RELEVANT TO ACCA QUALIFICATION PAPERS F6 (UK), P6 (UK)
FOUNDATIONS IN ACCOUNTANCY PAPER FTX (UK) AND
PERFORMANCE OBJECTIVES 19 AND 20

Finance Act 2011

This article summarises the changes made by the Finance Act 2011 and looks at the more important changes in greater detail. It also includes details of legislation that was enacted prior to the Finance Act 2011, but has only come into effect from 6 April 2011.

It should be read by students planning to take Paper F6 (UK) at either the June or December 2012 exam sittings. Please note that if you are sitting Paper F6 (UK) in December 2011, this article is not relevant to you, and you should instead refer to the Finance Act 2010 article published on the ACCA website at www.accaglobal.com/students/student_accountant/archive/2010/111/3357411

INCOME TAX

Rates of income tax

The rates of income tax for the tax year 2011–12 are as follows:

		Normal rates %	Dividend rates %
Basic rate	£1 – £35,000	20	10
Higher rate	£35,001 to £150,000	40	32.5
Additional rate	£150,001 and over	50	42.5

A starting rate of 10% applies to savings income where it falls within the first £2,560 of taxable income. If non-savings income exceeds £2,560 the starting rate of 10% for savings does not apply. In this case savings income is taxed at the basic rate of 20% if it falls below the higher rate threshold of £35,000, at the higher rate of 40% if it falls between the higher rate threshold of £35,000 and the additional rate threshold of £150,000, and at the additional rate of 50% if it exceeds the additional rate threshold of £150,000.

Personal allowances

Personal allowances for the tax year 2011–12 are as follows.

Personal allowance	Standard	£7,475
Personal allowance	65–74	£9,940
Personal allowance	75 and over	£10,090
Income limit for age related allowances		£24,000
Income limit for standard personal allowance		£100,000

The standard personal allowance of £7,475 is gradually reduced to nil where a person's adjusted net income exceeds £100,000. Adjusted net income is net income (total income less deductions for loss relief and interest payments) less the gross amount of personal pension contributions and gift aid donations.

The personal allowance is reduced by £1 for every £2 that a person's adjusted net income exceeds £100,000. Therefore, a person with adjusted net income of £114,950 or more is not entitled to any personal allowance (114,950 – 100,000 = 14,950/2 = £7,475). Where a person has an adjusted net income of between £100,000 and £114,950, the effective marginal rate of income tax is 60%. This is the higher rate of 40% on income plus an additional 20% as a result of the withdrawal of the personal allowance. In this situation it may be beneficial to make additional personal pension contributions or gift aid donations.

The same reduction applies in respect of age-related personal allowances. Where a person's adjusted net income exceeds £24,000, age-related allowances are reduced to a minimum of the standard personal allowance of £7,475. However, there will then be a further reduction if adjusted net income exceeds £100,000. This means that, regardless of a person's age, no personal allowance will be available where their adjusted net income is £114,950 or more.

Example 1

For the tax year 2011–12 Ingrid, aged 40, has a salary of £37,000, building society interest of £800 (net) and dividends of £9,000 (net). Her income tax liability is as follows:

	£
Employment income	37,000
Building society interest (800 x 100/80)	1,000
Dividends (9,000 x 100/90)	10,000
	48,000
Personal allowance	(7,475)
Taxable income	40,525

Income tax:	30,525 at 20%	6,105
	4,475 at 10%	447
	5,525 at 32.5%	1,796
Tax liability		8,348

Example 2

For the tax year 2011–12 June, aged 48, has a trading profit of £184,000. Her income tax liability is as follows:

		£
Trading profit		184,000
Personal allowance		Nil
Taxable income		184,000
Income tax:	35,000 at 20%	7,000
	115,000 at 40%	46,000
	34,000 at 50%	17,000
Tax liability		70,000

- No personal allowance is available as June's adjusted net income of £184,000 exceeds £114,950.

Example 3

For the tax year 2011–12 Trevor, aged 31, has a trading profit of £132,000, building society interest of £3,200 (net) and dividends of £34,200 (net). The income tax payable by Trevor is as follows:

		£	£
Trading profit			132,000
Building society interest (3,200 x 100/80)			4,000
Dividends (34,200 x 100/90)			38,000
			174,000
Personal allowance			Nil
Taxable income			174,000
Income tax:	35,000 at 20%		7,000
	101,000 at 40%		40,400
	14,000 at 32.5%		4,550
	24,000 at 42.5%		10,200
Tax liability			62,150
Tax suffered at source			
Dividends (38,000 at 10%)		3,800	
Building society interest (4,000 at 20%)		800	
			(4,600)
Income tax payable			57,550

- The 10% tax credit on dividend income is available regardless of the rate of tax payable.

Example 4

For the tax year 2011–12 May, aged 56, has a trading profit of £159,000. She made net personal pension contributions of £40,000 and a net gift aid donation of £1,600. May's income tax liability is as follows:

		£
Trading profit		159,000
Personal allowance		(3,975)
Taxable income		155,025
Income tax:	87,000 at 20%	17,400
	68,025 at 40%	27,210
Tax liability		44,610

- The gross personal pension contributions are £50,000 (40,000 x 100/80) and the gross gift aid donation is £2,000 (1,600 x 100/80).
- May's adjusted net income is therefore £107,000 (159,000 – 50,000 – 2,000), so her personal allowance of £7,475 is reduced to £3,975 (7,475 – 3,500 (107,000 – 100,000 = 7,000/2)).
- The basic and higher rate tax bands are extended to £87,000 (35,000 + 50,000 + 2,000) and £202,000 (150,000 + 50,000 + 2,000) respectively.

Example 5

For the tax year 2011–12 Ali, aged 67, has pensions of £11,300 and bank interest of £4,000 (net). Her income tax liability is as follows:

		£
Pensions		11,300
Bank interest (4,000 x 100/80)		5,000
		16,300
Personal allowance		(9,940)
Taxable income		6,360
Income tax:	1,360 at 20%	272
	1,200 at 10%	120
	3,800 at 20%	760
Tax liability		1,152

- Non-savings income is £1,360 (11,300 – 9,940), so £1,200 (2,560 – 1,360) of the savings income is taxed at the starting rate of 10%. The remainder of the savings income is taxed at the basic rate of 20%.

Example 6

For the tax year 2011–12 Lorn, aged 80, has pensions of £23,000 and building society interest of £3,200 (net). Her income tax liability is as follows:

	£
Pensions	23,000
Building society interest (3,200 x 100/80)	4,000
	27,000
Personal allowance	(8,590)
Taxable income	18,410
Income tax: 18,410 at 20%	3,682
Tax liability	3,682

- Lorn's total income exceeds £24,000, so her personal allowance of £10,090 is reduced to £8,590 (10,090 – 1,500 (27,000 – 24,000 = 3,000/2)).

