

# Personal tax

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the basic structure of the tax system and self-assessment;
- the main taxes on income and capital that may be charged on individuals, the self assessment system and how tax liabilities are computed;
- the impact of residence and domicile on an individual's liability to UK tax.

## Summary of learning outcomes

1. Understand the basic structure of the tax system and self-assessment;
2. Understand when and how Income Tax is applied to different types of income;
3. Understand when and how National Insurance contributions apply to employed and self-employed income;
4. Understand when and how Capital Gains Tax applies to an individual's gains;
5. Understand the tax treatment of different kinds of investments;
6. Understand when and how Inheritance Tax applies;
7. Understand the impact of an individual's residence and domicile status on liability to UK tax.

## Important notes

- This syllabus will be examined in the October 2012 and April 2013 sessions. Candidates will be examined on the basis of English law and practice in the tax year 2012/2013 unless otherwise stated.
- The general rule is that the exams are based on the English legislative position three months before the date of the exams.
- Candidates should refer to the CII update website [www.cii.co.uk/updates](http://www.cii.co.uk/updates) for the latest information on changes to law and practice and when they will be examined.

## **1. Understand the basic structure of the tax system and self-assessment**

- 1.1 HM Revenue and Customs (HMRC) and the main taxes that apply to individuals;
- 1.2 HMRC practice for determining if an individual is self employed or employed;
- 1.3 The operation of self-assessment, how payments are calculated, payment due dates, penalties for noncompliance, obligations of the taxpayer to report to HMRC;
- 1.4 PAYE system for Employees.

## **2. Understand when and how Income Tax is applied to different types of income**

- 2.1 The main rules for the following allowable deductions against income: interest, charitable giving, capital allowances;
- 2.2 Tax relief on pension contributions;
- 2.3 Tax treatment of different types of employee benefit;
- 2.4 Personal allowances – eligibility, age allowances, the method of reduction in personal/age allowances;
- 2.5 The tax rules governing the tax liabilities of minor children;
- 2.6 Calculation of tax for an individual's income for a tax year.

## **3. Understand when and how National Insurance contributions apply to employed and self-employed income**

- 3.1 The main structure of the thresholds and rate for class 1 NI contributions, the special rules for company directors, special categories of employment;
- 3.2 The rules for class 1A contributions;
- 3.3 The main structure of the thresholds and rates for class 2 and class 4 NI contributions, including class 2 small earnings exception;
- 3.4 Annual maximum contributions for individuals with more than one employment or a mixture of employed and self-employed earnings during a tax year;
- 3.5 The level of class 3 NI contributions and the circumstances in which an individual may pay them;
- 3.6 How all classes of NI contributions are collected, excluding 1A;
- 3.7 When individuals are entitled to NI credits;
- 3.8 Overseas aspects of National Insurance;
- 3.9 Calculating National Insurance contributions.

## **4. Understand when and how Capital Gains Tax (CGT) applies to individuals**

- 4.1 Disposals for CGT – definition, dates of disposal, the special rules for disposals between spouses/civil partners, death;
- 4.2 The valuation of assets for CGT, including disposals that are not at arms' length, the relationship with valuations for IHT purposes;
- 4.3 Identification of assets subject to CGT and exempt from CGT;
- 4.4 CGT treatment of an individual's principal private residence including periods of absence and letting exemption;
- 4.5 Taxable gains – acquisition and disposal values, acquisition and disposal costs, enhancement expenditure, rules for part disposals, the treatment of capital losses;
- 4.6 Gains on shares – identification rules;
- 4.7 Exemptions and reliefs;
- 4.8 Calculation of tax on an individual's gains for a tax year;
- 4.9 Due dates for paying CGT.

## **5. Understand the tax treatment of different kinds of investments**

- 5.1 Savings income – cash deposits, national savings and investments, fixed interest securities and collective funds, Permanent Interest Bearing Shares;
- 5.2 UK Dividends – shares, investment trusts, OEICs, unit trusts and overseas dividends;
- 5.3 Tax exempt products – ISAs, friendly society products;
- 5.4 Annuities – Purchased life, immediate needs and pension;
- 5.5 Property – Buy to let property, furnished holiday letting and rent a room relief;
- 5.6 UK qualifying and non-qualifying life assurance policies including Traded Endowment policies;
- 5.7 Offshore life assurance policies, offshore reporting and non-reporting funds;
- 5.8 Enterprise investment schemes and Venture Capital Trusts.

## 6. Understand when and how Inheritance Tax (IHT) applies

- 6.1 Liability to IHT – rates, the cumulation principle, individuals subject to IHT, lifetime transfers and transfers on death;
- 6.2 Excluded assets;
- 6.3 Gifts with reservation and Pre-Owned Assets Tax (POAT), impact on taxation;
- 6.4 Valuation rules – related property, connected persons, valuing life policies and grossing up;
- 6.5 Exemptions and reliefs;
- 6.6 Calculation of an individual's liability to IHT;
- 6.7 Due dates for paying IHT.

