
Professional Certificate in Tax Law (United Kingdom)

Fundamentals of Taxation

Accrued Income – concept; related terms: deferred income, tax point. Refers to income earned but not yet received at period end. Example: interest earned on a bank account on 31 December but paid in January. Practically, it triggers a tax charge at the accrual date, requiring accurate accounting. Challenge: timing differences can create cash-flow strain when tax is payable before cash is received.

Accruals – concept; related terms: prepayments, matching principle. Adjustments that record expenses or income that relate to the current accounting period but have not been invoiced or paid. Example: utilities used in December but billed in January. For tax, accruals affect the taxable profit under the accruals basis. Challenge: ensuring all accruals are identified to avoid understated tax liabilities.

Administrative Penalties – concept; related terms: late filing penalty, interest charge. Monetary sanctions imposed by HMRC for non-compliance such as late returns or failure to keep records. Example: a £100 penalty for a corporate tax return filed after the deadline. Practical impact: increases the cost of non-compliance and may affect reputation. Challenge: calculating and contesting penalties can be complex.

Adjusted Tax Base – concept; related terms: tax base, adjustments. The amount on which tax is calculated after applying allowable deductions, reliefs, and adjustments. Example: gross profit of £500,000 less capital allowances of £120,000 gives an adjusted tax base of £380,000. Practically, it determines the corporation tax due. Challenge: correctly identifying all adjustments to avoid over- or under-payment.

Anti-Avoidance Rules – concept; related terms: GAAR, tax avoidance. Legislative provisions designed to counter artificial arrangements that seek to reduce tax liability without commercial purpose. Example: a scheme that shifts profits to a low-tax jurisdiction using a series of inter-company loans. In practice, GAAR can disallow the tax benefit. Challenge: interpreting the “purpose” test and defending legitimate planning.

Asset Disposal Relief – concept; related terms: entrepreneur’s relief, capital gains tax. A reduced CGT rate of 10% on qualifying business asset disposals up to a lifetime limit. Example: selling shares in a family business for £2 million, qualifying for the relief, resulting in CGT of 10% on the gain. Practical benefit: lowers tax on exit. Challenge: meeting the qualifying conditions such as the 5-year ownership test.

Associated Companies – concept; related terms: group relief, connected parties. Companies that are under common control, usually defined as owning more than 75% of voting rights. Example: Parent Ltd holds 80% of Subsidiary Ltd. This status allows group relief for losses. Practical use: offsetting profits and losses within a group. Challenge: maintaining the ownership threshold and complying with filing requirements.

Balance Sheet Tax – concept; related terms: deferred tax, tax asset. Tax amounts that arise from temporary differences between accounting profit and taxable profit, recorded on the balance sheet. Example: a

deferred tax liability created by accelerated depreciation for tax purposes. Practical significance: reflects future tax obligations. Challenge: forecasting future tax rates and ensuring accurate measurement.

Base Erosion and Anti-Abuse Rule (BEAR) – concept; related terms: EU directives, tax base erosion. EU legislation aimed at preventing multinational groups from eroding the tax base of member states through deductible expenses. Example: limiting interest deductions on intra-group loans. Practical effect: caps on interest expense deductions. Challenge: complying with complex cross-border rules and documentation.

Benefit-in-Kind (BIK) – concept; related terms: employment income, taxable benefits. The taxable value of non-cash benefits provided to employees, such as company cars or health insurance. Example: a car with a BIK value of £8,000 taxed at the employee's marginal rate. Practical implication: increases PAYE liability. Challenge: accurate valuation and reporting on P11D forms.

Business Income – concept; related terms: trading income, self-assessment. Income derived from the ordinary activities of a trade, profession, or vocation. Example: revenue from a consulting firm. It forms part of the taxable profit for income tax or corporation tax. Practical relevance: determines the tax base. Challenge: distinguishing business income from investment income for mixed-activity entities.

Capital Allowances – concept; related terms: depreciation, tax relief. Deductions for the wear and tear of qualifying plant and machinery, allowing tax-payers to write off capital expenditure. Example: a £100,000 purchase of machinery claimed under the Annual Investment Allowance. Practical benefit: reduces taxable profit. Challenge: correctly classifying assets and applying the correct rates.

