

SQA Advanced Unit specification

General information for centres

Unit title: Business Taxation

Unit code: HR1J 48

Unit purpose: This Unit is designed to enable candidates to develop their knowledge of the basic concepts of business taxation. It explores the tax implications of different business entities, including the calculation of taxable trading profits for sole traders, partnerships, limited companies and the principles of Value Added Tax.

This Unit is primarily intended for candidates who expect to take up a career or further study in accounting and/or taxation. It is also relevant to those with appropriate work experience and who wish to formalise their accounting skills.

On completion of the Unit the candidate should be able to:

- 1 Apply Income Tax legislation to calculate basic trading profit, and the tax payable thereon, for a sole trader.
- 2 Apply Income Tax legislation in a selection of complex trading circumstances.
- 3 Apply Corporation Tax legislation to calculate basic taxable trading profit, and the Corporation Tax payable, for a limited company.
- 4 Apply Corporation Tax legislation in a selection of complex trading circumstances.
- 5 Explain the principles of Value Added Tax.

Credit points and level: 2 SQA Credits at SCQF level 8: (16 SCQF credit points at SCQF level 8*)

**SCQF credit points are used to allocate credit to qualifications in the Scottish Credit and Qualifications Framework (SCQF). Each qualification in the Framework is allocated a number of SCQF credit points at an SCQF level. There are 12 SCQF levels, ranging from National 1 to Doctorates.*

Recommended prior knowledge and skills: Access to this Unit is at the discretion of the centre. However, candidates would normally be expected to be competent in communication and numeracy at SCQF level 5 or have similar qualifications or experience. Candidates would also be expected to be competent in double entry book-keeping and the preparation of financial statements. This could be demonstrated by achievement of the SQA Advanced Units *HP04 47: Recording Financial Information* and *HR12 47: Preparing Final Accounts* or similar qualifications at SCQF level 7.

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Core Skills: The achievement of this Unit gives automatic certification of the following:

- ◆ Using Number at SCQF level 5

There are also opportunities to develop aspects of the Written Communication component of the Core Skill *Communication* at SCQF level 5 in this Unit, and these are highlighted in the Support Notes of this Unit specification.

Context for delivery: If this Unit is delivered as part a Group Award, it is recommended that it should be taught and assessed within the subject area of the Group Award to which it contributes. The delivery and assessment of this Unit should be updated annually to reflect current taxation rates.

Assessment: The Unit could be assessed by five separate assessments. Alternatively, it could be assessed by combining the assessment of Outcomes.

An exemplar instrument of assessment and marking guidelines has been produced to indicate the national standard of achievement at SCQF level 8.

Since the Using Number component of the Numeracy Core Skill at SCQF level 5 is embedded in this Unit, it is strongly recommended that you follow the assessment guidelines given. If you wish to use a different assessment model, you should seek prior verification of the assessment instruments(s) you intend to use to ensure that the Core Skill is still covered.

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Unit specification: statement of standards

Unit title: Business Taxation

Unit code: HR1J 48

The sections of the Unit stating the Outcomes, Knowledge and/or Skills, and Evidence Requirements are mandatory.

Where evidence for Outcomes is assessed on a sample basis, the whole of the content listed in the Knowledge and/or Skills section must be taught and available for assessment. Candidates should not know in advance the items on which they will be assessed and different items should be sampled on each assessment occasion.

Outcome 1

Apply Income Tax legislation to calculate basic taxable trading profit, and the tax payable thereon, for a sole trader.

Knowledge and/or Skills

- ◆ Income Tax legislation
- ◆ Capital allowances
- ◆ Taxable trading profits
- ◆ Income Tax on taxable trading profit

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Apply the criteria of case law to establish whether trading exists.
- ◆ Calculate a minimum of **two** capital allowances to include the general pool with at least one other, eg expensive cars (including private use), short life assets, annual investment allowances, first year allowance (subject to changes in legislation).
- ◆ Calculate the taxable trading profit for an unincorporated business entity dealing appropriately with: allowable and non-allowable expenditure; trading income not shown in the accounts; non-trading income shown in the accounts; expenditure not shown in the accounts (hereafter referred to as the adjustments to trading profits).
- ◆ Calculate the Income Tax due on taxable trading profits under restricted circumstances. The minimum criteria to be applied, in the restricted circumstances, is that of a sole trader who is not married and is entitled to no more than the personal allowance.

