the techniques and perform the calculations.

Spend the last five minutes reading through your answers and making any additions or corrections.

Method of Examination
The TX examination is a computer-based examination (CBE).

OT questions in sections A and B of the CBE will be of varying styles. These styles include multiple choice, fill in the blank, pull down list, multiple response, hot area, and enhanced matching. A full explanation of these question types is included in the Kaplan Exam Kit FA2019.

The CBE will be 3 hours long. Students will have up to 10 minutes to familiarise themselves with the CBE system before starting the exam.

If you would like further information on sitting a CBE please contact either Kaplan, or the ACCA

ACCA SUPPORT
For additional support with your studies please also refer to the ACCA Global website.
Study skills and revision guidance

This section aims to give guidance on how to study for your ACCA examinations and to give ideas on how to improve your existing study techniques.

Preparing to study

Set your objectives

Before starting to study decide what you want to achieve – the type of pass you wish to obtain. This will decide the level of commitment and time you need to dedicate to your studies.

Devise a study plan

Determine which times of the week you will study.

Split these times into sessions of at least one hour for study of new material. Any shorter periods could be used for revision or practice.

Put the times you plan to study onto a study plan for the weeks from now until the examination and set yourself targets for each period of study – in your sessions make sure you cover the course, course assignments and revision.

If you are studying for more than one examination at a time, try to vary your subjects as this can help you to keep interested and see subjects as part of wider knowledge.

When working through your course, compare your progress with your plan and, if necessary, re-plan your work (perhaps including extra sessions) or, if you are ahead, do some extra revision/practice questions.

Effective studying

Active reading

You are not expected to learn the text by rote, rather, you must understand what you are reading and be able to use it to pass the exam and develop good practice. A good technique to use is SQ3Rs – Survey, Question, Read, Recall, Review:

1. **Survey the chapter** – look at the headings and read the introduction, summary and objectives, so as to get an overview of what the chapter deals with.

2. **Question** – whilst undertaking the survey, ask yourself the questions that you hope the chapter will answer for you.

3. **Read** through the chapter thoroughly, answering the questions and making sure you can meet the objectives. Attempt the exercises and activities in the text, and work through all the examples.
(4) **Recall** – at the end of each section and at the end of the chapter, try to recall the main ideas of the section/chapter without referring to the text. This is best done after a short break of a couple of minutes after the reading stage.

(5) **Review** – check that your recall notes are correct.

You may also find it helpful to re-read the chapter to try to see the topic(s) it deals with as a whole.

**Note taking**

Taking notes is a useful way of learning, but do not simply copy out the text. The notes must:

- be in your own words
- be concise
- cover the key points
- be well organised
- be modified as you study further chapters in this text or in related ones.

Trying to summarise a chapter without referring to the text can be a useful way of determining which areas you know and which you don't.

**Three ways of taking notes:**

(1) **Summarise the key points of a chapter.**

(2) **Make linear notes** – a list of headings, divided up with subheadings listing the key points. If you use linear notes, you can use different colours to highlight key points and keep topic areas together. Use plenty of space to make your notes easy to use.

(3) **Try a diagrammatic form** – the most common of which is a mind map. To make a mind map, put the main heading in the centre of the paper and put a circle around it. Then draw short lines radiating from this to the main sub-headings, which again have circles around them. Then continue the process from the sub-headings to sub-sub-headings, advantages, disadvantages, etc.

**Highlighting and underlining**

You may find it useful to underline or highlight key points in your Study Text - but do be selective. You may also wish to make notes in the margins.

**Revision**

The best approach to revision is to revise the course as you work through it. Also try to leave four to six weeks before the exam for final revision. Make sure you cover the whole syllabus and pay special attention to those areas where your knowledge is weak. Here are some recommendations:
Read through the text and your notes again and condense your notes into key phrases. It may help to put key revision points onto index cards to look at when you have a few minutes to spare.

Review any assignments you have completed and look at where you lost marks – put more work into those areas where you were weak.

Practise examination standard questions under timed conditions. If you are short of time, list the points that you would cover in your answer and then read the model answer, but do try to complete at least a few questions under examination conditions.

Also practise producing answer plans and comparing them to the model answer.

