



## **IAB LEVEL 4 Diploma in Personal and Business Tax** **(Qualification Accreditation Number 500/3636/)**

### **INTRODUCTION**

This qualification is primarily designed for those taking responsibility for tax computations of individuals and businesses. It is also designed for those providing advice to small businesses such as Accountants, Book-keepers and Business Advisors. In the first unit the candidate will need to demonstrate an understanding of income tax and capital gains of employed individuals. In the second unit they will be expected to calculate Corporation Tax computations for UK companies which will include the treatment of capital gains. They will also be expected to calculate income tax computations for sole traders.

### **THE STRUCTURE OF THE QUALIFICATION**

The Level 4 qualification is comprised of two Units – Personal Tax and Business Tax. To ensure that the qualification will effectively assess the understanding of candidates, each unit is sub-divided into Learning Outcomes with associated Assessment Criteria. There are 5 learning outcomes, which relate to preparing Personal Tax computations and 6 learning outcomes, which relate to preparing Business Tax computations.

In relation to Personal Taxation the first learning outcome is concerned with the system of income tax and how it is controlled by the Revenue and Customs. The second learning outcome concentrates on the taxation of employment with specific emphasis on 'Benefits in kind'. The third learning outcome examines the treatment of income from property and investments in readiness for the fourth learning outcome, which is concerned with the preparation of income tax computations. The final learning outcome concentrates on the preparation of capital gains tax computations for individuals.

The first Business Taxation learning outcome is concerned with an overview of Corporation Tax and its relationship with income tax and capital gains tax. The second learning outcome is concerned with the adjustment of net profit for tax purposes, followed by an appreciation of the workings of capital allowances in learning outcome three. The fourth learning outcome prepares capital gains tax computations for companies, which is followed by the calculation of tax payable through Corporation Tax computations in learning outcome five. The final learning outcome is concerned with the basis of business taxation for individuals and partnerships.

## **ASSESSMENT**

There will be one externally set and marked three hour examination for each of the two units. The practical tasks will build on the candidate's knowledge of personal and business taxation. The unit 1 examination will relate to the five learning outcomes of personal tax and the unit 2 examination will relate to the six learning outcomes of business tax. Each examination will consist of four compulsory questions each linked to one more of the Learning Outcomes. Candidates will be required to carry out all tasks accurately and in keeping with recognised procedures and methods of calculating amounts of taxation. Faults will be incurred where candidates make errors in calculations.

## **CERTIFICATION**

All candidates who both enter for and attempt the examination will be notified of their results in a formal Results Letter issued by the IAB approximately ten weeks after the date of the examination. Those candidates who are successful and awarded a pass grade in each of the examinations may also apply for the IAB Level 4 Diploma in Personal and Business Tax. This will be subject to the payment of an additional fee as determined and published by the IAB.

## **IAB Level 4 – Diploma in Personal and Business Tax**

### ***UNIT 1 (IAB CODE T4.1) –***

#### ***Preparing Personal taxation computations***

#### **Aim of the unit**

Upon the completion of study for this unit it is intended that the candidate will be able to:

- Provide an overview of the system of income tax and the work of the Revenue and Customs
- Appreciate the taxation of employment including 'Benefits in kind' and tax codes
- Prepare schedules of property income and investment income
- Prepare income tax computations and calculate income tax payable
- Prepare capital gains tax computations for individuals

#### **Prior knowledge and skills requirements**

There are no requirements for this unit

<b>Learning Outcome</b>	<b>Assessment Criteria</b>

<p>1 Provide an overview of the system of income tax and the work of the Revenue and Customs</p>	<ul style="list-style-type: none"> <li>• Have an understanding of the main sources of tax legislation in the United Kingdom</li> <li>• Explain the organisation of the Revenue and Customs and the functions that they perform</li> <li>• Appreciate common reasons for enquiries and the working of the enquiry system</li> <li>• Identify the different schedules and cases of income tax and the yearly allowances, tax bands and tax rates</li> <li>• Explain the workings of self assessment and the responsibilities of the self employed</li> <li>• Recognise the need and use of the different tax forms used in income tax</li> </ul>
<p>2 Appreciate the taxation of employment including 'Benefits in kind' and tax codes</p>	<ul style="list-style-type: none"> <li>• Explain the indicators which allow self-employment to be distinguished from employment</li> <li>• Appreciate the workings of the PAYE system including an understanding of tax codes</li> <li>• Explain the rules relating to the system of 'Benefits in Kind'</li> <li>• Appreciate the tax rules that affect the treatment of company cars</li> <li>• Be able to calculate the value of a company car when classed as a 'Benefit in kind'</li> <li>• Have an understanding of the treatment of other benefits including: <ul style="list-style-type: none"> <li>loans</li> <li>living accommodation</li> <li>other assets</li> </ul> </li> </ul>
<p>3 Prepare schedules of property income and investment income</p>	<ul style="list-style-type: none"> <li>• Identify the Schedule A expenditure that is allowable and that which is not allowable</li> <li>• Be able to calculate the basic profit or loss of property income under Schedule A</li> <li>• Understand the treatment of Schedule A losses</li> <li>• Explain the principle of tax deducted at source for interest and dividends</li> <li>• Be able to calculate total property and investment income along with any tax credits and tax deducted</li> </ul>

