

# CHAPTER 2: COMPUTING TAXABLE INCOME AND THE INCOME TAX LIABILITY

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## LEARNING OUTCOME

At the end of the chapter, you should be able to:

- TLO B1a** : **Explain** how the residence of an individual is determined.
- TLO B4g** : **Compute** the tax payable on savings and dividends income.
- TLO B4h** : **Recognise** the treatment of individual savings accounts (ISAs) and other tax-exempt investments.
- TLO B4i** : **Understand** how the accrued income scheme applies to UK Government securities (gilts).
- TLO B5a** : **Prepare** a basic income tax computation involving different types of income.
- TLO B5b** : **Calculate** the amount of personal allowance available.
- TLO B5c** : **Understand** the impact of the transferable amount of personal allowance for spouses and civil partners.
- TLO B5d** : **Compute** the amount of income tax payable.
- TLO B5e** : **Understand** the treatment of interest paid for a qualifying purpose.
- TLO B5f** : **Understand** the treatment of gift aid donations and charitable giving.
- TLO B5g** : **Explain** and **compute** the child benefit tax charge.
- TLO B5h** : **Understand** the treatment of property owned jointly by a married couple, or by a couple in a civil partnership.
- TLO B7b** : **Understand** how a married couple or a couple in a civil partnership can minimise their tax liabilities.
- TLO B7c** : Basic income tax **planning**.

## Introduction

There are two main parts to the Income Tax computation, firstly the computation of the taxpayer's Taxable Income and secondly the calculation of the Income Tax Liability and/or Income Tax Payable thereon.

The Taxable Income will be divided into three possible analysis columns, Dividend income, Savings Income (which is interest income) and Non-Savings Income which will be made up of

employment income, trading profits of the self-employed and property income. This analysis is required as different tax rates may apply to the different types of income.

In computing Taxable Income UK taxpayers may be entitled to a deduction of a Personal Allowance (PA). The normal PA available for the 2018/19 tax year is £11,850.

## 2.1 Scope of Income Tax

### Learning Outcome (ACCA Study Guide Area B)

**B1a: Explain** how the residence of an individual is determined

#### 2.1.1 Tax status of an individual

The tax residency status of an individual determines how much income it will be assessed to UK tax. All person's resident in the UK for tax purposes assessed to UK tax on their worldwide income.

#### 2.1.2 Definition of residence

An individual is resident in the UK if they:

- do not meet one of the **automatic non-UK residence tests**, and
- meet one of the **automatic UK residence tests**, or
- meet one or more of the **sufficient ties' tests**.

These rules are complex in practice however examining team have confirmed that the following simplified rules are to be applied.

Note that under these rules an individual is either UK resident or non-UK resident for the whole of a tax year.

### 2.1.3 Procedure to determine residence status

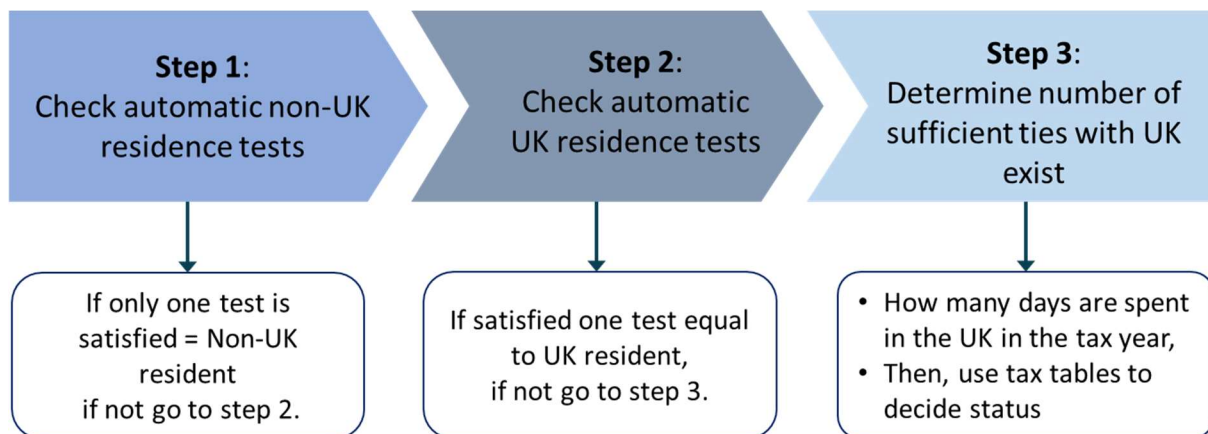
The order of the procedure is important because:

- it is possible for an individual to satisfy both one of the automatic non-UK residence tests and one of the automatic UK residence tests.

If this is the case:

- the non-UK residence test takes priority and the decision is made at Step 1
- there is no need to continue on to Step 2.

Diagram 2.1.3: Procedure to determine residence status



### 2.1.4 Automatic non-UK residency tests

An individual is automatically not UK resident if they are 'in the UK' in the tax year for less than:

- 16 days; or
- 46 days; and has not been UK resident in any of the previous three tax years; or
- 91 days; and works full-time overseas.

### 2.1.5 Automatic UK residency tests

An individual is automatically UK resident if:

- they are in the UK for at least 183 days in the tax year or
- their only home is in the UK or
- they work full-time in the UK

Note that an individual is 'in the UK' if they are in the UK at midnight. If the individual does not satisfy any of the automatic tests, their residency status is determined by:

- how many of the five sufficient ties tests are satisfied, and
- the number of days spent in the UK.

### 2.1.6 Sufficient ties tests

To determine whether or not the individual is sufficiently connected to the UK to be considered UK resident, HMRC will look at the following five ties:

This tie with the UK exists if the individual:	
<b>Family</b>	Has close family (a spouse/civil partner or minor children) in the UK
<b>Accommodation</b>	Has a house in the UK which is made use of during the tax year
<b>Work</b>	Does substantive work in the UK
<b>Days in UK</b>	Has spent more than 90 days in the UK in either, or both, of the previous two tax years
<b>Country</b>	Spends more time in the UK than in any other country

#### Note that for an individual:

- Leaving the UK (previously resident)
  - i.e. UK resident for one or more of the previous three tax years:
  - all five ties are relevant to decide their residency status
- arriving in the UK (not previously resident)
  - i.e. not UK resident for any of the previous three tax years:
  - only the first four ties are relevant (i.e. ignore country tie)

### 2.1.7 Individuals leaving the UK and arriving in the UK

To determine the residency status of the individual, consideration is given to:

- the automatic 'non-UK residency' and 'UK residency tests', and then if none of the automatic tests are met.
- how many of the 'sufficient ties tests' are satisfied, together with the number of days spent in the UK.

Examples are as shown in the table below:

Days in the UK	Previously resident	Not previously resident
Less than 16	Automatically not resident	Automatically not resident
16 to 45	Resident if 4 UK ties (or more)	Automatically not resident
46 to 90	Resident if 3 UK ties (or more)	Resident if 4 UK ties
91 to 120	Resident if 2 UK ties (or more)	Resident if 3 UK ties (or more)
121 to 182	Resident if 1 UK ties (or more)	Resident if 2 UK ties (or more)
183 or more	Automatically resident	Automatically resident

These rules make it more difficult for someone leaving the UK to lose UK residency status than it is for someone arriving in the UK to remain non-UK resident.

This table is included in the tax rates and allowances provided to you in the examination. No other information relating to residence is included in the tax rates and allowances.



## Check understanding

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### Topic 2.1: Scope of Income Tax

#### Learning Outcome (ACCA Study Guide Area B)

**B1a:** Explain how the residence of an individual is determined

#### Question:

How to determine the residence of an individual?

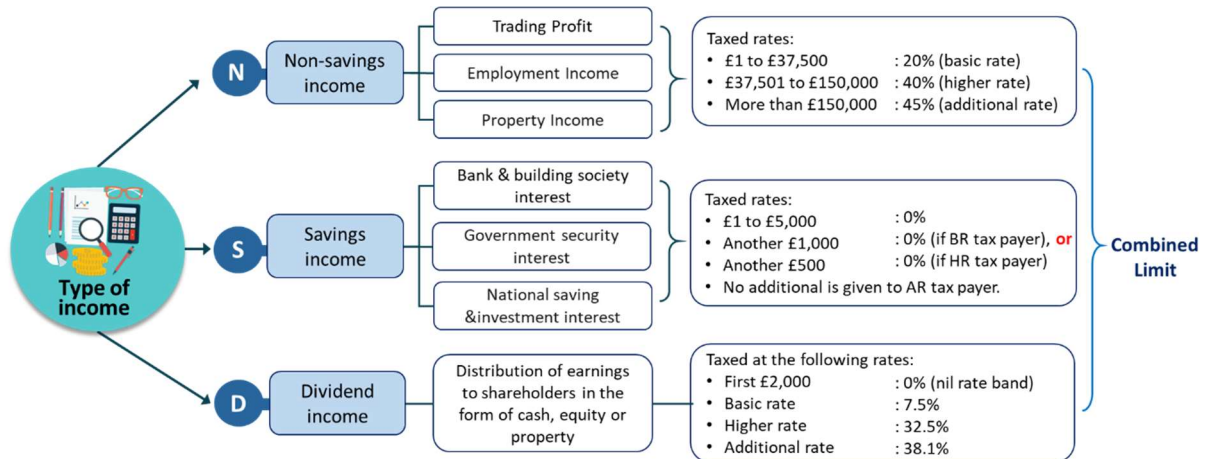
## 2.2 Type of Income

### Learning Outcome (ACCA Study Guide Area B)

**B5a: Prepare** a basic income tax computation involving different types of income.

There are three types of income that is taxable, which is;

**Diagram 2.2 Type of Income**



### 2.2.1 Non-Saving income

Includes wages, pensions, taxable state benefits, profits from self-employment and rental income. If you are a pensioner, it includes all the income you get from your pensions, including the state pension.

**Non-savings income consists of:**

- Trading Profit
- Employment Income
- Property Income

### 2.2.2 Saving incomes

Interest received from bank and building societies is paid gross without any tax being suffered at source. Certain types of savings income are paid net of basic rate tax, but these are not examinable. Therefore, as far as TX-UK (F6) is concerned, all savings income is treated as paid gross.

**Savings income consists of:**

- Bank and building society interest
- Government security interest
- National saving and investment interest

### 2.2.3 Dividend Income

Distribution of earnings to shareholders in the form of cash, equity or property. Dividends from mutual funds are paid out of income, usually on a quarterly basis, from the interest generated by the investments of the fund.



#### Check understanding

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#### Topic 2.2: Type of Income

#### Learning Outcome (ACCA Study Guide Area B)

**B5a: Prepare** a basic income tax computation involving different types of income.

#### Question:

What are the basic income tax computation involving different types of income?

