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## Taxation I

Northern Ireland

### **Addendum to Subject Manual**

(Detailing critical errors and corrections)

**December 2009**



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## **Chapter 1**

### **Administration and Procedures**

Page 1 & 2 & 9 – Note that references to the General & Special Commissioners should be replaced by the Tax Tribunal, Birmingham

Page 1 – Please change 'income tax returns' to 'personal tax returns'

Page 3 – Insert 'Corporation Tax Act 2009' under the Statute Law heading for Corporation Tax.

Page 7 – Students please note that payments on account (POA) are not required if the liability is below £1,000

## **Chapter 2**

### **Introduction to Income Tax**

Page 20 – 'If the taxpayer is over 75', please note that this should read 'is 75 or over'

Page 21 – The Blind Person's allowance is shown as £1,800; this should read £1,890

Page 22 - '...remaining £1,500 against their spouse's taxable...' –please note that the figure should read £1,590

Page 30 - Exercise 7- 'he paid PAYE of £4,700 on his salary during the year' – please note that this text should be deleted and can be ignored.

Page 32 – Exercise 9 – 'She makes a gift donation of £1,000' – this should read as 'She makes a personal pension contribution of £1,000'

Page 35 – Exercise 1 – Total Income Figure – This figure should be amended to £53,750

Page 36

- Exercise 4.1 – Michael – 'as the personal allowance cannot create a refund' – Students please note that it can create a refund if there is a tax suffered.

- Exercise 4.1 Personal Allowance Figures have been amended to £2,500 and £2,500 respectively

- Page 37 – Exercise 4.3 – Personal Allowance figures should read £9,640
- Exercise 4.3 – Taxable Income figures should read £1,610 in both columns
  - Exercise 4.4 – Taxable Income figures should read £823 in both columns

Page 39 – Exercise 6 – Tax Liability figures – Please amend to:

	Savings Income	Dividend Income	TOTAL
Bank Interest (£12,250*100/80)	£15,313		
Dividends (£50,000*100/90)		£55,555	
Total Income	£15,313	£55,555	£70,868
Less Personal Allowance	(£6,475)		(£6,475)
<b>TAXABLE INCOME</b>	<b>£ 8,838</b>	<b>£55,555</b>	<b>£64,393</b>
Tax Liability:			
Savings income:			
£2,440 * 10%			£244
£6,398 * 20%			£1,280
Dividend income:			
£28,562 * 10% **			£2,856
<u>£26,993</u> * 32.5%			£8,773
£55,555			
<b>TOTAL TAX LIABILITY</b>			<b>£13,153</b>
Less tax credit on dividends (£55,555 - £50,000 = £5,555)			(£5,555)
Less tax suffered on interest (£15,313 - £12,250 = £3,063)			(£3,063)
<b>Tax Payable</b>			<b>£4,535</b>

Page 42 – Exercise 9 – ‘Extension to the basic rate band:’ – Students please add the following text:

\*\* Extension to the basic rate band:

Basic rate band	£37,400
Add gross pension contribution	£1,250
<u>(£1,000 * 100/80)</u>	
<u>New Basic Rate Band</u>	<u>£38,650</u>

### Chapter 3

#### Employment Income

Page 47 – 3<sup>rd</sup> bullet point – Students may note that Schedule E income is now known as “employment income” (This is for information purposes only)

Page 55 – Exercise 2, in relation to Matthew, please change the word ‘performs’ to the word ‘travels’

Page 61 – Answer 2 – tax Liability figures – calculations amended as follows:

	Non-Savings Income	Savings Income	Dividend Income	TOTAL
Employment Income (See W1 below)	£52,250			
Rental Income	£6,485			
Bank Interest (£225*100/80)		£281		
ISA Interest		Exempt		
Dividends (£900*100/90)			£1,000	
<b>Total Income</b>	<b>£58,735</b>	<b>£281</b>	<b>£1,000</b>	<b>£60,016</b>
Less Personal Allowance	(£6,475)			(£6,475)
<b>TAXABLE INCOME</b>	<b>£ 52,260</b>	<b>£ 281</b>	<b>£1,000</b>	<b>£53,541</b>
Tax Liability:				
Non-savings income:				
				£8,020
				£4,864
				£52,260
Savings income:				
				£112
Dividend income:				
				£325
<b>TOTAL TAX LIABILITY</b>				<b>£13,321</b>
Less tax credit on dividends (£281-£225 = £56)				(£56)
Less tax suffered on interest (£1,000 - £900 = £100)				(£100)
Less PAYE				(£9,780)
<b>Tax Payable</b>				<b>£3,585</b>

