

BUSINESS TAX

STUDY TEXT

Qualifications and Credit Framework

Q2022

Finance Act 2024

**For assessments from 27 January 2025 until
January 2026**

This Study Text supports study for the following AAT qualifications:

AAT Level 4 Diploma in Professional Accounting

AAT Diploma in Professional Accounting at SCQF Level 8

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ICONS

The chapters include the following icons throughout.

They are designed to assist you in your studies by identifying key definitions and the points at which you can test yourself on the knowledge gained.



Definition

These sections explain important areas of knowledge which must be understood and reproduced in an assessment.



Example

The illustrative examples can be used to help develop an understanding of topics before attempting the activity exercises.



Test your understanding

These are exercises which give the opportunity to assess your understanding of all the assessment areas.



Foundation activities

These are questions to help ground your knowledge and consolidate your understanding on areas you're finding tricky.



Extension activities

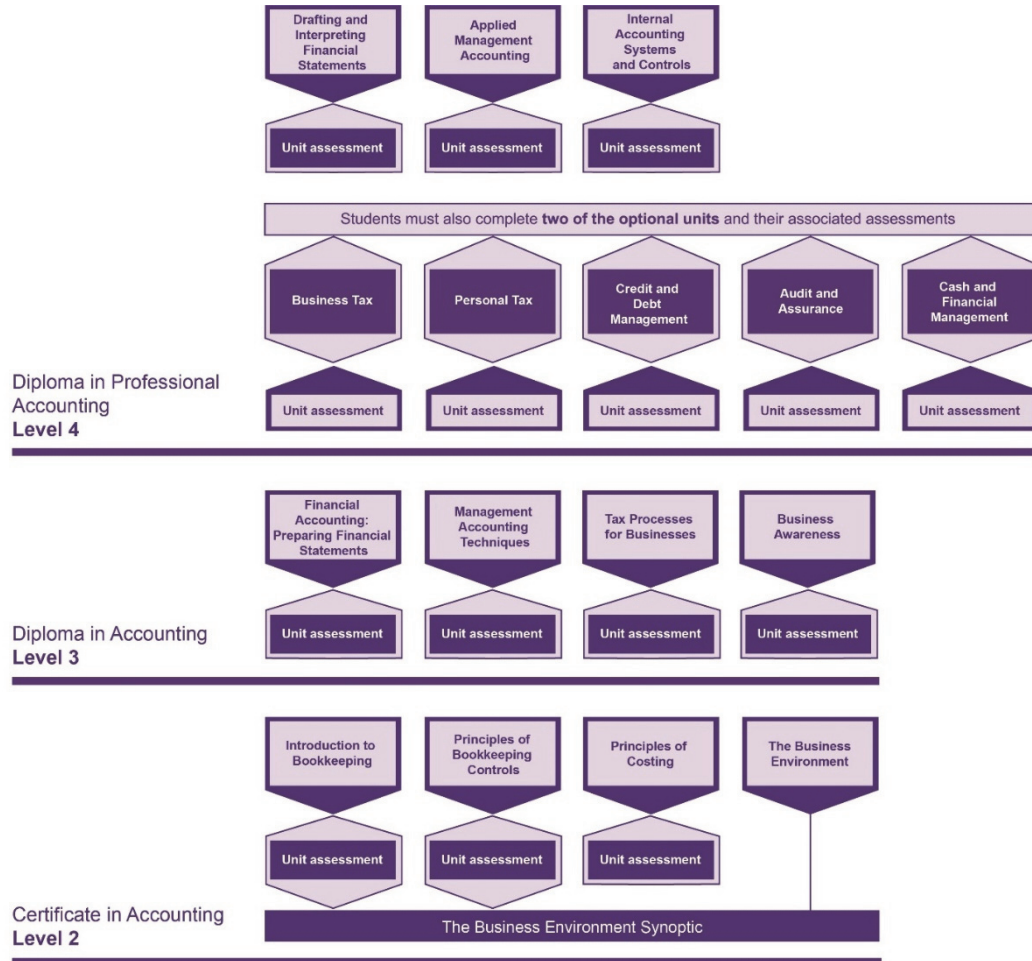
These questions are for if you're feeling confident or wish to develop your higher level skills.

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Our Quality Coordinator will work with our technical team to verify the error and take action to ensure it is corrected in future editions.

BUSINESS TAX

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress.



Introduction to business tax

Introduction

This chapter presents an overview of business tax and an outline of some of the ethical guidelines that must be followed by tax advisers.

