



# Accounting Qualification

## Business Tax Reference material

Finance Act 2016 – for assessments 1 January – 31 December 2018

The Association of Accounting Technicians

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## Reference material for AAT assessment of Business Tax

### Introduction

This document comprises data that you may need to consult during your Business Tax computer-based assessment. The material can be consulted during the sample and live assessments through pop-up windows. It is made available here so you can familiarise yourself with the content before the test.

Do not take a print of this document into the exam room with you. Unless you need a printed version as part of reasonable adjustments for particular needs, in which case you must discuss this with your tutor at least six weeks before the assessment date.

This document may be changed to reflect periodical updates in the computer-based assessment, so please check you have the most recent version while studying. This version is based on Finance Act 2016 and is for use in AAT assessments 1 January – 31 December 2017.

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## Taxation tables for business tax – 2016/17

### Capital allowances

Annual investment allowance	
From 1 / 6 April 2014	£500,000
From 1 January 2016	£200,000
Plant and machinery writing down allowance	
Long life assets and integral features	8%
Other assets	18%
Motor cars	
CO <sub>2</sub> emissions up to 75 g/km	100%
CO <sub>2</sub> emissions between 76 and 130 g/km	18%
CO <sub>2</sub> emissions over 130 g/km	8%
Energy efficient and water saving plant	
First year allowance	100%

### Capital gains

Annual exempt amount	£11,100
Standard rate (residential property/other disposals)	18/10%
Higher rate (residential property/other disposals)	28/20%
Entrepreneur's relief rate	10%
Entrepreneurs' relief limit	£10,000,000

### National Insurance rates

Class 2 contributions:	£2.80 per week
Small earnings exemption	£5,965 p.a.
Class 4 contributions:	
Main rate	9%
Additional rate	2%
Lower earnings limit	£8,060
Upper earnings limit	£43,000

### Corporation tax

Financial year	<b>2016</b>	<b>2015</b>
All profits and gains	20%	20%

## **Introduction to business tax**

### **Administration**

- Taxation administered by HM Revenue & Customs (HMRC).
- Rules covering tax are contained in statute (law) which is passed every year (Finance Act).
- Decisions reached by the courts interpreting the law are known as case law.
- HMRC also issue guidance – Extra Statutory Concessions and Statements of Practice.

### **Taxes**

- Corporation Tax – paid by companies on both income and capital gains.
- Income Tax – paid by individuals on their income.
- Capital Gains Tax – paid by individuals on their capital gains.

### **Tax avoidance and tax evasion**

- Tax evasion  
Any action taken to evade tax by illegal means; this carries a risk of criminal prosecution.  
Examples of tax evasion include failing to declare income and claiming false expenses.
- Tax avoidance  
Use of legitimate means to minimise taxpayer's tax liability, for example by investing in a tax-free ISA (Individual Savings Account).

## Adjustment of profits – sole traders, partnerships and companies

### Pro forma for adjustment of profits

	£	£
<b>Net profit as per accounts</b>		X
<b>Add:</b> Expenses charged in the accounts that are not allowable as trading expenses	X	
		X
		X
<b>Less:</b> Income included in the accounts which is not assessable as trading income	X	
		(X)
<b>Adjusted profit/(loss)</b>		<u>X</u>

### Disallowed expenses

- Expenses that fail the remoteness test so not “wholly and exclusively” for trading purposes.
- Fines on the business or fraud by directors/owners.
- Qualifying charitable donations (such as Gift Aid donations) will be allowed for companies. Political donations are never allowable.
- Capital expenditure, e.g. purchase of equipment included in profit and loss account.
- Depreciation. Capital allowances granted instead.
- Costs of bringing newly acquired second-hand assets to useable condition.
- Legal and professional expenses relating to capital items or breaking the law.
- Customer entertaining. Staff entertaining can be allowable.
- Customer gifts, unless gift incorporates business advertising, cost is less than £50 per annum per customer, and gift is not food, drink, tobacco or cash vouchers.

### Non-assessable income

- Income taxed in any other way, e.g. interest or property income for individuals.
- Profits on sale of fixed assets.