Page 66 – Exercise 2 – This has been amended as follows:

Amount reimbursed by employer (39,000 * 35p)		£13,650
Less amount allowable per HMRC:		
10,000 * 40p	(£4,000)	
29,000 * 25p	<u>(£7,250)</u>	
		<u>(£11,250)</u>
Taxable Benefit		<u>£ 2,400</u>

Matthew's taxable employment income is £32,400 which is made up from his annual salary of £30,000 plus the taxable benefit from his mileage expenses of £2,400.

Page 67 - Exercise 4 – 'Amount deductible from employer'; this should read 'Amount deductible from employment income'

## Chapter 4

### Employment Income – Benefits in Kind

Page 86 – Step 7, top of page – This should read: "If the car is unavailable for 30 consecutive days or more..."

Page 89 – Paragraph beginning 'The reduction to the taxable fuel benefit'; The second sentence should read: 'It is also reduced if the employee stops receiving fuel for private use during the tax year.'

Page 92 – ‘Fuel Benefit’ Figures should read as indicated below

Fuel Benefit – Scenario 2

Step 1:	Base figure	£16,900
Step 2:	% calculated for car benefit above	20%
Step 3:	Multiply Step 1 by Step 2 – Fuel Benefit	£3,380
Step 4:	Time apportion £3,380 * 6/12	<u>£1,690</u>

The total car benefit in this scenario is £1,800 + £1,690 = £3,490

Fuel Benefit – Scenario 3

As Julie did not reimburse her employer in full for the private fuel it has no impact on the benefit. Therefore the fuel benefit remains at £1,690 and the total car benefit is £1,800 + £1,690 = £3,490.

Page 96 – Exercise 5 – Should read: “The computer was first provided in January 2009...”

Page 100 – Exercise 6 – The first sentence should read: “Lucy received a loan from her employer...”

– Exercise 7 – Should read: “As of April 2009, an employee had...”

Page 104 – Exercise 2 – The text below the calculation should read:

“Although Nigel’s earnings are less than £8,500, he owns more than 5% of the company’s share capital. Therefore Nigel is a P11d Employee.”

Page 104 – 107 – Exercise 3,4,5 – The following calculations have been amended

**Exercise 3:**

Step 1:	List price	£15,750
Step 2:	Add cost of accessories	£2,500
Step 3:	Less capital contribution	<u>          -</u>
		<u>£18,250</u>
Step 4:	Round CO <sub>2</sub> emissions down to nearest 5g/km 178g/km becomes 175g/km	
Step 5:	Check % to apply for emissions of 175g/km per Tax Reference Material = 23% plus 3% for diesel car = 26%	
Step 6:	Multiply list price by % (£18,250 * 26%)	£4,745
Step 7:	Time apportion, if necessary - the car was available from 6 September 2009 to 5 April 2010 i.e. 7 months:	
	7/12 * £4,745	£2,768
Step 8:	Deduct personal contribution for private use	-
		<u>          -</u>
	Taxable Benefit	<u>£2,768</u>

**Exercise 4:**

Calculate the car benefit first:

Step 1:	List price	£16,250
Step 2:	Add cost of accessories	-
Step 3:	Less capital contribution	<u>-</u>
		<u>£16,250</u>
Step 4:	Round CO <sup>2</sup> emissions down to nearest 5g/km 226g/km becomes 225g/km	
Step 5:	Check % to apply for emissions of 225g/km per Tax Reference Material = 33%. As it is a diesel car 3% must be added, however this is restricted to 35%.	
Step 6:	Multiply list price by % ( $£16,250 * 35\%$ )	£5,688
Step 7:	Time apportion, if necessary - the car was available from 6 January 2009 to 5 April 2010 i.e. 3 months:	
	$3/12 * £5,688$	£1,422
Step 8:	Deduct personal contribution for private use $£100 * 3$	(£300)
		<u>£1,122</u>
	Taxable Car Benefit	<u>£1,122</u>

Fuel Benefit:

