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| **Leicester De Montfort University**  **Legal Practice Course**  **Taxation**  **Small Group Session: Income Tax**  **Pre Session Quiz Answers: Income Tax** |

(a) One of the sources set out in the Income Tax (Trading and Other Income) Act 2005 or the Income Tax (Earnings and Pensions) Act 2003

Income from property Part 3;

Income from Trade Part 2;

Savings and Investment income (interest and dividends) Part 4;

Employment ITEPA 2003;

or other income Part 5.

(b) No. Companies pay corporation tax.

(c) Interest on an account at Barclays would be chargeable to income tax under Part 4, income from savings.

Income from an ISA, interest on Savings Certificates and on damages for personal injury are all exempt incomes. Profit made on the sale of a property would be capital so chargeable to capital gains tax.

(d) Total Income

LESS Allowable Reliefs

EQUALS Net Income

LESS Personal Allowance

EQUALS Taxable Income

Separate types of income and tax at appropriate rate

Add together the above figures

EQUALS Income Tax Liability

(e) Apply to non savings & non dividend income first, then to savings and then dividends. Savings & dividend income is taxed as the “top slice”.

(f) £12,570

(g) £1,000 for basic rate taxpayers, £500 for higher rate tax payers, £0 for additional rate tax payers.

(h) £2,000 tax free dividend allowance for all tax payers.

1. Net Income = £40,000

LESS Personal Allowance of £12,570 (2022/23)

Equals Taxable Income of £27,430

Apply rates of tax:

20% on full £27,430 as within the basic rate band (up to £37,700)

EQUALS £5,486

(j) To be a deductible expense it must be something which is:

(a) of an income nature, e.g., recurring element

(b) incurred wholly and exclusively for the purpose of the trade

e.g., rent/stationery/salaries/utility bills.

(k) Normally capital items are not deductible for calculating trading profits as they are not of an income nature. However, plant/machinery can be deducted. Trading profits can be deducted by a set percentage of the capital items’ value.

(l) If new item/s of plant/machinery are purchased a 100% deduction can be made on expenditure up to 1 million pounds in an accounting period. This is known as the Annual Investment Allowance. Anything in excess has a written down allowance of 18%. In subsequent years an 18% written down allowance can be used. The AIA is reduced to £200,000 from March 2023.The 18% written down allowance will still apply.