## Unincorporated businesses – trading income

Trading income calculated for each period of account:

	£
<b>Adjusted accounting profit</b>	X
Less: Capital allowances:	
<b>Plant and machinery</b>	(X)
Plus: Balancing charges	X
<b>Trading income for the period of account</b>	<u>X</u>

### Expenses charged in the accounts which are not allowable as trading expenses

- See adjustment of profits – sole traders, partnerships and companies
- Transactions with the owner of the business. For example:
  - Add back salary paid to owner. Salaries paid to family members do not need to be added back.
  - Private expenditure included in accounts.
  - Class 2 National Insurance contributions.
  - Goods taken for own use.

### Private use assets

- Private use assets have separate column in Capital Allowance computation.
- Disallow private use % of WDA/AIA/FYA.

### Capital allowances – business cessation

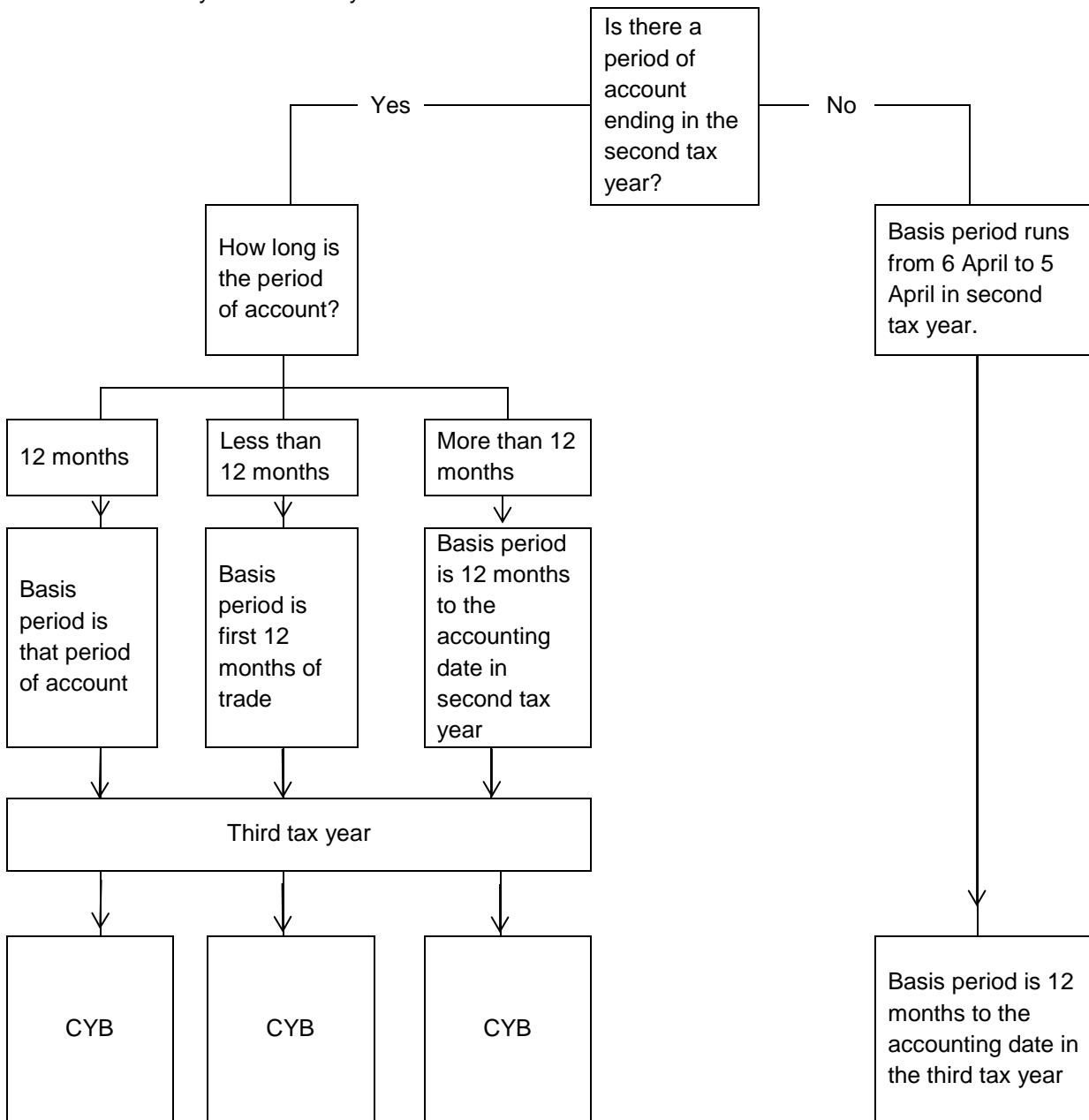
- In the cessation period of account, no WDA/AIA/FYA.
- Include additions and disposals as normal. Any asset taken over by owner, treat as a disposal at market value. Balancing adjustment made (balancing charge or balancing allowance).