The evidence for the first Knowledge and/or Skills item should be generated under open-book conditions. Evidence for the remaining Knowledge and/or Skills items should be generated under open-book supervised conditions.

Figures must be accurate within a tolerance of two arithmetic or computational errors, with a maximum of three errors of principle.

Assessment Guidelines

The assessment of this Outcome could be combined with Outcomes 2, 3, 4 and 5, details of which are given under Outcome 5.

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Outcome 2

Apply Income Tax legislation in a selection of complex trading circumstances.

Knowledge and/or Skills

- ◆ Income from property
- ◆ Basis periods for trading income
- ◆ Loss relief for an unincorporated business
- ◆ Taxable trading profits of a partnership
- ◆ Personal Pension Plans and Stakeholder Pensions
- ◆ National Insurance Contributions (NIC)

Evidence Requirements

Evidence for the Knowledge and/or Skills items in this Outcome will be provided through sampling. A different sample of three of the six Knowledge and/or Skills items is required each time the Outcome is assessed.

When an item is sampled, candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Calculate basic rental income, including basic issues such as the basis of assessment and allowable expenditure.
- ◆ Identify the basis periods for an unincorporated business (commencement leading to ongoing trading or ongoing trading leading to cessation).
- ◆ Apply a form of loss relief — either Section 64 and/or Section 83 or Section 72, relief for early trading losses, or Section 89, terminal trade loss relief — available to unincorporated businesses.
- ◆ Allocate Taxable trading profits between partners either in an ongoing partnership or in a change in partnership composition and identify the basis periods from the relevant accounting profits in such circumstances.
- ◆ Explain the legislation regarding the Personal Pension Plans and Stakeholder Pensions of an individual and demonstrate the calculation of the tax allowable contributions.
- ◆ Calculate Class 2 and Class 4 National Insurance Contributions (NIC) for the self-employed.

The evidence should be generated under open-book supervised conditions.

Figures must be accurate within a tolerance of two arithmetic or computational errors, with a maximum of two errors of principle.

Assessment Guidelines

The assessment of this Outcome could be combined with Outcomes 1, 3, 4 and 5, details of which are given under Outcome 5.

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Outcome 3

Apply Corporation Tax legislation to calculate basic taxable trading profit, and the Corporation Tax payable, for a limited company.

Knowledge and/or Skills

- ◆ Corporation tax
- ◆ Taxable trading profits

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Describe the scope and administration of Corporation Tax making reference to: UK resident companies, due date of payment, self-assessment and interest and penalties.
- ◆ Calculate Profits Chargeable to Corporation Tax (PCTCT) for a limited company including dealing with the adjustments to trading profits (as previously defined).
- ◆ Prepare a Corporation Tax computation for a medium sized limited company under restricted circumstances. Under these restricted circumstances calculate the Taxable Trading income only.

The evidence should be generated under open-book supervised conditions.

Figures must be accurate within a tolerance of one arithmetic or computational error, with a maximum of one error of principle.

Assessment Guidelines

The assessment of this Outcome could be combined with Outcomes 1, 2, 4 and 5, details of which are given under Outcome 5.

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Outcome 4

Apply Corporation Tax legislation in a selection of complex trading circumstances.

Knowledge and/or Skills

- ◆ Profits Chargeable to Corporation Tax (PCTCT) incorporating other forms of non-trading income
- ◆ Corporation Tax liability using the marginal relief rules
- ◆ Loss relief for a limited company

Evidence Requirements

Evidence for the Knowledge and/or Skills items in this Outcome will be provided through sampling. A different sample of two of the three Knowledge and/or Skills items is required each time the Outcome is assessed.

When an item is sampled, candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Calculate PCTCT incorporating other forms of non-trading income. The non-trading income should include interest received and/or paid and dividends received and/or paid.
- ◆ Calculate the corporation tax liability using the marginal relief rules.
- ◆ Apply a form of loss relief either Section 393(1) or section 393 A (1) (a) or section 393 A (1) (b) available to incorporated businesses.