Example 7

For the tax year 2011–12 Rich, aged 78, has a trading profit of £92,000 and pensions of £18,000. His income tax liability is as follows:

		£
Trading profit		92,000
Pensions		18,000
		110,000
Personal allowance		(2,475)
Taxable income		107,525
Income tax:	35,000 at 20%	7,000
	72,525 at 40%	29,010
Tax liability		36,010

- Rich's adjusted net income exceeds £24,000 to the extent that his personal allowance of £10,090 is initially reduced to the standard personal allowance of £7,475.
- As the adjusted net income of £110,000 exceeds £100,000, the standard personal allowance is then reduced to £2,475 (7,475 – 5,000 (110,000 – 100,000 = 10,000/2)).

Employment income

Approved mileage allowances
For the tax year 2011–12 the rate of approved mileage allowance for the first 10,000 business miles has been increased from 40p to 45p per mile. For business mileage in excess of 10,000 miles the rate is unchanged at 25p per mile.

Example 8

Diane uses her own 1,800 cc motor car for business travel. During the tax year 2011–12 she drove 12,000 miles in the performance of her duties. Her employer pays her 30p per mile.

The mileage allowance of £3,600 (12,000 at 30p) received is tax free. Diane can make an expense claim of £1,400 as follows:

	£
10,000 miles at 45p	4,500
2,000 miles at 25p	500
	5,000
Mileage allowance	(3,600)
Expense claim	1,400

Company car benefit
For the tax year 2011–12 the base level of CO_2 emissions used to calculate company car benefits is reduced from 130 grams per kilometre to 125 grams per kilometre.

The percentage used to calculate a car benefit ranges from 15% to 35%. There are two lower rates for company motor cars with low CO_2 emissions. For a motor car with a CO_2 emission rate of 75 grams per kilometre or less the percentage is 5%. For a motor car with a CO_2 emission rate of between 76 and 120 grams per kilometre the percentage is 10%. These lower rates are increased to 8% (5% + 3%) and 13% (10% + 3%) respectively for diesel cars.

The £80,000 price cap used when calculating the list price of a motor car no longer applies.

Example 9

During the tax year 2011–12 Fashionable plc provided the following employees with company motor cars:

Amanda was provided with a new diesel powered company car on 6 August 2011. The motor car has a list price of £13,500 and an official CO_2 emission rate of 122 grams per kilometre.

Betty was provided with a new petrol powered company car throughout the tax year 2011–12. The motor car has a list price of £16,400 and an official CO_2 emission rate of 183 grams per kilometre.

Charles was provided with a new petrol powered company car throughout the tax year 2011–12. The motor car has a list price of £22,600 and an official CO_2 emission rate of 244 grams per kilometre. Charles paid Fashionable plc £1,200 during the tax year 2011–12 for the use of the motor car.

Diana was provided with a new petrol powered company car throughout the tax year 2011–12. The motor car has a list price of £92,000 and an official CO_2 emission rate of 173 grams per kilometre.

Amanda
The CO_2 emissions are below the base level figure of 125 grams per kilometre (but more than 120 grams per kilometre), so the relevant percentage is 18% (15% plus a 3% charge for a diesel car). The motor car was only available for eight months of 2011–12, so the benefit is £1,620 (13,500 x 18% x 8/12).

Betty
The CO_2 emissions are above the base level figure of 125 grams per kilometre. The CO_2 emissions figure of 183 is rounded down to 180 so that it is divisible by five. The minimum percentage of 15% is increased in 1% steps for each five grams per kilometre above the base level, so the relevant percentage is 26% (15% + 11% (180 – 125 = 55/5)). The motor car was available throughout 2011–12 so the benefit is £4,264 (16,400 x 26%).

Charles
The CO_2 emissions are above the base level figure of 125 grams per kilometre. The relevant percentage is 38% (15% + 23% (240 – 125 = 115/5)), but this is restricted to the maximum of 35%. The motor car was available throughout the tax year 2011–12 so the benefit is £6,710 (22,600 x 35% = 7,910 – 1,200). The contributions by Charles towards the use of the motor car reduce the benefit.

Diana
The relevant percentage is 24% (15% + 9% (170 – 125 = 45/5)), and there is no cap on the list price. The motor car was available throughout 2011–12, so the benefit is £22,080 (92,000 x 24%).

Company car fuel benefit
The fuel benefit is calculated as a percentage of a base figure that is announced each year. For the tax year 2011–12 the base figure has been increased from £18,000 to £18,800.

The percentage used in the calculation is exactly the same as that used for calculating the related company car benefit.

<u>Example 10</u>

Continuing with **example 9**.

Amanda was provided with fuel for private use between 6 August 2011 and 5 April 2012.

Betty was provided with fuel for private use between 6 April 2011 and 31 December 2011.

Charles was provided with fuel for private use between 6 April 2011 and 5 April 2012. He paid Fashionable plc £600 during the tax year 2011–12 towards the cost of private fuel, although the actual cost of this fuel was £1,000.

Diana was not provided with fuel for private use.

Amanda
The motor car was only available for eight months of 2011–12, so the fuel benefit is £2,256 (18,800 x 18% x 8/12).

Betty
Fuel was only available for nine months of 2011–12, so the fuel benefit is £3,666 (18,800 x 26% x 9/12).

Charles
The motor car was available throughout 2011–12 so the benefit is £6,580 (18,800 x 35%). There is no reduction for the contributions made since the cost of private fuel was not fully reimbursed.

Diana
Fuel was not provided for private use so there is no fuel benefit.

Childcare
The exemption limit where childcare is provided by an employer has been reduced for higher and additional rate taxpayers.

The weekly limit remains unchanged at £55 per week for basic rate taxpayers, but is reduced to £28 per week for higher rate taxpayers, and £22 per week for additional rate taxpayers. These limits mean that all taxpayers now receive exactly the same amount of tax relief from the childcare exemption.

The new limits only apply to people joining a childcare scheme since 6 April 2011. However, a question **will not be set** involving a person who had joined a childcare scheme prior to that date.

Official rate of interest
The official rate of interest is used when calculating the taxable benefit arising from a beneficial loan or from the provision of living accommodation costing in excess of £75,000.

For the June and December 2012 sittings the actual official rate of interest of 4.00% for the tax year 2011–12 will be used.

CAPITAL ALLOWANCES

Plant and machinery

The annual investment allowance (AIA) limit is unchanged at £100,000.

The annual investment allowance provides a first year allowance of 100% for the first £100,000 of expenditure on plant and machinery. Any expenditure in excess of the £100,000 limit qualifies for writing-down allowances (WDA) as normal. The annual investment allowance applies to all expenditure on plant and machinery with the exception of motor cars. The £100,000 limit is proportionally reduced or increased where a period of account is shorter or longer than 12 months. For example, the annual investment allowance would be £75,000 (100,000 x 9/12) for a nine-month period of account.

Given that the annual investment allowance limit is unchanged, there is no reason why a question could not be set involving a period of account spanning 6 April 2011 (1 April 2011 for limited companies).