## 2.3 Computing Taxable Income

### Learning Outcome (ACCA Study Guide Area B)

**B4g: Compute** the tax payable on savings and dividends income.

An Income Tax Computation is prepared for each taxpayer and records the income to be taxed for that individual for a tax year. The tax year runs from April 6 to following April 5. The tax year 2019/2020 runs from 6 April 2019 to 5 April, 2020. Therefore, each source of taxable income requires its own basis of assessment to determine how much of that income is to be assessed to tax in each such tax year.

### 2.3.1 Types of income and format for computing taxable income

#### Proforma income tax computation for 2019/2020

	Non-savings £	Savings £	Dividends £	Total £
Trading Profit	X			X
Less: Trading Loss relief – brought forward	(X)			(X)
	X			X
Pension Income	X			X
Employment Income	X			X
Property Income	X			X
Dividend received			X	X
Building society interest		X		X
Bank deposit interest		X		X
Other interest		X		X
<b>TOTAL INCOME</b>	X	X	X	X
Less: Qualifying interest	(X)			(X)
<b>NET INCOME</b>	XX			XX
Less: Personal Allowance (PA)	12,500			(X)
<b>TAXABLE INCOME</b>	XX			XX

Deduction of the PA from Net Income is first deducted from non-savings income, then savings income and finally to dividend income if any balance exists.



### 2.3.2 Tax rate

**Non-savings income is taxed at the following rates:**

£1 to £37,500	20% (basic rate)
£37,501 to £150,000	40% (higher rate)
More than £150,000	45% (additional rate)

#### **Savings income**

Savings income is taxed at the following rates:

£1 to £5,000	0%	(Starting rate at 0% is provided if non-saving is below £5,000.)
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*\*For categories: Basic rate, High rate & Additional rate tax payer.*

Additionally,

- further 0% is given to another £1,000 if the taxpayer is a basic rate tax payer, or
- £500 if the taxpayer is a higher rate tax payer.

No additional 0% limit is given to additional rate tax payer if non-saving income exceeds £5,000.

#### **Dividend income**

The first £2,000 is taxed at 0% (nil rate band).

The basic rate is 7.5% and the higher rate will be 32.5% and the additional rate will be 38.1%.

#### **Example 2.1: Tax rate**

##### Individual: Tax Table

<i>Original rate band</i>	£37,500	£150,000
+ PPC (gross)	+	+
+ Gift (gross)	E.g.: £11,000	£11,000
<b>Extended Bend:</b>	<hr/> £48,500 <hr/>	<hr/> £164,000 <hr/>

Taxable income		≤ £37,500 >		≤ £150,000 >	
		BR		HR	AR
<b>Non-saving</b>		20%		40%	45%
<b>Saving</b>		1 <sup>st</sup> £5000			
i) Basic Rate	0%	BR	20%	40%	45%
		Another £1,000 @ 0%			
ii) High Rate	0%	HR	20%	40%	45%
		Another £500 @ 0%			
iii) Additional Rate	0%	AR All at 20%		40%	45%
<b>Dividend</b>					
1 <sup>st</sup> £2000 @ 0%		> £2000 at 7.5%		32.5%	38.1%

**Net Income:**

Total income	XX
<b>Qualifying Interest paid on (see example)</b>	<b>(XX)</b>
<b>Net income</b>	<b>XX</b>

**Examples: Qualifying interest deducted in arriving at net income**

- Loan taken to buy plant and machinery
- For partnership use
- For employment use
- To investment in partnership
- To buy shares in employee-controlled R co. must be unquoted



**Check understanding**

**Topic 2.3: Computing Taxable Income**

**Learning Outcome (ACCA Study Guide Area B)**

**B4g: Compute the tax payable on savings and dividends income.**

**Question:**

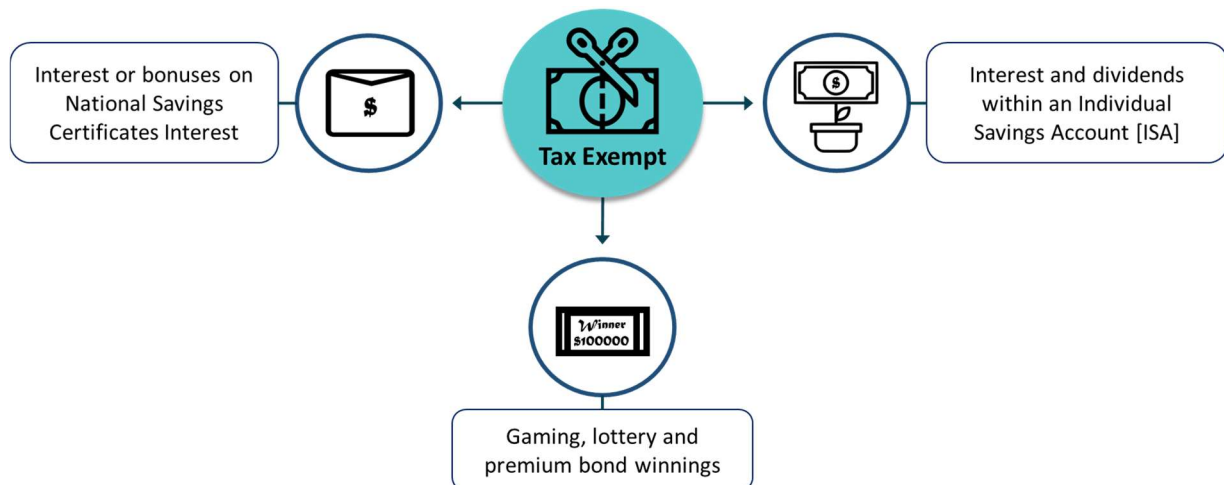
How to compute tax payable on saving & dividend income?

## 2.4 Tax Exempt Income

### Learning Outcome (ACCA Study Guide Area B)

**B4h: Recognise** the treatment of individual savings accounts (ISAs) and other tax-exempt investments

Diagram 2.4: Tax Exempt Income



The following are the main examples of sources of income that are exempt from income tax

- Interest or bonuses on National Savings & Investment Certificates
- Interest and dividends within an Individual Savings Account [ISA]
- Gaming, lottery and premium bond winnings



### Check understanding

#### Topic 2.4: Tax Exempt Income

#### Learning Outcome (ACCA Study Guide Area B)

**B4h: Recognise** the treatment of individual savings accounts (ISAs) and other tax-exempt investments

#### Question:

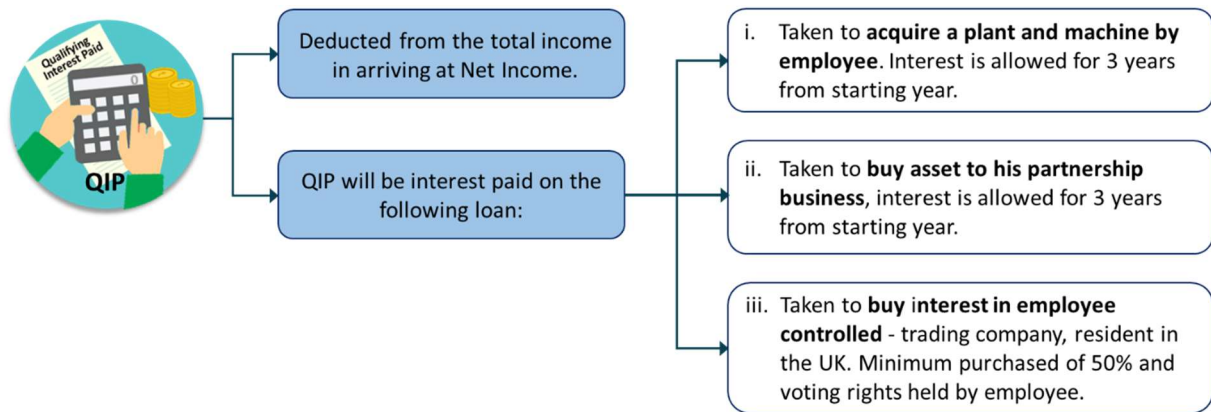
What are the treatment of individual savings accounts (ISAs)?

## 2.5 Qualifying Interest

### Learning Outcome (ACCA Study Guide Area B)

**B5e: Understand** the treatment of interest paid for a qualifying purpose.

Diagram 2.5: Qualifying Interest



Any Qualifying Interest Paid (QIP) by a taxpayer can be deducted from the total income in arriving at Net Income. QIP will be interest paid on the following loan:

- Loan taken to acquire a plant and machinery by employee for his use in employment. The interest is allowed for 3 years from the year the loan is disbursed.
- Loan taken to **buy asset to his partnership business** in which he is a partner, the interest is allowed for 3 years from the year of loan taken.
- Loan taken to **buy interest in an employee controlled** unquoted trading company, resident in the UK. The minimum 50% voting rights must be held by the employee.



### Check understanding

#### Topic 2.5: Qualifying Interest

#### Learning Outcome (ACCA Study Guide Area B)

**B5e: Understand** the treatment of interest paid for a qualifying purpose.

#### Question:

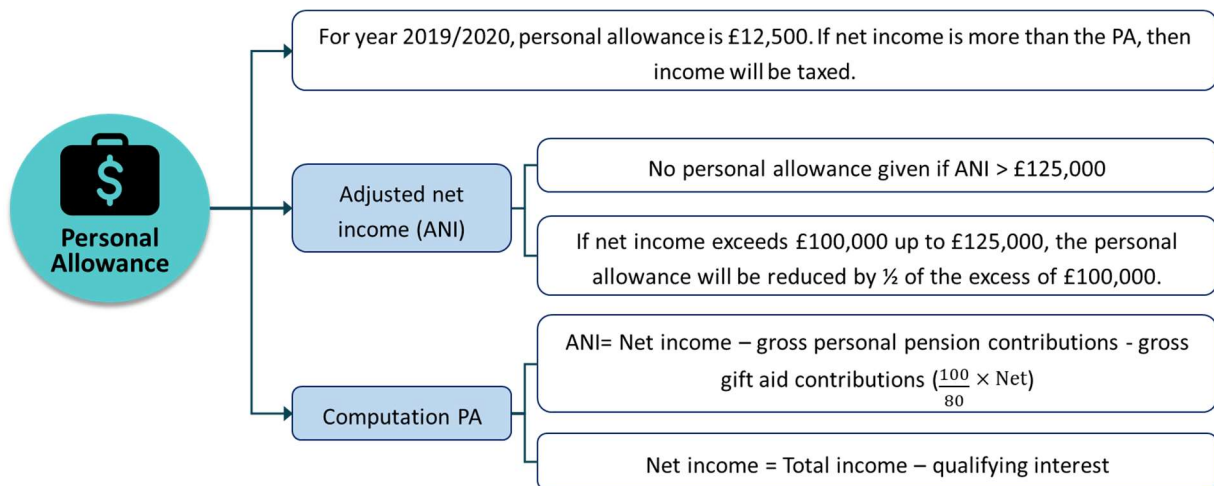
What are the treatment of interest paid for a qualifying purpose?