It is important to practise answering questions using the CBE software and to familiarise yourself with the CBE functionality, particularly the spreadsheet functions.

If you are stuck on a topic find somebody (a tutor) to explain it to you.

Read good newspapers and professional journals, especially ACCA’s Student Accountant – this can give you an advantage in the examination.

Ensure you know the structure of the examination – how many questions and of what type you will be expected to answer. During your revision attempt all the different styles of questions you may be asked.

Further reading

You can find further reading and technical articles under the student section of ACCA’s website.
TAX RATES AND ALLOWANCES

Supplementary instructions and tax rates and allowances given in the examination

1. Calculations and workings need only be made to the nearest £.
2. All apportionments should be made to the nearest month.
3. All workings should be shown in section C.

### INCOME TAX

<table>
<thead>
<tr>
<th>Type and Rate</th>
<th>Normal rates (Basic, Higher, Additional)</th>
<th>Dividend rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic rate</td>
<td>£1 – £37,500</td>
<td>20% 7.5%</td>
</tr>
<tr>
<td>Higher rate</td>
<td>£37,501 – £150,000</td>
<td>40% 32.5%</td>
</tr>
<tr>
<td>Additional rate</td>
<td>£150,001 and over</td>
<td>45% 38.1%</td>
</tr>
<tr>
<td>Savings income nil rate band</td>
<td>– Basic rate taxpayers</td>
<td>£1,000</td>
</tr>
<tr>
<td></td>
<td>– Higher rate taxpayers</td>
<td>£500</td>
</tr>
<tr>
<td>Dividend nil rate band</td>
<td></td>
<td>£2,000</td>
</tr>
</tbody>
</table>

A starting rate of 0% applies to savings income where it falls within the first £5,000 of taxable income.

### Personal allowance

<table>
<thead>
<tr>
<th>Type</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal allowance</td>
<td>£12,500</td>
</tr>
<tr>
<td>Transferable amount</td>
<td>£1,250</td>
</tr>
<tr>
<td>Income limit</td>
<td>£100,000</td>
</tr>
</tbody>
</table>

Where adjusted net income is £125,000 or more, the personal allowance is reduced to zero.

### Residence status

<table>
<thead>
<tr>
<th>Days in UK</th>
<th>Previously resident</th>
<th>Not previously resident</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 16</td>
<td>Automatically not resident</td>
<td>Automatically not resident</td>
</tr>
<tr>
<td>16 to 45</td>
<td>Resident if 4 UK ties (or more)</td>
<td>Automatically not resident</td>
</tr>
<tr>
<td>46 to 90</td>
<td>Resident if 3 UK ties (or more)</td>
<td>Resident if 4 UK ties</td>
</tr>
<tr>
<td>91 to 120</td>
<td>Resident if 2 UK ties (or more)</td>
<td>Resident if 3 UK ties (or more)</td>
</tr>
<tr>
<td>121 to 182</td>
<td>Resident if 1 UK tie (or more)</td>
<td>Resident if 2 UK ties (or more)</td>
</tr>
<tr>
<td>183 or more</td>
<td>Automatically resident</td>
<td>Automatically resident</td>
</tr>
</tbody>
</table>

### Child benefit income tax charge

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.
Car benefit percentage
The relevant base level of CO₂ emissions is 95 grams per kilometre.
The percentage rates applying to petrol cars (and diesel cars meeting the RDE2 standard) with CO₂ emissions up to this level are:

- 50 grams per kilometre or less: 16%
- 51 grams to 75 grams per kilometre: 19%
- 76 grams to 94 grams per kilometre: 22%
- 95 grams per kilometre: 23%

Car fuel benefit
The base figure for calculating the car fuel benefit is £24,100.

Company van benefits
The company van benefit scale charge is £3,430, and the van fuel benefit is £655.

Individual Savings Accounts (ISAs)
The overall investment limit is £20,000.

Property income
Basic rate restriction applies to 75% of finance costs relating to residential properties.

Pension scheme limits
Annual allowance: £40,000
Minimum allowance: £10,000
Income limit: £150,000
The maximum contribution which can qualify for tax relief without any earnings is £3,600.