The capital allowances information that will be given in the tax rates and allowances section of the examination paper for the June and December 2012 sittings is as follows:

Rates of allowance

	%
Plant and machinery	
Main pool	20
Special rate pool	10
Motor cars (purchases since 6 April 2009 (1 April 2009 for limited companies))	
New cars with CO_2 emissions up to 110 grams per kilometre	100
CO_2 emissions between 111 and 160 grams per kilometre	20
CO_2 emissions over 160 grams per kilometre	10
Annual investment allowance	
First £100,000 of expenditure	100

Unless there is private use, motor cars qualifying for writing down allowances at the rate of 20% are included in the general pool, whilst motor cars qualifying for writing down allowances at the rate of 10% are included in the special rate pool. Motor cars with private use (by a sole trader or partner) are not pooled, but are kept separate so that the private use adjustment can be calculated.

Motor cars already owned at 6 April 2009 (1 April 2009 for limited companies) that cost more than £12,000 or those with private use continue to be kept separately, and qualify for writing down allowances at the rate of 20% restricted to a maximum of £3,000. This is regardless of the motor car's CO_2 emissions.

Example 11

Ming prepares accounts to 31 December. On 1 January 2011 the tax written down values of her plant and machinery were as follows:

	£
Main pool	16,700
Motor car (1)	18,800
Motor car (2)	15,600

The following transactions took place during the year ended 31 December 2011:

		Cost/(Proceeds) £
4 January 2011	Purchased motor car (3)	10,100
12 May 2011	Purchased equipment	111,400
2 August 2011	Purchased motor car (4)	28,300
19 October 2011	Purchased motor car (5)	16,800
12 December 2011	Sold motor car (3)	(8,300)

Motor car (1) was purchased on 14 January 2009 and has CO_2 emissions of 180 grams per kilometre. Motor car (2) was purchased on 8 June 2010 and has CO_2 emissions of 140 grams per kilometre. This motor car is used by Ming, and 15% of the mileage is for private journeys.

Motor car (3) purchased on 4 January 2011 and sold on 12 December 2011 has CO_2 emissions of 185 grams per kilometre. Motor car (4) purchased on 2 August 2011 has CO_2 emissions of 155 grams per kilometre. Motor car (5) purchased on 19 October 2011 has CO_2 emissions of 105 grams per kilometre. Ming's capital allowance claim for the year ended 31 December 2011 is as follows:

		Pool	Motor car (1)	Motor car (2)	Special rate pool	Allowances
	£	£	£	£	£	£
WDV brought forward		16,700	18,800	15,600		
Addition qualifying for AIA						
• Equipment	111,400					
• AIA – 100%	(100,000)					100,000
		11,400				
Other additions						
• Motor car (3)					10,100	
• Motor car (4)		28,300				
Proceeds – Motor car (3)					(8,300)	
		56,400			1,800	
WDA – 20%		(11,280)				11,280
WDA – restricted			(3,000)			3,000
WDA – 20%				(3,120)		2,652

				x 85%		
WDA – 10%					(180)	180
		45,120				
Addition qualifying for FYA						
• Motor car (5)	16,800					
• FYA – 100%	(16,800)	0				16,800
WDV carried forward		**45,120**	**15,800**	**12,480**	**1,620**	
Total allowances						**133,912**

- Motor car (1) was already owned at 6 April 2009 and is therefore kept separately. The writing down allowance is restricted to the maximum £3,000.
- Motor car (2) was purchased after 6 April 2009 but is kept separately because there is private use by Ming. This motor car has CO_2 emissions between 111 and 160 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 20%.
- Motor car (3) had CO_2 emissions over 160 grams per kilometre and therefore qualifies for writing down allowances at the rate of 10%. There is no balancing allowance on the disposal of this motor car because the expenditure is included in a pool.
- Motor car (4) has CO_2 emissions between 111 and 160 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 20%.
- Motor car (5) has CO_2 emissions of less than 110 grams per kilometre and therefore qualifies for the 100% first year allowance.

Short life assets
An election can be made so that a short life asset is kept separate from the main pool. The advantage of such an election is that a balancing allowance will then be given when the short life asset is disposed of or scrapped. However, if the short life asset is not disposed of or scrapped before a cut-off point then its tax written down value is simply added back into the main pool.

This cut-off point has been increased to eight years after the end of the period of account in which the short life asset was purchased. Previously, the cut-off point was four years.

The new eight year cut-off point only applies to short life assets purchased since 6 April 2011 (1 April 2011 for limited companies). A question **will not be set** involving a short life asset purchased prior to this date.

Zero emission goods vehicles
A first-year allowance of 100% has been introduced for expenditure on goods vehicles with zero CO_2 emissions. This new relief **is not examinable.**

Industrial buildings allowances
Capital allowances are no longer available for industrial buildings, and a question **will therefore not be set** involving industrial buildings allowances.

Furnished holiday lettings
From 6 April 2011 it is no longer possible to relieve a loss from a furnished holiday letting against a taxpayer's other income. Such a loss can now only be carried forward against future profits from furnished holiday lettings. There is no change as regards the other advantages of a rental property qualifying as a furnished holiday letting:

- Furniture and equipment purchased for use in a furnished holiday letting qualifies for capital allowances instead of the 10% wear and tear allowance.
- The profit from a furnished holiday letting qualifies as relevant earnings for pension tax relief purposes.
- Capital gains tax entrepreneurs' relief, rollover relief and holdover relief are available when a furnished holiday letting is disposed of.

Example 12

Edmond lets out two properties. The following information relates to the tax year 2011–12:

Property one
This is a freehold house that is let as a furnished holiday letting. During the tax year 2011–12 the property was let to various tenants for 18 weeks at £370 per week. Edmond spent £2,700 on furniture and kitchen equipment during May 2011. The other expenditure on this property for the tax year 2011–12 amounted to £10,110, and this is all allowable.

Property two
This is a freehold house that is let out furnished. The property was let throughout the tax year 2011–12 to the same tenant at a monthly rent of £575, payable in advance. The expenditure on this property for the tax year 2011–12 amounted to £9,710, and this is all allowable.

Edmond – Furnished holiday letting loss 2011–12

	£	£
Rent receivable (370 x 18)		6,660
Expenses	10,110	
Capital allowances (2,700 x 100%)	2,700	
		(12,810)
Furnished holiday letting loss		(6,150)

Edmond – Property business loss 2011–12

	£	£
Rent receivable (575 x 12)		6,900
Expenses	9,710	
Wear and tear allowance (6,900 x 10%)	690	
		(10,400)
Property business loss		(3,500)

- The furnished holiday letting loss will be carried forward and relieved against the first available furnished holiday letting profits.
- The property business loss will be carried forward and relieved against the first available property business profits.

Individual savings accounts (ISAs)
For the tax year 2011–12 a person can invest up to £5,340 in a cash ISA, and up to £10,680 in a stocks and shares ISA. This is subject to an overall investment limit of £10,680. Therefore if £5,340 is invested in a cash ISA only £5,340 can be invested in a stocks and shares ISA. These limits will be given in the tax rates and allowances section of the examination paper.