## 2.6 Personal Allowance

### Learning Outcome (ACCA Study Guide Area B)

**B5b: Calculate** the amount of personal allowance available.

Diagram 2.6: Personal Allowance



Personal allowance is an amount on which tax on income is not imposed. If an individual makes income above this allowance, the additional income and the relevant rates will be charged.

### 2.6.1 Personal allowance in Finance Act 2018 (FA)

#### FA 2019

- **Individual FA 2019**      6<sup>th</sup> April 2019       $\xrightarrow{\text{Fiscal Year}}$       5<sup>th</sup> April 2019/2020
- **Company FA 2019**      1<sup>th</sup> April 2019       $\xrightarrow{\text{Fiscal Year}}$       31<sup>st</sup> March 2020

#### Personal allowance (PA)

PA - normal      £12,500       $\longrightarrow$       if net income is more than £12,500, then income will be taxed

## 2.6.2 Adjusted net income (ANI)

- If adjusted net income exceeds £100,000 up to £125,000, the personal allowance will be reduced by:

2019/2020	£
Personal allowance will be	12,500
$\frac{1}{2}$ [Adjusted Net Income (ANI) - £100,000]	(XXX)
Revised personal allowance	<u>XXX</u>

- If adjusted net income is above £125,000, no personal allowance will be given.**  
 Personal allowance will be £12,500, if Adjusted Net Income (ANI) falls up to £100,000.

The personal allowance is always based on ANI. For this purpose, the ANI is determined as follows:

	£	
Total income (E.g. Employment Income) etc	XX	
- Occupational pension scheme (OPS)	(XX)	
- Interest Payment (Qualifying Interest only)	(XX)	
Net Income	<u>XXX</u>	
<b>Less</b>		
Personal Pension Scheme (PPS) (100/80 x Net)	(XX)	Gross PPS
Gift Aid (100/80 x Net)	(XX)	Gross
Adjusted Net Income (ANI)	<u>(XXX)</u>	

Limit for personal allowance

$$\frac{1}{2} (\pounds 125,000 - \pounds 100,000) = \pounds 12,500$$

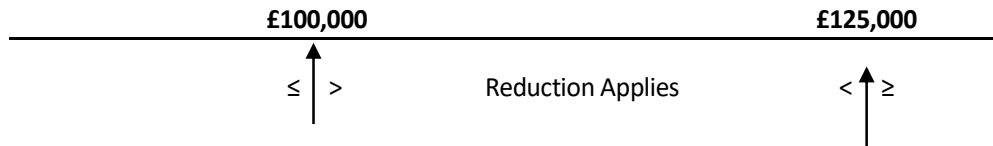
Plus, in addition to this the same figure i.e. PPS + Gift Aid will be added to the Income tax Band, to determine the new taxable limits.

Extended Band: Add PPS + Gift	£37,500	<u>£150,000=Revised Limits</u>
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**Summary:**

**P/A £12,500**, this will be given in the ACCA tax table. Except need to adjust only if adjusted net income exceeds £125,000

**P/A 2019/2020**



E.g.: Personal allowance	£12,500
$\frac{1}{2}$ [£125,000 - £100,000]	(£12,500)
Revised personal allowance	NIL

**Format:**

	<b><u>2019/2020</u></b>			
	<b>Total (£)</b>	<b>Non-Savings (£)</b>	<b>Savings (£)</b>	<b>Dividend (£)</b>
Salary	XX	XX	-	-
Business profit	XX	XX	-	-
Dividend received	XX	-	-	XX
Rental (Property Income)	XX	XX	-	-
Bank Interest received	XX	-	XX	-
Gilt edged interest	XX	-	XX	-
(Net) Total Income	XX	XX	XX	XX
- Personal allowance	(12,500)	(12,500)	-	-
Taxable Income	XX	XX	XX	XX



**Check understanding**

**Topic 2.6: Personal Allowance**

**Learning Outcome (ACCA Study Guide Area B)**

**B5b: Calculate** the amount of personal allowance available.

**Question:**

How to calculate the amount of personal allowance (P/A) available?



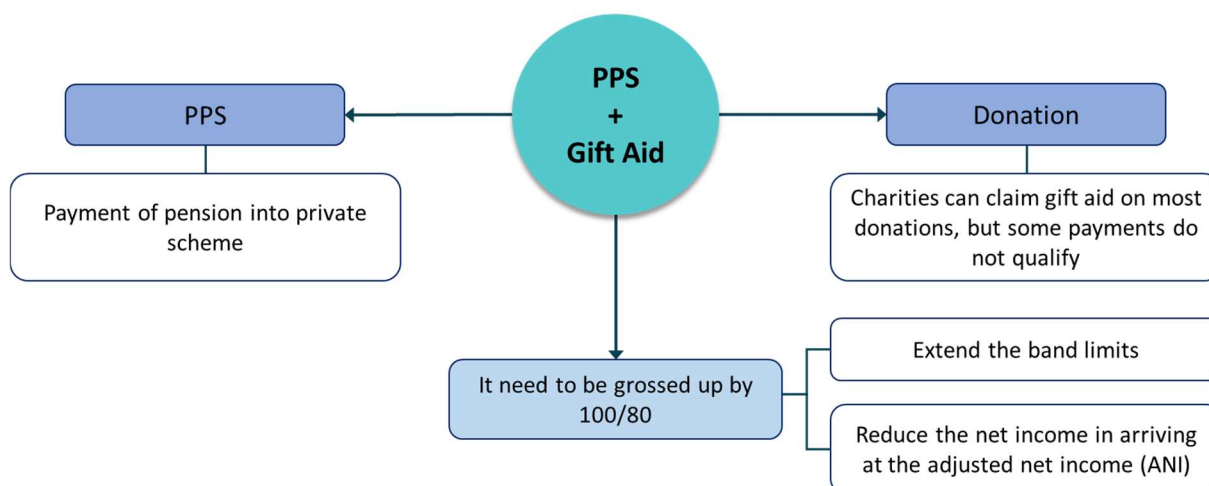
## 2.7 Gift Aid

### Learning Outcome (ACCA Study Guide Area B)

**B5f: Understand** the treatment of gift aid donations and charitable giving.

When you make a donation through Gift Aid. It can be deducted in arriving at adjusted net income.

**Diagram 2.7: Gift Aid**



Charities can claim Gift Aid on most donations (but some payments do not qualify, and not examined) only gift aid is examined.

The gift aid and personal pension contribution (PPC) need to be grossed up by 100/80 and, requires:

- 1) Extend the band limits and
- 2) Reduce the net income in arriving at the adjusted net income (ANI).

	£	£
Net Income		XX
- Gift Aid (Gross)	(XX)	
- PPC (Gross)	(XX)	(XX)
Adjusted Net Income (ANI)	_____	XX



## Check understanding

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### Topic 2.7: Gift Aid

#### Learning Outcome (ACCA Study Guide Area B)

**B5f: Understand** the treatment of gift aid donations and charitable giving.

#### Question:

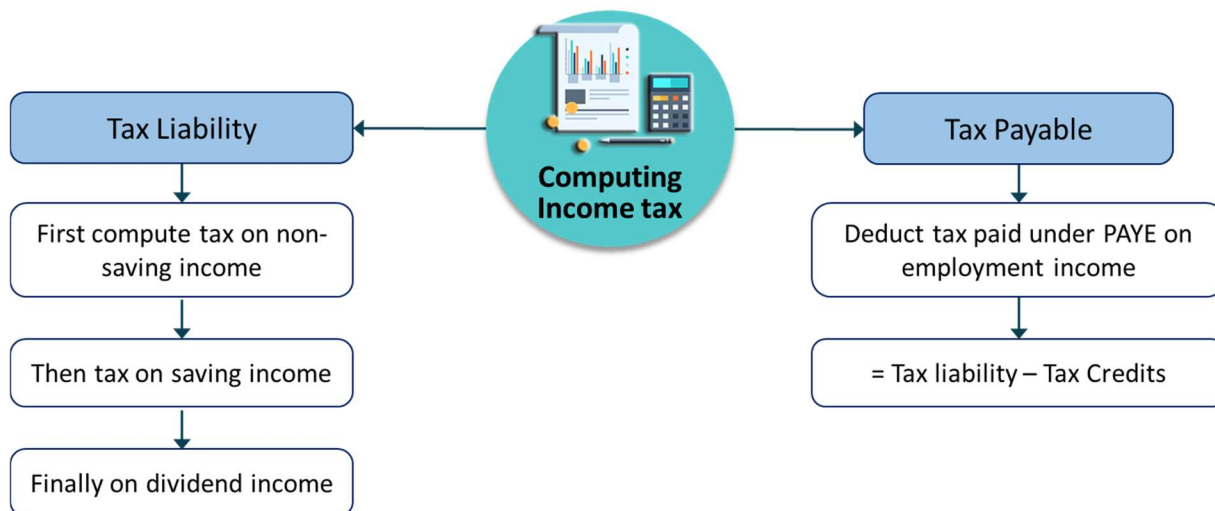
What are the treatment of gift aid donations and charitable giving?

## 2.8 Computing Income Tax Liability and Income Tax Payable

### Learning Outcome (ACCA Study Guide Area B)

**B5d: Compute** the amount of income tax payable.

Diagram 2.8: Computing Income Tax Liability and Income Tax Payable



Having calculated the taxable income, the next part of the computation is to compute the Tax Liability and / or the Tax Payable of the taxpayer.

- (a) Tax liability = income tax on taxable income
- (b) In calculating the Tax Liability, it is necessary to take each part of the Taxable Income in order, non-savings income followed by savings income and finally the dividend income as these sources of taxable income have different tax rates that apply to them and rates that also change depending on how much taxable income the taxpayer has
- (c) Tax payable is after deducting
  - Tax already deducted at source e.g.: **Pay As You Earn (PAYE)** on employment income
  - Tax payable = (Tax liability – Tax Credits)

The following examples show how the computations are made in few different situations.