ASSESSMENT CRITERIA

Definitions of:

- tax planning
- tax avoidance
- tax evasion (6.4)

Ethical implications of tax avoidance and tax evasion (6.4)

The requirement to report suspected tax evasion (6.4)

The ethical principle of confidentiality (6.4)

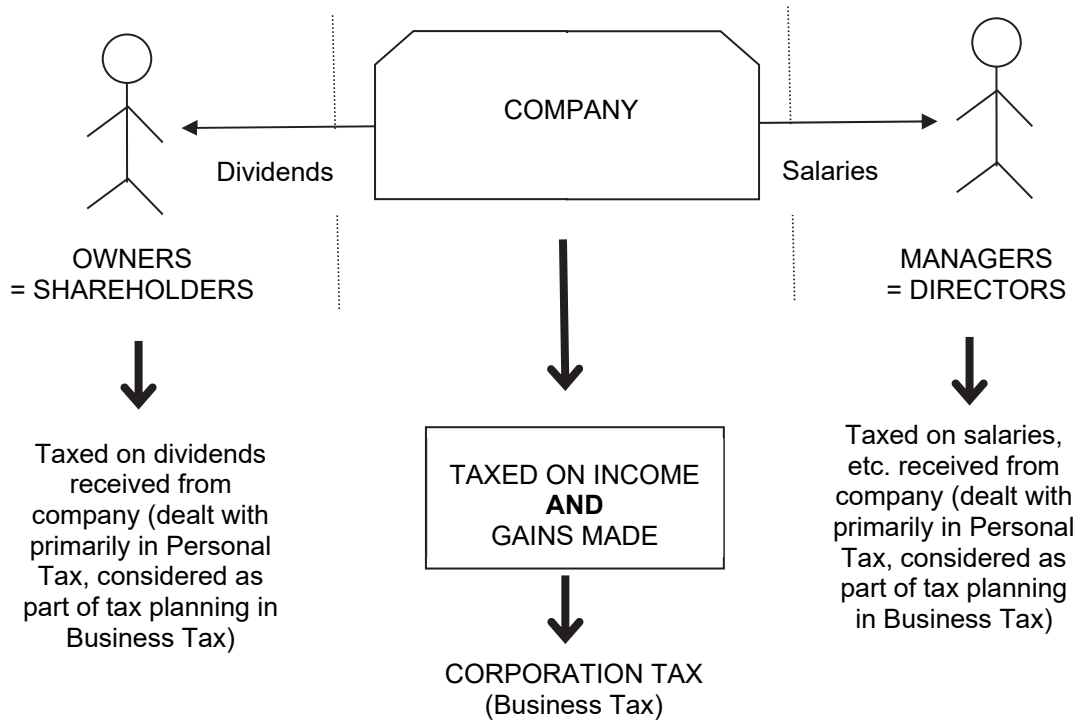
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- 2 Types of business entity
- 3 Ethical guidelines
- 4 Confidentiality
- 5 Money laundering
- 6 Tax planning, avoidance and evasion

2 Types of business entity

2.1 Company

A company is a legal entity, separate from its owners and managers.



Note: In a lot of cases the shareholders and directors are the same people. However, this will only be relevant when considering tax planning in the Business Tax assessment.



Test your understanding 1

Which of the following statements is **not** correct?

- A Accountants need to follow the rules of confidentiality even in a social environment.
- B If money laundering is suspected; accountants are allowed to break the rules of confidentiality.
- C Rules of confidentiality towards a client must be followed even after the business relationship has ended.
- D Accountants must follow the rules of confidentiality irrespective of the situation.

6

Tax planning, tax avoidance and tax evasion

6.1 Tax planning and tax avoidance

Tax planning

This means arranging your tax affairs, using legal methods, so that you pay less tax.

For example, individuals and businesses can reduce their tax bills by claiming all the reliefs and allowances to which they are entitled. Sometimes a transaction can be timed to give maximum tax advantage.

Tax planning is legal.

Tax avoidance

Tax avoidance is legal but is not following the intent of the law.

For example, individuals and businesses may use unintended loopholes in the law, or artificially use foreign jurisdictions with low tax rates.

6.2 Tax evasion

Tax evasion is a criminal offence.

Tax evasion means using illegal methods to reduce tax due.

Typically, this might be through concealing a source of income, deliberately understating income or over-claiming expenses and reliefs.

Test your understanding answers



Test your understanding 1

The answer is **D**.

The duty of confidentiality can be overridden if the client gives authority or if there is a legal, regulatory or professional duty to disclose.



Test your understanding 2

The correct answer is **C**.



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