

RELEVANT TO ACCA QUALIFICATION PAPERS F6 (UK) AND P6 (UK) AND FOUNDATION LEVEL PAPER FTX (UK)

Finance Act 2012

This article looks at the changes made by the Finance Act 2012, and should be read by those candidates who are taking Paper F6 (UK) at either the June or December 2013 sittings. The aim of the article is to summarise the changes made by the Finance Act 2012 and to look at the more important changes in greater detail. The article also includes details of legislation that was enacted prior to the Finance Act 2012, but has only come into effect from 6 April 2012.

Please note that if you are sitting Paper F6 (UK) in December 2012, you will be examined on the Finance Act 2011, which is the legislation as it relates to the tax year 2011–12. Therefore this article is not relevant to you, and you should instead refer to the [Finance Act 2011 article](#) published on the ACCA website.

INCOME TAX

Rates of income tax

The rates of income tax for the tax year 2012–13 are as follows:

		Normal rates	Dividend rates
		%	%
Basic rate	£1 – £34,370	20	10
Higher rate	£34,371 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 £2,710 of taxable income. If non-savings income exceeds £2,710 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 £34,370, at the higher rate of 40% if it falls between the higher rate threshold of £34,370 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 2012–13 are as follows.

Personal allowance	Standard
	£8,105
Personal allowance 65–74	£10,500
Personal allowance 75 and over	£10,660
Income limit for age related allowances	£25,400
Income limit for standard personal allowance	£100,000

The standard personal allowance of £8,105 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 £116,210 or more is not entitled to any personal allowance ($116,210 - 100,000 = 16,210/2 = £8,105$). Where a person has an adjusted net income of between £100,000 and £116,210, 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 £25,400, age related allowances are reduced to a minimum of the standard personal allowance of £8,105. 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 £116,210 or more.

Example 1

For the tax year 2012–13 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
	<hr/>
	48,000
Personal allowance	(8,105)
	<hr/>
Taxable income	39,895
	<hr/>
Income tax:	
29,895 at 20%	5,979
4,475 at 10%	447
5,525 at 32.5%	1,796
	<hr/>
Tax liability	8,222
	<hr/>

Example 2

For the tax year 2012–13 June, aged 48, has a trading profit of £184,000. Her income tax liability is as follows:

	£
Trading profit	184,000
Personal allowance	Nil
	<hr/>
Taxable income	184,000
	<hr/>

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Income tax:	34,370 at 20%	6,874
	115,630 at 40%	46,252
	34,000 at 50%	17,000
Tax liability		<u>70,126</u>

No personal allowance is available as June's adjusted net income of £184,000 exceeds £116,210.

Example 3

For the tax year 2012–13 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
		<u>174,000</u>
Personal allowance		Nil
Taxable income		<u>174,000</u>
Income tax:		
	34,370 at 20%	6,874
	101,630 at 40%	40,652
	14,000 at 32.5%	4,550
	24,000 at 42.5%	10,200
Tax liability		<u>62,276</u>
Tax suffered at source		
Dividends (38,000 at 10%)	3,800	
Building society interest (4,000 at 20%)	800	
	<u> </u>	(4,600)
Income tax payable		<u>57,676</u>

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

Example 4

For the tax year 2012–13 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:

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	£
Trading profit	159,000
Personal allowance	(4,605)
Taxable income	<u>154,395</u>
Income tax:	
86,370 at 20%	17,274
68,025 at 40%	27,210
Tax liability	<u>44,484</u>

- The gross personal pension contributions are £50,000 ($40,000 \times 100/80$) and the gross gift aid donation is £2,000 ($1,600 \times 100/80$).
- May's adjusted net income is therefore £107,000 ($159,000 - 50,000 - 2,000$), so her personal allowance of £8,105 is reduced to £4,605 ($8,105 - 3,500$ ($107,000 - 100,000 = 7,000/2$)).
- The basic and higher rate tax bands are extended to £86,370 ($34,370 + 50,000 + 2,000$) and £202,000 ($150,000 + 50,000 + 2,000$) respectively.

Example 5

For the tax year 2012–13 Ali, aged 67, has pensions of £11,900 and bank interest of £4,000 (net). Her income tax liability is as follows:

	£
Pensions	11,900
Bank interest ($4,000 \times 100/80$)	5,000
	<u>16,900</u>
Personal allowance	(10,500)
Taxable income	<u>6,400</u>
Income tax:	
1,400 at 20%	280
1,310 at 10%	131
3,690 at 20%	738
Tax liability	<u>1,149</u>

Non-savings income is £1,400 ($11,900 - 10,500$), so £1,310 ($2,710 - 1,400$) 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%.

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Example 6

For the tax year 2012–13 Lorn, aged 80, has pensions of £24,500 and building society interest of £3,200 (net). Her income tax liability is as follows:

	£
Pensions	24,500
Building society interest (3,200 x 100/80)	4,000
	<hr/>
	28,500
Personal allowance	(9,110)
	<hr/>
Taxable income	19,390
	<hr/>
Income tax: 19,390 at 20%	3,878
	<hr/>
Tax liability	3,878
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Lorn's total income exceeds £25,400, so her personal allowance of £10,660 is reduced to £9,110 ($10,660 - 1,550$ ($28,500 - 25,400 = 3,100/2$)).