Approved mileage allowance: cars
- Up to 10,000 miles: 45p
- Over 10,000 miles: 25p

Capital allowances: rates of allowance

- Plant and machinery:
  - Main pool: 18%
  - Special rate pool: 6%

- Motor cars:
  - New cars with CO₂ emissions up to 50 grams per kilometre: 100%
  - CO₂ emissions between 51 and 110 grams per kilometre: 18%
  - CO₂ emissions over 110 grams per kilometre: 6%
Annual investment allowance
Rate of allowance 100%
Expenditure limit £1,000,000

Cash basis accounting
Revenue limit £150,000

Cap on income tax reliefs
Unless otherwise restricted, reliefs are capped at the higher of £50,000 or 25% of income.

CORPORATION TAX
Rate of tax – Financial year 2019 19%
– Financial year 2018 19%
– Financial year 2017 19%
Profit threshold £1,500,000

VALUE ADDED TAX
Standard rate 20%
Registration limit £85,000
Deregistration limit £83,000

INHERITANCE TAX: tax rates
Nil rate band £325,000
Residence nil rate band £150,000
Rate of tax on excess over nil rate band – Lifetime rate 20%
– Death rate 40%

Inheritance tax: taper relief
Years before death Percentage reduction
More than 3 but less than 4 years 20%
More than 4 but less than 5 years 40%
More than 5 but less than 6 years 60%
More than 6 but less than 7 years 80%

CAPITAL GAINS TAX
Normal rates Residential property
Lower rate 10% 18%
Higher rate 20% 28%
Annual exempt amount £12,000
Entrepreneurs’ relief and investor’s relief
– Lifetime limit £10,000,000
– Rate of tax 10%
NATIONAL INSURANCE CONTRIBUTIONS

Class 1
Employee
- £1 – £8,632 per year: Nil
- £8,633 – £50,000 per year: 12%
- £50,001 and above per year: 2%

Class 1
Employer
- £1 – £8,632 per year: Nil
- £8,633 and above per year: 13.8%

Employment allowance: £3,000

Class 1A
- 13.8%

Class 2
- £3.00 per week
- Small profits threshold: £6,365

Class 4
- £1 – £8,632 per year: Nil
- £8,633 – £50,000 per year: 9%
- £50,001 and above per year: 2%

RATES OF INTEREST (assumed)

Official rate of interest: 2.50%
Rate of interest on underpaid tax: 3.25%
Rate of interest on overpaid tax: 0.50%

STANDARD PENALTIES FOR ERRORS

<table>
<thead>
<tr>
<th>Taxpayer behaviour</th>
<th>Maximum penalty</th>
<th>Minimum penalty – unprompted disclosure</th>
<th>Minimum penalty – prompted disclosure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deliberate and concealed</td>
<td>100%</td>
<td>30%</td>
<td>50%</td>
</tr>
<tr>
<td>Deliberate but not concealed</td>
<td>70%</td>
<td>20%</td>
<td>35%</td>
</tr>
<tr>
<td>Careless</td>
<td>30%</td>
<td>0%</td>
<td>15%</td>
</tr>
</tbody>
</table>
Chapter 1

The UK tax system

Chapter learning objectives

Upon completion of this chapter you will be able to:

- describe the purpose (economic, social, etc.) of taxation in a modern economy
- explain the difference between direct and indirect taxation
- identify the different types of capital and revenue tax
- describe the overall structure of the UK tax system
- state the different sources of revenue law
- describe the organisation HM Revenue & Customs (HMRC) and its terms of reference
- explain the difference between tax avoidance and tax evasion, and the purposes of the General Anti-Abuse Rule (GAAR)
- appreciate the interaction of the UK tax system with that of other tax jurisdictions and the need for double taxation agreements
- explain the need for an ethical and professional approach.

One of the PER performance objectives (PO1) is to always act in the wider public interest. You need to take into account all relevant information and use professional judgement, your personal values and scepticism to evaluate data and make decisions. You should identify right from wrong and escalate anything of concern. You also need to make sure that your skills, knowledge and behaviour are up-to-date and allow you to be effective in your role. Working though this chapter should help you understand how to demonstrate that objective.
Within the Financial Accounting unit you had an introduction to VAT, this chapter will put VAT in context as an indirect tax and introduce direct taxes as well. This chapter also introduces you to professional ethics and the concept of money laundering which will feature in other papers you undertake such as Audit and Assurance and Corporate and Business Law.