Combination of Type of Income	Situation	Tax Rate	Example
Non-saving only	Non-saving	High rate	2.8.1
		Additional rate	2.8.2
	Non-savings with OPS & Gift Aid	High rate	2.8.3
	Non-savings with OPS, PPS & Gift Aid.	High rate	2.8.4
	Non-saving with & without PPS	Additional rate	2.8.5
Non-saving & saving only	Non-savings & Savings	High rate	2.8.6
	Non-savings & Saving with personal pension payment	High rate	2.8.7
	Non-savings & Savings with some condition.	High rate	2.8.8
	Non-savings & dividend without personal pension payment	High rate	2.8.9
Non-savings, saving & dividend	Non-savings, saving & dividend	Basic rate	2.8.10
	Non-savings, Savings & Dividend with Qualifying Interest Paid (QIP)	High rate	2.8.11
	Non-savings, saving & dividend with OPS, QIP, PPS & PAYE Data	High rate	2.8.12
	Non-savings, saving & dividend	Additional rate	2.8.12
Non-savings & dividend	Non-savings & dividend with PA adjustment	High rate	2.8.13

### Situation 1: Non-savings income

#### Example 2.8.1: Higher Rate (HR) tax payer.

\*Taxable income falls above £37,500. Taxpayer is a higher rate tax payer with Non-savings income only

Alan's income for 2019/2020 is as follows:

	£
Trading profit	41,500
Employment Income	20,000

**Compute: Income tax payable**

**Answer:**

**Alan 2019/2020**

**Income Tax Computation**

	<b>Total (£) NS</b>	
Trading profit	41,500	
Employment Income	20,000	
Total (net) Income	<u>61,500</u>	
- Personal Allowance	(12,500)	← (ANI) net income less than £100,000
Taxable Income	<u><u>49,000 HR</u></u>	

**Tax computation:**

£37,500	x	20 %	7,500
£11,500	x	40 %	4,600
<u>£49,000</u>			<u><u>12,100</u></u>

**Example 2.8.2: Additional Rate (AR) tax payer.**

**\*Taxpayer with non-savings income only. Taxable income falls above £150,000.**

Joe's income for 2019/2020 is as follows:

	£
Trading profit	159,000

**Compute: Income Tax Liability**

**Answer:**

<b>Joe 2019/2020</b>	
<b>Income Tax Computation</b>	
	<b>Total (£) NS</b>
Employment Income	159,000
Personal Allowance	NIL ← net income more than £125,000
Taxable Income	<u>159,000 AR</u>

**Tax computation:**

£34,500 x 20 %	7,500
£115,500 x 40 %	45,000
<u>£150,000</u>	<u>52,500</u>
£9,000 x 45 %	4,050
<u>£159,000</u>	<u>56,550</u>
Income Tax Liability	<u>56,550</u>

**Situation 2: Non-savings income with OPS & Gift Aid.**

**Example 2.8.3: Higher Rate (HR) tax payer.**

\*Application of OPS & Gift aid to High rate (non-saving) tax payer.

**John's income for 2019/2020:**

	£
Employment Income	125,000

**Payment:**

Occupational pension scheme	3,000
Gift Aid paid	4,000 (net)

**Compute: Income tax liability**

**Answer:**

**Jonh 2019/2020**

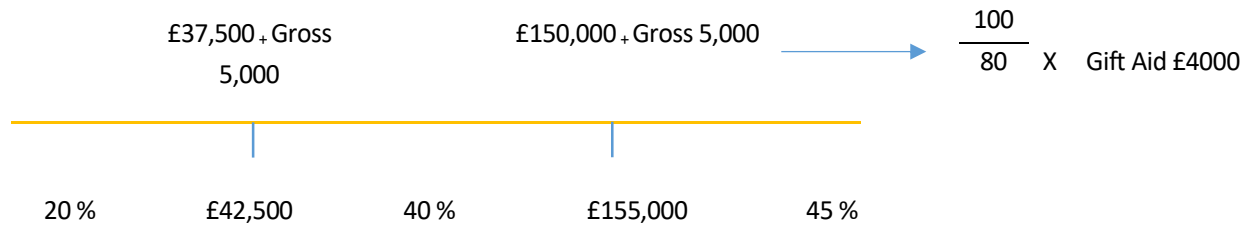
**Income Tax Computation**

	Total (£) NS
Employment Income	125,000
- Occupational pension scheme	(3,000)
Net income	<u>122,000</u>
- Personal Allowance	(4,000) ← Based on ANI
Taxable Income	<u>118,000 HR</u>

<b>Adjusted Net Income (ANI):</b>	£
Net income	122,000
- Gift (4000 x 100/80)	(5,000)
ANI (Adjusted Net Income)	<u>117,000</u>

**ANI: Adjusted Net Income need to be Computed if PPS or Gift Aid exist**

Personal Allowance	12,500	<b>Personal Allowance</b> is adjusted as it falls between £100,000 - £125,000
- ½ (£117,000 – £100,000)	(8,500)	
<b>Revised personal allowance</b>	<b>4,000</b>	



<b>Tax computation:</b>		£
£42,500 X 20%		8,500
£75,500 X 40%		30,200
<b>£118,000</b>	(taxable income)	
<b>Income Tax Liability</b>		<b>38,700</b>



**Situation 3: Non-savings income with OPS, PPS & Gift Aid.**

**Example 2.8.4: Higher Rate (HR) tax payer.**

\*Higher rate tax payer where non-savings income with OPS&PPS with gift aid.

**David's income for 2019/2020 is as follows:**

	£
Salary	60,650
Business Profit	50,850

**Payment:**

Occupational pension scheme	5,000
PPS + Gift Aid paid	8,000 (net)

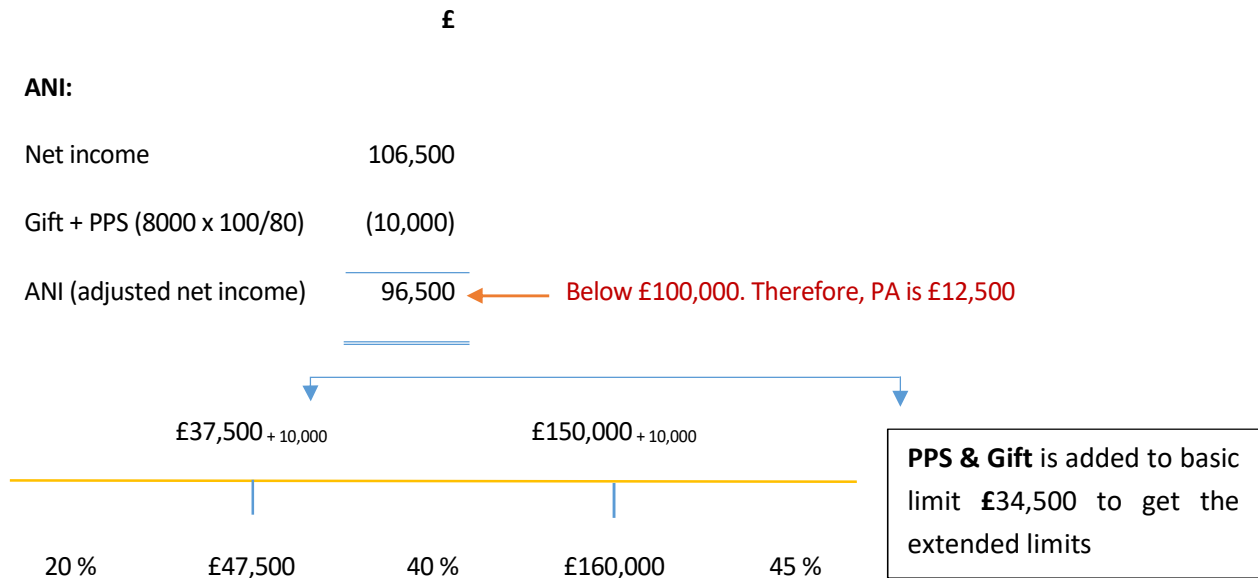
**Note:**

PPS + Gift Aid, if given net, need to gross up by multiplying by  $\frac{100}{80}$

**Compute: Income tax liability**

**Answer:**

<b>David 2019/2020</b>	
<b>Income Tax Computation</b>	
	<b>Total (£) NS</b>
Salary	60,650
Business profit	50,850
Total (net) Income	<u>111,500</u>
- Occupational pension scheme	(5,000)
Net income	<u>106,500</u>
- Personal Allowance	(12,500) ← Based on ANI, ANI less than £100,000
Taxable Income (HR)	<u><u>94,000</u></u>



**Tax computation:** **£**

£47,500 x 20 %		9,500
£46,500 x 40 %		18,600
£94,000 (taxable income)		
Income Tax Liability		28,100

**Situation 4: Non-savings income**

**Example 2.8.5: Additional Rate (AR) tax payer.**

\* Additional rate taxpayer with non-saving income (with & without personal pension).

**Johnny's income for 2019/2020 is as follows:**

	(i)	(ii)
	£	£
Business Profit	184,000	159,000
Personal Pension Scheme (PPS)	-	32,000 (NET)

**Compute: Income tax liability**

- (i) No Personal Pension paid
- (ii) Personal Pension paid

**Answer (i) No personal pension paid:**

<b>Johnny 2019/2020</b>	
<b>Income Tax Computation</b>	
<b>Total (£) NS</b>	
Business Profit	184,000
Net income	184,000
- Personal Allowance	(0) ANI exceeds <b>£125,000</b> , therefore PA is NIL
Taxable Income	184,000 AR

<b>Tax computation:</b>	<b>£</b>
£34,500 x 20 %	7,500
£115,500 x 40 %	45,000
£150,000	52,500
£34,000 x 45 %	15,300
£184,000 (taxable income)	
Income Tax Liability	67,800

**Answer (ii) Personal pension paid:**

**Johnny 2019/2020  
 Income Tax Computation**

	<b>Total (£) NS</b>
Business Profit	159,000
Net income	159,000
- Personal Allowance	(3,000)
Taxable Income	156,000 HR

<b>Adjusted Net Income (ANI):</b>	<b>£</b>
Net income	159,000
Gross PPS (£32,000 x 100/80)	<b>(40,000)</b>
ANI (Adjusted net income)	119,000
Personal Allowance	12,500
- ½ (£119,000 – £100,000)	(9,500)
Revised personal allowance	3,000

**Limit £37,500 + £40,000 = £77,500      up to      £150,000 + £40,000 = £190,000 Limit**

<b>Tax computation:</b>	<b>£</b>
NSI: £77,500 x 20 %	15,500
£78,500 x 40 %	31,400
<u>£156,000</u> (taxable income)	
Income Tax Liability	46,900

**Situation 5: Non-savings & Savings income**

**Example 2.8.6: Higher Rate (HR) tax payer.**

\*Taxable income falls above £37,500. 1<sup>st</sup> £500 will be taxed at 0% rate, since he is a higher rate tax payer.

**Elan's income for 2019/2020 is as follows:**

	£
Employment Income	50,750
Interest Income	1,800

**Compute: Income tax liability**

**Answer:**

<b>Elan 2019/2020</b>			
<b>Income Tax Computation</b>			
	Total (£)	Non-savings (NS) £	Savings (SI) £
Employment Income	50,750	48,750	-
Interest Income	1,800	-	1,800
Total (net) Income	<u>52,550</u>	<u>48,750</u>	<u>1,800</u>
- Personal Allowance	(12,500)	(12,500)	-
Taxable Income	<u>40,050 HR</u>	<u>38,250</u>	<u>1,800</u>

<b>Tax computation:</b>		£
NS:	£38,250 x 20 %	7,650
	<u>£38,250</u>	<u>7,650</u>
SI:	1st £500 x 0%	NIL
	Next £1,300 x 40 %	520
	<u>£40,050 (taxable income)</u>	<u>520</u>
Income Tax Liability		<u>8,170</u>

**Situation 6: Non-savings & saving income with personal pension payment**

**Example 2.8.7: High Rate (HR) tax payer.**

\*Higher rate tax payer with non-saving & saving income with personal pension payment.