## 7. Understand the impact of an individual's residence and domicile status on liability to UK tax

- 7.1 Rules for establishing UK and non UK residence – time spent in UK, the habitual and substantial test, including temporary immigrants;
- 7.2 Tax treatment of temporary emigrants from UK – individuals who leave UK temporarily: to work, to live overseas for other reasons, treatment of part years, spouses;
- 7.3 Ordinary residence – ordinarily resident in UK and not ordinarily resident in UK;
- 7.4 Domicile – of origin, of choice, deemed domicile for IHT;
- 7.5 UK domiciled individuals – Liability to Income Tax, CGT and IHT depending on residency status;
- 7.6 Non UK domiciled individuals – Liability to Income Tax, CGT and IHT depending on residency status including the remittance basis for income and gains;
- 7.7 The basic features of double taxation relief.

## Reading list

The following list provides details of various publications which may assist with your studies. These will help candidates keep up-to-date with developments and will provide a wider coverage of syllabus topics.

**Note: The examination will test the syllabus alone.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/Personal Finance Society members can borrow most of the additional study materials below from Knowledge Services.

CII study texts can be consulted from within the library. For further information on the lending service, please go to [www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources).

## CII study texts

Personal tax. London: CII. Study text J01.

## Additional reading

Additional reading materials are available through the library or on the Knowledge Services website.

New materials are added frequently – for information about new books and articles in your area of interest, please visit [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

## Books (and ebooks)

Capital Gains Tax calculations. Sarah Dingley-Brown. Totnes, Devon; SDB training. Annual.

Financial calculations. Sarah Dingley-Brown. Totnes, Devon; SDB training. Annual.

The investments suite. Sarah Dingley-Brown. Totnes, Devon; SDB training. Annual.

The tax and trusts suite. Sarah Dingley-Brown. Totnes, Devon; SDB training. Annual.

Booth and Schwarz: residence, domicile and UK taxation. Haywards Heath: Bloomsbury Professional, 2011.

Core tax annuals, 6v (Capital Gains Tax; Corporation Tax; Income Tax; Inheritance Tax; Trusts and estates; Value Added Tax). Various authors. Haywards Heath, West Sussex: Bloomsbury Professional. Annual.

The Financial Times guide to investing. Glen Arnold. FT Prentice Hall, 2010. Available online via [www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources) (CII/Personal Finance Society members only).

The Financial Times guide to personal tax 2011/2012. Jonquil Lowe. FT Prentice Hall, 2011. Available online via [www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources) (CII/Personal Finance Society members only).

The Financial Times guide to Inheritance Tax, probate and estate planning. Amanda Fisher. FT Prentice Hall, 2010. Available online via [www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources) (CII/Personal Finance Society members only).

Wealth management planning: the UK tax principles. Malcolm James Finney. London: Wiley, 2008.

Ray & McLaughlin's practical inheritance tax planning. Toby Harris, Mark McLaughlin, Ralph Ray. 8th ed. Haywards Heath, West Sussex: Tottel, 2010.

Personal financial planning manual. Haywards Heath: Bloomsbury Professional. Annual.

Tax planning. Sonia Gable (ed.). London: Taxbriefs. Annual.

Investment planning. Chris Gilchrist. London: Taxbriefs. Annual.

## Journals and magazines

Financial adviser. London: FT Business. Weekly.

Also available online at [www.ftadviser.com](http://www.ftadviser.com).

Financial Times. London: Financial Times. Daily.

Also available online at [www.ft.com](http://www.ft.com).

Financial solutions. London: Personal Finance

Society. Six issues a year. Also available online via

[www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources) (CII/Personal Finance Society members only).

Money management. London: FT Business. Monthly.

Money marketing. London: Centaur

Communications. Weekly. Also available online at

[www.moneymarketing.co.uk](http://www.moneymarketing.co.uk).

Further articles and technical bulletins are available at

[www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources) (CII and Personal Finance Society members only).

## Reference materials

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont.

10th ed. London: Taxbriefs, 2009. Also available online at

[www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources) (CII/Personal Finance Society members only).

The professional adviser's factfile. Taxbriefs. London:

Taxbriefs. Looseleaf.

St James's Place tax guide. Walter Sinclair. Basingstoke,

Hampshire: Palgrave Macmillan. Annual.

Tolley's tax guide. Arnold Homer, Rita Burrows. London:

LexisNexis Butterworths. Annual.

Tolley's tax planning. London: LexisNexis. Annual.

Zurich tax handbook. A Foreman, G Mowles. Harlow

[Essex]: Pearson Education. Annual.

## Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides for the last two sittings. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Older examination guides are available (for members only)

via [www.cii.co.uk/knowledge/resources](http://www.cii.co.uk/knowledge/resources).

## Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.