Step 1:	Base figure	£16,900
Step 2:	% calculated for car benefit above	35%
Step 3:	Multiply Step 1 by Step 2 – Fuel Benefit	£5,915
Step 4:	Time apportionment $£5,915 * 3/12$	£1,479

The total taxable benefit in respect of the car is  $£1,122 + £1,479 = £2,601$

**Exercise 5**

Annual Benefit

Annual taxable benefit for 2009/10 is 20% of the market value when first provided to the employee:

$$20\% * £1,800 = £360$$

Additional Benefit on Gift:

This taxable value of this benefit is the greater of:

- The market value on acquisition by employee less the price paid by the employee for the asset i.e.  $£900 - £500 = £400$ .
- The market value of asset when 1st provided less any amounts already assessed as a benefit less the price paid by the employee for the asset.

Market value when first provided	£ 1,800
Less annual benefit assessed 08/09	(£ 90)
Less annual benefit assessed 09/10	(£ 360)
Less price paid by employee	<u>(£ 500)</u>
	£ 850

Total Benefit

In this case the total taxable value of the asset in 2009/10 is the annual benefit of £360 + the higher benefit on acquisition of £850 = £1,210.

Page 111 – Question 6 – The figure for the annual value of the house should read £3,750.

Page 112 – Question 7 – The figure for the annual value of the house should read £2,050.

Page 116 – Question 10 – ‘Noellene makes a contribution of £125 per annum’ – this should read ‘contribution of £125 per month’

## **Chapter 5**

### **Rental Income**

Page 121 – Example – Should read: ‘Simon owns a rental property and has charged...’

Also please note that replacement of single glazed windows with double glazed windows will be treated as a repair (HMRC PIM 2020)

## Chapter 6

### Taxing Income from Self Employment

Page 128 – The sentence beginning “If a trade-in...” should read “If a trade is not being carried on, the profits...”

Page 135 – Under Gifts to Employees and Customers. The sentence should read: ‘...however the employee may be taxed on...’

Page 142 – Answer 2 – Tax Adjusted Profile – Figure and calculations have been amended as follows

#### Answer 2:

Net Profit		£13,136
Add back:		
Drawings by Shauna	£19,500	
Provision for Shauna's income tax	£ 3,780	
Electricity (15% * £5,829)	£874	
Extension to dining area in restaurant	£7,500	
Repainting of whole building	£200	
Gifts of hampers to customers	£690	
Depreciation	1,490	
Donation to Oxfam	<u>250</u>	
		<u>£34,284</u>
Tax Adjusted Profit		<u>£47,420</u>

The effect of the add backs is to increase Shauna's taxable trading income from £13,136 to £47,420.

Page 146 – The sentence should read: ‘The owner estimated that he travelled 12,000 business miles..’

Page 146 – Exercise 2 – Net Profit Figure – Figure and calculations have been amended as follows:

**Answer:**

The tax adjusted profits of the business are as follows:

Net Profit		£1,576
<u>Add back:</u>		
Drawings	£6,000	
Income tax liability	£1,500	
Premises cost (35%*£3,314)	£1,160	
New business equipment	£2,342	
Keyman insurance	£ 470	
Political donation	£ 100	
New car	£3,500	
Parking fine	£ 300	
Personal mileage (W1)	<u>£ 409</u>	
		£15,781
<u>Deduct:</u>		
Rental Income	(£2,790)	
Interest received	<u>(£ 385)</u>	
		<u>(£3,175)</u>
Tax Adjusted Profits		<u>£14,183</u>

Page 153 – Exercise 3 – Net Profit Figure – Figure and Calculations have been amended as follows

**Exercise 3:**

Net Profit		£2,747
<u>Add back:</u>		
Drawings to Kelley	£9,500	
Insurance (1/3 * £2,245)	£ 748	
Interest on unpaid tax	£1,650	
Painting (1/3 * £3,950)	£1,317	
Loan to customer written off	£1,800	
Depreciation	<u>£1,750</u>	
		£16,765
<u>Deduct:</u>		
Rental income	£5,900	
Bank interest	<u>£1,650</u>	
		<u>£ 7,550</u>
Tax Adjusted Profits		<u><u>£11,962</u></u>

Page 161 – Incorrect date – The date should read 30 September 2009

Page 172 – Point 6 – should refer to “a HRMC enquiry”

## Chapter 7

### Basis Periods

Page 179 – the first date range should read “1 January 2009 to 31 December 2009”

Page 181 – In the answer to the Example, the sentence should read ‘Her profit for the 10 month period’

Page 182 - The text in the box at bottom-right should read: ‘Basis Period is the 1<sup>st</sup> 12 months of trade’

Page 186 – Exercise 2 – Please amend to read as follows:

#### Exercise 2:

Kristine commences trade on 1 January 2009 and prepares her accounts to 30 June 2009. These accounts show a profit of £16,000. The accounts for 30 June 2010 show a profit of £42,000. What are her taxable profits for 2008/09 and 2009/10?