**Ronny have the following income for 2019/2020:**

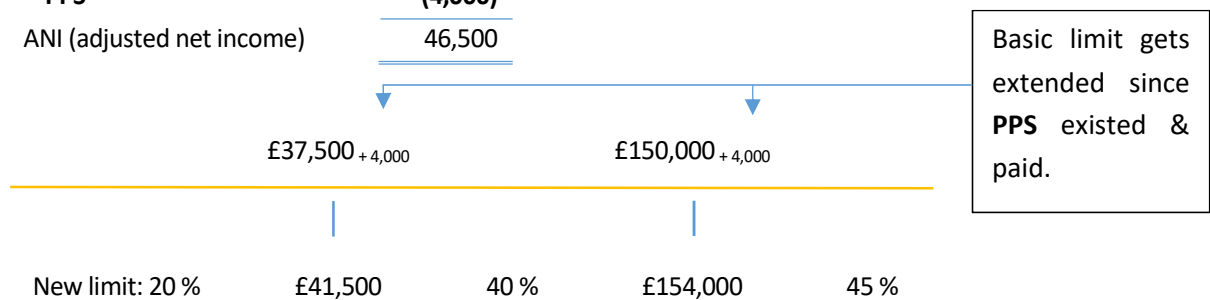
	£
Employment income	40,500
Interest Income	10,000
Personal pension scheme (gross)	4,000

**Compute: Income tax liability**

**Answer:**

<b>Ronny 2019/2020</b>			
<b>Income Tax Computation</b>			
	Total (£)	Non-Savings (£)	Savings (£)
Employment Income	40,500	40,500	-
Interest Income	10,000	-	10,000
Net income	50,500	40,500	10,000
- Personal Allowance	(12,500)	(12,500)	-
Taxable Income	38,000 HR	28,000	10,000

<b>Adjusted Net Income (ANI):</b>		£
Net income		50,500
- PPS		<b>(4,000)</b>
ANI (adjusted net income)		46,500



<b>Tax computation:</b>			<b>£</b>
NSI:	£28,000	x 20 %	5,600
SI:	1st £500	x 0 %	0
	<u>£28,500</u>		<u>5,600</u>
	£9,500	x 20 %	1,900
	<u>£38,000</u>	(taxable income)	<u>7,500</u>
Income Tax Liability			<u><u>8,200</u></u>

**Situation 7: Non-savings & dividend income without personal pension payment**

**Example 2.8.8: High Rate (HR) tax payer.**

\*Higher rate tax payer with non-saving & dividend income without pension payment. Dividend taxed at 32.5%

**Freddy's income for 2019/2020 is as follows:**

	(i)	(ii)
	£	£
Salary	57,000	35,400
Dividend	6,800	15,200

**Compute: Income tax liability**

**Answer (i):**

**Freddy 2019/2020**

**Income Tax Computation**

	Total (£)	Non-Savings (£)	Dividend (£)
Salary	57,000	57,000	-
Dividend	6,800	-	6,800
Net income	63,800	57,000	6,800
- Personal Allowance	(12,500)	(12,500)	-
Taxable Income	51,300 HR	44,500	6,800

**Tax computation:**

			£
NSI:	£37,500	x 20 %	7,500
	£7,000	x 40 %	2,800
	£44,500		10,300



Div.:	£2,000	x	0 %		<b>NIL</b>
	<u>£46,500</u>				<u>10,300</u>
	£4,800	x	32.5 %		1,560
	<u>£51,300</u>		(taxable income)		
Income Tax Liability					<u><u>11,860</u></u>

**Answer (ii):**

**Freddy 2019/2020**

**Income Tax Computation**

	<b>Total (£)</b>	<b>Non-Savings (£)</b>	<b>Dividend (£)</b>
Salary	35,400	35,400	-
Dividend	15,200	-	15,200
Net income	<u>50,600</u>	<u>35,400</u>	<u>15,200</u>
- Personal Allowance	(12,500)	(12,500)	-
Taxable Income	<u><u>38,100 HR</u></u>	<u><u>22,900</u></u>	<u><u>15,200</u></u>

<b>Tax computation:</b>		<b>£</b>
NSI:	£22,900 x 20 %	4,680
Div.:	£2,000 x 0 %	0
	<u>£24,900</u>	<u>4,680</u>
	£12,600 x 7.5 %	945
	<u>£37,500</u>	<u>5,625</u>
	£600 x 32.5 %	195
	<u>£38,100</u>	<u>(taxable income)</u>
Income Tax Liability		<u><u>5,820</u></u>

**Situation 8: Non-savings, saving & dividend income.**

**Example 2.8.9: Basic Rate (BR) tax payer.**

\*Basic rate taxpayer where all 3 categories of income fall within £37,500 band

**Pooja's income for 2019/2020 is as follows:**

	£
Salary	23,300
Interest Income	700
Dividend	1,200

**Compute: Income tax liability**

**Answer:**

<b>Pooja 2019/2020</b>				
<b>Income Tax Computation</b>				
	<b>Total (£)</b>	<b>Non-savings (£)</b>	<b>Savings (£)</b>	<b>Dividend (£)</b>
Salary	23,300	23,300	-	-
Interest Income	700	-	700	-
Dividend	1,200	-	-	1,200
Net income	<u>25,200</u>	<u>23,300</u>	<u>700</u>	<u>1,200</u>
- Personal Allowance	(12,500)	(12,500)	-	-
Taxable Income	<u>12,700 BR</u>	<u>10,800</u>	<u>700</u>	<u>1,200</u>

<b>Tax computation:</b>				<b>£</b>
NSI:	£10,800	x	20 %	2,160
SI:	£700	x	0 %	0
	<u>£11,500</u>			<u>2,160</u>
DI:	£1,200	x	0 %	0
	<u>£12,700</u>		(taxable income)	
Income Tax Liability				<u>2,160</u>

**Note:**

- If Non Saving Income (NS) is below £5,000, then use the 0 % for the balance below £5,000 in respect of saving. This is known as starting rate.
- If Interest is paid taken to finance asset acquired to be used in employment or to finance a partnership eligible for deduction in arriving at net income, known as qualifying interest.

**Situation 9: Non-savings, Savings & Dividend income with Qualifying Interest Paid (QIP)**

**Example 2.8.10: Higher Rate (HR) tax payer.**

\*Dividend income, the 1<sup>st</sup> £2000 will be taxed at 0% rate.

**Balan's income for 2019/2020 is as follows:**

	£
Employment Income	40,850
Dividend	9,000
Qualifying Interest Paid	(300)
Interest Income	2,000
Assume PAYE	5,800

**Compute: Income tax liability**

**Answer:**

<b>Balance 2019/2020</b>				
<b>Income Tax Computation</b>				
	<b>Total (£)</b>	<b>Non- savings (NS) £</b>	<b>Savings (SI) £</b>	<b>Dividend (£)</b>
Employment Income	41,500	41,500	-	-
Dividend	9,000	-	-	9,000
Interest Income	2,000	-	2,000	-
Qualifying Interest	(300)	(300)	-	-
Total (net) Income	<u>52,200</u>	<u>41,200</u>	<u>2,000</u>	<u>9,000</u>
- Personal Allowance	(12,500)	(12,500)	-	-
Taxable Income	<u>39,700 HR</u>	<u>28,700</u>	<u>2,000</u>	<u>9,000</u>

<b><u>Tax computation:</u></b>			<b>£</b>
NS:	£28,700	x 20 %	5,740
SI:	HR £500	x 0 %	0
	£29,200		5,740
	£1,500	x 20 %	300
	£30,700		6,040
Div.	1 <sup>st</sup> £2,000	x 0 %	0
	£32,700		6,040
	Next £4,800	x 7.5 %	360
	£37,500	(taxable income)	6,400
	2,200 X 32.5%		715
	Income Tax Liability		7,115
<b>Less: Tax Credit</b>			
	PAYE		(5,800)
	Tax Payable		1,315

**Note:**  
 FA 2019, all interest and dividend will be paid gross for income tax.

**Situation 10: Non-savings, saving & dividend income with OPS, QIP, PPS & PAYE Data**

**Example 2.8.11: High Rate (HR) tax payer.**

\*Higher rate taxpayer where all 3 categories of income fall within £37,500 band

**Jimmy's income for 2019/2020 is as follows:**

	£
Salary	40,350
Interest Income	12,000
Dividend	19,000
Qualifying interest	(5,000)
OPS	3,000
PPS (Net)	4,000
PAYE	6,000

**Compute: Income tax payable**

**Answer:**

<b>Jimmy 2019/2020</b>				
<b>Income Tax Computation</b>				
	<b>Total (£)</b>	<b>Non-savings (£)</b>	<b>Savings (£)</b>	<b>Dividend (£)</b>
Salary	41,000	41,000	-	-
Interest Income	12,000	-	12,000	-
Dividend	19,000	-	-	19,000
- Qualifying Interest Paid	(5,000)	(5,000)	-	-
- OPS	(3,000)	(3,000)	-	-
Net income	<u>64,000</u>	<u>33,000</u>	<u>12,000</u>	<u>19,000</u>
- Personal Allowance	(12,500)	(12,500)	-	-
Taxable Income	<u><u>51,500 HR</u></u>	<u><u>20,500</u></u>	<u><u>12,000</u></u>	<u><u>19,000</u></u>

<b>Adjusted Net Income (ANI):</b>	<b>£</b>	
Net income	64,000	
- PPS (£4,000 x 100/80)	<b>(5,000)</b>	<b>Gross</b>
ANI (adjusted net income)	59,000	

Limit £37,500 + £5,000 = **£42,500**-----£150,000 + £5,000 = **£155,000**

<b>Tax computation:</b>	<b>£</b>
NSI: £20,500 x 20 %	4,100
SI: £500 x 0 % HR	0
£21,000	4,100
SI: £11,500 x 20%	2,300
£32,500	6,400
DI: £2,000 x 0 %	0
£8,000 x 7.5%	600
£42,500	7,000
£9,000 x 32.5%	2,925
£51,500 (taxable income)	
Income Tax Liability	9,925
<b>Less: Tax Credit</b>	
PAYE	(6,000)
Income Tax Payable	3,925

**Situation 11: Non-savings, saving & dividend income.**

**Example 2.8.12: Additional Rate (AR) tax payer.**

\*Additional rate tax payer where interest income falls partly under starting rate at 0% since non-saving is below £5000