The income from ISAs is exempt from income tax, whilst a capital gain made within a stocks and shares ISA is exempt from capital gains tax.

A new junior ISA is going to be introduced for children under the age of 18. Junior ISAs **are not examinable**.

PENSION SCHEMES

Annual allowance
The annual allowance for the tax year 2011–12 has been reduced from £255,000 to £50,000.

If the annual allowance is not fully used in any tax year then it is now possible to carry forward any unused allowance for up to three years. However, carry forward is only possible if a person is a member of a pension scheme for a particular tax year. Therefore for any year in which a person is not a member of a pension scheme the annual allowance is lost. Even though the new rules only apply from the tax year 2011–12, a notional £50,000 limit is used for the three tax years prior to this to ascertain any brought forward figure.

It was previously announced that from 6 April 2011 tax relief for pension contributions made by high income taxpayers was to be restricted. However, the government has instead introduced the changes as outlined above. This means that tax relief for pension contributions continues to be given at a person's marginal rate of income tax.

<u>Example 13</u>

Monica and Nicola have made the following gross personal pension contributions during the tax years 2008–09, 2009-10 and 2010–11:

	Monica	**Nicola**
	£	**£**
2008–09	42,000	56,000
2009–10	Nil	29,000
2010–11	38,000	Nil

Monica was not a member of a pension scheme for the tax year 2009–10. Nicola was a member of a pension scheme for the tax year 2010–11.

Monica
Monica has unused allowances of £8,000 (50,000 – 42,000) from 2008–09 and £12,000 (50,000 – 38,000) from 2010–11, so a total of £70,000 (50,000 + 8,000 + 12,000) is available for 2011–12. She was not a member of a pension scheme for 2009–10 so the annual allowance for that year is lost.

Nicola
Nicola has unused allowances of £21,000 (50,000 – 29,000) from 2009–10 and £50,000 from 2010–11, so a total of £121,000 (50,000 + 21,000 + 50,000) is available for 2011–12. The annual allowance for 2008–09 is fully utilised, but Nicola was a member of a pension scheme for 2010–11 so the annual allowance for that year is available in full.

The annual allowance for the tax year 2011–12 is utilised first, and then any unused allowances from earlier years with those from the earliest year used first.

<u>Example 14</u>

Perry has made the following gross personal pension contributions:

	£
2008–09	32,000
2009–10	41,000
2010–11	19,000
2011–12	58,000

The pension contribution of £58,000 for 2011–12 has used all of Perry's annual allowance of £50,000 for 2011–12, and £8,000 (58,000 – 50,000) of the unused allowance of £18,000 (50,000 – 32,000) from 2008–09. Perry therefore has unused allowances of £9,000 (50,000 – 41,000) from 2009–10 and £31,000 (50,000 – 19,000) from 2010–11 to carry forward to 2012–13. The remaining unused allowance from 2008–09 cannot be carried forward to 2012–13 as this is more than three years ago.

Although tax relief is available on pension contributions up to the amount of earnings for a particular tax year, the annual allowance acts as an effective annual limit. Where tax relieved contributions are paid in excess of the annual allowance (including any brought forward unused allowances), then there will be an annual allowance charge. This charge is subject to income tax at a person's marginal rates.

<u>Example 15</u>

For the tax year 2011–12 Frank has a trading profit of £220,000, and made gross personal pension contributions of £70,000. He does not have any brought forward unused annual allowances. Frank's income tax liability is as follows:

		£
Trading profit		220,000
Annual allowance charge		20,000
		240,000
Personal allowance		Nil
Taxable income		240,000
Income tax:	105,000 at 20%	21,000
	115,000 at 40%	46,000
	20,000 at 50%	10,000
Tax liability		77,000

- Frank has earnings of £220,000 for 2011–12. All of the pension contributions of £70,000 therefore qualify for tax relief.
- The annual allowance charge is £20,000 (70,000 – 50,000) being the excess of the pension contributions over the annual allowance for 2011–12.
- Frank's adjusted net income is £170,000 (240,000 – 70,000). This exceeds £114,950, so no personal allowance is available.
- Frank will have paid £56,000 (70,000 less 20%) to the personal pension company.
- Higher and additional rate tax relief is given by extending the basic and higher rate tax bands to £105,000 (35,000 + 70,000) and £220,000 (150,000 + 70,000) respectively.

Although you might be required to calculate a person's income tax liability involving an annual allowance charge, any calculations will be kept straightforward. Therefore, such a question will **not involve** the partial restriction of the personal allowance.

In practice, the pension rules can be far more complex than in the examples given above. For example, it is quite possible for an annual allowance charge to arise in a different tax year to that in which the related tax relief on the pension contributions was given. These more complex aspects of the pension rules are **not examinable**.

Lifetime allowance
The lifetime allowance for the tax year 2011–12 is unchanged at £1,800,000.

The lifetime allowance applies to the total funds that can be built up within a person's pension schemes. Where the limit is exceeded there will be an additional tax charge when that person subsequently withdraws the funds in the form of a pension.

CORPORATION TAX

Rates of corporation tax
For the financial year 2011 the small profits rate of corporation tax has been reduced from 21% to 20%, and the main rate of corporation tax has been reduced from 28% to 26%. The lower and upper limits are unchanged.

Marginal relief eases the transition from the small profits rate to the main rate of corporation tax where augmented profits fall between £300,000 and £1,500,000. The standard fraction used in the calculation of marginal relief for the financial year 2011 is 3/200th. The effective marginal rate of corporation tax on profits that fall between the £300,000 and £1,500,000 limits is reduced from 29.75% to 27.5%.
The corporation tax rates for the financial year 2011 can therefore be summarised as follows:

Level of profits	**Effective rate**
Up to £300,000	20%
£300,001 to £1,500,000	27.5%
Over £1,500,000	26%

The corporation tax information that will be given in the tax rates and allowances section of the examination paper for the June and December 2012 sittings is as follows:

Financial year	**2009**	**2010**	**2011**
Small profits rate	21%	21%	20%
Main rate	28%	28%	26%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	7/400	7/400	3/200

Example 16

For the year ended 31 March 2012 Easy Ltd has taxable total profits of £40,000 and FII of £10,000.

For the year ended 31 December 2011 Moderate Ltd has taxable total profits of £40,000 and FII of £10,000.

For the year ended 31 March 2012 Difficult Ltd has taxable total profits of £600,000 and FII of £50,000.

For the year ended 31 December 2011 Hard Ltd has taxable total profits of £600,000 and FII of £50,000.

Easy Ltd
Corporation tax is £8,000 (40,000 at 20%) as the augmented profits of £50,000 (40,000 + 10,000) are less than £300,000.