Example 7

For the tax year 2012–13 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
	<hr/>
	110,000
Personal allowance	(3,105)
	<hr/>
Taxable income	106,895
	<hr/>
Income tax: 34,370 at 20%	6,874
72,525 at 40%	29,010
	<hr/>
Tax liability	35,884
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- Rich's adjusted net income exceeds £25,400 to the extent that his personal allowance of £10,660 is initially reduced to the standard personal allowance of £8,105.
- As the adjusted net income of £110,000 exceeds £100,000, the standard personal allowance is then reduced to £3,105 ($8,105 - 5,000$ ($110,000 - 100,000 = 10,000/2$)).

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Child benefit income tax charge

An income tax charge has been introduced where a person's income exceeds £50,000 and they receive child benefit. This child benefit income tax charge **is not examinable** at the June or December 2013 sittings.

Employment income***Homeworking***

The weekly tax-free allowance that an employer can pay to an employee who works from home has increased from £3 to £4. The allowance covers the extra light and heat costs incurred due to homeworking, without any need to provide records of the actual expenses incurred.

Company car benefit

For the tax year 2012–13 the base level of CO₂ emissions used to calculate company car benefits is reduced from 125 grams per kilometre to 100 grams per kilometre, and the base percentage is reduced from 15% to 11%. The percentage used to calculate a car benefit therefore now ranges from 11% to 35%. There are two lower rates for company motor cars with low CO₂ emissions. For a motor car with a CO₂ emission rate of 75 grams per kilometre or less the percentage is 5%. For a motor car with a CO₂ emission rate of between 76 and 99 grams per kilometre the percentage is 10%.

The percentage rates (including the lower rates of 5% and 10%) are increased by 3% for diesel cars, but not beyond the maximum percentage rate of 35%.

The company car benefit information that will be given in the tax rates and allowances section of the exam paper for the June and December 2013 sittings is as follows:

Car benefit percentage

The relevant base level of CO₂ emissions is 100 grams per kilometre.

The percentage rates applying to petrol cars with CO₂ emissions up to this level are:

75 grams per kilometre or less	5%
76 grams to 99 grams per kilometre	10%
100 grams per kilometre	11%

Example 8

During the tax year 2012–13 Fashionable plc provided the following employees with company motor cars:

Amanda was provided with a new petrol powered company car throughout the tax year 2012-13. The motor car has a list price of £12,200 and an official CO₂ emission rate of 84 grams per kilometre.

Betty was provided with a new petrol powered company car throughout the tax year 2012-13. The motor car has a list price of £16,400 and an official CO₂ emission rate of 114 grams per kilometre.

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Charles was provided with a new diesel powered company car on 6 August 2012. The motor car has a list price of £13,500 and an official CO₂ emission rate of 142 grams per kilometre.

Diana was provided with a new petrol powered company car throughout the tax year 2012–13. The motor car has a list price of £84,600 and an official CO₂ emission rate of 238 grams per kilometre. Diana paid Fashionable plc £1,200 during the tax year 2012–13 for the use of the motor car.

Amanda

The CO₂ emissions are between 76 grams and 99 grams per kilometre so the relevant percentage is 10%. The motor car was available throughout 2012–13, so the benefit is £1,220 (12,200 × 10%).

Betty

The CO₂ emissions are above the base level figure of 100 grams per kilometre. The CO₂ emissions figure of 114 is rounded down to 110 so that it is divisible by five. The minimum percentage of 11% is increased in 1% steps for each five grams per kilometre above the base level, so the relevant percentage is 13% (11% + 2% (110 – 100 = 10/5)). The motor car was available throughout 2012–13 so the benefit is £2,132 (16,400 × 13%).

Charles

The CO₂ emissions are above the base level figure of 100 grams per kilometre. The relevant percentage is 22% (11% + 8% (140 – 100 = 40/5) = 19% plus a 3% charge for a diesel car). The motor car was only available for eight months of 2012–13, so the benefit is £1,980 (13,500 × 22% × 8/12).

Diana

The CO₂ emissions are above the base level figure of 100 grams per kilometre. The relevant percentage is 38% (11% + 27% (235 – 100 = 135/5)), but this is restricted to the maximum of 35%. The motor car was available throughout the tax year 2012–13 so the benefit is £28,410 (84,600 × 35% = 29,610 – 1,200). The contributions by Diana towards the use of the motor car reduce the benefit.

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 2012–13 the base figure has been increased from £18,800 to £20,200.

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

Example 9

Continuing with **Example 8**.

Amanda was provided with fuel for private use between 6 April 2012 and 5 April 2013.

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Betty was provided with fuel for private use between 6 April 2012 and 31 December 2012.

Charles was provided with fuel for private use between 6 August 2012 and 5 April 2013.

Diana was provided with fuel for private use between 6 April 2012 and 5 April 2013. She paid Fashionable plc £600 during the tax year 2012–13 towards the cost of private fuel, although the actual cost of this fuel was £1,000.

Amanda

The motor car was available throughout 2012–13 so the benefit is £2,020 ($20,200 \times 10\%$).

Betty

Fuel was only available for nine months of 2012–13, so the fuel benefit is £1,969 ($20,200 \times 13\% \times 9/12$).

Charles

The motor car was only available for eight months of 2012–13, so the fuel benefit is £2,963 ($20,200 \times 22\% \times 8/12$).