**Tony's income for 2019/2020 is as follows:**

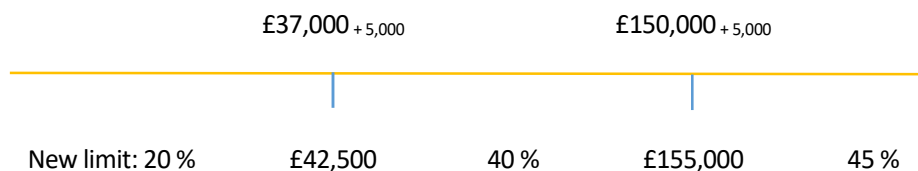
	£
Property Income	4,350
Interest Income	60,000
Dividend	120,000
Gift Aid	4,000

**Compute: Income tax liability**

**Answer:**

<b>Tony 2019/2020</b>				
<b>Income Tax Computation</b>				
	<b>Total (£)</b>	<b>Non-savings (£)</b>	<b>Savings (£)</b>	<b>Dividend (£)</b>
Property Income	4,350	4,350	-	-
Interest Income	60,000	-	60 000	-
Dividend	120,000	-	-	120 000
Net income	<u>184,350</u>	<u>4,350</u>	<u>60 000</u>	<u>120 000</u>
- Personal Allowance	(NIL)	(NIL)	-	-
Taxable Income	<u><u>184,350 AR</u></u>	<u><u>4,350</u></u>	<u><u>60 000</u></u>	<u><u>120 000</u></u>

<b>Adjusted Net Income (ANI):</b>	<b>£</b>	
Net income		184,350
- Gift Aid (£4,000 x 100/80)	(5,000) Gross	
ANI (adjusted net income)	<u>189,350</u>	ANI more than £123,700, therefore PA is Nil



**Tax computation:**

	£		£
NSI:	4,350	x 20 %	870
SI:	650	x 0 %	0
	<u>5,000</u>		<u>870</u>
SI:	37,500	x 20 %	7,500
	<u>42,500</u>		<u>8,370</u>
SI:	21,850	x 40 %	8,740
	<u>64,350</u>		<u>17,110</u>
Div.:	2,000	x 0 %	0
	<u>66,350</u>		<u>17,110</u>
Div.:	88,650	x 32.5%	28,811
	<u>155,000 limit</u>		<u>45,921</u>
Div.:	29,350	x 38.1 %	11,182
	<u>184,350</u>	(taxable income)	
Income Tax Liability			<u><u>57,103</u></u>



**Situation 12: Non-savings & Dividend Income**

**Example 2.8.13: Higher Rate (HR) tax payer.**

\*High rate tax payer with non-saving & dividend income (excluding saving income) with PA adjustment.

**Vani's income for 2019/2020 is as follows:**

	£
Business Profit	30,000
Employment Income	100,000
Occupational pension scheme	10,000
Gift Aid	12,000 (net)
Dividend	6,000

**Compute: Income tax liability**

**Answer:**

**Vani 2019/2020**

**Income Tax Computation**

	<b>Total (£)</b>	<b>Non-Savings (£)</b>	<b>Dividend (£)</b>
Business Profit	30,000	30,000	-
Employment Income	100,000	100,000	-
Dividend	6,000	-	6,000
- Occupational pension scheme	(10,000)	(10,000)	-
Net income	<u>126,000</u>	<u>120,000</u>	<u>6,000</u>
- Personal Allowance	(7,000)	(7,000)	-
Taxable Income	<u><u>119,000 HR</u></u>	<u><u>113,000</u></u>	<u><u>6,000</u></u>

**Adjusted Net Income (ANI):** £

Net income 126,000

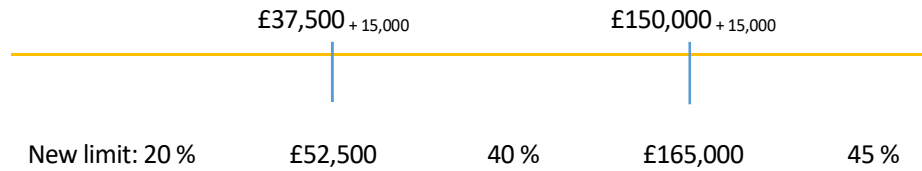
- Gift (£12,000 x 100/80) **(15,000) Gross**

ANI (adjusted net income) 111,000

Personal Allowance 12,500

- ½ (£111,000 – £100,000) (5,500)

Revised personal allowance 7,000



<u>Tax computation:</u>	<b>£</b>
NSI: £52,500 x 20 %	10,500
£60,500 x 40 %	24,200
£113,000	34,700
Div.: £2,000 x 0%	0
£115,000	34,700
Div.: £4,000 x 32.5%	1,300
£119,000	
Income Tax Liability	36,000



### Check understanding

#### Topic 2.8: Computing Income tax liability and Income tax payable

**Learning Outcome** (ACCA Study Guide Area B, Topic B5d):

**B5d: Compute** the amount of income tax payable.

#### Question:

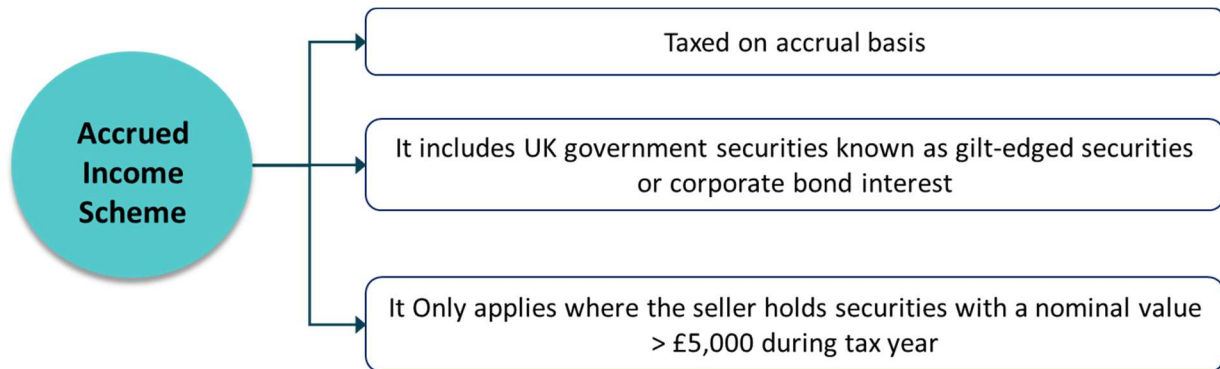
How to compute the amount of income tax payable?

## 2.9 Accrued Income Scheme

### Learning Outcome (ACCA Study Guide Area B)

**B4i: Understand** how the accrued income scheme applies to UK Government securities (gilts).

Diagram 2.9: Accrued Income Scheme



Accrued interest will be taxed on accrual basis. This includes UK government securities known as gilt-edged securities or 'gilts' or corporate bond interest.

Generally, the other interest is only taxed if it is received during 2019/2020 (e.g., Building society interest, bank interest, etc.)

The accrued income scheme only applies where the seller holds securities with a nominal value exceeding £5,000 during the tax year.

**Example 2.9.1:**

Jowen owned £10,000 (nominal value) 5% UK Government Loan Stock. Interest was payable on 30 June and 31 December each year. Jowen sold the loan stock to John on 30 November 2019 for sale proceeds of £11,067 including accrued interest of £167 for the period between 1 July 2019 and 30 November 2019 ( $£10,000 \times 4\% \times 5/12$ ). What are the amounts taxable on Jowen and John as savings income in respect of the loan stock for 2019/2020?

**Solution**

Jowen	£	
Interest received 30.6.2019		
$£10,000 \times 4\% \times 6/12$	200	
Accrued interest deemed received 31.12.19		
$£10,000 \times 4\% \times 5/12$	<u>167</u>	
Total taxable as savings income	<u><u>367</u></u>	Accrued
 John		
Interest received 31.12.19		
$£10,000 \times 4\% \times 6/12$	200	
Less relief for accrued interest (amount taxable on Jowen)		
$£10,000 \times 4\% \times 5/12$	<u>(167)</u>	
Total taxable as savings income (i.e. 1 month of interest $£10,000 \times 4\% \times 1/12$ )	<u><u>33</u></u>	



**Check understanding**

**Topic 2.9: Accrued income scheme**

**Learning Outcome (ACCA Study Guide Area B)**

**B4i: Understand** how the accrued income scheme applies to UK Government securities (gilts).

**Question:**

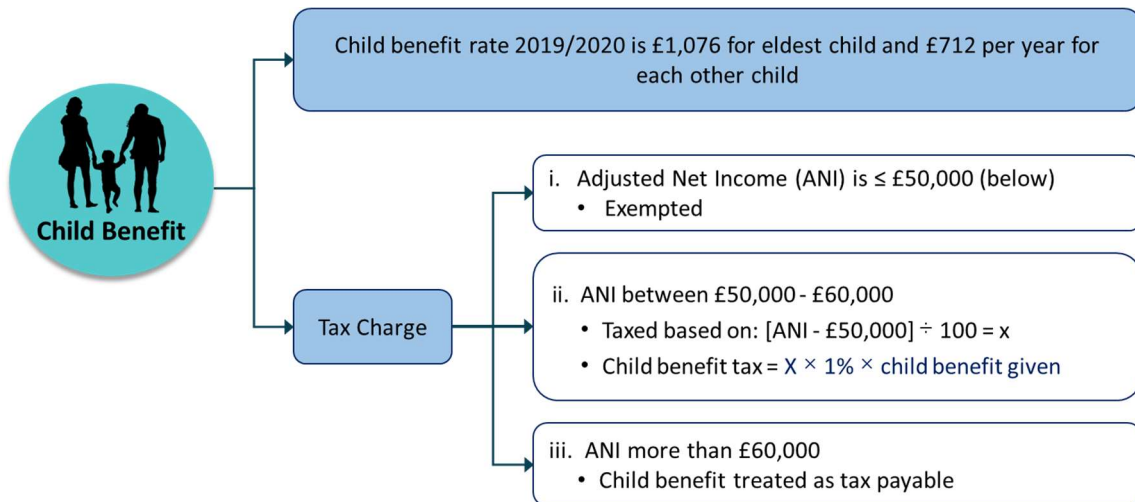
How does the accrued income scheme applies to UK Government securities (gilts)?