Page 187 – Exercise 6 – The last line should read: “Calculate Kara’s assessable profit for the tax years 2007/08, 2008/09 and 2009/10.”

Page 190 – Example 5 – The first line should read “Cyril starts to trade on 1 February”

Page 194 – Answer 5 - The answer should read as follows:

Tax Year	Basis Period	Profits
09/10	1 October 2008 – 30 September 2009	£27,750
	1 October 2009 – 31 March 2010	£14,500
	Less overlap profits	(£4,790)
	<b>Taxable Income</b>	<b>£37,460</b>

Page 203 – Exercise 6 – Step 4 – Top of page – Please note that the first row of the calculations should read as follows

Step 4: Calculate the taxable profits for these basis periods:

<b>Tax Year</b>	<b>Basis Period</b>	<b>Calculation</b>	<b>Profit</b>
07/08	1 Mar 08 to 5 Apr 2008 (1 months)	1 Mar – 5 April 08  1mth/16mth * £137,590 = £8,599	£8,599

Page 204 – Exercise 7 – Step 3 – Please note that the second row of calculations should read as follows

Step 3: Calculate the taxable profits for these basis periods:

<b>Tax Year</b>	<b>Basis Period</b>	<b>Calculation</b>	<b>Profit</b>
09/10	1 Mar 09 – 28 Feb 2010	1 Mar 09 – 28 Feb 10  12/14 * £76,900 = £65,914	£65,914

Page 208 – The last line should read: 'Compute the profits from self employment...'  
Please note that you cannot compute earlier years' income tax/NIC without rates for all years

## **Chapter 8**

### **Pay as You Earn**

Page 214 – Exercise 1 – Should read "...and they have allowable deductions of £350'

Page 218 – Exercise 2 & 3 – The tax code used in both exercises should read 647L

Page 219 – 3<sup>rd</sup> paragraph. The last line should read 'The employer must also pay Class 1 contributions...'

Page 224 – Employer's NIC – should read 'this is known as Class 1 Secondary or...'

Page 226 Exercise 8 – the figure for Gordon's tax paid should read £941.25

Page 230 – Student please note that at the foot of the page, overpayments of tax are never repaid as a tax coding credit – a repayment cheque is always issued.

Page 231 – Following the above note, Students should ignore Example 10.

- Final bullet point – Should read 'HMRC allow for underpayments of PAYE'

Page 240 – Question 2 – Tax Code – Janine's tax code should read 647L.

Page 243 – Question 7 – Incorrect Year period – Please amend the year period to read "up to and including month 8 of 2009/10..."

Simon's "Tax paid to date" should read £69.08

Page 245 – 'The P11d will be completed in Chapter 12 – Students please note that this should read: 'The P11d will be completed in Chapter 9.'

## Chapter 9

### PAYE – Employer's Obligation

Page 251 – In the Form P45 table - for Box A and Box B, the code should read as 647L

Page 260 – Students should also attempt an additional question, as follows: – 'Question 3: Prepare the Form P11D for question 9 in Chapter 8'

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## **Chapter 11**

### **Detailed Computational Aspects**

Page 295 – Exercise 1 – Incorrect year – The VAT quarter should read “ended March 2010”; also “the £950 exclusive of VAT that were received on 27<sup>th</sup> March 2010” and the invoice dated 9<sup>th</sup> April 2009 was received on 11<sup>th</sup> April 2010.  
Also note that you are to calculate the trader’s net VAT liability for the quarter ended 31 March 2010.

Page 303 – Flat-Rate Scheme – 3<sup>rd</sup> Paragraph: ‘To join this scheme a trader must have annual taxable turnover not exceeding £150,000 (excluding VAT). Their annual total turnover, including exempt and non taxable income, must not exceed £225,000 (including VAT)’.