Income Tax 2023/24 answers

Question 1

Jake is employed and has a salary of £45,000 plus a bonus of £5,000.
He receives £600 gross from various unit trust gilt funds and £6,000 from equity OEICS

Calculate his income tax liability for 2023/24

Step 1

There are no pension or gift aid contributions. His total income is £56,600 so he is a higher rate tax-payer and has a PSA of £500.

Split the income into three columns and deduct the PA

	Non-savings	Savings	Dividends
	50,000	600	6,000
Less PA	12,570		
	37,430		

Step 2

Non-savings is taxed first, and it is all in the basic rate band

£37,430 @20% =£7,486

Step 3

He has £270 of the basic rate band left. The £500 PSA uses this up and the first £230 of the higher rate band

£500 @0%	£0
£100 @ 40%	£40

Dividends are next to be taxed and is all in the higher rate band
The first £1,000 of dividend income is zero rated

£1,000 @ 0%	0
£6,000 @ 33.75%	£2,025
	£2,025

Step 5

Total all the different figures

Non-savings	£7,486.00
Savings	£40.00
Dividends	£2,025.00
Total	£9,551.00

Question 2

Helen runs her own business as a limited company.

She pays herself £40,000 a year as salary and takes £60,000 as dividends.

The business pays £20,000 into her SIPP whilst she contributes £500 a month.

In addition, she made a £1,000 contribution to a UK charity using Gift Aid.

She receives £7,500 in distributions from a corporate bond unit trust.

Calculate, showing all your workings, her income tax liability for 2022/23

This is typical of the question you can expect to get in AF1. There are three types of income together with Pension and Gift Aid contributions. In addition, her total income is above £100,000 so you need to check whether her PA is reduced.

Step 1

Calculate Adjusted Net Income and calculate her Personal Allowance

£40,000 + £60,000 + £7,500 = £107,500

However, this can be reduced by gross pension and gift aid contributions.

Pension contributions	£500 x 12 = £6,000/0.8 = £7,500
Gift Aid	£1,000/0.8 = £1,250

Her **adjusted net income** is £107,500 less £8,750 = £98,750 so she gets the full PA of £12,570

Step 2

Extend the HRT by the gross pension and Gift Aid contributions

The HRT is therefore £37,700 + £7,500 + £1,250 = £46,450

She is a higher rate tax payer so her PSA is £500

Step 3

We now have all the information we need so can start our calculation by splitting the gross income into the three types and deducting the PA from non-savings income.

	Non Savings	Savings	Dividend
	40,000	7,500	60,000
Less PA	12,570		
	27,430	7,500	60,000

Step 4

Now tax each element. All the non-savings income is in the basic rate band so it will all be taxed at 20%.

£27,430 @ 20% = £5,486

The revised HRT is £46,450 so there is £19,020 left (£46,450 less £27,430) so all the savings income will be in the basic rate band and she has a PSA of £500

£500 @ 0% = 0
£7,000 @ 20% = £1,400

Moving on to dividend income the amount of basic rate band left is £19,020 less £7,500 = £11,520.

This means that £1,000 dividend allowance and the next £10,520 will be in the basic rate band. The remaining £48,480 will be taxed at higher rate.

Final calculation

£27,430 @ 20%	£5,486.00
£500 @ 0%	
£7,000 @ 20%	1,400.00
£1,000 @ 0%	
£10,520 @ 8.75%	920.50
£48,480 @ 33.75%	16,362.00
	24,168.50

Question 3

Bill and Sarah are married and have one child aged 4.

Bill receives a salary of £65,000. He is a member of his employer's money purchase occupational scheme and he pays 7% of his gross salary into this. In addition, he pays £1,000 every three months into a Personal Pension.

All investment income is in Sarah's sole name to get maximum tax efficiency.

They have decided that Sarah should still receive the full amount of Child Benefit and Bill will pay any tax charge.

Calculate, showing all your workings, Bill's total income tax liability for 2023/24 including any Child Benefit Charge.

Whilst this question follows the normal structure there is a further element with the child benefit tax charge. As with the withdrawal of the PA the key is to calculate the adjusted net income.

In this case Bill has only non-savings income so the actual tax calculation should be straight forward.

Salary	£65,000
Less ops	4,550
	£60,450

PP contribution	£4,000
£4,000/0.8 =	£5,000

HRT increased to £42,700

Salary (after OPS)	£60,450		
Less PA	£12,570		
	£47,880		
	£42,700	@ 20%	£8,540
	£5,180	@ 40%	£2,072
			£10,612

Child benefit Tax charge

Income (less OPS)	60,450
Less gross PP	5,000
Adjusted net income	55,450

	55,450
Less	50,000
	5,450

£5,450/100 =54.5. This rounded up to 54 complete £100's so 54% of child benefit received is levied as a tax charge.

They have one child so the weekly benefit is £24 which on an annual basis is £1,248 (weekly amount is multiplied by 52) so the charge is £1,248 x 54% = £673 (amount of charge is rounded down to the nearest £1

Total tax charge is therefore

Income tax	£10,612
Child Benefit charge	673
	£11,285

Question 4

Tom is 72 and receives a state pension of £8,500 plus £9,000 a year from his late wife's annuity. She died in May 2015 and he received the first payment in June 2015. His wife was 71 when she died

In addition, he works a few hours a week in the local garden centre and gets £6,000 a year from this.

He receives £5,000 a year from a Corporate Bond OEIC and £4,000 from an equity unit trust.

Calculate, showing all your workings, his tax liability for 23/24

This looks a fairly simple calculation but there are some tricky points to catch out the unwary!

The first is that the income from his late wife's annuity is tax free as she died before 75 and the first payment was made after April 6 2015.

This means his non-savings income is under £17,570 and therefore he qualifies for the savings income 0% starting rate.

Non-savings	£14,500		
Less PA	<u>£12,570</u>		
	£1,930 @ 20% =		£386
0% starting rate		£5,000	
Less taxable non-savings		<u>£1,930</u>	
		£3,070	
£3,070 @0%			0
£1,000(PSA) @ 0%			0
£930 @ 20%			£186
Dividend income			
£1,000 @ 0%			
£3,000 @ 8.75%			£262.50
Total liability			£834.50

Question 5

Stan is retired and has a total pension income of £53,000. He also has a buy to let portfolio with a total rental income of £90,000. 10% of this income goes in management charges and maintenance. He pays mortgage interest of £44,000.

Calculate his tax liability for 23/24

This question tests the new regime on offsetting mortgage interest.

Pension Income		£53,000
Rental Income	£90,000	
Less non-interest costs	9,000	
	£81,000	£81,000
		£134,000

As his total income is £134,000 his PA is reduced to zero

Pension Income	£53,000
Net rental income	£81,000
	£134,000
Less PA	0
	£134,000

£37,700 @ 20%	£7,540
£87,440 @ 40%	£34,976
£8,860 @45%	£3,987
Total	£46,503
Less interest £44,000 @20%	£8,800
	£37,703

Question 6

David is self-employed and has a trading year April 6 to April 5

His tax liabilities for the past 3 tax years are as follows

2020/21	**£24,000**
2021/22	**£32,000**
2022/23	**£36,000**

For <u>2022/2023</u> state the tax payments that are due and the final dates that these must be made

The payments will fall due as follows:

First payment on account	January 31 2023
Second payment on account	July 31 2023
Balancing payment	January 31 2024

The actual payments are therefore:

31/1/22	£16,000 (£16,000, 50% of 20/21)
31/7/22	£16,000
31/1/23	£4,000 BP*for 22/23

*plus £18,000 first payment on account for 23/24