Moderate Ltd
The augmented profits of £50,000 (40,000 + 10,000) are less than £300,000. Because the company's accounting period straddles 31 March the corporation tax liability is calculated as follows:

	£
Financial year 2010	
40,000 x 3/12 = 10,000 at 21%	2,100
Financial year 2011	
40,000 x 9/12 = 30,000 at 20%	6,000
Liability	8,100

Difficult Ltd
Marginal relief applies as the augmented profits of £650,000 (600,000 + 50,000) are between £300,000 and £1,500,000. The company's corporation tax liability is as follows:

	£
600,000 at 26%	156,000
Marginal relief	
3/200 (1,500,000 – 650,000) x 600,000/650,000	(11,769)
Liability	144,231

Hard Ltd
The augmented profits of £650,000 (600,000 + 50,000) are between £300,000 and £1,500,000. Because the company's accounting period straddles 31 March the corporation tax liability is calculated as follows:

	£
Financial year 2010	
600,000 x 3/12 = 150,000 at 28%	42,000
Marginal relief	
7/400 (1,500,000 – 650,000) x 600,000/650,000 x 3/12	(3,433)
Financial year 2011	
600,000 x 9/12 = 450,000 at 26%	117,000
Marginal relief	
3/200 (1,500,000 – 650,000) x 600,000/650,000 x 9/12	(8,827)
Liability	146,740

- Note that there are alternative ways of calculating the tax liability for Hard Ltd, but this approach is the most straightforward since there is no need to apportion any figures.

Overseas branches
An overseas branch of a UK company is effectively an extension of the UK trade, and 100% of the branch profits are assessed to UK corporation tax. Double taxation relief is then given where an overseas branch's profits are also taxed overseas.

As an alternative to this treatment it will now be possible for a company to elect to simply treat the profits of an overseas branch as being exempt from UK corporation tax.

However, given the delayed introduction of this exemption it will **not be examined** at the June and December 2012 sittings.

CAPITAL GAINS TAX

Annual exempt amount
The annual exempt amount for the tax year 2011–12 has been increased from £10,100 to £10,600.

Rates of capital gains tax
The lower rate and the higher rate of capital gains tax for the tax year 2011–12 are unchanged at 18% and 28%.

Chargeable gains are taxed at the lower rate of 18% where they fall within the basic rate tax band of £35,000, and at the higher rate of 28% where they exceed this threshold. The basic rate band is extended if a person pays personal pension contributions or makes a gift aid donation.

<u>Example 17</u>

For the tax year 2011–12 Adam has a salary of £39,475, and during the year he made net personal pension contributions of £4,400. On 15 June 2011 Adam sold an antique table and this resulted in a chargeable gain of £17,400.

For the tax year 2011–12 Bee has a trading profit of £57,475. On 20 August 2011 she sold an antique vase and this resulted in a chargeable gain of £18,600.

For the tax year 2011–12 Chester has a salary of £35,475. On 25 October 2011 he sold an antique clock and this resulted in a chargeable gain of £23,800.

Adam
Adam's taxable income is £32,000 (39,475 less the personal allowance of 7,475). His basic rate tax band is extended to £40,500 (35,000 + 5,500 (4,400 x 100/80)), of which £8,500 (40,500 – 32,000) is unused.

Adam's taxable gain of £6,800 (17,400 less the annual exempt amount of 10,600) is fully within the unused basic rate tax band, so his capital gains tax liability is therefore £1,224 (6,800 at 18%).

Bee
Bee's taxable income is £50,000 (57,475 – 7,475), so all of her basic rate tax band has been used. The capital gains tax liability on her taxable gain of £8,000 (18,600 – 10,600) is therefore £2,240 (8,000 at 28%).

Chester
Chester's taxable income is £28,000 (35,475 – 7,475), so £7,000 (35,000 – 28,000) of his basic rate tax band is unused. The capital gains tax liability on Chester's taxable gain of £13,200 (23,800 – 10,600) is therefore calculated as follows:

	£
7,000 at 18%	1,260
6,200 at 28%	1,736
Tax liability	2,996

- In each case, the capital gains tax liability will be due on 31 January 2013.

Entrepreneurs' relief
Entrepreneurs' relief can be claimed when an individual disposes of a business or a part of a business. For the tax year 2011–12 the lifetime qualifying limit has been increased to £10 million.

Gains qualifying for entrepreneurs' relief are taxed at a rate of 10% regardless of the level of a person's taxable income.

Example 18

On 25 January 2012 Michael sold a 30% shareholding in Green Ltd, an unquoted trading company. The disposal resulted in a chargeable gain of £800,000. Michael had owned the shares since 1 March 2005, and was an employee of the company from that date until the date of disposal.

He has taxable income of £8,000 for the tax year 2011–12.

Michael's capital gains tax liability is as follows:

	£
Shareholding in Green Ltd	800,000
Annual exempt amount	(10,600)
	789,400
Capital gains tax: 789,400 at 10%	78,940

Although chargeable gains that qualify for entrepreneurs' relief are always taxed at a rate of 10%, they must be taken into account when establishing which rate applies to other capital gains. Chargeable gains qualifying for entrepreneurs' relief therefore reduce the amount of any unused basic rate tax band.

The annual exempt amount and any capital losses should be initially deducted from those chargeable gains that do not qualify for entrepreneurs' relief. This approach will save capital gains tax at either 18% or 28%, compared to just 10% if used against chargeable gains that do qualify for relief.

There are several ways of presenting computations involving such a mix of chargeable gains, but the simplest approach is to keep chargeable gains qualifying for entrepreneurs' relief and other chargeable gains separate.

Example 19

On 30 September 2011 Mika sold a business that she had run as a sole trader since 1 January 2005. The sale resulted in the following chargeable gains:

	£
Goodwill	260,000
Freehold office building	370,000
Freehold warehouse	170,000
	800,000

The assets were all owned for more than one year prior to the date of disposal. The warehouse had never been used by Mika for business purposes.

Mika has taxable income of £4,000 for the tax year 2011–12. She has unused capital losses of £28,000 brought forward from the tax year 2010–11.

Mika's capital gains tax liability is as follows:

		£
Gains qualifying for entrepreneurs' relief		
Goodwill		260,000
Freehold office building		370,000
		630,000
Other gains		
Freehold warehouse		170,000
Capital losses brought forward		(28,000)
		142,000
Annual exempt amount		(10,600)
		131,400
Capital gains tax:	630,000 at 10%	63,000
	131,400 at 28%	36,792
Tax liability		99,792

- The capital losses and the annual exempt amount are set against the chargeable gain on the sale of the freehold warehouse as this does not qualify for entrepreneurs' relief.
- £31,000 (35,000 – 4,000) of Mika's basic rate tax band is unused, but this is set against the gains qualifying for entrepreneurs' relief of £630,000 even though this has no affect on the 10% tax rate.

The capital gains tax information that will be given in the tax rates and allowances section of the examination paper for the June and December 2012 sittings is as follows:

Capital gains tax

Rates of tax	– Lower rate	18%
	– Higher rate	28%
Annual exempt amount		£10,600
Entrepreneurs' relief	– Lifetime limit	£10,000,000
	– Rate of tax	10%

INHERITANCE TAX

The nil rate band for the tax year 2011–12 is unchanged at £325,000.

