

Olivia Crolla
AAT Student



Personal tax interactive worksheet

Income tax computations

Based on the provisions of the Finance Act 2016

It will come as no surprise that the ability to calculate an individual's income tax liability for a tax year is a key skill of any tax professional.

In this module we'll look at the key points in computing an individual's income and tax liability for a tax year, and then we'll work through a detailed example. Finally we'll give you the opportunity to attempt a practice question.

Remember that you are provided with tax tables in the Personal tax assessment. These tables will give you data to help you put your answer together.

Here's an extract from the 2016/17 Tax Tables showing the income tax thresholds, bands and personal allowances.

Tax rates and bands

	%	£
Basic rate	20	first 32,000
Higher rate	40	32,001 to 150,000
Additional rate	45	over 150,000

Savings allowance at 0% - £1,000 basic rate tax payer, £500 higher rate tax payer.

Dividend allowance at 0% - £5,000. Dividends taxed at 7.5%, 32.5% and 38.1%.

Personal allowances

	£
Personal allowance for individuals	11,000

Key points

1. It is very important you become familiar with the taxable income pro-forma. Once you have become used to the pro-forma, you will be a lot more confident in answering income tax computation questions.
2. Set out below is an example pro-forma:

	Total	Non-savings	Savings	Dividends
Total income	X	X	X	X
Tax relief (eg self-employed losses)	(X)	(X)	(X)	(X)
Personal allowance	(11,000)	(X)	(X)	(X)
Net income	X	X	X	X

Worked example

Sue had the following income in the 2016/17 tax year:

Gross salary	£39,600	(PAYE tax deducted £6,200)
Building society interest (received)	£2,000	
Dividend income (received)	£6,000	

Calculate Sue's taxable income and income tax payable for the 2016/17 tax year.

Let's see how to answer this question in simple steps.

Step 1 – Build the taxable income computation

Hint: Remember that taxable income should always be shown gross in the computation. Bank and building society interest and dividend income are received gross.

Using the pro-forma shown earlier, we have the following computation:

Sue: Taxable income for 2016/17

	Total	Non-savings	Savings	Dividends
Total income	47,600	39,600	2,000	6,000
Tax relief (eg self-employed losses)	0	0	0	0
Personal allowance	(11,000)	(11,000)	0	0
Net income	36,600	28,600	2,000	6,000

Step 2 – Calculate the income tax liability

We first need to deal with the non-savings income, followed by the savings income (excluding dividend income) and finally the dividend income.

Hint: The basic rate band is first applied to the non-savings income then savings income (excluding dividend income) and lastly to the dividend income.

	Total	Non-savings	Savings	Dividends
Net income	36,600	28,600	2,000	6,000
Basic rate band				
Non-savings	28,600	5,720		
Savings allowance	500		0	
Savings	1,500		300	
Dividend allowance	1,400			0
	32,000			
Higher rate band				
Dividend allowance	3,600			0
Dividends	1,000			325
	4,600			
Tax liability	6,345	5,720	300	325

Step 3 – Calculate the income tax payable

Once you have calculated the income tax liability, to reach the income tax payable all you need to do is deduct the tax credit on dividends and then the tax deducted at source.

Income tax liability	£6,345
Less: Income tax deducted at source	£(6,200)
Income tax repayable	£145

Practice question

Kumar had the following income in the 2016/17 tax year:

Gross salary	£30,000	(tax deducted £4,450)
Building society interest (received)	£19,200	
Dividend income (received)	£5,270	

Calculate Kumar's taxable income and income tax payable for the 2016/17 tax year.

We've set out the calculation in steps to help you.



When you've attempted each step, you can check your calculation by clicking on the button to reveal the solution before moving onto the next step.

Step 1 – Build the taxable income computation

Click to display/hide the solution.

Solution

Kumar: Taxable income for 2016/17

	Total	Non-savings	Savings	Dividends
Total income	54,470	30,000	19,200	5,270
Tax relief (eg self-employed losses)	0	0	0	0
Personal allowance	(11,000)	(11,000)	0	0
Net income	43,470	19,000	19,200	5,270

Step 2 – Calculate the income tax liability

Click to display/hide the solution.

Solution

	Total	Non-savings	Savings	Dividends
Basic rate band				
Non-savings	19000	3800		
Savings allowance	500		0	
Savings	12500		2500	
	32000			
Higher rate band				
Savings	6200		2480	
Dividend allowance	5000			0
Dividends	270			87.75
	11470			
Tax liability	8867.75	3800	4980	87.75

Step 3 – Calculate the income tax payable

Click to display/hide the solution.

Solution

Income tax liability	£8,867.75
Less: Income tax deducted at source	<u>£(4,450)</u>
Income tax payable	<u>£4,417.75</u>