

# 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 2009, April 2010 and July 2010 sessions. Candidates will be examined on the basis of English law and practice in the tax year 2009/2010 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 non-compliance, obligations of the taxpayer to report to HMRC;
- 1.4 PAYE system for Employers and Employees.

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

- 2.1 The concept and application of total income after taking into account deductions;
- 2.2 The main rules for the following allowable deductions against income: interest, charitable giving, capital allowances;
- 2.3 Tax relief on pension contributions;
- 2.4 Tax treatment of different types of employee benefit;
- 2.5 Personal allowances and reliefs – eligibility, age allowances, the method of reduction in age allowance, blind persons, rent a room;
- 2.6 Calculating the Income Tax charge – tax rates, different types of taxable income, priority rules for types of income, Income Tax computations for individuals with a range of different types of income;
- 2.7 Marriage or civil partnership and their breakdown – the effects on individuals' Income Tax position;
- 2.8 The Tax rules governing the tax liabilities of minor children;
- 2.9 Child Tax Credit and Working Tax Credit – how entitlement is affected by income.

## 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, contracted in and contracted out rates, the reduced rate for certain married women, the rules for class 1A contributions, how contributions are collected, overseas aspects, the special rules for company directors, special categories of employment;
- 3.2 The main structure of the thresholds and rates for class 2 and class 4 NI contributions, including class 2 small earnings exception;
- 3.3 Annual maximum contributions for individuals with more than one employment or a mixture of employed and self-employed earnings during a tax year;
- 3.4 The system for collecting class 2 and class 4 contributions;
- 3.5 The level of class 3 NI contributions and the circumstances in which an individual may pay them;
- 3.6 When individuals are entitled to NI credits.
- 3.7 Calculating the National Insurance contributions.

## 4. Understand when and how Capital Gains Tax (CGT) applies to an individual's gains

- 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, deferred consideration, the relationship with valuations for IHT purposes;
- 4.3 Identification of assets subject to CGT and exempt from CGT, HMRC rules on determining whether gains come under Income Tax or CGT;
- 4.4 CGT treatment of an individual's principal private residence, election of PPR by individual of HMRC, HMRC rules for periods of absence including letting exemption;
- 4.5 Computing an individual's taxable gains – acquisition and disposal values, acquisition and disposal costs, enhancement expenditure, rules for part disposals, entrepreneur relief, the treatment of capital losses;
- 4.6 Gains on shares – identification rules, bonus issues, rights issues;
- 4.7 Computation of tax on an individual's gains for a tax year, taking into account appropriate exemptions and reliefs including annual exemption, holdover relief and rollover relief, 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, bond funds, Permanent Interest Bearing shares;
- 5.2 Dividends – shares, investment trusts, OEICs, unit trusts, overseas dividends;
- 5.3 Tax exempt products – ISAs, child trust funds, friendly society products;
- 5.4 Annuities – Purchase life, immediate needs and pension;
- 5.5 Property – let property, letting rooms, holiday lettings, rent a room relief, woodlands, enterprise zones;
- 5.6 UK qualifying and non-qualifying life assurance policies including Traded Endowment policies;
- 5.7 Offshore life assurance policies, offshore distributor and non-distributor funds;
- 5.8 Enterprise investment schemes;
- 5.9 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, chargeable transfers, excluded assets;
- 6.2 Exemptions and reliefs;
- 6.3 Gifts with reservation;
- 6.4 Pre-Owned Assets Tax (POAT) in connection with IHT planning;
- 6.5 Valuation rules – related property, connected persons, valuing life policies and grossing up;
- 6.6 Liability to IHT – lifetime transfers, transfers on death;
- 6.7 Computation of an individual's liability to Inheritance Tax, taking into account appropriate exemptions and reliefs;
- 6.8 Due dates for paying IHT.

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

- 7.1 Establishing UK residence – time spent in UK, the habitual and substantial test, 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 Understand how the residence rules apply for periods of less than one year;
- 7.4 Ordinary residence – HMRC practice with regard to ordinarily resident in UK and not ordinarily resident in UK;
- 7.5 Domicile – of origin, of choice, deemed domicile for IHT;
- 7.6 UK domiciled individuals: Income Tax, CGT and IHT implications – resident and ordinarily resident in UK, resident and not ordinarily resident in UK, not resident in UK, not resident but ordinarily resident in UK;
- 7.7 Individuals domiciled outside UK: Income Tax, CGT and IHT implications – resident and ordinarily resident in UK, resident and not ordinarily resident in UK, not resident but ordinarily resident in UK, the remittance basis for income and gains, the ongoing review of domicile and its possible consequences;
- 7.8 The impact of the self-assessment system – individuals who are not resident in UK or not ordinarily resident in UK, resident in UK for only part of a year, not domiciled in UK with income or gains affected by the domicile status;
- 7.9 Double taxation relief – Income Tax, CGT, IHT, NI contributions.

### Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

**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/PFS members can borrow most of the study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge)

Personal tax. London: CII. Coursebook J01.

Income tax calculations: a step by step practical approach. Bristol: SDB Training. Annual.

Inheritance tax: a step by step practical approach. Bristol: SDB Training. Annual.

Essential law for the tax adviser. 4th ed. London: Chartered Institute of Taxation, 2003.

The SIFA handbook of trustee investment. Ian Muirhead, Brian Murphy. 3rd ed. Epsom, Surrey: SIFA, 2006.

Capital gains tax calculations. Bristol: SDB Training. Annual.

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

### Reference materials

Lamont's glossary: the definitive plain English money and investment dictionary for the finance professional and money-minded consumer. Barclay W Lamont. 9th ed. Surbiton, Surrey: Lamonts Glossary Ltd, 2004. Also available online at [www.cii.co.uk/knowledge/dictionaries](http://www.cii.co.uk/knowledge/dictionaries) (CII/PFS members only).

PFS focus. London: CII Knowledge Services. Comprehensive archive of PFS publications, including technical and regulatory bulletins and technical tips. Available online at [www.cii.co.uk/knowledge/pfs](http://www.cii.co.uk/knowledge/pfs) (CII/PFS members only).

St James's Place tax guide. Walter Sinclair. Basingstoke, Hampshire: Palgrave Macmillan. Annual.

Taxation. London: CII Knowledge Services. Tax tables and other data, updated as necessary. Available online at [www.cii.co.uk/knowledge/marketdata](http://www.cii.co.uk/knowledge/marketdata) (CII/PFS members only).

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.

### Periodicals

Financial Adviser. London: FT Business. Weekly. Also available online at [www.ftadviser.com](http://www.ftadviser.com)

Financial Solutions. London: Personal Finance Society. Six issues a year. Also available online at [www.cii.co.uk/knowledge/financialsolutions](http://www.cii.co.uk/knowledge/financialsolutions) (CII/PFS members only).

Financial Times. London: Financial Times. Daily. Also available online at [www.ft.com](http://www.ft.com)

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)

### 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) at [www.cii.co.uk/knowledge/examguides](http://www.cii.co.uk/knowledge/examguides).

### Exam technique/study skills

There are many modestly priced guides to study skills and exam techniques in bookshops. You will also find advice at [www.cii.co.uk/careersupport](http://www.cii.co.uk/careersupport) (CII/PFS members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD–Rom.