The inheritance tax information that will be given in the tax rates and allowances section of the examination paper for the June and December 2012 sittings is as follows:

Inheritance tax: tax rates

£1 – £325,000		Nil
Excess	– Death rate	40%
	– Lifetime rate	20%

Inheritance tax: taper relief

Years before death	Percentage reduction %
Over 3 but less than 4 years	20
Over 4 but less than 5 years	40
Over 5 but less than 6 years	60
Over 6 but less than 7 years	80

Where nil rate bands are required for previous years then these will be given to you within the question.

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 and Class 1A National Insurance Contributions
For the tax year 2011–12 the rates of employee class 1 NIC have been increased by 1% to 12% and 2%. The rate of 12% is paid on earnings between £7,226 per year and £42,475 per year, and the rate of 2% is paid on all earnings over £42,475 per year.

The rate of employer's class 1 NIC has also been increased by 1% to 13.8%, and is paid on all earnings over £7,072 per year. Note that this limit is no longer aligned with the employee limit of £7,226.

The rate of class 1A NIC that employers pay on taxable benefits provided to employees has been increased to 13.8%.

The class 1 and class 1A NIC information that will be given in the tax rates and allowances section of the examination paper for the June and December 2012 sittings is as follows:

		%
Class 1 Employee	£1 – £7,225 per year	Nil
	£7,226 – £42,475 per year	12.0
	42,476 and above per year	2.0
Class 1 Employer	£1 – £7,072 per year	Nil
	£7,073 and above per year	13.8
Class 1A		13.8

Example 20

Simone Ltd has one employee who is paid £50,000 per year, and was provided with the following taxable benefits during the tax year 2011–12:

	£
Company motor car	6,300
Car fuel	5,400
Living accommodation	1,800

The class 1 and class 1A NIC liabilities are as follows:

Employee class 1 NIC	
42,475 – 7,225 = 35,250 at 12%	4,230
50,000 – 42,475 = 7,525 at 2%	151
	4,381
Employer's class 1 NIC	
50,000 – 7,072 = 42,928 at 13.8%	5,924
Employer's class 1A NIC	
13,500 (6,300 + 5,400 + 1,800) at 13.8%	1,863

Class 2 and Class 4 National Insurance Contributions
For the tax year 2011–12 the rate of class 2 NIC has been increased to £2.50 per week.

The rates of class 4 NIC have been increased by 1% to 9% and 2%. The rate of 9% is paid on profits between £7,226 and £42,475, and the rate of 2% is paid on all profits over £42,475.

The class 4 NIC information that will be given in the tax rates and allowances section of the examination paper for the June and December 2012 sittings is as follows:

		%
Class 4	£1 – £7,225 per year	Nil
	£7,226 – £42,475 per year	9.0
	£42,476 and above per year	2.0

Example 21

Jimmy is a self-employed builder and Jenny is a self-employed consultant. Their trading profits for the tax year 2011–12 are respectively £25,000 and £50,000. The class 4 NIC liabilities are as follows:

		£
Jimmy	25,000 – 7,225 = 17,775 at 9%	1,600
Jenny	42,475 – 7,225 = 35,250 at 9%	3,172
	50,000 – 42,475 = 7,525 at 2%	151
		3,323

Collection of Class 2 National Insurance Contributions

The collection dates for class 2 NIC have been aligned with those for the self-assessment system. Therefore, for the tax year 2011–12 class 2 NIC will be due in two instalments on 31 January 2012 and 31 July 2012. Alternatively, it is still possible to pay class 2 NIC on a monthly basis.

VALUE ADDED TAX (VAT)

Registration and deregistration limits

The limit of annual turnover above which VAT registration is compulsory has been increased from £70,000 to £73,000, and the deregistration limit has been increased from £68,000 to £71,000.

Standard rate of VAT

The standard rate of VAT is unchanged at 20%.

Example 22

Gwen is in the process of completing her VAT return for the quarter ended 31 March 2012 The following information is available:

- Sales invoices totaling £128,000 were issued in respect of standard rated sales.
- Standard rated materials amounted to £32,400.
- Standard rated expenses amounted to £24,800.
- On 15 February 2012 Gwen purchased machinery at a cost of £24,150. This figure is inclusive of VAT.

Unless stated otherwise all of the above figures are exclusive of VAT.

VAT return – quarter ended 31 March 2012

	£	£
Output VAT		
Sales (128,000 x 20%)		25,600
Input VAT		
Materials (32,400 x 20%)		6,480
Expenses (24,800 x 20%)	4,960	
Machinery (24,150 x 20/120)		4,025
		(15,465)
VAT payable		10,135

Entertaining overseas customers
Input VAT on the cost of entertainment expenditure is generally non-deductible. However, it is now possible to recover input VAT where it relates to the cost of entertaining overseas customers. There is no change to the non-deductibility of input VAT on the cost of entertaining UK customers.

Business samples
There is now no limit to the number of business samples that can be given to the same customer. Previously, only the first sample to each customer was not treated as a supply of goods subject to output VAT.

TAX MANAGEMENT

Penalties for late filing of VAT returns and late payment of VAT
New penalties for late filing of returns and for late payment of tax are being introduced over a number of years.

Although legislation has been introduced regarding the late filing of VAT returns and the late payment of VAT, HM Revenue and Customs have yet to introduce the changes. Therefore, for the June and December 2012 sittings the changes will **not be examined**.

Late payment interest and repayment interest
The assumed rates of late payment interest and repayment interest on underpaid and overpaid income tax, Class 4 NIC, capital gains tax and corporation tax are based on the actual rates in force (for income tax purposes) at 6 April 2011. For the June and December 2012 sittings the assumed rate of late payment interest will therefore be 3.0%, and the assumed rate of repayment interest will be 0.5%.

Corporation tax online filing and iXBRL tagging
All limited companies must now file their self assessment corporation tax returns online and pay any corporation tax that is due electronically. There are no changes to

the existing deadlines for doing this. A return must still include a self assessment of the amount of corporation tax payable, although if filing is done using the software provided by HM Revenue and Customs the amount payable is calculated as part of the filing process.

Along with the tax return, limited companies must also submit supporting tax computations and a copy of their accounts to HM Revenue and Customs. These must be submitted online using inline eXtensible Business Reporting Language (iXBRL). This is a standard for reporting business information in an electronic format using tags that can be read by computers. Small companies with simple accounts can use the software provided by HM Revenue and Customs, and this will automatically produce accounts and tax computations in the correct format. Other companies can use:

- Other software that automatically produces iXBRL accounts and computations.
- A tagging service which will apply the appropriate tags to accounts and computations.
- Software that enables the appropriate tags to be added to accounts and computations.

The tags used are contained in dictionaries known as taxonomies, with different taxonomies for different purposes. The tagging of tax computations is based on the corporation tax computational taxonomy, which includes over 1,200 relevant tags.

These changes apply where a return is filed after 1 April 2011 in respect of an accounting period ending after 31 March 2010.

