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# Personal Taxation

## Learning Outcome 1.8

By the end of this learning outcome you will be able to demonstrate an understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts including Value Added Tax and Corporation Tax.

### **1.8.1 Corporation Tax**

Corporation Tax is charged on trading profits, investment income and capital gains of limited companies and other organisations, including clubs, societies, associations and other unincorporated bodies.

Dividends received from other UK companies, known as franked investment income, are excluded from the charge to Corporation Tax.

The rates of Corporation Tax are set for the financial year. The financial year is the year beginning 1 April and ending 31 March.

It is charged on a current year basis, although unincorporated businesses are taxed on the profits of the accounting year ending in the tax year.

The main flat rate for 2017/18 is 19% on all profits. The Government has announced their intention to reduce this to 17% for the year starting 1 April 2020.

### **1.8.2 Accounting Periods**

Corporation tax is charged for accounting periods, which can never be longer than 12 months. The accounting period will usually be the same as the period for which a company makes up its accounts.

### **1.8.3 Capital Gains**

Companies do not pay CGT as a separate tax. It comes within the Corporation Tax charge with gains and losses calculated in the same way as individual gains and losses under CGT.

In calculating capital gains, the indexation allowance continues to be available for companies.

However, companies do not receive an annual capital gains exemption allowance.

### **1.8.4 Payment of Corporation Tax**

Corporation Tax for companies where taxable profits are up to £1,500,000 is normally due 9 months and a day after the end of the company's accounting period.

Companies are subject to self-assessment and are responsible for calculating their own tax liabilities. Any unpaid tax due after the due date will be charged interest.

Companies with profits in excess of £1,500,000 will make quarterly payments on account for their Corporation Tax liability.

The four quarterly instalment dates are made in months 7, 10, 13 and 16 following the start of the company's accounting period.

### **1.8.5 Value Added Tax (VAT)**

Value Added Tax (VAT) is a tax that's charged on most goods and services that VAT-registered businesses provide in the UK.

It is also charged on goods and some services that are imported from countries outside the European Union (EU), and brought into the UK from other EU countries.

VAT is charged when a VAT-registered business sells to either another business or to a non-business customer.

When VAT-registered businesses buy goods or services they can generally reclaim the VAT they've paid.

### **1.8.6 When a business must register for VAT**

If a business and the goods or services it provides count as what is known as 'taxable supplies' the business will have to register for VAT if either:

- The turnover for the previous 12 months has gone over a specific limit - called the 'VAT threshold' (currently £85,000)
- The turnover will soon go over this limit

The business can choose to register for VAT if it wants, even if it does not have to.

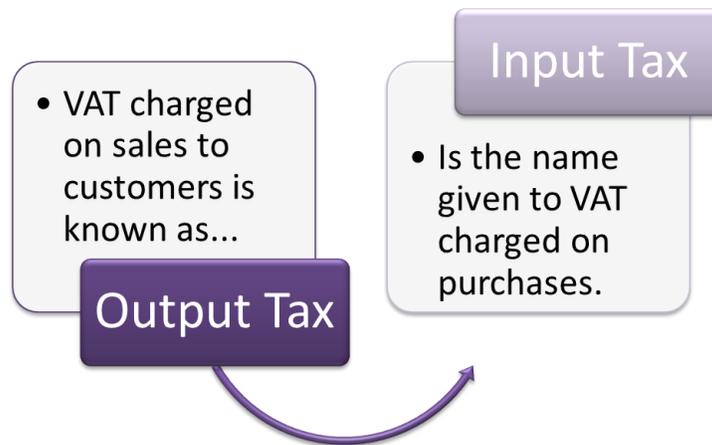
### **1.8.7 What is VAT charged on?**

A VAT-registered business will have to charge VAT on any goods and services that it provides in the UK that are VAT taxable. VAT is charged on the full sale price, even if goods are accepted in part exchange or through barter instead of money.