### Purpose of taxation

#### Economic

- The system of taxation and spending by government impacts on the economy of a country as a whole.
- Taxation policies are used to influence many economic factors such as inflation, employment levels, imports/exports.
- They are also used to influence the behaviour of business and individuals.
The current UK tax system encourages:

(1) individual saving habits by offering tax incentives on savings accounts such as individual savings accounts (ISAs)
(2) charitable donations by offering tax relief e.g. through gift aid
(3) entrepreneurs and investors by offering tax relief for investments in specified schemes

The current UK tax system discourages:

(1) motoring by imposing fuel duties
(2) smoking and drinking alcohol by imposing significant taxes on cigarettes and alcoholic drinks
(3) environmental pollution by imposing a variety of taxes such as landfill tax, climate change levy and linking CO₂ emissions to the taxation of company cars.

• As government objectives change, taxation policies are altered.

Social justice

The type of taxation structure imposed has a direct impact on the accumulation and redistribution of wealth within a country.

The main taxation principles are listed below. The arguments for and against each of these are often the matter of significant political debate.

Progressive taxation

• As income rises, the proportion of tax raised also rises. For example: 20% up to £37,500 of taxable income and 40% up to £150,000 of taxable income.

• Income tax is an example of a progressive tax.

Regressive taxation

• As income rises the proportion of tax paid falls.

• For example, the tax on a litre of petrol is the same regardless of the level of income of the purchaser.

• This is a regressive tax as it represents a greater proportion of income for a low income earner than a high income earner

Proportional taxation

• As income rises the proportion of tax remains constant. For example, 10% of all earnings regardless of the level.

Ad valorem principle

• A tax calculated as a percentage of the value of the item. For example, 20% VAT on most goods sold in the UK.
1 Types of tax

The UK tax system, administered by HM Revenue and Customs (HMRC), comprises a number of different taxes. The following taxes are examinable.

Income tax

- Payable by individuals on their earnings (e.g. self-employment and employment) and investment income.

National insurance contributions (NICs)

- Payable by individuals who are either employed or self-employed on their earnings.
- Also payable by businesses (e.g. sole trader, company) in relation to their employees.

Capital gains tax

- Payable by individuals on the disposal of capital assets.
- Capital assets include land, buildings and shares, and can also include smaller items such as antiques.

Inheritance tax

- Payable by executors on the value of the estate of a deceased person.
- Also payable in respect of certain gifts during an individual's lifetime.

Corporation tax

- Payable by companies on their income and gains.

Value added tax (VAT)

- Payable on the supply of goods and services by the final consumer.

2 Direct versus indirect taxation

Direct taxation

- The taxpayer pays direct taxes directly to HMRC.
- Direct revenue taxes are based on income/profits and the more that is earned/received, the more tax is paid. Examples include income tax and corporation tax.
- Direct capital taxes are based on the value of assets disposed of either through sale, gift or inheritance. Examples include capital gains tax and inheritance tax.
Indirect taxation

- An indirect tax is collected from the taxpayer via an intermediary such as a retail shop.
- The intermediary then pays over the tax collected to HMRC.
- An example of an indirect tax is VAT. The consumer (taxpayer) pays VAT to the supplier (intermediary), who then pays it to HMRC.

3 Structure of the UK tax system

HM Revenue and Customs

- HMRC is the government department that controls and administers all areas of UK tax law.
- The purpose of HMRC is to:
  - make sure that the money is available to fund the UK’s public services
  - help families and individuals with targeted financial support
- Heading up HMRC are the Commissioners whose main duties are:
  - to implement statute law
  - to oversee the process of UK tax administration.
- Staff who work for HMRC are known as Officers of Revenue and Customs.
- HMRC have offices located all over the UK, many of which have specialist functions such as dealing with international businesses or large companies.
- Most taxpayers will never deal directly with a local tax office as HMRC encourage taxpayers to file tax returns online, use their website www.hmrc.gov.uk to answer queries or telephone or email a number of specialist helplines (e.g. the self-assessment helpline).
- Taxpayers are encouraged to file their tax returns online and pay by electronic means.
  - Companies have to file returns and pay tax electronically.
  - Individual taxpayers can still send their returns and payments by post if they wish.
- Under self-assessment the responsibility for reporting the correct amount of taxable income and paying the correct amount of tax is delegated to the taxpayer to ‘self-assess’.
- However, the Officers of Revenue and Customs can still be requested to do the calculation of tax payable based on the income reported for individual taxpayers (but not companies).
4 Sources of tax law

