

Business Tax

Learning Area Overview



Welcome to this learning area overview for Business Tax, prepared by AAT.

In this overview we'll explain what Business Tax is all about, and how it fits into the bigger picture of the AAT Accounting Qualification.

We'll explore the main topics you can expect to cover, and how the knowledge and skills you'll pick up will be of practical use to you in the workplace.

Finally, we'll explain how this learning area relates to the others you've already studied, and those you'll study in the future.

What you'll learn in Business Tax

The tax businesses are charged is based on the relevant rules from tax laws. Sometimes the tax law is further clarified by court cases or guidance from Her Majesty's Revenue & Customs (HMRC for short), which is the government body that makes sure the correct amount is paid by UK tax payers.

Although you won't be expected to know tax law and tax cases in detail, you'll need to be able to apply the resulting rules to particular business examples.

You'll learn how to calculate tax liabilities for the three most common types of UK businesses:

- self-employed individuals (usually referred to as sole traders)
- people running a business in partnership
- limited companies.

No matter what kind of business you work for, you'll need to be able to calculate the tax charged on trading income and gains made from the sale of assets or investments. This tax is called Income Tax for sole traders and partnerships, and Corporation Tax for companies.

There are a few aspects regarding tax on trading income that you'll look at in detail. For instance, capital allowances are a form of tax relief given when businesses purchase things like plant, equipment and machinery.

You'll look at how partners are taxed when they join or leave a partnership, and learn how to calculate the national insurance contributions paid by individuals on their trading income.

Sometimes business tax can be reduced because a tax relief is available. Tax is usually calculated based on profits. But what happens when a business makes a loss? What relief is available? Business Tax will explain some tax reliefs that are available for Income Tax, Capital Gains Tax and Corporation Tax.

You'll probably be aware that Her Majesty's Revenue & Customs manage the reporting and collection of tax through a system called Self Assessment. In this learning area, you'll cover the most important aspects of Self Assessment, including the dates when tax is payable by businesses, and the penalties charged for errors or delays in reporting tax, or delays in paying tax.



Accounting technicians can work as tax advisers to businesses, so you need to be conscious of the importance of client confidentiality when dealing with client tax affairs. Businesses also expect their tax advisers to provide them with advice to help reduce their tax liability. This learning area will introduce you to what is involved in tax planning.

With over 30 million tax payers in the UK, HMRC need tax information to be reported to them in standard forms, known as tax returns. You'll have the opportunity to familiarise yourself with three tax returns: one for individuals, one for partnerships and one for companies.

How Business Tax will help you in the workplace

If you find yourself working as a tax adviser for a business, your work will be very closely linked to this learning area.

Even if you don't work as a business tax adviser, business tax is still relevant to most accounting technicians. For example, being aware of business tax will help you to better understand tax payments in budgets. You'll also appreciate why analysis of profit and loss expenditure is needed to calculate a company's Corporation Tax liability.

Accounting technicians can become very involved in tax, and many AAT members will at some point in their careers work in the tax department of a firm of accountants.

Should you find yourself in this situation, this learning area will be very helpful because it relates to work such as preparing business tax computations, and tax returns for companies, partnerships and sole traders.

It also covers how to deal with investigations into business tax affairs by Revenue & Customs, and advising clients on tax issues such as those that may arise when they sell their business.

How Business Tax relates to other learning areas

Business Tax is one of the four optional learning areas at level 4. You'll need to take a total of two of these, with the other optional learning areas being:

- External Auditing
- Credit Management and Control
- Personal Tax.

There are also four compulsory learning areas at level 4. These are:

- Financial Statements
- Budgeting
- Financial Performance
- Internal Control and Accounting Systems.

You were introduced to the subject of business tax in the Indirect Tax learning area at level 3.

However, you'll probably already be aware of taxation in business from your own employment – for instance, if you're involved in budgeting you'll have come across amounts for tax payable by the organisation this year.

Because taxation is such a significant cost for a business, this learning area is relevant to a number of others you'll have studied at earlier levels and at level 4.

For example, in Cash Management it's important to be able to predict the size of any tax liability due, and the date of the payment.

Tax liabilities are calculated using information provided by financial statements and accounting records, so all the accounting knowledge and skills you've learned so far in the qualification will be important in helping you prepare business tax computations.

Also at level 4, Personal Tax deals with how individuals are taxed. Much of the legislation covered in Business Tax and Personal Tax is the same, so there's a significant overlap in the knowledge required for both learning areas.