### **1.8.8 Filling in a VAT Return**

A VAT-registered business has to fill in a VAT Return at regular intervals, usually quarterly and send it to HMRC.

The return shows:



If the amount of output tax is more than the input tax, then the difference is sent to HMRC with the VAT return.

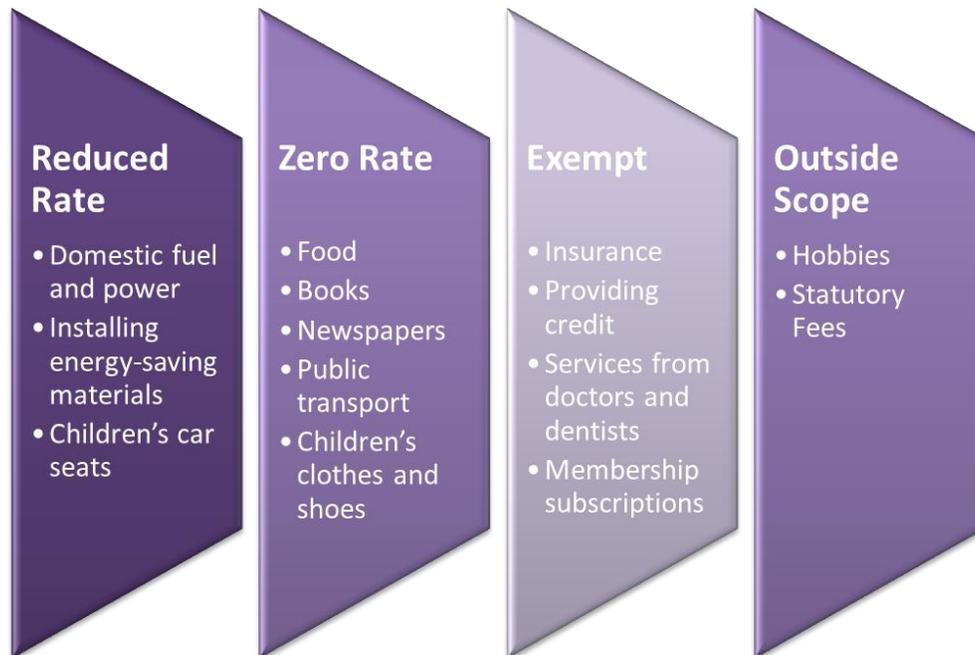
If the input tax is more than the output tax, a VAT repayment is claimed on the VAT return.

### **1.8.9 Rates of VAT**

There are different VAT rates, depending on the goods or services that are being provided. At the moment there are three rates:



The standard rate of VAT is the default rate - this is the rate that is charged on most goods and services in the UK unless they are specifically identified as being reduced, zero-rated, exempt or outside the scope of VAT:



### **1.8.10 The difference between exempt and zero-rated**

Zero-rated goods or services count as taxable supplies, but VAT is not added to the selling price because the VAT rate is 0 per cent.

If you sell goods or services that are exempt, you do not charge any VAT and they are not taxable supplies. Generally a business cannot register for VAT or reclaim the VAT on purchases if it sells only exempt goods or services. If the business sells some exempt goods or services it may not be able to reclaim the VAT on all purchases.

If you buy and sell only - or mainly - zero-rated goods or services a business can apply to HMRC to be exempt from registering for VAT.

Personal Taxation Learning Outcome 1.8 (TAX1.8) – End of Module Test

**Multiple Choice Questions**

Question	Answer	
<b>1.8.1 -</b> Which of the following company sources of income and gains is exempt from the charge to corporation tax?	A.	Trading profits
	B.	Dividends received from other UK companies
	C.	Investment Income
	D.	Chargeable gains arising on disposal of assets

<b>1.8.2 -</b> The rates of corporation tax are set for a financial year. When does this financial year start?	A.	1st January
	B.	1st April
	C.	6th April
	D.	1st July