## Sole traders – basis periods

Tax year – 2016/17 tax year runs from 6 April 2016 to 5 April 2017

### Basis period rules

- First year – runs from start date of trading to the next 5 April.
- Second year and third year:



Later years – basis period is the period of account ending in the tax year = Current Year basis (CYB).

Final year – basis period is the period from the end of the basis period for the previous tax year to cessation date.

Overlap profits - opening year rules may lead to profits being taxed twice. Relief is given on cessation of the business.

## Sole traders – change of accounting date

For an accounting date change to be recognised for tax purposes the following conditions must be satisfied:

- The first accounts ending on the new date must not exceed 18 months in length.
- The sole trader or partnership must give notice of the change in the tax return by the filing date of the tax return.

“Year of change” – is the first tax year in which accounts are made up to the new date.

“Relevant period” – is the time to the new accounting date from the end of the previous basis period.

### Example 1 – relevant period is less than 12 months

Jasmin changes her accounting date as follows:

<b>Accounts</b>	<b>Year</b>	<b>Basis period</b>
Year to 31 December 2014	2014/15	1/1/14 to 31/12/14
9 months to 30 September 2015	2015/16	1/10/14 to 30/9/15
Year to 30 September 2016	2016/17	1/10/15 to 30/9/16

Year of change – 2015/16

Relevant period – 9 months to 30 September 2015

### Example 2 – relevant period is greater than 12 months

Vaughan changes his accounting date as follows:

<b>Accounts</b>	<b>Year</b>	<b>Basis period</b>
Year to 31 December 2014	2014/15	1/1/14 to 31/12/14
15 months to 31 March 2016	2015/16	1/1/15 to 31/3/16
Year to 31 March 2017	2016/17	1/4/16 to 31/3/17

Year of change – 2015/16

Relevant period – 15 months to 31 March 2016

The rules for determining basis periods on a change of accounting date are complex. Significant examples of changes in accounting dates are:

- after the 3rd year of trading,
- with accounts of 18 months or less, and
- not straddling a tax year.



## Capital allowances on plant and machinery

### Layout of capital allowances on plant and machinery computation

(see taxation tables for rates)

	First Year Allowance (FYA)	Annual Investment Allowance(AIA)	General pool	Special rate pool	Short Life Asset	Total allowances
	£	£	£	£	£	£
WDV b/f			X	X	X	
Additions	X	X	X			
Disposals	—	—	(X)	—	(X)	
	X	X	X	X	X	
Balancing allowance/balancing charge(BA/BC)					X/(X) —	X/(X)
					<u>Nil</u>	
AIA/FYA	(X)	(X)				X
Writing down allowance@ 18% pa			(X)			X
Writing down allowance@ 8% pa	—	—	—	(X)		X
WDV c/f	Nil ===	Nil ===	X ===	X ===		—
Total allowances						X ===

- Plant – defined by ‘function/setting’ distinction and case law.
- AIA – 100% allowance for expenditure (other than cars) in 12 month period (pro rata). Expenditure in excess of AIA qualifies for writing down allowance (WDA).
- Full WDA for the period is given regardless of date of purchase of item. WDA is scaled for periods other than 12 months.
- FYA – 100% allowance given on purchase of environmentally friendly cars and energy saving/water efficient plant. FYA is not scaled for short accounting periods.
- If the written down value (WDV) on the general pool (= WDV b/f + additions-disposals) is £1,000 or less then pool is written off as small pools annual writing down allowance.
- Short life assets (SLA) – de-pool asset if life expected to be less than 8 years. Not available for cars.

## Partnerships

- Each partner is taxed like a sole trader on their share of the partnership profits
- First step is to share accounting profits between partners:
  - Allocate the correct salaries and interest on capital for the period to each partner.
  - Divide the remaining profit for each set of accounts between the partners based upon the profit sharing arrangement.
  - You may need to split the period if there is a change such as a partner joining or leaving.
- Opening year and cessation rules apply to partners individually when they join or leave the partnership.
- Allocate the profit for each partner to the correct tax year using usual basis period rules.
- Basis periods for continuing partners are unaffected by joiners or leavers.
- Each partner enters their share of profits for a tax year in the partnership pages of their own tax return.