David Harrowven is the examiner for Paper F6 (UK)

Appendix 1

This article should be read by students planning to take Paper P6 (UK) at either the June or December 2012 exam sessions. Please note that if you are sitting the exam in December 2011, this article is not relevant to you, and you should instead refer to the Finance Act 2010 article published on the ACCA website at www.accaglobal.com/students/student_accountant/archive/2010/111/3357411.

All of the changes relating to Paper F6 (UK) set out above are relevant to Paper P6 (UK). In addition, all of the exclusions set out in the Paper F6 (UK) article apply equally to Paper P6 (UK) unless they are referred to below.

This article summarises the additional changes introduced by the Finance Act 2011 and other recent legislation that have an effect on the Paper P6 (UK) syllabus.

INCOME TAX

The use of exemptions and reliefs in deferring and minimising income tax liabilities

Enterprise investment scheme (EIS)
Individuals who subscribe for EIS shares are able to claim a tax reducer up to a maximum of their tax liability for the year. For the tax year 2011–12, the amount that can be claimed has increased to 30% (previously 20%) of the amount subscribed for qualifying investments.

There have been two changes to the qualifying conditions in respect of EIS companies. The first change is a relaxation to the requirement that an EIS-approved company must carry on its trade wholly or mainly in the UK. Under the new rule an approved company need only have a permanent establishment in the UK.

The second change is a new qualifying condition whereby a company must be in sound financial health for it to be approved as an EIS company.

Venture capital trusts (VCTs)
A VCT is a listed company. The requirement that it must be listed on the London Stock Exchange has been relaxed such that it must now be listed on an European exchange.

For a VCT to be approved by HMRC, 70% of its investments must be in qualifying holdings (broadly unquoted trading companies). There is a further condition that a proportion of the qualifying holdings must be ordinary shares (as opposed to shares that carry a preferential right to dividends). For the tax year 2011–12, this proportion has been increased to 70% (previously 30%).

The two changes noted above to the qualifying conditions in respect of EIS shares also apply to the qualifying holdings of VCTs.

Enterprise management incentive (EMI) schemes
There is a relaxation to the requirement that an EMI qualifying company must carry on its trade wholly or mainly in the UK. Under the new rule, a company need only have a permanent establishment in the UK in order to qualify.

Registered pension schemes
Members of registered pension schemes are no longer required to purchase an annuity by the age of 75. They are now permitted to draw amounts directly from their pension fund – subject to an annual maximum – throughout their retirement.

CORPORATION TAX

Taxable total profits

Research and development expenditure
Small or medium-sized enterprises (SMEs) that incur qualifying research and development expenditure of at least £10,000 in a 12-month accounting period are able to claim a tax deduction in addition to that relating to the cost incurred. The additional tax deduction has been increased to 100% (previously 75%) of the cost incurred.

Where an SME has incurred qualifying research and development expenditure and also made a trading loss, it is permitted to claim a payment equal to a percentage of the lower of the trading loss and 200% (previously 175%) of the qualifying cost incurred. The payment percentage has been reduced to 12.5% (previously 14%). The restriction whereby the payment cannot exceed the company's PAYE and NIC liabilities for the accounting period continues to apply.

The comprehensive calculation of the corporation tax liability

Controlled foreign companies (CFCs)
The profits of a CFC may be apportioned to UK resident companies, such that the profits are then subject to UK corporation tax. Where a CFC satisfies one of the exceptions there is no requirement for its profits to be apportioned.

There is an exception for companies with chargeable taxable profits of no more than £50,000 in a 12-month period. A new, related exception has been introduced for companies with profits calculated in accordance with generally accepted accounting practice of no more than £200,000 in a 12-month period. This new exception enables a company to use its accounting profits to determine the availability of the exception, thus removing the need to calculate its taxable profits under UK tax rules.

Two new exceptions have been introduced. The first is in respect of CFCs that carry on a trade and do not have a significant connection with the UK. A CFC would be regarded as having a significant connection with the UK if more than 10% of its gross income is obtained from UK resident persons.

The second new exception is in respect of CFCs that are in business to exploit intellectual property and do not have a significant connection with the UK. A CFC would be regarded as having a significant connection with the UK if a substantial proportion of its gross income is obtained from UK resident persons.

The effect of a group structure for corporation tax purposes

Degrouping charges
A degrouping charge may arise where a company leaves a capital gains group within six years of acquiring an asset via a no gain, no loss transfer while still owning the asset. A number of changes have been made to the treatment of degrouping charges, of which two are relevant to the exam.

1 Historically, the degrouping charge has been included in the corporation tax computation of the company that has left the group. Following the changes to the rules, the charge will now be added to the consideration received by the vendor company in respect of the company that has left the group.

This means that the degrouping charge is no longer a separately identifiable chargeable gain. Also, under the new rules, the degrouping charge affects the company **selling** the company that is leaving the group, rather than giving rise to an increased tax liability in the company leaving the group.

It should be recognised that the increase to the consideration received by the vendor company will often be irrelevant due to the availability of the substantial shareholding exemption (SSE). Where the SSE is available, the whole of the chargeable gain on the sale of the company, including the element relating to the degrouping charge, will be exempt.

Illustration
H Ltd owns 100% of the ordinary share capital of a number of subsidiary companies, such that the companies are all members of a capital gains group. The companies prepare accounts to 31 March.

H Ltd sold Q Ltd, one of its subsidiaries, for £350,000 on 1 June 2011. Q Ltd owns an asset that it acquired from another company within the group as a result of a no gain, no loss transfer within the six years prior to 1 June 2011. The degrouping charge arising as a result of Q Ltd leaving the group was £80,000.

Under the old rules, the degrouping charge of £80,000 would have been included in the corporation tax computation of Q Ltd for the year ending 31 March 2012. However, under the new rules, the amount of £80,000 is added to the consideration received by H Ltd for the sale of Q Ltd, and there is no degrouping charge in the corporation tax computation of Q Ltd.

The effect of this change is to increase H Ltd's gain on the sale of Q Ltd by £80,000. However, if the substantial shareholding exemption is available in respect of the sale of Q Ltd, the whole of the gain on the sale will be exempt.

2 It is no longer possible to claim rollover relief in respect of a degrouping charge.

Substantial shareholding exemption (SSE)
The SSE is available where there is a sale of shares in a trading company out of a substantial shareholding. For the exemption to be available, the vendor company must have owned at least 10% of the company whose shares are being sold for a continuous period of 12 months in the two years prior to the sale.

A change has been made to these conditions, such that the qualifying 12-month period can include the time when the assets owned by the company being sold were used within a trade carried on by the group before being transferred to the company being sold. This change enables the SSE to apply where a trade is transferred to a new company within a group prior to that company being sold to a third party.

Illustration
J Ltd owns the whole of the ordinary share capital of W Ltd. W Ltd is a trading company, such that if J Ltd were to sell the shares in W Ltd the SSE would apply. However, J Ltd has not been able to find a buyer for W Ltd (this may be due to the possibility of there being contingent liabilities in W Ltd). Consequently, the trade and assets of W Ltd are to be transferred to a newly formed subsidiary, N Ltd, and a buyer will then be found for the shares in N Ltd.