<b>1.8.3 -</b> For most companies, when is corporation tax due and payable?	A.	Within 9 months and 1 day after the end of the accounting period
	B.	Within 6 months and 1 day after the end of the accounting period
	C.	By way of quarterly instalments
	D.	By way of 2 payments on account and a balancing payment

<b>1.8.4 -</b> Output VAT is best described as...	A.	the VAT payable on goods bought by a VAT registered trader.
	B.	the VAT payable on goods and services bought by a VAT registered trader.
	C.	the VAT payable on goods sold by a VAT registered trader.
	D.	the VAT payable on goods and services sold by a VAT registered trader.

<b>1.8.5 -</b> All traders must register for VAT if they make taxable supplies above a set limit. From April 2017 this limit is?	A.	£44,475
	B.	£52,000
	C.	£75,000
	D.	£85,000

<b>1.8.6 -</b> Certain supplies are exempt from VAT. Which of the following is NOT exempt?	A.	Membership and subscriptions
	B.	Insurance
	C.	Sales of new commercial land and buildings
	D.	Services from doctors and dentists

<b>1.8.7 -</b> Steve is the proprietor of a retail outlet and is VAT registered. His latest quarterly VAT return shows the value of input VAT as £33,000 and the value of output VAT as £47,000. How much will he have to pay to HMRC in respect of VAT for this quarter?	A.	£33,000
	B.	£47,000
	C.	£14,000
	D.	£80,000

<b>1.8.8 -</b> A limited company with a turnover of £400,000 has a trading year which ends on June 30th. What is the latest date by which the company should pay any corporation tax due?	A.	March 31 the following year.
	B.	September 30 the same year.
	C.	April 5 the following year.
	D.	January 31 the following year.

<b>1.8.9 -</b> Widgets Ltd makes a profit of £250,000. What rate of Corporation Tax is likely to be applied?	A.	20%
	B.	Nil
	C.	19%
	D.	21%

<b>1.8.10 -</b> A limited company with gross profits of £310,000 in 2017/18 may benefit from which of the following approaches to tax planning?	A.	Bringing forward unused VAT allowances from previous years
	B.	Appointing an auditor to reduce book value
	C.	Applying for holdover relief on unrealised profits
	D.	Making an additional pension contribution

- **End of Questions** -

## Answers

Question	Answer	
<b>1.8.1 -</b> Which of the following company sources of income and gains is exempt from the charge to corporation tax?	B	Dividends received from other UK companies
<b>1.8.2 -</b> The rates of corporation tax are set for a financial year. When does this financial year start?	B	1st April
<b>1.8.3 -</b> For most companies, when is corporation tax due and payable?	A	Within 9 months and 1 day after the end of the accounting period
<b>1.8.4 -</b> Output VAT is best described as...	D	the VAT payable on goods and services sold by a VAT registered trader.
<b>1.8.5 -</b> All traders must register for VAT if they make taxable supplies above a set limit. From April 2017 this limit is?	D	£85,000
<b>1.8.6 -</b> Certain supplies are exempt from VAT. Which of the following is NOT exempt?	C	Sales of new commercial land and buildings
<b>1.8.7 -</b> Steve is the proprietor of a retail outlet and is VAT registered. His latest quarterly VAT return shows the value of input VAT as £33,000 and the value of output VAT as £47,000. How much will he have to pay to HMRC in respect of VAT for this quarter?	C	£14,000

<p><b>1.8.8 -</b> A limited company with a turnover of £400,000 has a trading year which ends on June 30th. What is the latest date by which the company should pay any corporation tax due?</p>	A	March 31 the following year.
<p><b>1.8.9 -</b> Widgets Ltd makes a profit of £250,000. What rate of Corporation Tax is likely to be applied?</p>	A	20%
<p><b>1.8.10 -</b> A limited company with gross profits of £310,000 in 2017/18 may benefit from which of the following approaches to tax planning?</p>	D	Making an additional pension contribution