## **Trading losses for sole traders and partners**

- A loss is computed in the same way as a profit, making the same adjustments to the net profit as per the accounts and deducting capital allowances.

### **Set off of trading loss against total income**

- Set off loss against total income of the preceding tax year and/or the tax year of loss, e.g. loss in 2016/17 set off against total income in 2015/16 and/or 2016/17.
- Cannot restrict loss to preserve use of personal allowance so personal allowance may be wasted.
- For 2016/17 loss claim needed by 31 January 2019.

### **Carry forward of trading losses**

- If any loss remains unrelieved after current year and carry back claim has been made, or no such claims are made, then carry forward the loss against first available profits of the same trade.

### **Choice of loss relief – consider the following:**

- Utilize loss in the tax year in which income is taxed at a higher rate.
- Possible wastage of personal allowance.
- Review the projected future profits to ensure the loss can be utilised.
- If cash flow is important, a loss carry back claim may result in a tax refund being paid to the company.

## Payment and administration – sole traders and partners

### The return must be filed by:

- 31 October following the end of the tax year if filing a paper return.
- 31 January following the end of the tax year if filing online.

### Penalties for late filing and payment

Late filing	Late payment	Penalty
Miss filing deadline		£100
	30 days late	5% of tax outstanding at that date
3 months late		Daily penalty £10 per day for up to 90 days (max £900)
6 months late		5% of tax due or £300, if greater
	6 months late	5% of tax outstanding at that date
12 months late		5% of tax due or £300, if greater
	12 months late	5% of tax outstanding at that date
12 months and information deliberately withheld		Based on behaviour: <ul style="list-style-type: none"><li>• deliberate and concealed withholding 100% of tax due, or £300 if greater.</li><li>• deliberate but not concealed 70% of tax due, or £300 if greater.</li></ul> Reductions of up to half of the above %'s apply for cooperation with investigation.

### Disclosure and errors

- Taxpayer must notify HMRC by 5 October following end of the tax year if a tax return is needed.
- Taxpayer can amend a tax return within 12 months of filing date or make a claim for overpayment relief within 4 years of the end of the tax year.

### Payments on account (POA)

- Due 31 January (in tax year) and 31 July (after tax year end). Each instalment is 50% of the previous year's tax and Class 4 National Insurance contribution (NIC) liability.
- Balancing payment made 31 January after tax year end.
- No POA due if last year's tax and Class 4 NIC liability less than £1,000 or greater than 80% if last year's liability was deducted at source.
- Can reduce POA if this year's liability expected to be less than last year's. Penalties will be charged if a deliberate incorrect claim is made.
- Capital gains tax (CGT) liability is paid 31 January following the tax year end. No POA needed for CGT.

### Interest on tax paid late/overpaid tax

- Interest charged daily on late payment.

## Enquiries and other penalties

- HMRC must notify individual of enquiry within 12 months of submission of return.
- Basis of enquiry – random or HMRC believe income/expenses misstated.
- Penalty for failure to produce enquiry documents = £300 + £60 per day.
- Penalty for failure to keep proper records is up to £3,000. Records must be kept for 5 years after the filing date for the relevant tax year.
- Penalties for incorrect returns are:

Type of behaviour	Maximum	Unprompted (minimum)	Prompted (minimum)
Genuine mistake: despite taking reasonable care	0%	0%	0%
Careless error and inaccuracy is due to failure to take reasonable care	30%	0%	15%
Deliberate error but not concealed	70%	20%	35%
Deliberate error and concealed	100%	30%	50%

## **National Insurance contributions**

- Self-employed individuals pay Class 2 and Class 4 contributions.

Class 4 contributions are at 9% on profits between the lower and upper limits, then 2% on profits above the upper limit.

- Percentages and limits are provided in the Taxation Tables.