**2.10 Child Benefit Income Tax Charge**

**Learning Outcome (ACCA Study Guide Area B)**

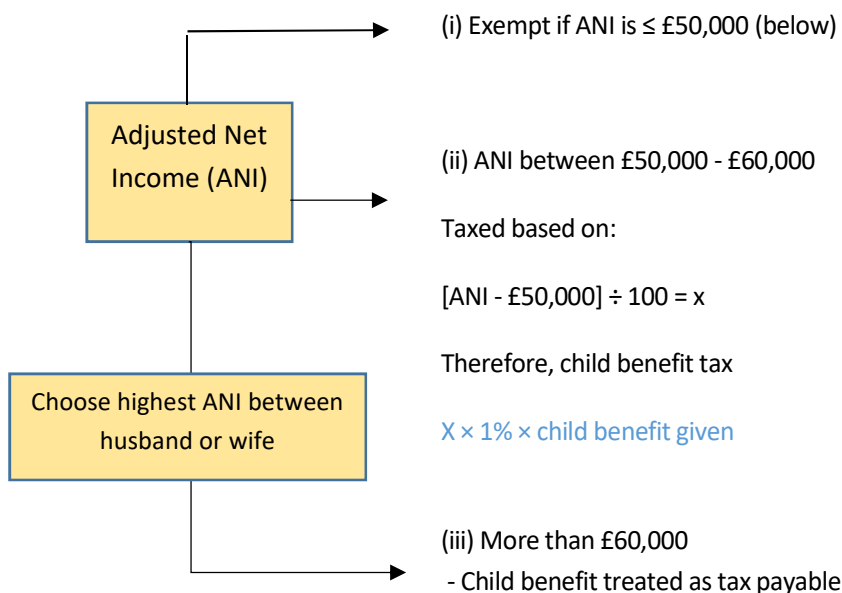
**B5g: Explain and compute the child benefit tax charge.**

**Diagram 2.10 Child Benefit Income Tax Charge**



If a recipient's child benefit is received during the year is below adjusted net income of £50,000, there is no child benefit income tax charge (no CBITC). However, if the recipient's child benefit falls between adjusted net income of £50,000 to £60,000, then CBITC will arise based on 1% of the child benefit amount for each £100 of adjusted

net income in excess of £50,000 rounded down to the nearest whole number ( $ANI - £50,000 * 1\%$ ). However, if the recipient of child benefit's adjusted net income exceeds £60,000, then the entire child benefit given will be imposed as additional tax payable, called child benefit tax charge (CBTC) added to tax liability.



**Example 1: 2.10**

**2019/2020:**

Ex:	(i)	(ii)	(iii)
Child Benefit	£	£	£
Given	1,500	1,600	1,700
ANI	46,000	53,000	70,000

**Compute child benefit**

**Answer (i):**

ANI is < £50,000

Therefore, child benefit is exempted NIL

**Answer (ii):**

ANI is between £50,000 to £60,000

Therefore, there will be a charge for child benefit

$$\frac{\text{ANI } (£53,000 - £50,000) = £3,000}{100} = £30$$

£30 × 1 % × £1,600 benefit = child benefit

Will added to tax payable £ 480

**Answer (iii):**

ANI is more than £60,000

Therefore, child benefit given is imposed as tax payable.

**Answer Format**

	£	£
Tax liability	XXX	
Tax Credit (PAYE)	<b>(XX)</b>	
	-----	
	XX	
Add: Child benefit		
Tax Charge (CBITC)	1,700	
Tax Payable	-----	XXX
	=====	

If either spouse has ANI exceeding £50,000 subject to Child benefit:

<b>E.g.: 2019/2020</b>	<b>Husband</b>	<b>Wife</b>
Net income	£52,000	NIL
Gift Aid	-	-
PPC	-	-
ANI	£52,000	NIL

Wife received child benefit of £1,076 in 2019/2020

**Compute Husband's child benefit income tax charge (CBITC) 2019/2020**

$$£52\,000 - £50\,000 = £2,000$$

$$£2000 \div 100 = £20$$

$$£20 \times 1\% \times £1,076 = £215 - \text{added to tax payable as CBITC}$$



**Example 2: 2.10**

Samantha divorced with two kids had a net income of £56 000 in 2019/2020, paid PPC £4,500 (gross) and received child benefit £1,788.

**Compute Husband’s child benefit income tax charge (CBITC) 2019/2020**

Check whether:

- i. ANI < £50 000  
or
- ii. ANI £50 000 to £60 000  
or
- iii. ANI > £60 000

Net income – PPC = ANI

$$£56,000 - £4,500 = £51,500$$

ANI – limit = £

$$£51,500 - £50,000 = £1,500 \div 100 = £15$$

$$£15 \times 1\% \times £1788 = £268$$

	£
Tax liability	XXX
Less: Tax credit (PAYE)	(XX)
	XX
Add: CBITC	268
Income Tax Payable	XXX



**Check understanding**

**Topic 2.10: Child Benefit Income Tax Charge**  
**Learning Outcome (ACCA Study Guide Area B)**  
**B5g: Explain and compute the child benefit tax charge.**

**Question:**

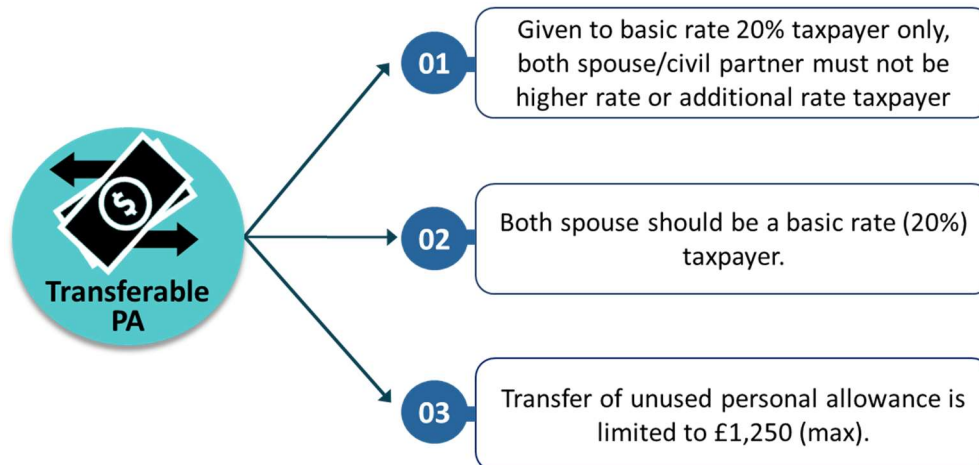
What is, and how to compute the child benefit tax charge?

## 2.11 Transferable Personal Allowance

### Learning Outcome (ACCA Study Guide Area B)

**B5c: Understand** the impact of the transferable amount of personal allowance for spouses and civil partners

**Diagram 2.11: Transferable Personal Allowance**



Transferable Personal Allowance is also known as marriage allowance (Unused personal allowances) will be given only if the couple is not entitled to married couple allowance. If the couple is eligible, it will be claimed as tax reducer at a basic rate of 20%. The condition is:

- 1) The transferable personal allowance is given to basic rate taxpayer only, both spouse/civil partner must not be higher rate or additional rate taxpayer.
- 2) Both transferor and transferee spouse should be a basic rate (20%) taxpayer.
- 3) Transfer of unused personal allowance is limited to £1,250 (max).

### Example 2.11

Sally and Joise are married. Both of them are 40 years old and have net income of £5,000 and £20,350 respectively in 2019/2020.

For Sally:	£
Net Income	5,000
P/A (12,500)	(5,000)
Taxable Income	0

Unused P/A                      7,500    (max transfer £1,250) or basic rate

Maximum surrender will be only £1,250 - limit as Marriage Allowance Tax Reducer is at 20%.

i.e.,  $£1,250 \times 20\% = £250$

For Joise:	£
Net Income	20,350
P/A	<u>(12,500)</u>
Taxable Income	<u><u>7,850</u></u>
Income Tax @ 20%	1,570
Less unused P/A (£1,250 x 20%)	<u>(250)</u>
Income Tax Payable	<u><u>1,320</u></u>



### Check understanding

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#### Topic 2.11: Transferable Personal Allowance

#### Learning Outcome (ACCA Study Guide Area B)

**B5c: Understand** the impact of the transferable amount of personal allowance for spouses and civil partners

#### Question:

What is the impact of transferable amount of personal allowance for spouses and civil partners?

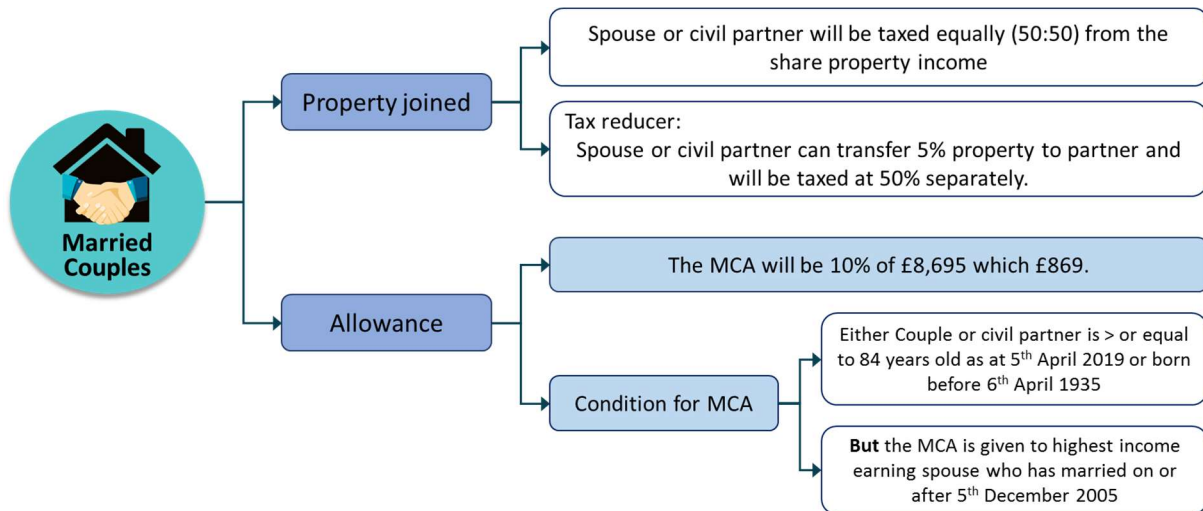
## 2.12 Married Couples and Couples in a Civil Partnership

### Learning Outcome (ACCA Study Guide Area B)

**B5h: Understand** the treatment of property owned jointly by a married couple, or by a couple in a civil partnership.

**B7b: Understand** how a married couple or a couple in a civil partnership can minimise their tax liabilities.

**Diagram 2.12 Married Couples and Couples in a civil Partnership**



### 2.12.1 Property Owned Jointly

Any property jointly owned by husband and wife or by civil partners will be taxed on each of them equally (50:50). A declaration of beneficial interest may be made in order to divide the joint revenue into the actual entitlement. If one spouse does not own any property shares, the shares may be transferred to that spouse to give rise to a real entitlement.

Transferring only 5% of the shares can lead to an actual income entitlement of 50%. If more shares are transferred, more revenue may be transferred legally. Ideally, in order to be tax-efficient, the declaration should allocate more income to the person who is a lower rate taxpayer and possibly has some unused personal allowance.

**Example 2.12.1**

Paul and Edna have a joint property of which generates annual income of £120,000.

Paul contributed nothing towards the purchase of the house and Edna contributed 100% towards the purchase of the house.

How will this income be split if no declaration is made?

**Solution:**

If no declaration is made, then the income will be split in the following manner:

Paul & Edna, 50:50

Paul: £120,000

Edna: £60,000

**Additional:**

For the same couple above, the following information relates to their yearly income aside from the property income.

