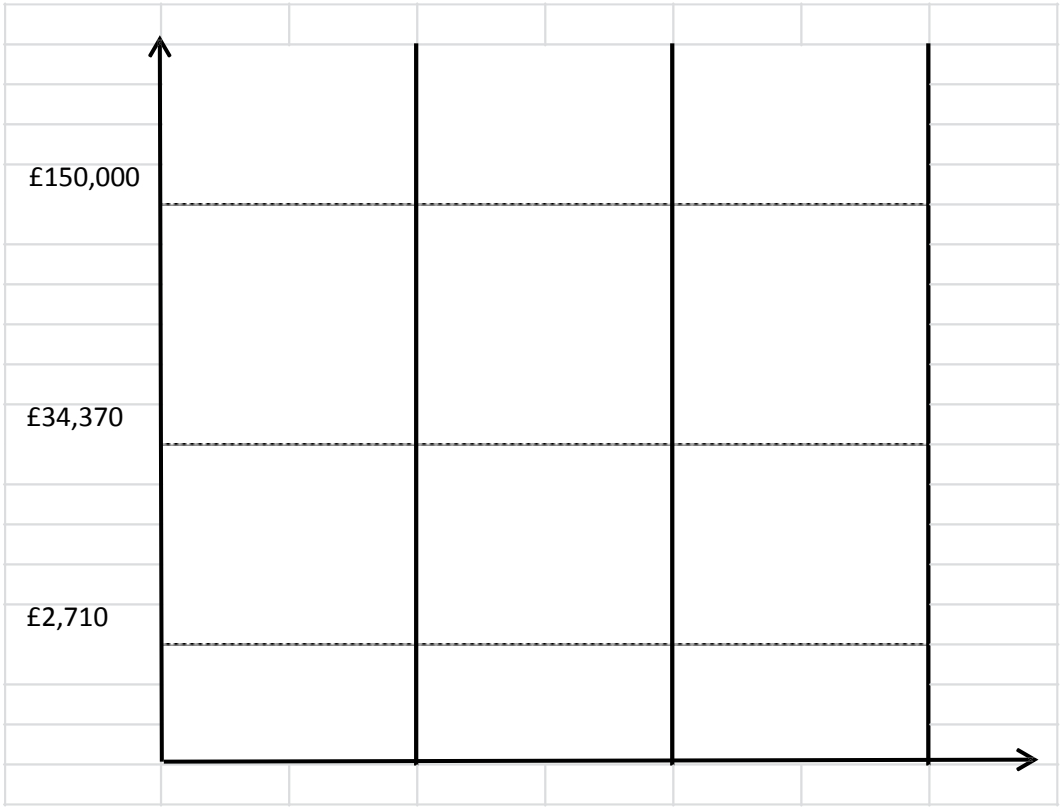


Tax liability

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%