## An outline of corporation tax

- Companies pay corporation tax on their profits for each accounting period.
  - There is one rate of corporation tax set each financial year.
  - Profits = Income + Gains – Qualifying charitable donations
  - Accounting periods are usually 12 months long but can be shorter.
  - If a company's accounts are longer than 12 months, the first 12 months will be one accounting period and the remainder a second accounting period.
  - All UK property income is pooled as a single source of income and taxed on an accruals basis.
  - Borrowing or lending money by a company is a loan relationship.
  - Trading loan relationships are part of trading income.
  - Non-trading loan relationships (NTL-R) are pooled to give NTL-R credits or deficits.
  - Donations to national charities (such as Gift Aid donations) are qualifying charitable donations.
  - Company A is a related 51% group company of company B if:
    - A is a 51% subsidiary of B, or
    - B is a 51% subsidiary of A, or
    - A and B are both 51% subsidiaries of the same company.
- 'A' is a 51% subsidiary of 'B' if more than 50% of its ordinary share capital is beneficially owned (directly or indirectly) by 'B'.

## The calculation of total profits and corporation tax payable

ABC Ltd

### Corporation tax computation for the year/period ended DD/MM/20XX

	£
Trading income – accruals basis	X
Interest income – accrual basis	X
Property income – accruals basis	X
Chargeable gains	X
	<hr/>
	X
Less Qualifying charitable donations	(X)
	<hr/>
Total profits	X
Corporation tax payable – Total profits × Corporation tax rate	X
	<hr/> <hr/>

### Key points

- Trading income is adjusted from net profit per company accounts less capital allowances.
- All income in computation to be gross.
- Some income may need to be grossed up. Companies receive interest gross.
- Virtually all interest receivable is taxed as interest income.
- Dividends payable by a company are not an allowable expense.
- UK dividends receivable by a company are not taxable.
- Net-off current year capital losses against current year capital gains. If there is a net capital loss carry it forward.
- See taxation tables for corporation tax rates.

### Non 31 March year-ends

- For example – year ended 31 December 2016. 3 months of period falls in financial year 2015 (FY15) and 9 months in FY16.
- Apportion Total Profits to FY. Apply correct tax rate for FY.

### Long periods of account

- Will consist of two accounting periods = first 12 months and remainder of period.
- Split profits as follows:
  - Adjusted trading profit and property income – time apportion.
  - Capital allowances – separate computations for each CAP.
  - Interest income – accruals basis.
  - Chargeable gains – according to date of disposal.
  - Qualifying charitable donations – according to date paid.



## Corporation tax – losses

- Can elect to set trading losses against current accounting period total profits. Qualifying charitable donations will remain unrelieved.
- If the above election is made, can also carry back trading loss to set against total profits within the previous 12 months.
- Trading losses are automatically carried forward to set against the first available profits of the same trade if not utilised by the above two claims.
- If there is a choice of loss relief, firstly consider the rate of loss relief then the timing of relief.
- Set out the use of the losses in a loss memorandum.

## Corporation tax – payment and administration

### Payment dates

- Small companies (annual profits less than £1.5 million): 9 months + 1 day after end of the accounting period (CAP).
- Large companies (annual profits greater than £1.5 million) must estimate year's tax liability and pay 25% of the year's liability:
  - 6 months and 14 days after start of CAP
  - 9 months and 14 days after start of CAP
  - 14 days after end of CAP
  - 3 months and 14 days after end of CAP
- Estimate must be revised for each quarter. Penalties may be charged if company deliberately fails to pay sufficient instalments.
- No instalments due for first year company is large unless profits are greater than £10 million.
- 51% group companies share the annual profit limit of £1.5 million equally.

### Interest on late payments

- Interest charged daily on late payment. Overpayment of tax receives interest from HMRC. Interest is taxable/tax allowable as interest income.

### Filing the return

- Filed on the later of 12 months after end of CAP or 3 months after the notice to deliver a tax return has been issued.
- Late filing penalties are: less than 3 months late: £100; greater than 3 months late: £200; greater than 6 months late: 10% of tax due per return; greater than 12 months late: 20% of tax due per return.
- Company must notify HMRC it is within scope of corporation tax within 3 months of starting to trade.
- Company can amend return within 12 months of the filing date.

### Enquiries and other penalties

- HMRC must notify company of enquiry within 12 months of submission of return.
- Basis of enquiry – random or HMRC believe income/expenses misstated.
- Penalty for failure to produce enquiry documents: £300 + £60 per day.
- Penalty for failure to keep proper records is up to £3,000. Records must be retained for six years after the end of the relevant accounting period.
- Penalties for incorrect returns are the same as for sole traders and partners – see sole traders and partners link.