<p>4 Prepare income tax computations using general, investment and property income</p>	<ul style="list-style-type: none"> <li>• Using the various income tax schedules be able to calculate taxable income from all sources</li> <li>• Understand the application of tax rates, tax bands and allowances to be able to calculate income tax due</li> <li>• Be able to state when any outstanding balance of income tax will need to be paid to the Revenue and Customs</li> <li>• Appreciate the impact on computations of : <ul style="list-style-type: none"> <li>pension contributions</li> <li>AVC's</li> <li>Gifts</li> </ul> </li> </ul>
<p>5 Prepare capital gains tax computations for individuals</p>	<ul style="list-style-type: none"> <li>• Have an appreciation of the assets which are exempt from capital gains and those which are chargeable</li> <li>• Explain the basic format to be applied for the computation of each individual gain in respect of shares, chattels, gift of assets and miscellaneous items</li> <li>• Have an understanding of indexation and taper relief and be able to apply this to individual gains</li> <li>• Be able to group together individual gains to maximise the amount of taper relief</li> <li>• Identify the basis of capital loss and appreciate the rules to be applied in order to maximise the offset of this loss</li> </ul>

## **UNIT 2 (IAB CODE T4.2) –**

### **Preparing Business taxation computations**

#### Aim of the unit

Upon the completion of study for this unit it is intended that the candidate will be able to:

- Provide an overview of the system of Corporation Tax and the relationship with income tax and capital gains tax
- Adjust net profit for Corporation tax purposes
- Understand the purpose of capital allowances and be able to undertake calculations in relation to plant and machinery

- Prepare capital gains tax computations for companies
- Undertake Corporation Tax computations
- Appreciate the treatment of trading profits and other issues for income tax

### **Prior knowledge and skills requirement**

There are no requirements for this unit

<b>Learning outcome</b>	<b>Assessment criteria</b>
1 Provide an overview of the system of Corporation Tax and the relationship with income tax and capital gains tax	<ul style="list-style-type: none"> <li>• Identify and explain the various types of taxes that businesses pay</li> <li>• Have an understanding of the way Corporation Tax is applied to Clubs and Associations</li> <li>• Identify the role of the Revenue and Customs and how tax returns work for individuals and companies</li> <li>• Explain when to pay the relevant taxes</li> <li>• Identify the way in which National Insurance affects businesses</li> <li>• Have an understanding of the Corporation Tax computation in outline</li> </ul>
2 Adjust net profit for Corporation tax purposes	<ul style="list-style-type: none"> <li>• Be able to identify: <ul style="list-style-type: none"> <li>expenditure that is not allowable</li> <li>expenditure that is allowable</li> </ul> </li> <li>• Be able to adjust the net profit to arrive at the Schedule D case 1 assessment for Corporation Tax purposes</li> </ul>
3 Understand the purpose of capital allowances and be able to undertake calculations in relation to plant and machinery	<ul style="list-style-type: none"> <li>• Be able to demonstrate an understanding of the treatment of Plant and Machinery including: <ul style="list-style-type: none"> <li>First Year Allowances</li> <li>Writing Down Allowances</li> <li>Balancing allowance or charges</li> </ul> </li> <li>• Be able to calculate a plant and machinery capital allowance computation using a standard format</li> <li>• Be able to explain the treatment of capital allowances affecting industrial buildings</li> </ul>
4 Prepare capital gains tax computations for companies	<ul style="list-style-type: none"> <li>• Explain the rules relating to capital gains and how it affects the Corporation Tax computation</li> </ul>

companies	<ul style="list-style-type: none"> <li>• Explain the expression 'deemed purchase price'</li> <li>• Appreciate the difference between chargeable and exempt assets</li> <li>• Be able to apply an indexation allowance</li> <li>• Produce a computation of chargeable gains to include: <ul style="list-style-type: none"> <li>proceeds on disposal</li> <li>unindexed gain</li> <li>indexation allowance</li> <li>chargeable gain</li> </ul> </li> <li>• Have an appreciation of the treatment of shares including the matching rule</li> </ul>
5 Undertake Corporation Tax computations	<ul style="list-style-type: none"> <li>• Be able to enter adjusted trading profits, capital allowances and capital gains into the Corporation Tax computation in order to determine 'Profits Chargeable to Corporation Tax' (PCTCT)</li> <li>• Be able to apply the different Corporation Tax rates and the calculation of marginal relief in order to determine Corporation Tax liability</li> <li>• Be able to calculate tax payable and to state when it should be paid</li> <li>• Appreciate the impact of groups on computations for marginal relief</li> </ul>