Diana

The motor car was available throughout 2012–13 so the benefit is £7,070 ($20,200 \times 35\%$). There is no reduction for the contributions made since the cost of private fuel was not fully reimbursed.

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 2013 sittings the actual official rate of interest of 4.00% for the tax year 2012–13 will be used.

INTERNATIONAL ACCOUNTING STANDARD TERMINOLOGY

The term 'income statement' has been amended to 'statement of profit or loss'. This new term will be used from the June 2013 sitting onwards when presenting accounting information contained within an exam question.

Capital allowances***Plant and Machinery***

There have been a number of changes as regards the allowances available in respect of expenditure on plant and machinery. The changes apply from 6 April 2012 (1 April 2012 for limited companies).

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The rate of writing-down allowance (WDA) for the main pool (and for motor cars with CO₂ emissions between 111 and 160 grams per kilometre) has been reduced from 20% to 18%. The rate of writing-down allowance for the special rate pool (and for motor cars with CO₂ emissions over 160 grams per kilometre) has been reduced from 10% to 8%.

The annual investment allowance (AIA) limit has been reduced from £100,000 to £25,000. The annual investment allowance provides an allowance of 100% for the first £25,000 of expenditure on plant and machinery in a 12-month period. Any expenditure in excess of the £25,000 limit qualifies for writing-down allowances as normal. The annual investment allowance applies to all expenditure on plant and machinery with the exception of motor cars. The £25,000 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 £18,750 ($25,000 \times 9/12$) for a nine-month period of account.

Where a period of account spans 6 April 2012 (1 April 2012 for limited companies) then apportionment will be necessary in order to determine the rate of writing-down allowance applicable, and the amount of annual investment allowance. A question **will not be set** involving apportionment as regards the rate of writing-down allowance or the amount of annual investment allowance.

The capital allowances information that will be given in the tax rates and allowances section of the examination paper for the June and December 2013 sittings is as follows:

Rates of allowance

	%
Plant and machinery	
Main pool	18
Special rate pool	8
Motor cars	
New cars with CO ₂ emissions up to 110 grams per kilometre	100
CO ₂ emissions between 111 and 160 grams per kilometre	18
CO ₂ emissions over 160 grams per kilometre	8

Annual investment allowance

First £25,000 of expenditure	100
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Unless there is private use, motor cars qualifying for writing down allowances at the rate of 18% are included in the main pool, while motor cars qualifying for writing down allowances at the rate of 8% 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.

From the June 2013 onwards questions will **no longer be set** involving motor cars already owned at 6 April 2009 (1 April 2009 for limited companies).

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Example 10

Ming prepares accounts to 5 April. On 6 April 2012 the tax written down values of her plant and machinery were as follows:

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

The following transactions took place during the year ended 5 April 2013:

		Cost/ (Proceeds)
		£
14 April 2012	Purchased motor car (2)	10,100
12 August 2012	Purchased equipment	36,400
2 November 2012	Purchased motor car (3)	28,300
19 January 2013	Purchased motor car (4)	16,800
12 March 2013	Sold motor car (2)	(8,300)

Motor car (1) has CO₂ emissions of 140 grams per kilometre. This motor car is used by Ming, and 20% of the mileage is for private journeys. Motor car (2) purchased on 14 April 2012 and sold on 12 March 2013 has CO₂ emissions of 185 grams per kilometre. Motor car (3) purchased on 2 November 2012 has CO₂ emissions of 155 grams per kilometre. Motor car (4) purchased on 19 January 2013 has CO₂ emissions of 105 grams per kilometre. Ming's capital allowance claim for the year ended 5 April 2013 is as follows:

	Main pool	Motor car (1)	Special rate pool	Allowances
	£	£	£	£
WDV brought forward	16,700	15,600		
Addition qualifying for AIA				
• Equipment	36,400			
• AIA – 100%	(25,000)			25,000
	11,400			
Other additions				
• Motor car (2)			10,100	
• Motor car (3)	28,300			
Proceeds – Motor car (2)			(8,300)	
	56,400		1,800	
WDA – 18%	(10,152)			10,152
WDA – 18%		(2,808) x	80%	2,246
WDA – 8%			(144)	144
	46,248			
Addition qualifying for FYA				

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• Motor car (4)	16,800			
• FYA – 100%	(16,800)			16,800
	<hr/>	0		
WDV carried forward		<hr/>	<hr/>	<hr/>
		46,248	12,792	1,656
		<hr/>	<hr/>	<hr/>
Total allowances				<hr/>
				54,342
				<hr/>

- Motor car (1) is kept separately because there is private use by Ming. This motor car has CO₂ emissions between 111 and 160 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%.
- Motor car (2) had CO₂ emissions over 160 grams per kilometre and therefore qualifies for writing down allowances at the rate of 8%. Even though it is the only asset in the special rate pool, there is no balancing allowance on the disposal of this motor car because the expenditure is included in a pool.
- Motor car (3) has CO₂ emissions between 111 and 160 grams per kilometre, and therefore qualifies for writing down allowances at the rate of 18%.
- Motor car (4) has CO₂ emissions of less than 110 grams per kilometre and therefore qualifies for the 100% first year allowance.

