

ACCA Certificate in Taxation
(RQF Level 4)

FTX (FA2024)

Foundations in Taxation

STUDY TEXT

For June and December 2025 examination
sittings

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Chapter 1

INTRODUCTION TO THE UK TAX SYSTEM

INTRODUCTION

This chapter looks at the administration of the tax system. It will give you an understanding of the main sources of UK tax legislation and the mechanism by which the UK tax system operates. It also looks at the categories into which income is divided for tax purposes. This chapter covers syllabus areas A1 and A2.

CONTENTS	LEARNING OUTCOMES
1 Overall structure of the UK tax system	At the end of this chapter, you should be able to:
2 Identify the main sources of UK tax legislation	• describe the overall structure of the UK tax system
3 Identify the key reference sources for UK tax legislation	• identify the main sources of UK tax legislation
4 Describe the organisation of HM Revenue and Customs (HMRC)	• identify the key reference sources for UK tax legislation
5 Describe the appeals process – reviews and the Tax Tribunal	• describe the organisation HM Revenue and Customs (HMRC) and its terms of reference including the appeals system
6 Taxable sources of income	• describe the appeals process for income tax First and Upper Tier Tribunals
	• explain the system of income tax and its background (how the legislation does not define income but defines taxable sources)
	• identify the different types of capital and revenue tax
	• explain the difference between direct and indirect taxation.

1 OVERALL STRUCTURE OF THE UK TAX SYSTEM

Taxation is the raising of money by the State from the general public.

- The UK Parliament passes tax legislation.
- The Treasury is the ministry responsible, under the Chancellor of the Exchequer (a government minister), for the imposition and collection of taxation.
- The Treasury appoint permanent civil servants, as the Board of Revenue and Customs, to administer the UK's taxation system.
- See Section 4 for more details of the organisation of HM Revenue and Customs (HMRC).

2 IDENTIFY THE MAIN SOURCES OF UK TAX LEGISLATION

2.1 SCOPE

The principal taxes which are examinable are:

Tax	Suffered by	On
Income tax	Individuals	Employment income Self-employed income Investment income
National insurance contributions (NICs)	Individuals Businesses (sole traders, partnerships and companies)	On earnings from employment or self-employment On employee earnings
Capital gains tax	Individuals	On disposal of capital assets like shares, land and buildings and antiques
Corporation tax	Companies	On their income and gains
Value added tax (VAT)	Consumers	On the purchase of goods and services from registered businesses

2.2 DIRECT OR INDIRECT TAXATION

All these taxes, except VAT, are **DIRECT** taxes. This means that they are paid directly to HMRC by the persons or companies on whom the tax is charged. They are based on income/profits and the more that is earned/received, the more tax is paid.

VAT is an **INDIRECT** tax. This is a tax which is collected from the taxpayer by an intermediary such as a retail shop. The intermediary then pays the VAT collected over to HMRC.

2.3 CAPITAL OR REVENUE TAXES

CAPITAL taxes apply to capital assets whereas **REVENUE** taxes apply to income.

Capital gains tax is a capital tax. Note that companies do not pay capital gains tax but pay corporation tax on their gains calculated under capital gains tax rules.

2.4 SOURCES OF TAX LAW

The basic rules of the UK tax system are contained in various statutes – the main ones are:

- Income and Corporation Taxes Act 1988 (ICTA 88)
- The Taxation of Chargeable Gains Act 1992 (TCGA 92)
- Capital Allowances Act 2001 (CAA 01)
- Taxes Management Act 1970 (TMA 70)
- The Income Tax (Employment and Pensions) Act 2003 (ITEPA 03)
- Income Tax (Trading and Other Income) Act 2005 (ITTOIA 05)
- Income Tax Act 2007
- Corporation Tax Act 2009 (CTA 2009) and Corporation Tax Act 2010 (CTA 2010)
- Annual Finance Acts

Amendments and additions to the law are given effect by means of the annual Finance Act. Each Finance Act is the vehicle by which the annual taxes are reimposed. Each provides that it shall be construed as one with all previous legislation, so that the total body of tax law is brought into force each year. In some years there may be more than one Finance Act.

You do not need to learn this list for the examination.

3 IDENTIFY THE KEY REFERENCE SOURCES FOR UK TAX LEGISLATION

Legislation can be given effect, or interpreted, in the following ways:

Statutory Instruments

Acts of Parliament confer powers on Ministers to make more detailed orders, rules or regulations by means of statutory instruments. An Act will often contain a broad framework and statutory instruments are used to provide the necessary detail that would be too complex to include in the Act itself.

Case law

Judges cannot make law relating to taxation, but they can be required to interpret the law which applies to the circumstances of the particular case. These rulings are binding and therefore provide guidance on the interpretation of tax legislation.

Extra-Statutory Concessions

In cases where there is doubt as to the meaning of the law, or where a strict application of the law produces an unacceptable result, HMRC does not always seek to apply the law strictly but instead makes an Extra-Statutory Concession.

HMRC Guidance

HMRC issues various types of guidance, setting out its interpretation of the legislation, both on its website and in publications such as Briefs, Statements of Practice, Notices and Guidance notes. They have no legal force and do not remove the taxpayer's right of appeal.

4 DESCRIBE THE ORGANISATION OF HM REVENUE AND CUSTOMS (HMRC)

4.1 OVERVIEW

- HMRC is the body that controls and administers all areas of UK tax law.
- Commissioners head up HMRC and their main duties are to implement statute law and to oversee the process of UK tax administration.
- Staff who work for HMRC are known as officers of Revenue and Customs.

4.2 DEALING WITH HMRC

- HMRC has 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 encourages taxpayers to file tax returns online, use its website (www.gov.uk/government/organisations/hm-revenue-customs) 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, but 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 has been 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).

KEY TERMS

Statutory Instruments – allow government ministers to make an order giving effect to legislation.

Extra-Statutory Concession – used by HMRC to deal with cases where a strict application of the law produces an unacceptable result.

Statements of Practice – public announcements of HMRC’s interpretation of the legislation. They have no legal force.

Officer of Revenue and Customs – an employee of HMRC who is responsible for (among other things) issuing tax returns, examining completed returns and checking the taxpayer’s calculations.

Appeal – the process by which a taxpayer formally disagrees with a decision made by HMRC.

Tax Tribunal – independent tribunal that hears appeals against HMRC decisions.

SELF TEST QUESTIONS

	Paragraph
1 What are the main sources of UK tax legislation?	2.4
2 What is a Statutory Instrument?	3
3 What is the function of the Tax Tribunal?	5.3
4 Identify the main sources of taxable income.	6

MULTIPLE CHOICE QUESTIONS

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

- 2 When a taxpayer requests a review of a decision made by HMRC it is initially carried out by whom?
 - A The Tax Tribunal
 - B The existing officer of Revenue and Customs
 - C A different officer of Revenue and Customs
 - D The Court of Appeal

- 3 Which of the following is an indirect tax?
 - A Corporation tax
 - B Capital gains tax
 - C Income tax
 - D Value added tax

- 4 Which of the following taxes is NOT paid by a company?
 - A Capital gains tax
 - B Corporation tax
 - C National insurance contributions
 - D Value added tax

For suggested answers, see the 'Answers' section at the end of the book.



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