The basic rules of the UK tax system have been established from the following sources:

**Statute law (tax legislation)**
- This is law and therefore adherence is mandatory.
- Tax legislation is normally updated each year by one annual finance act that follows from the proposals made by the Chancellor of the Exchequer in his annual Budget statement.
- Statutory instruments are issued where detailed notes are required on an area of tax legislation.

**Case law**
- Case law refers to the decisions made in tax cases brought before the courts.
- Often the case challenges current tax legislation or argues a certain interpretation of the tax law should be applied.
- These rulings are binding and therefore provide guidance on the interpretation of tax legislation.

**HMRC guidance**
- As the tax legislation can be complex to understand and open to misinterpretation, further guidance is issued by HMRC in order to:
  - explain how to implement the law
  - give their interpretation of the law.
- The main types of guidance are listed below.

**Statement of practice**
- Provides HMRC’s interpretation of tax law and often provides clarification or detail of how rules should be applied.
Extra-statutory concessions

- Extra-statutory concessions allow a relaxation of the strict letter of the law in certain circumstances. A concession is often given where undue hardship or anomalies would otherwise occur.

Internal HMRC manuals

- HMRC’s own manuals, produced for their staff, give guidance on the interpretation of the law. They are also available to the public.

HMRC website, leaflets and booklets

- Aimed at the general public and provide explanations of various tax issues in non-technical language.

Detailed technical guidance

- HMRC issue Notices and Guidance Notes, aimed at tax agents and advisers, to explain tax issues in more technical detail than is normally required by the general public.
- HMRC Briefs provide detailed technical guidance on a specific tax issue that has arisen in the year.

5 Interaction of UK and overseas tax systems

Due to the differing tax systems in overseas countries, it is possible that income is taxed under two different systems.

Double taxation agreements

Agreements between most countries have been established to decide how a particular individual/company should be taxed. Some details of how these operate are given below.

Double taxation agreements

- These are known as bilateral double taxation treaties.
- Such treaties take precedence over domestic UK tax law and either:
  - exempt certain overseas income from tax in the UK, or
  - provide relief where tax is suffered in two countries on the same income.
- Where no such treaty exists, the UK system still allows for relief to be given where double tax is paid.

Double taxation relief (DTR) for individuals and companies is not examinable.
### Influence of the European Union (EU)

- One of the aims of the EU is to remove trade barriers and distortions due to different economic and political policies imposed in different member states.
- Although EU members do not have to align their tax systems, members can agree to jointly enact specific laws, known as Directives.
- To date the most important of these have been agreements regarding VAT. EU members have aligned their VAT policies according to European legislation. They have not however aligned their rates of VAT.
- Many cases have been brought before the European Court of Justice regarding the discrimination of non-residents by the UK tax system, some of which have resulted in changes to UK tax law.

### Tax avoidance versus tax evasion

The difference between tax avoidance and evasion is important due to the legal implications.

**Tax evasion**

- The term tax evasion summarises any action taken to avoid or reduce tax by illegal means.
- The main forms of tax evasion are:
  - suppressing information (e.g. failing to declare taxable income to HMRC)
  - submitting false information (e.g. claiming expenses that have not been incurred).
- Tax evasion is an illegal activity; and carries a risk of criminal prosecution (fines and/or imprisonment).

**Tax avoidance**

- Tax avoidance is using the taxation regime to one’s own advantage by arranging your affairs to minimise your tax liability. This can also be referred to as tax planning.
- It is legal and does not entail misleading HMRC (e.g. making tax savings by investing in ISAs).
- The term is also used to describe tax schemes that utilise loopholes in the tax legislation.
For each of the following explain whether it is an example of tax evasion or tax avoidance.