Enterprise zones

A 100% first year allowance has been introduced for expenditure on plant and machinery in certain enterprise zones. This first year allowance is **not examinable**.

Furnished holiday lettings

From 6 April 2012 in order to qualify as a furnished holiday letting a rental property must be available for letting for 210 days in a year (previously 140 days), and actually let for 105 days (previously 70 days). The advantages of a rental property qualifying as a furnished holiday letting are:

- 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.

It is now possible to make an election so that a rental property continues to qualify as a furnished holiday letting for up to two years after the 105 day test ceases to be met. This election is **not examinable**.

Individual savings accounts (ISAs)

For the tax year 2012–13 a person can invest up to £5,640 in a cash ISA, and up to £11,280 in a stocks and shares ISA. This is subject to an overall investment limit of £11,280. Therefore, if £5,640 is invested in a cash ISA, only £5,640 can be invested in a stocks and shares ISA. These limits will be given in the tax rates and allowances section of the exam paper.

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

Junior ISAs have been introduced for children under the age of 18. Junior ISAs **are not examinable**.

Pension schemes**Annual allowance**

The annual allowance for the tax year 2012–13 is unchanged at £50,000.

If the annual allowance is not fully used in any tax year then it is 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.

Example 11

Monica and Nicola have made the following gross personal pension contributions during the tax years 2009–10, 2010–11 and 2011–12:

	Monica £	Nicola £
2009–10	Nil	56,000
2010–11	42,000	29,000
2011–12	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 all three tax years.

Monica

Monica has unused allowances of £8,000 ($50,000 - 42,000$) from 2010–11 and £12,000 ($50,000 - 38,000$) from 2011–12, so a total of £70,000 ($50,000 + 8,000 + 12,000$) is available for 2012–13. 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 2010–11 and £50,000 from 2011–12, so a total of £121,000 ($50,000 + 21,000 + 50,000$) is available for 2012–13. The annual allowance for 2009–10 is fully utilised, but Nicola was a member of a pension scheme for 2011–12 so the annual allowance for that year is available in full.

The annual allowance for the tax year 2012–13 is utilised first, and then any unused allowances from earlier years with those from the earliest year used first.

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Example 12

Perry has made the following gross personal pension contributions:

	£
2009–10	32,000
2010–11	41,000
2011–12	19,000
2012–13	58,000

The pension contribution of £58,000 for 2012–13 used all of Perry's annual allowance of £50,000 for 2012–13, and £8,000 (58,000 – 50,000) of the unused allowance of £18,000 (50,000 – 32,000) from 2009–10. Perry, therefore, has unused allowances of £9,000 (50,000 – 41,000) from 2010–11 and £31,000 (50,000 – 19,000) from 2011–12 to carry forward to 2013–14. The remaining unused allowance from 2009–10 cannot be carried forward to 2013–14 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.

Example 13

For the tax year 2012–13 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:	
104,370 at 20%	20,874
115,630 at 40%	46,252
20,000 at 50%	10,000
Tax liability	77,126

- Frank has earnings of £220,000 for 2012–13. 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 2012–13.
- Frank's adjusted net income is £170,000 (240,000 – 70,000). This exceeds £116,210, so no personal allowance is available.

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- 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 £104,370 (34,370 + 70,000) and £220,000 (150,000 + 70,000) respectively.

Lifetime allowance

The lifetime allowance for the tax year 2012–13 has been reduced from £1,800,000 to £1,500,000.

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.

Gifts of pre-eminent objects

A tax reduction scheme has been introduced where gifts of pre-eminent objects are made to the nation. The tax reduction applies to income tax, capital gains tax and corporation tax. This tax reduction scheme is **not examinable**.

CORPORATION TAX**Rates of corporation tax**

For the financial year 2012 the small profits rate of corporation tax is unchanged at 20%. The main rate of corporation tax has been reduced from 26% to 24%. 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 2012 is 1/100th. The effective marginal rate of corporation tax on profits that fall between the £300,000 and £1,500,000 limits is reduced from 27.5% to 25%.

The corporation tax rates for the financial year 2012 can therefore be summarised as follows:

Level of profits	Effective rate
Up to £300,000	20%
£300,001 to £1,500,000	25%
Over £1,500,000	24%

The corporation tax information that will be given in the tax rates and allowances section of the exam paper for the June and December 2013 sittings is as follows:

Financial year	2010	2011	2012
Small profits rate	21%	20%	20%
Main rate	28%	26%	24%
Lower limit	£300,000	£300,000	£300,000
Upper limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	7/400	3/200	1/100

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Example 14

For the year ended 31 March 2013 Easy Ltd has taxable total profits of £40,000 and franked investment income (FII) of £10,000.

For the year ended 31 December 2012 Moderate Ltd has taxable total profits of £1,400,000 and FII of £160,000.

For the year ended 31 March 2013 Difficult Ltd has taxable total profits of £600,000 and FII of £50,000.