The evidence should be generated under open-book supervised conditions.

Figures must be accurate within a tolerance of one arithmetic or computational error, with a maximum of one error of principle.

Assessment Guidelines

The assessment of this Outcome could be combined with Outcomes 1, 2, 3 and 5, details of which are given under Outcome 5.

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Outcome 5

Explain the principles of Value Added Tax.

Knowledge and/or Skills

- ◆ Basic principles of VAT
- ◆ Accounting for VAT
- ◆ Administration of VAT

Evidence Requirements

Candidates will need to provide evidence to demonstrate their Knowledge and/or Skills by showing that they can:

- ◆ Explain the principles of VAT making reference to: taxable persons; the categorisation of supplies — standard, zero-rated and exempt; imports and exports; registration and de-registration
- ◆ Explain how VAT is accounted for making reference to: cash accounting versus accruals accounting; quarterly accounting versus annual accounting; tax invoices; tax point and accounting records
- ◆ Explain the administration of VAT making reference to VAT assessments; VAT appeals, penalties, surcharges and interest

The evidence should be generated under open-book conditions.

Assessment Guidelines

The assessment of this Outcome can be combined with Outcomes 1, 2, 3, and 4, details of which are given below.

Assessment Guidelines for this Unit

The assessment of this Unit could be conducted using two instruments of assessment: an open-book case study and an open-book supervised assessment.

Centres may use an open-book case study to assess multiple Knowledge and/or Skills items from various Outcomes, for example the Income Tax legislation (Outcome 1) and the principles of VAT (Outcome 5).

The open-book-supervised assessment could be administered towards the end of the Unit and could assess the Knowledge and/or Skills that have not been assessed by the case study subject to the sampling conditions. It is recommended that this assessment be completed within two hours.

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Administrative Information

Unit code: HR1J 48
Unit title: Business Taxation
Superclass category: AK
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History of changes:

Version	Description of change	Date

Source: SQA

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SQA acknowledges the valuable contribution that Scotland's colleges have made to the development of SQA Advanced Qualifications.

FURTHER INFORMATION: Call SQA's Customer Contact Centre on 44 (0) 141 500 5030 or 0345 279 1000. Alternatively, complete our [Centre Feedback Form](#).

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Unit specification: support notes

Unit title: Business Taxation

This part of the Unit specification is offered as guidance. The support notes are not mandatory.

While the exact time allocated to this Unit is at the discretion of the centre, the notional design length is 80 hours.

Guidance on the content and context for this Unit

This Unit is primarily intended for candidates who expect to take up a career or further study in accounting and/or taxation. It is also relevant to those with appropriate work experience and who wish to formalise their accounting skills.

It is designed to provide candidates with an awareness of the tax implications of different business entities and their business transactions. The Unit also introduces candidates to basic tax computations including Income Tax for sole traders, partnerships and Corporation Tax for limited companies, and the principles of VAT.

For those candidates who successfully achieve this Unit as part of the SQA Advanced Diploma in Accounting Group Award, there may be opportunities to gain exemptions from a number of professional accounting bodies. Centres should contact the relevant professional bodies to ascertain their current exemptions policies.

Outcome 1 covers the application of Income Tax legislation in relation to the trading profit of a sole trader.

- ◆ Case law establishing whether trading exists, ie Badges of Trade
- ◆ Capital allowances covering plant and machinery pool, expensive cars (including private use), short life assets, annual investment allowance, first year allowance (subject to changes in legislation)
- ◆ Taxable trading profit for an unincorporated business
- ◆ Calculation of Income Tax due on taxable trading profits of a sole trader under restricted circumstances

Outcome 2 looks at the application of Income Tax legislation to a selection of complex trading circumstances.

- ◆ Calculation of basic rental income, including the basis of assessment and allowable expenditure
- ◆ Identification of the basis periods for trading income
- ◆ Application of loss relief
- ◆ Allocation of taxable trading profits between partners
- ◆ Application of legislation regarding the Personal Pension Plans and Stakeholder Pensions
- ◆ Class 2 and Class 4 National Insurance Contributions (NIC) in the context of the self-employed

Outcome 3 looks at the application of Corporation Tax legislation.