- Selling a capital asset in May 2020 instead of March 2020 to ensure that the gain is taxed in a later tax year.
- Altering a bill of £700 to read £7,000 so that a larger tax deduction is claimed on your tax return.
- Moving funds into an ISA account so that interest can be earned tax free

Specific tax avoidance schemes have been targeted by HMRC with anti-avoidance legislation to counter the tax advantages gained by the taxpayer.

HMRC have also introduced:
- disclosure obligations regarding anti-avoidance tax schemes requiring the declaration of the details of the scheme to HMRC
- a General Anti-Abuse Rule (GAAR) to counter artificial and abusive schemes where arrangements (which cannot be regarded as a reasonable course of action) are put in place deliberately to avoid tax.

Professional and ethical guidance

The ACCA ‘Professional Code of Ethics and Conduct’ has already been covered in your earlier studies. A reminder of the key points is given below.

Fundamental principles

The ACCA expects its members to:

- adopt an ethical approach to work, employers and clients
- acknowledge their professional duty to society as a whole
- maintain an objective outlook, and
- provide professional, high standards of service, conduct and performance at all times.

To meet these expectations the ACCA ‘Code of Ethics and Conduct’ sets out five fundamental principles, which members should abide by:

- Objectivity
- Professional competence and due care
- Professional behaviour
- Integrity
- Confidentiality.
Remember: OPPIC Objectivity (O)
- Members should not allow bias, conflicts of interest or the influence of others to override objectivity.

Professional competence and due care (P)
- Members have an ongoing duty to maintain professional knowledge and skills to ensure that a client/employer receives competent, professional service based on current developments.
- Members should be diligent and act in accordance with applicable technical and professional standards when providing professional services.

Professional behaviour (P)
- Members should refrain from any conduct that might bring discredit to the profession.

Integrity (I)
- Members should act in a straightforward and honest manner in all professional and business relationships.

Confidentiality (C)
- Members should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties unless:
  - they have proper and specific authority, or
  - there is a legal or professional right or duty to disclose (e.g. money laundering).
- Confidential information acquired as a result of professional and business relationships, should not be used for the personal advantage of members or third parties.

Advise on taxation issues
- A person advising either a company or an individual on taxation issues has duties and responsibilities towards both his client, and HMRC.
- A member must never be knowingly involved in tax evasion.
- The distinction between acceptable tax planning and aggressive tax avoidance, whilst both legal, has been the subject of significant public debate in recent years.
• As a result the ACCA’s ethical guidance states that members must not create, encourage or promote tax planning arrangements or structures that:
  – set out to achieve results that are contrary to the clear intention of Parliament in enacting relevant legislation and/or
  – are highly artificial or highly contrived and seek to exploit shortcomings within the relevant legislation.

**Dealing with HMRC**

It is important to ensure that information provided to HMRC is accurate and complete.

A member must not assist a client to plan or commit any offence.

If a member becomes aware that the client has committed a tax irregularity:

• they must discuss it with the client and ensure proper disclosure is made.

Examples would include:

• not declaring income that is taxable
• claiming reliefs to which they are not entitled
• not notifying HMRC where they have made a mistake giving rise to an underpayment of tax, or an increased repayment.

Where a client has made an error:

• it will be necessary to decide whether it was a genuine error or a deliberate or fraudulent act.

Once an error has been discovered:

• the member should explain to the client the requirement to notify HMRC as soon as possible, and the implications of their not doing so.

Should the client refuse to make a full and prompt disclosure to HMRC:

• the member must write and explain the potential consequences and,
• consider whether the amount is material, and if it is, whether they should continue to act for the client.

If the client still refuses to make a full disclosure, the member:

• should cease to act for the client.
• must then also write to HMRC informing them that they have ceased to act for the client, but without disclosing the reason why.
• must then consider their position under the Money Laundering Regulations.
Money Laundering Regulations

Money laundering is the term used for offences including benefiting from or concealing the proceeds of a crime.

All businesses within regulated sectors must appoint a Money Laundering Reporting Officer (MLRO) within the firm.

The MLRO will decide whether a transaction should be reported to the National Crime Agency (NCA).

Where a report is made the client should not be informed as this may amount to ‘tipping off’, which is an offence.