For the year ended 31 December 2012 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 £1,560,000 (1,400,000 + 160,000) are more than £1,500,000. Because the company's accounting period straddles 31 March the corporation tax liability is calculated as follows:

	£
Financial year 2011	
1,400,000 x 3/12 = 350,000 at 26%	91,000
Financial year 2012	
1,400,000 x 9/12 = 1,050,000 at 24%	252,000
Liability	<u>343,000</u>

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 24%	144,000
Marginal relief	
1/100 (1,500,000 – 650,000) x 600,000/650,000	(7,846)
Liability	<u>136,154</u>

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 2011	
600,000 x 3/12 = 150,000 at 26%	39,000

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Marginal relief	
$3/200 (1,500,000 - 650,000) \times 600,000/650,000 \times 3/12$	(2,942)
Financial year 2012	
$600,000 \times 9/12 = 450,000$ at 24%	108,000
Marginal relief	
$1/100 (1,500,000 - 650,000) \times 600,000/650,000 \times 9/12$	(5,885)
Liability	<u>138,173</u>

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.

Qualifying charitable donations

From the June 2013 paper onwards, the term 'qualifying charitable donations' will be used rather than 'gift aid donations' when referring to a company's donations to charity that qualify as a deduction when calculating taxable total profits.

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 is now possible for a company to elect to simply treat the profits of all of its overseas branches as being exempt from UK corporation tax. The election, once made, is irrevocable, and it applies to all of a company's overseas branches. The election must be made before the start of an accounting period to which it is to apply.

An election will not be beneficial if a company has a loss making overseas branch, since if an election is made any trading loss of an overseas branch will not be relievable when calculating taxable total profits. Even if a branch is currently profitable, a company might decide not to make an election if double taxation relief means there is little or no UK corporation tax liability in respect of the branch profits. This will mean that relief will then be available should the branch make a loss at some point in the future.

From the June 2013 sitting onwards, a question on overseas branch profits **will not be set** regarding the set off of qualifying charitable donations and losses on the most favourable basis. The actual rules regarding the exemption of overseas branch profits are quite complex, especially where small companies are concerned. These more complex aspects **are not examinable**. In any examination question it should therefore be assumed that the exemption option is available for all overseas branches.

Example 15

Brown Ltd is a UK resident company with two overseas branches. For the year ended 31 March 2013 the company made a trading profit of £210,000. The first overseas

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branch made a trading profit of £40,000 for the year ended 31 March 2013. Overseas corporation tax of £6,000 was paid in respect of this profit. The second overseas branch made a trading loss of £25,000 for the year ended 31 March 2013. Brown Ltd has not made an election to exempt the profits of its overseas branches.

Brown Ltd's corporation tax liability is as follows:

	£
UK trading profit	210,000
First overseas branch	40,000
Second overseas branch	(25,000)
	<hr/>
Taxable total profits	225,000
	<hr/>
Corporation tax at 20%	45,000
Double taxation relief	(6,000)
	<hr/>
	39,000
	<hr/>

The first overseas branch has paid overseas corporation tax of £6,000, and this is lower than the related UK corporation tax of £8,000 (40,000 at 20%).

If Brown Ltd had made an election to exempt the profits of its overseas branches prior to 1 April 2012, then its corporation tax liability would have been as follows:

	£
UK trading profit	210,000
	<hr/>
Taxable total profits	210,000
	<hr/>
Corporation tax at 20%	42,000
	<hr/>

Therefore an election would not have been beneficial.

CAPITAL GAINS TAX**Annual exempt amount**

The annual exempt amount for the tax year 2012–13 is unchanged at £10,600.

Rates of capital gains tax

The lower rate and the higher rate of capital gains tax for the tax year 2012–13 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 £34,370, 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.

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Example 16

For the tax year 2012–13 Adam has a salary of £40,105, and during the year he made net personal pension contributions of £4,400. On 15 June 2012 Adam sold an antique table and this resulted in a chargeable gain of £17,400.

For the tax year 2012–13 Bee has a trading profit of £58,105. On 20 August 2012 she sold an antique vase and this resulted in a chargeable gain of £18,600.

For the tax year 2012–13 Chester has a salary of £36,105. On 25 October 2012 he sold an antique clock and this resulted in a chargeable gain of £23,800.

Adam

Adam's taxable income is £32,000 (40,105 less the personal allowance of 8,105). His basic rate tax band is extended to £39,870 (34,370 + 5,500 (4,400 x 100/80)), of which £7,870 (39,870 – 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 (58,105 – 8,105), 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 (36,105 – 8,105), so £6,370 (34,370 – 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:

	£
6,370 at 18%	1,147
6,830 at 28%	1,912
	<hr/>
Tax liability	3,059
	<hr/>

In each case, the capital gains tax liability will be due on 31 January 2014.

Entrepreneurs' relief

Entrepreneurs' relief can be claimed when an individual disposes of a business or a part of a business. For the tax year 2012–13 the lifetime qualifying limit is unchanged at £10m.

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

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Example 17

On 25 January 2013 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 2006, 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 2012–13.

Michael's capital gains tax liability is as follows:

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

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 18

On 30 September 2012 Mika sold a business that she had run as a sole trader since 1 January 2006. The sale resulted in the following chargeable gains:

	£
Goodwill	260,000
Freehold office building	370,000
Freehold warehouse	170,000
	<hr/>
	800,000
	<hr/>

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 2012–13. She has unused capital losses of £28,000 brought forward from the tax year 2011–12.

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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
	99,792
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.
- £30,370 (34,370 – 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 effect 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 2013 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**Rates of inheritance tax**

The nil rate band for the tax year 2012–13 is unchanged at £325,000.

