

Unit Description

Tax for SMEs

Level 4 – 4TX

Valid from December 2015 exams

Unit title	Tax for SMEs	
Unit Aim	The aim of this unit is to enable individuals to understand taxation as it affects small and medium enterprises (SMEs) and small and medium practices (SMPs). SME is the inclusive acronym used to describe both types of organisation. To provide individuals with the skills to prepare basic tax computations and advise others of the effects of taxation on decision making.	
Level	4	
Total Qualification Time	150	
Guided Learning Hours	0	
IFA code	4TX	
In IFA qualifications	IFA level 4 Award for SME Tax Advisers IFA Level 4 Diploma for SME Financial Accountants IFA Level 5 Diploma for SME Financial Managers	
Learning outcomes The learner will...	Assessment criteria The learner can...	Underpinning knowledge

<p>1. Be able to prepare income tax and national insurance computations for individuals and SMEs</p>	<p>1.1 Identify and compute taxable and exempt sources of income in respect of income in respect of:</p> <ul style="list-style-type: none"> • Trading profits; • Employment income • Rental income • Interest • Dividends <p>1.2 Identify the badges of trade.</p> <p>1.3 Determine the tax status of workers.</p> <p>1.4 Prepare a plant and machinery capital allowance computation for an unincorporated business.</p> <p>1.5 Identify and compute relief for trading losses.</p> <p>1.6 Calculate assessments for sole traders and partners.</p> <p>1.7 Calculate income tax and national insurance payable/repayable.</p> <p>1.8 Explain the nature and purpose of the tax system</p>	<ul style="list-style-type: none"> • Expenditure which is allowed in calculating taxable trade profits • Basis of assessment for employment income. • Deductions for employment income – including statutory approved mileage rates. • P11D employees and employment benefits. • Dispensation from HMRC In respect of benefits received. • Property business profits. • Rent-a-room relief. • Premiums received from the grant of a short lease. • Property business loss. • Tax payable on savings income • Tax payable on dividend income. • Tax exempt investments • Compute taxable income and tax payable including adjustments to net income for pension and gfit aid payments. • Badges of trade. • Tax status of workers • Plant and machinery capital allowance computation including: writing down allowance, annual investment allowance, first year allowance, balancing adjustments. • Trading losses – carry forward and current year, terminal and early year losses. • Calculate trading profit assessments for opening years, current year, closing year and overlap profits (including partners in partnerships) • Loss restrictions that apply to partners of a limited liability partnership. • The purpose (economic, social, environmental) of a tax system in a modern economy. • Capital and revenue taxes, direct and indirect tax • Overall structure of the UK tax system • Differentiate between tax avoidance and evasion. • Self assessment time limits for returns, payments, calculation of payments on account. • The scope of national insurance • Calculation of classes 1,1A, 2 and 4
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<p>2. Be able to prepare corporation tax computations for SMEs</p>	<p>2.1 Identify taxable and exempt sources of profits in respect of:</p> <ul style="list-style-type: none"> • Trading profits • Property business income • Interest • Chargeable gains (linked with learning outcome 3) <p>2.2 Prepare a plant and machinery capital allowance computation.</p> <p>2.3 Identify and compare relief for trading losses.</p> <p>2.4 Calculate corporation tax payable/repayable.</p>	<ul style="list-style-type: none"> • Define the terms 'period of account', 'accounting period', 'financial year', 'taxable total profits' and 'augmented profits'. • When an accounting period starts and ends and what determines a company's residency. • Expenditure is allowable in calculating trading profits. • Plant and machinery capital allowance computations • Property business income • Relief for property business losses. • Interest under loan relationship rules. • Chargeable gains • Qualifying charitable payment • Trading loss relief – carried forward and current/prior period relief. • Calculate corporation tax payable/repayable including recognising the effects of receiving dividends, short and long accounting periods, marginal relief and associated companies.
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<p>3. Prepare chargeable gains computations for individuals and SMEs</p>	<p>3.1 Identify chargeable and exempt assets.</p> <p>3.2 Prepare computations for chargeable gains or allowable losses including part disposals and chattels.</p> <p>3.3 Identify and calculate relevant reliefs and exemptions.</p> <p>3.4 Calculate gains or allowable losses on disposals of shares including where there have been bonus or rights issues.</p> <p>3.5 Calculate the capital gains tax payable on the same amount to be included in taxable total profits.</p>	<ul style="list-style-type: none"> • Identify chargeable and exempt assets, persons and disposals. • Prepare computation of chargeable gains or allowable losses for individuals and companies. • Indexation relief for companies • Relief of capital losses for individuals and companies • Treatment of transfers of assets between spouses and civil partners. • Part disposal computation • The treatment where an asset has been damaged or destroyed and insurance proceeds are received or not received. • Wasting assets • Chattels (wasting and non-wasting) • Principle private residence exemptions including letting relief. • Shares including where there have been bonus or rights issues. • Calculate the value of quoted shares where market value is required (gift) • Share matching rules for individuals and companies. • Exempt shares and securities (gifts and corporate bonds). • Prepare a simple share pool for individuals and companies (indexed). • Calculate the capital gains tax payable by an individual and the chargeable gain to be included in taxable total profits of a company. • Replacement of business assets relief (roll-over) for individuals and companies.
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<p>4. Prepare VAT computations for individuals and SMEs</p>	<p>4.1 Advise when an SME should voluntarily or compulsorily register/deregister for VAT.</p> <p>4.2 Describe the types of supply and recognise their affects on input tax claims.</p> <p>4.3 Identify and compute tax due under VAT schemes for small businesses.</p> <p>4.4 Calculate VAT payable/repayable</p>	<ul style="list-style-type: none"> • The scope of VAT and it falls as tax on the final consumer. • List the principle zero-rated, exempt, reduced-rate supplies. • Understand how input tax claims are affected by the type of supply. • Registration for VAT and the advantages of voluntary registration. • Pre-registration input tax claims. • Deregister for VAT and advantages of voluntary deregistration. • Deregistration output tax on capital assets and inventories. • VAT accounting and administration • The tax point • VAT invoices. • Valuation of supplies. • Non-deductible input tax. • Relief that is available for impairment losses on trade debts. • Special schemes for SMEs – cash accounting, annual accounting and flat rate
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Recommended reading:

IFA textbook Tax for SMEs

Current Editions of the following Textbooks and Journals are also recommended:

Taxation by Melville A, FT Prentice Hall,

“UK Tax Guide” , Tiley & Collison, Butterworths Law Revised edition

Tolley’s Tax Guide, Butterworths Law

Tolley’s Tax Digest (12 issues per year),

Taxation Policy and Practice, Fiscal Publications

Finance Act - www.legislation.gov.uk