Exercise 2.3

Samir was a partner in a legal firm. He joined the partnership on 1st June 2019, and the accounts were made up to 31st May each year. His share of the net profits from the partnership, are as follows:

Year ended	Net profit
31st May 2020	£40,000
31st May 2021	£50,000
31st May 2023	£60,000
Expected profits to 31st May 2024	£75,000

In the 2023/24 tax year, Samir received £800 from his bank and building society accounts, and £7,900 interest from a corporate bond unit trust. He also received £3,000 in dividends from a portfolio of UK shares.

His tax liability for the 2022/23 tax year was £8,100 of which £7,700 was paid on account.

1. **Calculate, showing all your workings, Samir's total income tax liability for the 2023/24 tax year**
2. **State which dates Samir will need to make income tax payments for the 2023/24 tax year. For the dates identified, state the amounts of income tax payable, including any tax due in respect of other tax years.**

Notes

We need to first ensure we are taking all the right income for the tax year.

The profits taxable in the 2023/24 tax year will be the standard profits to 31/5/23 (£60,000) **PLUS** the transition profits from 1/6/23 to 5/4/24.

The transitional period covers 310 days as Feb 24 is a leap year, so has 29 days! This gives us £75,000 x 310 ÷ 366 = **£63,524.59.**

We will also have some overlap profits that we can deduct, so need to calculate these.

In the tax year 2019/20, Samir would have paid tax on the profits between 1st June 2019 and 5th April 2020. This represents 10 months of the year, so the **£40,000 profits** would be apportioned for this period i.e., 10 ÷ 12 x £40,000 = **£33,333.33**

For the 2020/21 tax year, Samir would have been charged on the profits for the full accounting period ending 31/5/2020, so the £40,000.

This means that the £33,333.33 has been taxed twice and can now be reclaimed within this transitional year from the transition profits.

So, the transition profits become £63,524.59 - £33,333.33 = £30,191.26

These transition profits are then divided by 5 (or multiplied by 20%) to enable the spreading over 5 tax years.

£30,191.26 x 20% = £6,038.25

So, the standard profits of £60,000 plus the proportion of transition profits £6,038.25 = £66,038.25 that would be taxable in the 2023/24 tax year.

Remember; unless an election is made to change the default 5-year spreading, £6,038.25 will continue to be added to his annual profits for the next 4 tax years.

Now let's look at the tax calculation...

Samir	Earned / Non-savings income (£)	Savings income (£)	Dividend income (£)
Standard profits 31/5/22	60,000.00		
Transition profit element	6,038.25		
Bank / BS account		800	
Corporate Bond UT		7,900	
Share Dividends			3,000
Total income	**66,038.25**	**8,700**	**3,000**
Total income			77,738.25
Adjusted net income	N/A as no pension or charity contributions		77,738.25
Basic rate band	Standard band as no personal pensions or gift aid		37,700
Notes	Samir is a higher rate taxpayer, so has only £500 PSA		
Personal allowance	12,570		
Total Taxable income	**53,468.25**	**8,700**	**3,000**

Earned (non-savings income):	
£12,570 x 0% *£37,700 x 20%* *£15,768.25 x 40%*	*= £0* *= £7,540* *= £6,307.30*
Savings income:	
£500 x 0% (PSA) *All within HRT*	*= £0*

£8,200 x 40%	*= £3,280*
Dividend income:	
£500 x 0% (DA) *£2,500 x 33.75%*	*= £0* *= £843.75*

Total Tax	*= £7,540 + £6,307.30 + £3,280 +£843.75* *= **£17,971.05***

Dates and amounts

The relevant dates of the 2023/24 tax year under self-assessment are:

- 31st January 2024
- 31st July 2024
- 31st January 2025

The payments that will be made on each date are:

- 31st January 2024
  - Balancing payment for 2022/23 of £8,100 - £7,700 = £400
  - Payment on account for 2023/24 of 50% of £8,100 = £4,050
- 31st July 2024
  - Payment on account for 2023/24 of 50% of £8,100 = £4,050
- 31st January 2025
  - Balancing payment £17,971.05 - £8,100 = £9,871.05
  - Payment on account for 2024/25 of 50% of £17,971.05 = £8,985.53
- The balancing payment isn't always a charge, it could be a refund.