Paul: £100,000 salary per annum.

Edna: Not earning

If they made declaration to split the income according to actual entitlement, how much they save as a couple in income tax?

Paul's Income for 2019/2020

	£
Salary	120,000
Property Income	60,000
Total Income	180,000
P. A	Nil (income above £125,000)
Taxable Income	180,000

**Example 2.12.1 (continued)**

Edna's Income for 2019/2020

	£
Salary	0
Property Income	60,000
Total Income	<u>60,000</u>
P. A	(12,500)
Taxable Income	<u><u>47,500</u></u>

**Compute: Income tax liability**

Paul's Income tax liability

	£
$£37,500 * 20\% =$	£7,500
$(£180,000 - £37,500) * 40\% =$	£57,000
Total	<u><u>£64,500</u></u>

Edna's Income tax liability

	£
$£37,500 * 20\% =$	£7,500
$(£48,500 - £37,500) * 40\% =$	£4,400
Total	<u><u>£11,900</u></u>

**Note:**

- Paul now paying tax at higher rate due to total income above £125,000. Which mean he will not have any personal allowance remaining.
- Therefore, Paul and Edna should make a declaration to make Paul able to use Edna personal allowance, as both are paying income tax at the higher rate.
- With the declaration of the transfer 100% of the property income from Paul to Edna, both individuals should be able to utilise their personal allowances fully.  
 \*This will help them save tax at  $£11,500 * 40\% = £4,600$  (At F6 this kind of short cut calculation is expected. The long version is shown below for completeness)

**After declaration**

Edna's Income for 2018/19

	£
Salary	0
Property Income	120,000
Total Income	<u>120,000</u>
P. A	(12,500)
Taxable Income	<u><u>107,500</u></u>

**Income tax liability**

Edna's Income tax liability

£37,500*20% =	£7,500
(£107,500 - £37,500) *40% =	<u>£29,460</u>
Total	<u><u>£36,960</u></u>

Now both Paul and Edna will have the same tax liability as they are earning the same amount after making the declaration.

Total liability of husband and wife before declaration (£64,500 + £11,900)	£76,400
Total liability of husband and wife after declaration (£36,700 + £36,700)	<u>£73,400</u>
Tax saving	<u><u>£4,000</u></u>

**2.12.2 Property Owned Jointly**

**Marriage Couple Allowance**

Marriage Couple Allowance (MCA) is given as a tax reducer to married couples and to civil partners. The MCA will be 10% of £8,695, which is equal to £869.

The condition for MCA is if either couple or civil partner is more than or equal to 84 years old as at 5/4/2019 or anyone born before 6/4/1935, but the MCA is given to the highest income earning spouse who has married on or after 5/12/2005.

**Example 2.12.2:**

Angus was married to Edna in Jan 2006. Angus was born on 16/9/1934 and Edna was born on 10/11/1941, Angus' NS income is £16,280 while Edna's NS income is £12,000.

Compute Angus' Income Tax for 2018/19

<u>Angus 2018/19</u>	Total (NS) £
Net Income	16,280
- P/A	<u>(11,850)</u>
Taxable Income	<u><u>4,430</u></u>
Tax will be at 20%	
Income Tax Liability	886
- MCA (10% x 8,695)	<u>(869)</u>
Income Tax Payable	<u><u>17</u></u>

Check Conditions

	<u>Angus</u>		<u>Edna</u>	
Age	84 years	✓	77 years	X
Born	64 (OR) 6/4/1935	✓	10/11/1941	X

Married after 5/12/2005 ✓  
 Angus is older, so MCA is given to Angus  
 i.e., condition is satisfied, MCA can be claimed

To claim full MCA, they must have been married throughout the tax year. (i.e., married before 6/4/18)  
 In the event the couple marries in the current year 2018/19, then the MCA is reduced by 1/12 of the month unmarried.



**Check understanding**

**Topic 2.12: Married Couples and Couples in a Civil Partnership**

**Learning Outcome (ACCA Study Guide Area B)**

**B5h: Understand** the treatment of property owned jointly by a married couple, or by a couple in a civil partnership.

**B7b: Understand** how a married couple or a couple in a civil partnership can minimise their tax liabilities.

**Question 1:**

What are the treatment of property owned jointly by a married couple, or by a couple in a civil partnership?

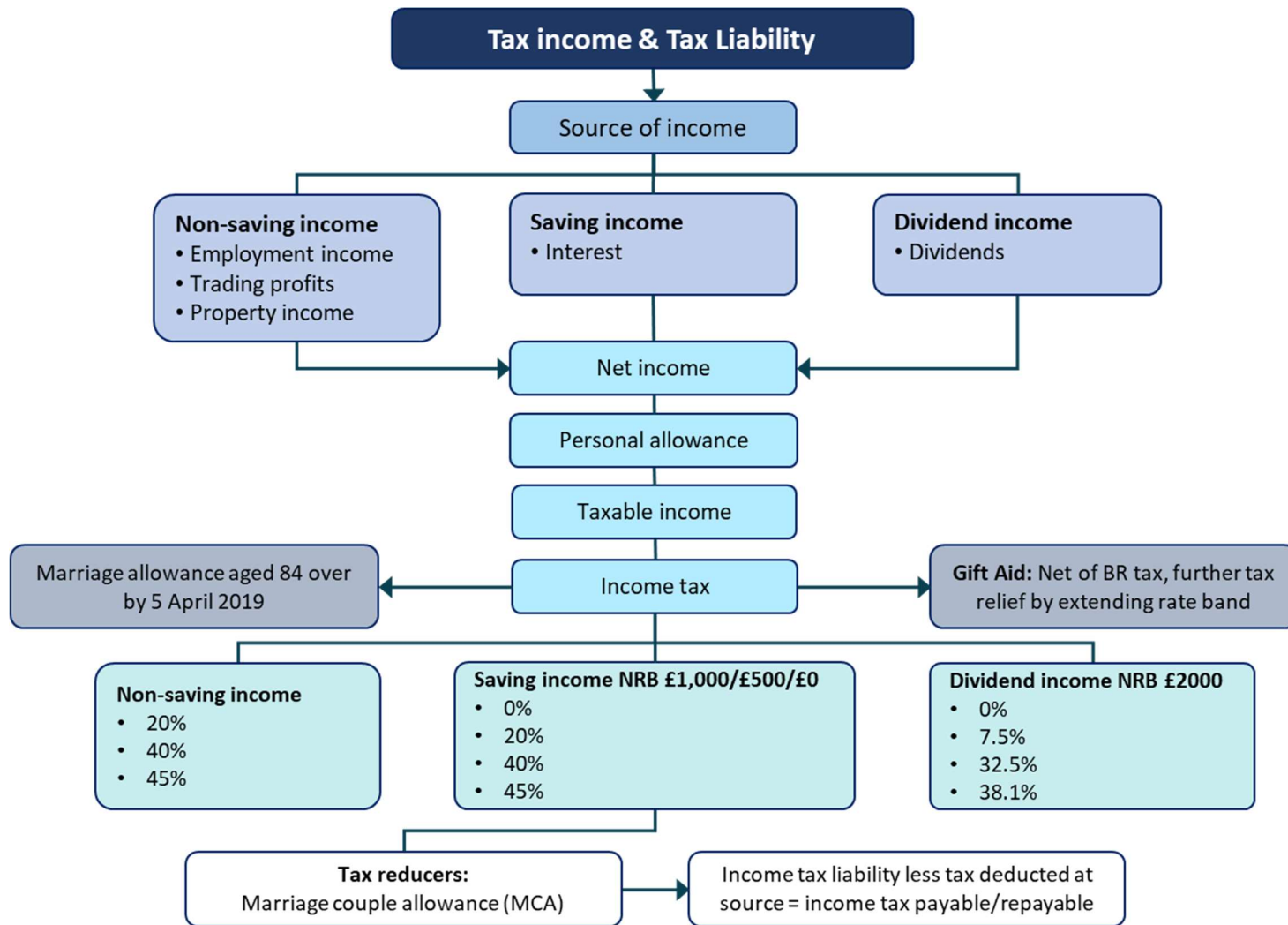
**Question 2:**

How can a married couple or a couple in a civil partnership can minimise their tax liabilities?



2.13 Chapter 2: Summary

Diagram 2.13: Summary of Tax Income and the Income Tax Liability



## 2.14 Chapter 2 Check Understanding: Answer

### Topic 2.1: Scope of Income Tax

#### Answer:

An individual will automatically be non-UK resident if they meet any of the automatic overseas tests. An individual, who does not meet any of the automatic overseas tests, will automatically be UK resident if they meet any of the automatic UK tests. An individual who has not met any of the automatic overseas tests nor any of the automatic UK tests will be UK resident if they meet the sufficient ties test.

### Topic 2.2: Type of Income

#### Answer:

For personal tax computation, we need to take into consideration all sources of income for each tax year, splitting the sources into non-savings, savings and dividend income.

### Topic 2.3: Computing Taxable Income

#### Answer:

Saving income can be compute from interest received from bank and building society accounts, National Savings & Investment (NS&I) products, gilts and company loan stock. While dividend income consist of dividends received as result of ownership of shares.

### Topic 2.4: Tax Exempt Income

#### Answer:

Dividend and interest received from ISAs is exempt from income tax

### Topic 2.5: Qualifying Interest

#### Answer:

Qualifying interest is given tax relief by being deducted from total income to compute net income

### Topic 2.6: Personal Allowance

#### Answer:

It is deducted from net income, first against non-savings income, the against savings income and lastly against dividend income.

### Topic 2.7: Gift Aid

#### Answer:

It qualifies for tax relief under the gift aid scheme provided the donor gives the charity a gift aid declaration.

### Topic 2.8: Computing Income tax liability and Income tax payable

#### Answer:

Amount of income tax payable can be determine by adding up all available income for the year, minus with any available tax reducer (i.e. transferable PA, property business finance costs and etc). Lastly deduct with PAYE.

### **Topic 2.9: Accrued income scheme**

Answer:

Accrued income scheme only applies where the seller holds securities with a nominal value exceeding £5,000 during the tax year in which the interest period ends. It is to ensure that taxpayer who sells a gilt is taxed on any interest income included in the proceeds.

### **Topic 2.10: Child Benefit Income Tax Charge**

Answer:

It is an income tax charge to receiver child benefit if the recipient or their partner has adjusted net income over £50,000 in a tax year. It will be compute based on 1% of the child benefits amount for each £100 of adjusted net income in excess of £50,000. The calculation at all stage is rounded down to the nearest whole number.

### **Topic 2.11: Transferable Personal Allowance**

Answer:

It will help them to reduce the tax burden to their household by making tax planning

### **Topic 2.12: Married Couples and Couples in a Civil Partnership**

Answer 1:

Income on property held is treated as if it were shared equally unless they make a joint declaration of the actual shares of ownership.

Answer 2:

Married couple can reduce the tax liability by transferring PA of the lower income earner to higher income earner.