

# ASSOCIATION OF ACCOUNTING TECHNICIANS

## GUIDANCE NOTES ACCOUNTING QUALIFICATION – DIPLOMA PATHWAY UNIT 19, PREPARING PERSONAL TAXATION COMPUTATIONS (PTC) FINANCE ACT 2004, FOR AAT EXAMS IN JUNE AND DECEMBER 2005

### Introduction

Unit 19, Preparing Personal Taxation Computations, concerns the calculation of taxation liabilities for individuals. As this unit is separate from Unit 18, Preparing Business Taxation Computations, and may be chosen in isolation, it is important to ensure that anyone taking Unit 19 on its own learns how to include the Schedule D Case I profit from a sole trader on a self-assessment income tax return.

The calculation of taxation liabilities for individuals will include the taxation liabilities for:

1. Earned income for:
  - Sole traders
  - Employees
2. Investment income, such as:
  - Interest
  - Dividend
  - Rental income

A personal tax return and income tax computations for the above types of income are crucial to this unit, together with the claim for any deductions for allowable expenses and reliefs.

### Guidance by element

#### *Element 19.1, Calculate income from employment*

#### Performance criteria

- A. Prepare accurate computations of emoluments, including benefits in kind
- B. List allowable expenses and deductions
- C. Record relevant details of income from employment accurately and legibly in the tax return
- D. Make computations and submissions in accordance with current tax law and take account of current Inland Revenue practice
- E. Consult with Inland Revenue staff in an open and constructive manner
- F. Give timely and constructive advice to clients on the recording of information relevant to tax returns
- G. Maintain client confidentially at all times

#### Guidance

The purpose of this element is to calculate the Schedule E earnings Income from Employment of an individual for inclusion in their income tax computation and/or income tax return.

For Schedule E earnings such income, the following sources of income need to be considered:

- Cash received, such as salary, bonuses, commissions.
- Benefits in kind, such as car, car fuel, accommodation and the living expenses connected with accommodation, assets made available to employees for private usage and beneficial loans. The rules for benefits in kind need to be considered for all levels

of income.

Deductibility of allowable expenses. This will involve:

- The operation of the 'wholly, exclusively and necessarily incurred' rule.
- Pension contributions and payroll giving to charities

Students should understand the significance of all the major PAYE forms, such as P11D, P60 and P45. However, detailed knowledge of the mechanics of the PAYE system will not be required.

### ***Element 19.2, Calculate property and investment income***

#### **Performance criteria**

- Prepare schedules of dividends and interest received on shares and securities
- Prepare schedules of property income and determine profits and losses
- Prepare schedules of investment income from other sources
- Apply deductions and reliefs and claim loss set-offs
- Record relevant details of property and investment income accurately and legibly in the tax return
- Make computations and submissions in accordance with current tax law and take account of current Inland Revenue practice
- Consult with Inland Revenue staff in an open and constructive manner
- Give timely and constructive advice to clients on the recording of information relevant to tax returns
- Maintain client confidentiality at all times

#### **Guidance**

For property income, students will be required to compute the profit or loss on Schedule A income. This specifically includes rental income, but excludes lease premiums and 'rent-a-room' relief. An understanding of the basis of assessment, allowable expenditure and capital expenditure is required in reference to Schedule A income.

For investment income, students must understand the tax implications of owning a variety of investment assets, such as shares and ISAs and TESSAs. Students should also have an understanding of the tax implications where interest is taxed at source, and where it is not taxed at source.

There will be considerable commonality between this element and element 19.3, as the generation of the income in this element will be used in the Income Tax computations in element 19.3.

### ***Element 19.3, Prepare Income Tax computations***

#### **Performance criteria**

- List general income, savings income and dividend income and check for completeness
- Calculate and deduct charges and personal allowances
- Calculate Income Tax payable
- Record income and payments legibly and accurately in the tax return
- Make computations and submissions in accordance with current tax law and take account of current Inland Revenue practice
- Consult with Inland Revenue staff in an open and constructive manner
- Give timely and constructive advice to clients on the recording of information relevant to tax returns
- Maintain client confidentiality at all times

## **Guidance**

It will not necessarily be a requirement in the examination to complete a full Inland Revenue income tax return, but relevant extracts may be used and the student will need to demonstrate understanding on how it should be properly completed.

All sources of income, earned and unearned, will come under this element, though the specifics on how they are individually calculated will come under another element within this unit.

Detailed knowledge is required of all personal allowances and reliefs, including:

- Personal allowances for taxpayers aged under 65
- Charges on income
- Gift aid

Specifically excluded from this element are:

- Eligible interest payments
- Maintenance payments

Also, the dates for submission of the income tax return and payment of income tax must be considered, together with the implications of making a late filing of the return.

### ***Element 19.4, Prepare Capital Gains Tax Computations***

#### **Performance criteria**

- A. Identify and value disposed-of chargeable personal assets
- B. Identify shares disposed of by individuals
- A. Calculate chargeable gains and allowable losses
- D. Apply reliefs and exemptions correctly
- E. Calculate Capital Gains Tax payable
- F. Record relevant details of gains and the Capital Gains Tax payable legibly and accurately in the tax return
- G. Make computations and submissions in accordance with current tax law and take account of current Inland Revenue practice
- H. Consult with Inland Revenue staff in an open and constructive manner
- I. Give timely and constructive advice to clients on the recording of information relevant to tax returns
- J. Maintain client confidentiality at all times

#### **Guidance**

This element deals with the calculation of capital gains for individuals. As disposals of business assets are examined under Unit 18, the type of disposals covered by this unit include:

- Non-business assets
- Shares and securities, including rights issues and bonus issues, FA 1985 pool and matching rules
- Chattels
- Part-disposal of assets
- Improvement expenditure
- Principal private residence, including periods of deemed occupation
- Exempt assets

Students should be able to compute the gain, or loss, and then be able to apply tapering relief and the annual exemption. An understanding is also required of the impact of capital gains on the tax liability, assuming gains are the top slice of an individual's income.

Specifically excluded topics are:

- Double tax relief
- Trusts
- Granting of lease
- Share take-overs

### **Assessment strategy**

This unit is assessed by examination only.

The examination will last for 3 hours, plus 15 minutes of reading time. It will be divided into two sections. Section 1 will be concerned predominately with the taxation of an individual who is employed, whilst Section 2 will cover the taxation of capital transactions. The contents of Elements 19.2 and 19.3 can appear in either section.

### **Section 1**

This section could have the following types of activity:

- Computation of Schedule E income, including benefits in kind
- Other personal income, both earned and unearned
- Personal allowances
- Computation of income tax liability
- Completion of extracts from the Inland Revenue income tax return

### **Section 2**

This section could have the following types of activity:

- Capital gains computation for individuals
- Other personal income, both earned and unearned
- Personal allowances
- Computation of income tax liability
- Completion of extracts from the Inland Revenue income tax return

It is not anticipated that candidates will be required to compute certain topics more than once during the examination. For instance, Schedule A income will only be assessed once in either Section 1 or Section 2. The same principle applies for calculating certain forms of income, although the application of such income in calculating the final income tax due will not be restricted to only one section.