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The inheritance tax information that will be given in the tax rates and allowances section of the examination paper for the June and December 2013 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.

Reduced rate for charitable gifts

From 6 April 2012 a reduced rate of inheritance tax applies on death where a person leaves a proportion of their estate to charity. This reduced rate of inheritance tax **is not examinable**.

NATIONAL INSURANCE CONTRIBUTIONS**Class 1 and Class 1A National Insurance contributions**

For the tax year 2012–13 the rates of employee Class 1 NIC are unchanged at 12% and 2%. The rate of 12% is paid on earnings between £7,606 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 is unchanged at 13.8%, and is paid on all earnings over £7,488 per year.

The rate of Class 1A NIC that employers pay on taxable benefits provided to employees is also unchanged at 13.8%.

The Class 1 and Class 1A NIC information that will be given in the tax rates and allowances section of the exam paper for the June and December 2013 sittings is as follows:

	%	
Class 1 Employee	£1 – £7,605 per year	Nil
	£7,606 – £42,475 per year	12.0
	£42,476 and above per year	2.0
Class 1 Employer	£1 – £7,488 per year	Nil
	£7,489 and above per year	13.8
Class 1A		13.8

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Example 19

Simone Ltd has one employee who is paid £50,000 per year, and was provided with the following taxable benefits during the tax year 2012–13:

	£
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

$42,475 - 7,605 = 34,870$ at 12%	4,184
$50,000 - 42,475 = 7,525$ at 2%	150
	<hr style="width: 100%;"/>
	4,334

Employer's Class 1 NIC

$50,000 - 7,488 = 42,512$ at 13.8%	5,867
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Employer's Class 1A NIC

$13,500 (6,300 + 5,400 + 1,800)$ at 13.8%	1,863
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Class 2 and Class 4 National Insurance contributions

For the tax year 2012–13 the rate of Class 2 NIC has been increased to £2.65 per week.

The rates of Class 4 NIC are unchanged at 9% and 2%. The rate of 9% is paid on profits between £7,606 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 2013 sittings is as follows:

		%
Class 4	£1 – £7,605 per year	Nil
	£7,606 – £42,475 per year	9.0
	£42,476 and above per year	2.0

Example 20

Jimmy is a self-employed builder and Jenny is a self-employed consultant. Their trading profits for the tax year 2012–13 are respectively £25,000 and £50,000. The Class 4 NIC liabilities are as follows:

		£
Jimmy	$25,000 - 7,605 = 17,395$ at 9%	1,566
Jenny	$42,475 - 7,605 = 34,870$ at 9%	3,138
	$50,000 - 42,475 = 7,525$ at 2%	<hr style="width: 100%;"/>
		150
		<hr style="width: 100%;"/>
		3,288

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VALUE ADDED TAX (VAT)**Registration and deregistration limits**

The limit of annual turnover above which VAT registration is compulsory has been increased from £73,000 to £77,000, and the deregistration limit has been increased from £71,000 to £75,000.

Standard rate of VAT

The standard rate of VAT is unchanged at 20%.

Example 21

Gwen is in the process of completing her VAT return for the quarter ended 31 March 2013. 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 2013 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 2013

	£	£
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	
	_____	<u>(15,465)</u>
VAT payable		10,135

Fuel provided for private mileage

Where fuel is provided for private mileage, output VAT is normally calculated according to a scale charge based on the motor car's level of CO₂ emissions.

In order to bring UK legislation fully in line with European Union legislation, the basis of charging output VAT is to be amended. Although HMRC have introduced a temporary change, legislation has not yet been introduced. Therefore, for the June and December 2013 sittings the change will **not be examined**.

Online filing

From 1 April 2012 the requirement to file VAT online and pay any VAT that is due electronically is extended to all businesses.

The deadline for online filing and electronic payment is one month and seven days after the end of the VAT quarter. For example, for the quarter ended 30 September

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2012 a business will have until 7 November 2012 to file its VAT return online and pay any VAT that is due.

TAX MANAGEMENT**Penalties for late filing of VAT returns and late payment of VAT**

New penalties for the 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 & Customs have yet to introduce the changes. Therefore, for the June and December 2013 sittings the changes will **not be examined**.

Data gathering powers

A new single regime of HM Revenue & Customs' information and inspection powers was introduced by the Finance Act 2009. Under this regime HM Revenue & Customs can request information from taxpayers by making a written information notice. Requests to third parties for information must normally either be agreed by the taxpayer or approved by the first-tier tribunal. These powers have now been extended to third party bulk data gatherers such as banks and stockbrokers.

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 2012. For the June and December 2013 sittings the assumed rate of late payment interest will therefore be 3.0%, and the assumed rate of repayment interest will be 0.5%.

David Harrowven is examiner for Paper F6 (UK)

Appendix 1: Finance Act 2012 – Paper P6 (UK)

This article should be read by those of you who are sitting Paper P6 (UK) at either the June or December 2013 sitting. Please note that if you are sitting the exam in December 2012, you will be examined on the Finance Act 2011, which is the legislation as it relates to the tax year 2011–12. Accordingly, this article is not relevant to you, and you should instead refer to the Finance Act 2011 article published on the ACCA website.

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 2012 that have an effect on the Paper P6 (UK) syllabus.