## Current tax reliefs and other tax issues

### Research and Development (R&D) Tax Credits for Small and Medium Sized Companies

A small or medium sized enterprise (SME) is a company with less than 500 employees with either:

- an annual turnover under €100 million, or
- a balance sheet under €86 million.

#### The SME tax relief scheme

From 1 April 2015, the tax relief on allowable R&D costs is 230%.

#### R&D tax credits

If a company makes a loss, it can choose to receive R&D tax credits instead of carrying forward a loss.

#### Costs that qualify for R&D tax relief

To qualify as R&D, any activity must contribute directly to seeking an advance in science or technology or must be a qualifying indirect activity.

#### Intermediaries (IR35) legislation

IR35 legislation prevents personal service companies ("PSC") being used to disguise permanent employment.

The rules apply where the relationship between the worker and the client, would be considered to be an employment relationship if the existence of the PSC was ignored.

If the rules apply, a **deemed employment income tax charge** is charged on the PSC.

The **deemed employment income tax charge** is calculated based upon the actual payments made to the PSC by the client.

## **Introduction to chargeable gains**

- Individual pays Capital Gains Tax (CGT) on net chargeable gains in a tax year.
- For companies, chargeable gains are included as income in calculating total profits.
- Individuals receive an annual exempt amount from CGT – for 2016/17 this is £11,100.
- Gains/losses arise when a chargeable person makes a chargeable disposal of a chargeable asset.
- Chargeable person – individual or company.
- Chargeable disposal – sale, gift or loss/destruction of the whole or part of an asset.  
Exempt disposals – on death and gifts to approved charities.
- Chargeable asset – all assets unless exempt. Exempt assets are motor cars and some chattels.

## **Calculation of capital gains tax**

Net chargeable gains – total gains in the tax year after netting off any current year or brought forward losses and the annual exempt amount.

## **Annual exempt amount (AE)**

- For individuals only.
- AE cannot be carried forward or carried back.
- Current year losses must be netted off against current year gains before AE. This means AE can be wasted.
- Brought forward capital losses are set off against current year gains after AE so AE is not wasted.

## Calculation of gains and losses for individuals

### Pro forma computation

	£	£
Consideration received		X
Less Incidental costs of sale		(X)
Net sale proceeds		<u>NSP</u>
Less Allowable expenditure		
- Acquisition cost	X	
- Incidental costs of acquisition	X	
- Enhancement expenditure	X	
	<u>      </u>	(Cost)
Gain/(Loss)		<u>X/(X)</u> =====

- Consideration received is usually sales proceeds, but market value will be used instead of actual consideration where the transaction is a gift or between connected persons.
- An individual is connected with their spouse, lineal relatives (and their spouses) and spouse's relatives (and their spouses).
- Husband and wife/civil partner transfers – nil gain nil loss. Tax planning opportunity.

Part disposals – the cost allocated to the disposal =  $\text{Cost} \times (A/(A+B))$

A = consideration received on part disposal      B = market value of the remainder of the asset

Chattels - tangible moveable object. Two types:

- Wasting – expected life of 50 years or less (e.g. racehorse or boat). CGT exempt.
- Non-wasting – expected life greater than 50 years (e.g. antiques or jewellery).

### CGT, £6,000 rule

	Buy	£6,000 or less	More than £6,000
Sell			
Less than £6,000		Exempt	Allowable loss but proceeds are deemed = £6,000
More than £6,000		Normal calculation of the gain, then compare with 5/3(gross proceeds - £6,000) - Take the lower gain	Chargeable in full

## **Shares and securities – disposals by individuals**

### **CGT on shares and securities**

Disposal of shares and securities are subject to CGT except for listed government securities (gilt-edged securities or 'gilts'), qualifying corporate bonds (e.g. company loan notes/debentures) and shares held in an Individual Savings Account (ISA).

### **The identification rules**

Used to determine which shares have been sold and so what acquisition cost can be deducted from the sale proceeds (e.g. match the disposal and acquisition).

Disposals are matched:

- Firstly, with acquisitions on the same day as the day of disposal.
- Secondly, with acquisitions made in the 30 days following the date of disposal (FIFO basis).
- Thirdly, with shares from the share pool.

### **The Share Pool**

- The share pool contains all shares acquired prior to the disposal date.
- Each acquisition is not kept separately, but is 'pooled' together with other acquisitions and a running total kept of the number of shares and the cost of those shares.
- When a disposal from the pool is made, the appropriate number of shares are taken from the pool along with the average cost of those shares.
- The gain on disposal is then calculated.