- ◆ Scope and administration of Corporation Tax
- ◆ Calculation of Profits Chargeable to Corporation Tax (PCTCT)
- ◆ Preparation of a Corporation Tax computation for a medium sized limited company

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Outcome 4 covers the application of Corporation Tax legislation to a selection of trading circumstances.

- ◆ Calculation of Profits Chargeable to Corporation Tax (PCTCT) incorporating other forms of non-trading income
- ◆ Calculation of the corporation tax liability using the marginal relief rules
- ◆ Application of loss relief

Outcome 5 covers the principles of Value Added Tax (VAT).

- ◆ Principles of VAT
- ◆ How VAT is accounted for
- ◆ Administration of VAT

Guidance on the delivery and assessment of this Unit

This Unit is likely to form part of a Group Award designed to provide candidates with knowledge and skills for further study or employment within an accounting or taxation environment.

Where this Unit is being delivered as part of the SQA Advanced Diploma in Accounting Group Award, it is recommended that the Unit be delivered in Year 2 of the Group Award.

The structure of this Unit should not dictate or constrain its delivery. Although the order of the Outcomes indicates how it might be delivered, delivery is more likely to be guided by the recommended text book or the preferences of individual lecturers. It is acknowledged that there are certain topics within Income Tax and Corporation Tax that are very similar, for example the adjustments to trading profits or capital allowances. As such, these topics can be taught in either context. Where centres feel that it is relevant to incorporate tax software into the teaching of this Unit then this initiative should be encouraged. However, candidates should recognise that the use of software is not a substitute for understanding the basic principles of business taxation.

The Outcomes could be assessed separately. Alternatively, the assessment of the Outcomes could be combined through the use of an open-book case study and open-book supervised assessment.

Opportunities for developing Core Skills

The achievement of the Unit gives automatic certification of the Using Number component of the Core Skill *Numeracy* at SCQF level 5. Throughout Outcomes 1-4 of the Unit candidates apply a wide range of numeric skills to solve work related problems.

The delivery and assessment of the Unit may contribute towards the Writing element of the Written Communication component of the Core Skill *Communication* at SCQF level 5. In Outcomes 1 and 5 the candidates may provide written evidence about the tax legislation concerning badges of trade and the administration of VAT.

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Open learning

This Unit could be delivered by distance learning. However, it would require planning by the centre to ensure the authenticity of candidate evidence. Arrangements would have to be made to ensure that evidence is generated under the assessment conditions specified for each Outcome.

Further advice can be found on SQA's website - www.sqa.org.uk.

Equality and inclusion

This Unit specification has been designed to ensure that there are no unnecessary barriers to learning or assessment. The individual needs of learners should be taken into account when planning learning experiences, selecting assessment methods or considering alternative evidence.

Further advice can be found on our website www.sqa.org.uk/assessmentarrangements.

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General information for candidates

Unit title: Business Taxation

This Unit develops your knowledge of the taxation implications of different trading entities and of their business transactions. In doing so, it considers the Income Tax and Corporation Tax rules for calculating taxable trading profit and the principles of Value Added Tax (VAT). It is intended to prepare you for both the workplace and professional exams.

This Unit covers only the business aspects of Income Tax. Other aspects of Income Tax are addressed in the SQA Advanced Unit *Income Tax*. Other aspects of accounting for VAT, such as the completion of the VAT return, are covered in the SQA Advanced Unit *HP04 47: Recording Financial Information*.

This Unit has five Outcomes covering:

- ◆ Application of Income Tax legislation to calculate basic taxable trading profit, and the tax payable thereon, for sole traders.
- ◆ Application of Income Tax legislation in a range of complex trading circumstances.
- ◆ Application of Corporation Tax legislation to calculate basic taxable trading profit, and the Corporation Tax payable, for a limited company.
- ◆ Application of Corporation Tax legislation in a selection of complex trading circumstances.
- ◆ The principles and administration of Value Added Tax.

Each Outcome may be assessed separately. Alternatively, the assessment of Outcomes may be combined.

You will have opportunities to develop components within the Core Skills of *Numeracy* and *Communication* in this Unit. Achievement of this Unit gives automatic certification of Using Number at SCQF level 5.