INCOME TAX**The scope of income tax*****The remittance basis***

A UK resident individual who is non-ordinarily resident or non-domiciled may be taxed on overseas income and capital gains on the remittance basis. Under the remittance basis, amounts are subject to tax in the UK only if brought into the UK.

An individual who claims the remittance basis (as opposed to where it is available automatically) may be liable to pay the remittance basis charge (RBC). The RBC for individuals who have been resident for 12 of the 14 preceding tax years has been increased to £50,000. The RBC for those who have been resident for seven of the previous nine tax years continues to be £30,000.

Two new exempt remittances have been introduced for money or property brought into the UK in order to:

- acquire shares in or make a loan to a trading company or a member of a trading group;
- pay the RBC.

Income from employment***Enterprise management incentives (EMI)***

EMI schemes enable qualifying companies to grant share options to a select group of employees. The maximum value of share options that can be granted to each employee under the EMI scheme has been increased to £250,000 (previously £120,000).

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 of 30% of the amount subscribed for qualifying investments up to a maximum of their tax liability for the year. There have been a number of changes to the rules.

From the point of view of the investor, the following changes have been made.

- There is no longer a minimum investment of £500.

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- The maximum qualifying investment has been increased from £500,000 to £1m.
- A company's loan capital is no longer taken into account when determining whether or not an investor is connected with the company.

From the point of view of the company, the following changes have been made.

- The company's gross assets must not exceed £15m (previously £7m) prior to the investment or £16m (previously £8m) after the investment.
- The company must have fewer than 250 (previously 50) employees.
- The company must not have raised more than £5m (previously £2m) via venture capital schemes in the previous 12 months.

Venture capital trusts (VCTs)

Individuals who subscribe for VCT shares are able to claim a tax reducer of 30% of the amount subscribed for qualifying investments up to a maximum of their tax liability for the year. The three changes noted above to the qualifying conditions in respect of EIS companies also apply to the qualifying holdings of VCTs.

Seed enterprise investment scheme (SEIS)

The SEIS is a new scheme that is similar to EIS and is intended to encourage investment in small early stage companies. Individuals who subscribe for SEIS are able to claim relief from income tax and, for the tax year 2012/13 only, a relief from capital gains tax. The relief from capital gains tax is excluded from the Paper P6 (UK) syllabus.

The income tax relief available to an investor is a tax reducer of 50% of the amount subscribed in cash for new ordinary shares for genuine commercial reasons. The relief is subject to a maximum tax reducer of £50,000.

The investor may claim to treat the investment as if it had been made in the previous tax year.

The income tax relief will be withdrawn if the shares are disposed of by the investor within three years. Where the disposal is a bargain at arm's length, the amount withdrawn is 50% of the amount received for the shares. Where the disposal is not at arm's length, the whole of the relief given is withdrawn.

The investor must satisfy the following conditions.

- The investor must not be an employee of the company. However, this condition does not exclude directors.
- The investor must not own more than 30% of the company's ordinary share capital.

The company must satisfy the following conditions.

- The company must be unquoted, have a permanent establishment in the UK and meet the financial health requirement of not being in difficulty.
- The company's gross assets must not exceed £200,000 immediately prior to the issue of the shares.

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- The company must have fewer than 25 full time employees on the date the shares are issued.
- The company is not permitted to raise more than £150,000 through the SEIS in a three-year period.
- The funds raised must be used by the company, or a 90% subsidiary, to carry out a qualifying trade. The meaning of qualifying trade is the same as that for the EIS and excludes dealing in land and property backed activities, financial activities, and providing legal or accountancy services. The funds must be used within three years of the issue of the shares.

CORPORATION TAX**Taxable total profits*****Research and development expenditure***

Small or medium sized enterprises (SMEs) which incur qualifying research and development expenditure are able to claim a tax deduction in addition to that relating to the cost incurred. The additional tax deduction has been increased to 125% (previously 100%) of the cost incurred such that the total tax deduction is 225% of the cost incurred.

There is no longer a need to spend at least £10,000 on qualifying research and expenditure in a 12-month period in order to qualify for the additional tax deduction.

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 225% (previously 200%) of the qualifying cost incurred. The payment percentage has been reduced to 11% (previously 12.5%). In addition, the restriction whereby the payment cannot exceed the company's PAYE and NIC liabilities for the accounting period no longer applies.

The comprehensive calculation of the corporation tax liability***Overseas branches***

The rules set out in the Paper F6 (UK) article in relation to overseas branches are also examinable at Paper P6 (UK).

The exclusion in Paper F6 in respect of the set off of qualifying charitable donations and losses on the most favourable basis does not apply to Paper P6. A company will set off these amounts against UK profits in preference to the profits of a branch. This will maximise the UK corporation tax attributable to the overseas profits and hence the double tax relief available.

It can be assumed in any examination question that the exemption option is available for all overseas branches.

Controlled foreign companies (CFCs)

The CFC rules impose a UK corporation tax liability on the owners of non-UK resident companies that are controlled by UK residents where the level of taxation in the overseas country is less than three quarters of that in the UK.

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The Finance Act 2012 has introduced a new regime for CFCs, which will apply to accounting periods beginning on or after 1 January 2013. This new regime is not examinable until the 2014 exams. Accordingly, in the exams in June and December 2013 the old rules will continue to be examinable.