The transfer of the assets to N Ltd will take place at no gain, no loss because the two companies are in a capital gains group. However, degrouping charges will arise on the sale of N Ltd as it will leave the group within six years of the no gain, no loss transfers. Under the new rules, the degrouping charges will increase the consideration received by W Ltd on the sale of the shares in N Ltd.

Although J Ltd will not have owned N Ltd for the requisite 12-month period, the SSE will be available on the sale of N Ltd because the assets owned by N Ltd will have been used within a trade carried on by the group.

Pre-entry capital losses
When a group acquires a company, the capital losses that have accrued to the company prior to the date of acquisition are pre-entry capital losses. The offset of pre-entry capital losses is restricted, such that, broadly, they cannot be offset against chargeable gains of the new group.

There has been a change to the definition of a pre-entry capital loss. The definition no longer includes the proportion of a loss on assets owned at the time the company is acquired and sold at a loss at a later date. Accordingly, pre-entry capital losses now consist only of capital losses that have been realised at the time the company is acquired.

INHERITANCE TAX

The nil rate band
The inheritance tax nil rate bands for the tax year 2011–12 and the preceding 14 tax years will be provided in the tax tables in the exams in 2012 rather than in the relevant question. The following information will be provided.

	£
6 April 2011 to 5 April 2012	325,000
6 April 2010 to 5 April 2011	325,000
6 April 2009 to 5 April 2010	325,000
6 April 2008 to 5 April 2009	312,000
6 April 2007 to 5 April 2008	300,000
6 April 2006 to 5 April 2007	285,000
6 April 2005 to 5 April 2006	275,000
6 April 2004 to 5 April 2005	263,000
6 April 2003 to 5 April 2004	255,000
6 April 2002 to 5 April 2003	250,000
6 April 2001 to 5 April 2002	242,000
6 April 2000 to 5 April 2001	234,000
6 April 1999 to 5 April 2000	231,000
6 April 1998 to 5 April 1999	223,000
6 April 1997 to 5 April 1998	215,000

STAMP DUTY AND STAMP DUTY LAND TAX (SDLT)

There is a new rate of SDLT of 5% for residential properties where the consideration exceeds £1 million. All other rates and limits for the tax year 2011–12 are the same as 2010–11.

This information will be provided in the tax tables in the exam.

Further reading
The changes introduced by the Finance Act 2011 will be incorporated into the following articles published on the ACCA website:

- Corporation tax
- Corporation tax and groups – parts 1 and 2
- Capital gains tax and inheritance tax
- International travellers
- Trusts and tax

Rory Fish is the examiner for Paper P6 (UK)

Appendix 2

This appendix outlines the effects of the changes made in the Finance Act 2011 on the Foundations in Accountancy Paper FTX (UK). The sub headings refer to the headings in the main article on Paper F6 (UK) by David Harrowven (above).

INCOME TAX

Rates of income tax
The revised thresholds and the rates of tax shown will also be used in Paper FTX (UK). The use of the 10% rate for savings income is examinable.

Personal allowance
Only the personal allowance for taxpayers under 65 is examinable in Paper FTX (UK) – information on the higher allowances and the restriction limit will not be given on the Paper FTX (UK) rates and allowances sheet. The withdrawal of the allowances for high earners and the effect of personal pension plan contributions and gift aid on the calculation of net income is examinable.

EMPLOYMENT INCOME

Approved mileage allowance
The new rates of approved mileage allowance will also be used in Paper FTX (UK).

Company car benefit
Paper FTX (UK) will examine the same detail as shown for Paper F6 (UK).

Company car fuel benefit
The new base figure will also be used in Paper FTX (UK).

Childcare
The new three-tier exemption will also apply in Paper FTX (UK).

Official rate of interest
The official rate of 4% will be used in the 2012 exams.

CAPITAL ALLOWANCES

The same detail as that used in Paper F6 (UK) will be examinable in Paper FTX (UK). This includes the restriction on annual investment allowance and writing down allowances (WDA) for short periods, the restriction of WDA on old expensive cars brought forward, and the extension of the life for short life assets to eight years after the end of the accounting period in which the asset was purchased.

Industrial buildings allowance (IBA)
This will no longer be examined in Paper FTX (UK).

Furnished holiday lettings
The new rules will also apply to Paper FTX (UK).

Individual savings accounts (ISAs)
Detailed knowledge of these remains outside the syllabus, but knowledge of income from ISAs being non-taxable is examinable.

Pension schemes
Awareness of the annual allowance and lifetime allowance limits is required, but the additional tax charges for excess contributions and for exceeding the lifetime allowance will not be examinable. The method of obtaining tax relief for contributions to both occupational and personal schemes remains examinable.

The new carry forward provisions will not be examined.

CORPORATION TAX

Rates of corporation tax
The rates of tax and the upper and lower limits will be given in the rates and allowances sheet in the same way as Paper F6 (UK) and will remain examinable. However, no question will be set that involves an accounting period straddling 1 April 2011 where two different tax rates would apply.

Overseas branches
These rules remain outside the Paper FTX (UK) syllabus.

CAPITAL GAINS TAX

Annual exempt amount
The new limit of £10,600 for 2011–12 will also be used in Paper FTX (UK).

Rates of capital gains tax
The 18% and 28% rates will continue to be applied in Paper FTX (UK).

No capital gains tax questions will be set that involve the effects of pension contributions and gift aid donations on the income tax thresholds.

The rates and limits will be given in the rates and allowances sheet in Paper FTX (UK) in the same format as that for Paper F6 (UK).

Entrepreneurs' relief
The new £10 million lifetime limit is required knowledge for Paper FTX (UK).

INHERITANCE TAX

This remains outside the syllabus for Paper FTX (UK).

NATIONAL INSURANCE CONTRIBUTIONS (NIC)

Class 1 and Class 1A NIC
The new rates and thresholds will also be used in Paper FTX (UK). Where NIC is required to be calculated on a weekly or monthly basis, the thresholds should be divided by 52 or 12 respectively.

Class 2 and Class 4 NIC
The same detail will be used in Paper FTX (UK).

VALUE ADDED TAX

Registration and deregistration limits
The new registration and deregistration limits will also be used in Paper FTX (UK).

Standard rate of VAT
The unchanged standard rate of 20% will be used in Paper FTX (UK).

Entertaining overseas customers
Input VAT on the cost of entertaining overseas customers is also examinable in Paper FTX (UK).

Business samples
Business samples are also examinable in Paper FTX (UK).

TAX MANAGEMENT

Interest on underpaid and overpaid tax
The calculation of interest underpaid and overpaid tax remains outside the scope of Paper FTX (UK).

Penalties for late filing of VAT returns and late payment of VAT
The new penalty rules will not be examinable in Paper FTX (UK).

Online filing
Knowledge of online filing rules and dates is also required for Paper FTX (UK).

Keith Molson is the examiner for Paper FTX (UK)