### **Bonus issues and rights issues**

- Bonus issue – no adjustment to cost needed.
- Rights issue – adjustment to cost needed.

## Chargeable gains – reliefs available to individuals

Replacement of business assets (Rollover) relief – when a qualifying business asset is sold at a gain, taxpayer can defer gain by reinvesting proceeds in a qualifying replacement asset.

- Deferred gain is deducted from the cost of the replacement asset so gain crystallises when the replacement asset is sold.
- Qualifying assets (original and replacement) – must be used in a trade by the vendor and be land and buildings, fixed plant and machinery or goodwill.
- Qualifying time period – replacement asset must be purchased between 1 year before and 3 years after the sale of the original asset.
- Partial reinvestment – only some of the sales proceeds reinvested then the gain taxable is the lower of the full gain and the proceeds not reinvested.

Gift relief (holdover relief) – donee takes over asset at donor's base cost i.e. the gain is given away along with the asset.

- Qualifying assets – trade assets of donor or shares in any unquoted trading company or personal trading company (individual owns at least 5% of company).

Entrepreneurs' relief – gain taxable at 10% capital gains tax rate.

- The £10 million limit is a lifetime limit which is reduced each time a claim for the relief is made.
- For 2016/17 claim must be made by 31 January 2019.
- Qualifying business disposals (assets must be owned for at least 12 months prior to sale)
  - The whole or part of a business carried on by the individual (alone or in partnership).
  - Assets of the individual's or partnership's trading business that has now ceased.
  - Shares in the individual's 'personal trading company'. Individual must have owned the shares and been an employee of the company for 12 months prior to sale.
- From 17 March 2016, newly issued shares in unlisted trading companies purchased on or after 17 March 2016 by external investors qualify for entrepreneurs' relief provided they are continually held for a minimum of 3 years from 6 April 2016.

## Calculation of gains and losses for companies

### Pro forma computation

	£	£
Consideration received		X
Less Incidental costs of sale		(X)
Net sale proceeds		NSP
Less Allowable expenditure		
Acquisition cost + incidental costs of acquisition	X	
Indexation allowance [indexation factor × expenditure]	X	
Enhancement expenditure	X	
Indexation allowance	X	
		(Cost)
Chargeable gain		Gain

- Indexation allowance is not available where there is an unindexed loss; nor can it turn an unindexed gain into an indexed loss.
- Note that companies do not get an annual exempt amount.
- Losses relieved in order – current year first followed by losses brought forward.

### Only relief available to companies is rollover relief:

- Rollover relief is a deferral relief – see [Chargeable gains – reliefs available to individuals] for main rollover relief rules.
- Key differences applying for companies:
  - Indexation is given on disposal of the original asset.
  - Goodwill is not a qualifying asset for companies.
  - Gain deferred is the indexed gain.
  - On disposal of the replacement asset, indexation is calculated on the 'base cost' not actual cost.



## Shares and securities – disposals by companies

The identification rules - a disposal of shares is matched:

- firstly, with same-day transactions
- secondly, with transactions in the previous 9 days (FIFO). No indexation allowance is available
- thirdly, with shares from the 1985 pool (shares bought from 1 April 1982 onwards).

1985 pool – pro forma working	No.	Cost £	Indexed cost £
Purchase	X	X	X
Index to next operative event			X
			—
			X
Operative event (purchase)	X	X	X
	—	—	—
	X	X	X
Index to next operative event			X
			—
			X
Operative event (sale)	(X)	(X)	(X)A
Pool carried forward	X	X	X
	===	===	===

Operative event = purchase, sale, rights issue. Bonus issue is not an operative event.

### Computation

	£
Proceeds	X
Less indexed cost (A from pool)	(X)
Indexed gain	<u>X</u>

## The badges of trade

### 6 Badges of Trade

- Subject matter
- Ownership
- Frequency of transactions
- Improvement expenditure
- Reason for sale
- Motive for profit

## **Duties and responsibilities of a tax adviser**

- Maintain client confidentiality at all times.
- AAT members must adopt an ethical approach and maintain an objective outlook.
- Give timely and constructive advice to clients.
- Honest and professional conduct with HMRC
- A tax advisor is liable to a £3,000 penalty if they assist in making an incorrect return.