INHERITANCE TAX**The reduced rate of inheritance tax**

A reduced rate of inheritance tax of 36% has been introduced where at least 10% of an individual's net estate (ignoring the deduction available in respect of legacies to charity) has been left to charity. An individual's net estate is the assets owned as reduced by liabilities, exemptions and reliefs, and the nil rate band. The benefit of the reduced rate is in addition to the exemption available in respect of the charitable legacy.

The calculations required to determine how much of the estate qualifies for the reduced rate can be quite complicated where there are assets owned jointly with other persons or assets held in trust. However, in the Paper P6 (UK) exam the reduced rate of inheritance tax will only be examined in relation to estates where all of the assets are 100% owned by the individual concerned.

Inheritance tax will be charged at the reduced rate of 36% on the whole of the chargeable estate where the charitable donations amount to at least 10% of the net estate plus the charitable donations.

A variation of the will may be entered into after the death of an individual in order to increase the amount given to charity such that the estate will then qualify for the reduced rate.

Illustration

Cal died on 1 July 2012 owning an estate valued at £800,000 after deduction of exemptions, including a charitable donation of £60,000, and reliefs. Cal's nil rate band available, after deduction of chargeable transfers in the previous seven years is £170,000.

Cal's net estate is £630,000 (£800,000 – £170,000).

Cal's net estate plus the charitable donation is £690,000 (£630,000 + £60,000).

The reduced rate is not available because Carl's charitable donation is less than £69,000.

However, a variation of the will could be used to increase the charitable donation by £9,000. This would reduce the inheritance tax liability from £252,000 (£630,000 x 40%) to £223,560 ((£630,000 – £9,000) x 36%), a saving of £28,440 (£252,000 – £223,560) which is greater than the additional charitable donation.

STAMP DUTY AND STAMP DUTY LAND TAX (SDLT)

There is a new rate of SDLT of 7% for residential properties where the consideration exceeds £2m.

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Anti-avoidance legislation has been introduced in respect of certain acquisitions of high-value residential property by persons that are not individuals, for example, companies. These new rules are not examinable at Paper P6 (UK).

The first time buyer exemption in respect of residential properties costing no more than £250,000 ceased to be available from 25 March 2012.

All other rates and limits for the tax year 2012–13 are the same as 2011–12.

These rates and limits will be provided in the tax tables in the exam.

Further reading

The following articles will be published on the ACCA website in 2013.

- Taxation of an unincorporated business – parts 1 and 2
- International travellers
- Capital gains tax and inheritance tax
- Trusts and tax
- Corporation tax
- Corporation tax and groups – parts 1 and 2

Rory Fish is examiner for Paper P6 (UK)

Appendix 2: Relevant to Foundations in Taxation (FTX) (UK) – June and December 2013 sittings

This appendix outlines the effects of the changes made in the Finance Act 2012 on Paper FTX (UK). The subheadings refer to the headings in the main article on Paper F6 (UK), written by David Harrowven.

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 Paper FTX (UK) tax 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 will also be examinable.

Child benefit income tax charge

The child benefit income tax charge is not examinable at the June or December 2013 sittings.

Employment income***Homeworking***

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

Company car benefit and car fuel benefit

Paper FTX (UK) will examine the same detail as shown for paper F6 (UK).

Official rate of interest

The official rate of 4% will be used in the June and December 2013 exams.

International Accounting Standard terminology

The new terminology will be also be used in Paper FTX (UK) from the June 2013 sitting onwards when presenting accounting information contained within an exam question.

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 but not for periods straddling April 2012. In line with Paper F6 (UK), old expensive cars brought forward will no longer be examinable in Paper FTX (UK).

Enterprise zones

The 100% first year allowance is also not examinable in Paper FTX (UK).

Furnished holiday lettings

The new rules will also apply to Paper FTX (UK). Knowledge of the conditions applicable before April 2012 is not required for Paper FTX (UK). The election to treat a rental property as qualifying as a furnished holiday letting for up to two years after the 105 day test ceases to be met, is not examinable.

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.

Gifts of pre-eminent objects

This tax reduction scheme is not examinable in Paper FTX (UK).

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 2012 where two different tax rates would apply.

Qualifying charitable donations

This terminology will also be used in Paper FTX (UK) from the June 2013 paper onwards when referring to a company's donations to charity that qualify as a deduction when calculating taxable total profits.

Overseas branches

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

CAPITAL GAINS TAX**Annual exempt amount**

The unchanged limit of £10,600 for the tax year 2012–13 will also be used in Paper FTX (UK).

Rate 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 which involve the effects of pension contributions and gift aid payments 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 rate of tax and the £10m 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 the June and December 2013 exams for 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 the June and December 2013 FTX (UK) exams.

VALUE ADDED TAX (VAT)**Registration and deregistration limits**

The new registration and deregistration limits will also be used in the June and December 2013 exams.

Standard rate of VAT

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

Online filing

The new online filing date will be required knowledge for the FTX (UK) papers.

TAX MANAGEMENT**VAT penalties**

Late registration penalties are examinable but other penalties remain outside the syllabus. The new penalties regarding the late filing of VAT returns and late payment of VAT will not be examined in the June and December 2013 exams.

Data gathering powers

These also apply in Paper FTX (UK).

Interest on underpaid and overpaid tax

The calculation of this remains outside of Paper FTX (UK).

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