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

**Outcomes**

As a result of this Small Group Session, you will be able to:

* Understand how income tax is calculated.
* Understand how dividends are treated for income tax purposes.
* Understand when a business can apply capital allowances and apply this to a set of facts.
* Calculate a business’ trading profit.

**Materials and preparation needed**

For this Small Group Session, you must:

* Listen to the six on-line lectures (Taxation Lectures 1-6) relating to income tax.
* Read the chapters on income tax in the online Legal Foundations Manual and the chapter on taxation of sole traders and partnerships in the online Business Law and Practice Manual.
* Complete the Pre-Session Quiz Questions and compare your answers to those which will be released online before this SGS.
* Prepare your answers to the Questions below.
* You will need a calculator.

**Question 1**

Richard and Kate are shareholders in a private limited company.

In the 2022/23 tax year the company makes a good profit and Richard and Kate

as the only shareholders receive a dividend of £8,000 each. Richard has a

taxable income of £45,000 and Kate has a taxable income of £20,000.

**Calculate the tax liability on the dividends for Richard and Kate.**

**Note: You only need to calculate the taxation on the dividend.**

**Question 2**

Frank has a taxable income of £38,000 of which £4,000 is interest on savings.

**Calculate the tax liability on the interest on savings Frank receives.**

**Note: You only need to calculate the taxation on the savings.**

**It will assist you to follow the example calculation in the Audio Lecture 4**

**relating to Beverley.**

**Question 3**

Gavin, aged 37 years, is a self-employed plumber. In the tax year 2022/23 his

business makes a trading profit of £40,500. Gavin also receives £6,000 rental

income from a house he lets, £400 interest on his savings account with

the Nationwide Building Society and £7,000 in dividends.

**Calculate Gavin’s income tax liability for the tax year 2022/23.**

**Question 4**

Mr Ian Smith owns and runs a business called “Outdoor Pursuits”. As well as

selling a variety of sporting equipment, the business also provides lessons in

surfing, windsurfing and sailing.

For the year ending 30 September 2022 “Outdoor Pursuits” has seen sales rise

to £300,000. The total outgoings for the same year amounted to £188,300, a

breakdown of which is set out below.

 Rental payment in respect of shop and local water park where

 lessons are held £55,000.00

 Purchases (money spent on stock in trade) £40,000.00

 Electricity £2,800.00

 Business rates £10,500.00

 Salaries £80,000.00

The accounts for "Outdoor Pursuits" also show that some new cash registers

were purchased in May 2021, the current written down value of which is now

£30,000.

Calculate Ian’s trading profits for the year ending 30 September 2022.