

## **Personal Taxation**

#### Introduction

Individuals must pay income tax on their taxable income. They must also pay capital gains tax on and gains arising from disposals of chargeable assets. HMRC is responsible for administering both taxes.

The Finance Act 2012 is going to be used throughout this webinar, and is to be used in AAT assessments from 1 January 2013. The rates and bands used are in appendix 1 of these webinar notes.

### Taxable income

#### Example

Chloe provides you with the following information:

- her annual salary for the twelve months to 30 May 2012 was £25,200
- her annual salary for the twelve months to 30 May 2013 was £29,160
- she received a bonus of £2,520 on 19 April 2012, which was based on the company's accounting profit for the year ended 31 March 2012
- she received a bonus of £2,910 on 15 April 2013 which was based on the company's accounting profit for the year ended 31 March 2013
- she also receives a 4% commission in each tax year on her salary for that tax year.

Using the information provided above:

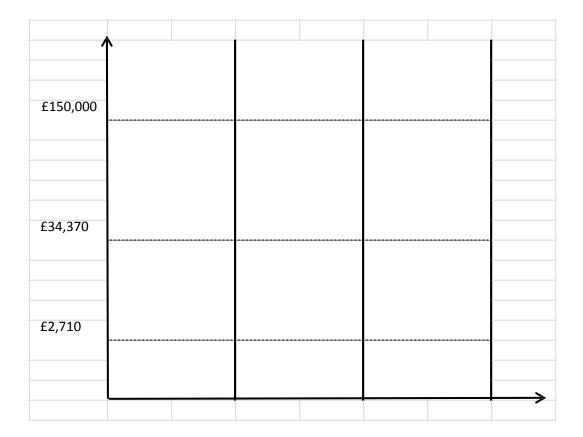
<ol> <li>What is the salary taxable for 2012/201</li> </ol>	1.	What is the sa	alary taxable	for 20	12/201	37
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2. What is the bonus taxable for 2012/2013?

3. What is the commission for 2012/2013?

# Tax liability

The ability to calculate the tax liability for an individual is also a crucial part of the assessment. There are different tax rates, which must be applied at different levels of income – the following chart will demonstrate the application of the tax bands for the Finance Act 2012.



The following example will show how to calculate an individual's tax liability using the above bands.

### Example

George is 49 years old, and during 2012/2013 he has employment income of £44,000. He also received savings income of £4,000 and dividends of £720.

Calculate his total income tax liability for the tax year 2012-2013 using the table given below. You have been given more space than you will need.

	£	
Employment income		
Savings		
Dividends		
Personal allowance		

## Tax bands - personal pension contributions

### **Basic rate relief**

Payments made into a personal pension scheme are deemed to be net of 20% tax. HMRC will then contribute the remaining 20% based on information provided by the pension company.

### Higher rate and additional rate relief

The relief is obtained by extending the basic and higher rate tax bands by the gross contribution the individual has made to the pension scheme.

## Example

Grace, who is 33, has employment income of £81,500, and received dividends of £25,750. She also paid £2,400 into a personal pension scheme.

Calculate her total income tax liability for the tax year 2012/2013, using the table given below. You have been given more space than you will need.

	£	
Employment income		
Dividends		
Personal Allowance		

# Appendix 1 – tax tables

### This data is provided in the exam

	%	£
Basic rate	20	first 34,370
Higher rate	40	to 150,000
Additional rate	50	over 150,000

Savings income is taxed at 10%, 20%, 40% and 50%.

(10% applies to a maximum of £2,710 of savings income only where non-savings income is below this limit.)

Dividends are taxed at 10%, 32.5%, and 42.5%

Personal allowances	£
Personal allowances	8,105
Age allowance – ages 65 – 74	10,500
Age allowance – over 75	10,660
Income limit for age allowance	25,400

Car benefit percentages		
Emission rating for petrol engines	%	
0g/km	0	
1g/km to 75g/km	5	
76g/km to 99g/km	10	
100g/km or more	11 + 1% for every extra 5g/km above 100g/km	

Diesel engines – additional 3%

The figure for fuel is £20,200

Authorised mileage rates		
First 10,000 miles	45p	
Over 10,000 miles	25p	

Van scale charge		
Charge	£3,000	
Private fuel provided	£550	
HMRC official rate	4%	

Capital gains tax		
Annual exemption	£10,600	
Tax rate	18%	
Higher rate	28%	