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

(a) **To be classified as income and therefore chargeable to income tax, the source of the income must come from where? Give three examples.**

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) **Do companies pay income tax?**

No. Companies pay corporation tax.

(c) **Which of the following would be chargeable to income tax:**

 Income earned from an ISA.

 Interest earned on Savings Certificates.

 Interest on damages for personal injury

 Profit made on the sale of a property.

 Interest earned on a bank account with Barclays.

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) **What is the income tax calculation?**

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) **When doing an income tax calculation, what is the order of taxation?**

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

(f) **What is the Personal Allowance for Income Tax in this tax year?**

£12,570

(g) **What is the Personal Savings Allowance for this year?**

£1,000 for basic rate taxpayers, £500 for higher rate taxpayers, £0 for additional rate taxpayers.

(h) **What is the Dividend Allowance for this year?**

£2,000 tax free dividend allowance for all taxpayers.

1. **If A’s net income was £40,000, none of which has come from savings or dividends, what would be his total tax liability?**

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) **What conditions must be met in order for something to be a deductible expenditure when calculating trading profits? Give three examples.**

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) **What items of capital can be deducted from trading profits by way of capital allowances?**

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) **What % deduction can be made for plant and machinery in the first year the capital item is owned and what % deduction can be made in subsequent years?**

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.