A report to NCA does not remove the requirement to disclose the information to HMRC.

Test your understanding 2

When you are checking a recent tax computation from HMRC you notice that they have made an error which has resulted in your client receiving a larger repayment than should have been made.

What actions should you take?

Dishonest conduct of tax agents

- There is a civil penalty of up to £50,000 for dishonest conduct of tax agents.
- In cases where the penalty exceeds £5,000, HMRC may publish details of the penalised tax agent.
- With agreement of the Tax Tribunal (Chapter 13), HMRC can access the working papers of a dishonest agent.
Chapter summary

- Social Justice
  - Purpose
  - Economic
  - Indirect
  - Direct
  - VAT
    - Income tax
    - Capital gains tax
    - Inheritance tax
    - Corporation tax
    - National insurance

- UK Tax System
  - Professional and Ethical Framework
    - Objectivity
    - Professional competence and due care
    - Professional behaviour
    - Integrity
    - Confidentiality
    - Tax advice
  - Tax Avoidance versus Tax Evasion
  - Dealing with HMRC
  - Interaction of UK and Overseas Tax
    - Double taxation relief

- HMRC
  - Sources of Tax Law
  - HMRC Guidance
    - Detailed technical guidance
    - HMRC website, leaflets and booklets
    - Internal manuals
    - Extra-statutory concessions
    - Statements of Practice
  - Statute
  - Case Law
9 Practice objective test questions

Test your understanding 3
Which of the following is statutory legislation?
A Case law
B Extra-statutory concession
C HMRC statement of practice
D Income Tax Act 2007

Test your understanding 4
An ACCA member discovers that a client has deliberately not declared a source of income on their tax return.
Which of the following statements is correct?
A The member should immediately notify HM Revenue & Customs of the error.
B The member should notify the client of the error and explain the potential consequences before considering ceasing to act.
C The member must immediately make a report to the National Crime Agency due to the possibility of money laundering and notify the client that they have done so.
D The member should cease to act for the client if they refuse to disclose the error and advise HM Revenue & Customs that they have ceased to act and the reason why.

Test your understanding 5
Which of the following is an indirect tax?
A Corporation tax
B Capital gains tax
C Income tax
D Value added tax

Test your understanding 6
Which of the following taxes is NOT paid by a company?
A Income tax
B Corporation tax
C National insurance contributions
D Value added tax
Test your understanding answers

Test your understanding 1

<table>
<thead>
<tr>
<th>Tax evasion or tax avoidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Changing the timing of the sale of an item so as to delay the tax charge is tax avoidance. Individuals may also do this to take advantage of capital gains tax allowances that are given each year.</td>
</tr>
<tr>
<td>• Altering paperwork is tax evasion – submitting false information.</td>
</tr>
<tr>
<td>• Moving funds into a tax-free ISA account is tax avoidance – minimising your tax liability within the law.</td>
</tr>
</tbody>
</table>

Test your understanding 2

<table>
<thead>
<tr>
<th>HMRC error</th>
</tr>
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<tbody>
<tr>
<td>The position should be reviewed carefully to confirm that an error has been made. The client should be contacted for authority to disclose the error to HMRC. The client should be told the consequences of not disclosing the error, including the implications for interest and penalties. If the client refuses to allow the disclosure it would be necessary to consider whether the amount is material, and if it is, whether you can continue to act for the client. If it is decided that it is not appropriate to continue acting, the client must be informed in writing. HMRC should also be notified that you have ceased to act, but not the reason why. It may be necessary to make a report to NCA under the Money Laundering Regulations.</td>
</tr>
</tbody>
</table>

Test your understanding 3

<table>
<thead>
<tr>
<th>The correct answer is D.</th>
</tr>
</thead>
</table>
Test your understanding 4
The correct answer is B.
A member cannot breach confidentiality by disclosing a client's error to HMRC without the client's permission.
A member should discuss any potential money laundering with their firm's Money Laundering Reporting Officer (MLRO), the MLRO will then decide whether a transaction should be reported to the National Crime Agency (NCA). The client should never be informed of any report made to the NCA as this may amount to 'tipping off', which is an offence.

Test your understanding 5
The correct answer is D.

Test your understanding 6
The correct answer is A.