Capital Gains Tax (CGT) – concept; related terms: disposal, exemptions. Tax on the profit arising from the sale or disposal of an asset that is not part of the ordinary trading activities. Example: selling a residential property for a gain of £150,000, subject to CGT after the annual exemption. Practical impact: affects investment decisions. Challenge: calculating the base cost and applying reliefs such as private residence relief.

Capitalisation Relief – concept; related terms: intangible assets, tax amortisation. Allows certain capitalised costs, such as development expenses, to be deducted over time. Example: software development costs spread over five years. Practical use: smooths profit impact. Challenge: meeting the criteria for capitalisation and keeping detailed records.

Carried-Forward Losses – concept; related terms: loss relief, set-off. Tax losses that can be carried forward to offset future taxable profits. Example: a trading loss of £50,000 in Year 1 can be set against profits in subsequent years. Practical benefit: reduces future tax bills. Challenge: respecting the time limits and ensuring proper claim in the corporation tax return.

Cash Basis Accounting – concept; related terms: small business exemption, tax point. A simplified accounting method where income and expenses are recognised when cash is received or paid. Example: a sole trader records income only when customers pay. Practical advantage: easier record-keeping for small

businesses. Challenge: not available to all, and may lead to timing differences compared with accruals basis.

Chargeable Gains – concept; related terms: CGT, exempt gains. Gains that are subject to capital gains tax after applying allowances and reliefs. Example: a gain of £200,000 on the sale of shares, reduced by the annual exempt amount, results in a chargeable gain. Practical relevance: forms the base for CGT calculation. Challenge: accurate computation of acquisition costs and apportionment of reliefs.

Corporation Tax – concept; related terms: CT, tax return. Tax on the profits of companies and other incorporated entities. Example: a limited company with taxable profits of £300,000 pays corporation tax at the prevailing rate. Practical significance: major source of revenue for HMRC. Challenge: navigating complex rules on chargeable gains, reliefs, and filing deadlines.

Controlled Foreign Company (CFC) Rules – concept; related terms: tax avoidance, foreign income. Rules that attribute the profits of a foreign subsidiary to its UK shareholders when the subsidiary is subject to low tax. Example: a UK parent company with a subsidiary in a low-tax jurisdiction that earns £1 million may have that profit taxed in the UK. Practical effect: prevents profit shifting. Challenge: detailed ownership and activity tests, and complex calculations.

Cost Basis – concept; related terms: acquisition cost, adjusted base. The original purchase price of an asset, used to calculate capital gains. Example: shares bought for £10,000 plus broker fees, forming the cost basis. Practical importance: determines the gain or loss on disposal. Challenge: tracking splits, reinvested dividends, and corporate actions.

Deemed Disposition – concept; related terms: CGT, gift. A tax event where an asset is treated as disposed of for tax purposes, even though no actual sale occurs, such as on death or certain transfers. Example: a partnership interest deemed disposed of on a partner's death, triggering CGT. Practical implication: may create a tax charge where no cash is received. Challenge: timing and valuation of the deemed disposal.

Deferred Tax Asset – concept; related terms: temporary difference, balance sheet tax. An asset that arises when taxable profit is lower than accounting profit due to timing differences, allowing future tax relief. Example: unused tax losses that can be carried forward. Practical benefit: reduces future tax liabilities. Challenge: assessing recoverability and proper valuation.

Deferred Tax Liability – concept; related terms: temporary difference, balance sheet tax. A liability that reflects future tax payable because accounting profit exceeds taxable profit. Example: accelerated depreciation for tax purposes creates a deferred tax liability. Practical impact: signals future cash outflows. Challenge: forecasting tax rates and ensuring accurate measurement.

Depreciation – concept; related terms: capital allowances, tax depreciation. The systematic allocation of the cost of an asset over its useful life for accounting purposes. Example: straight-line depreciation of a building over 25 years. For tax, depreciation is not deductible; instead, capital allowances apply. Practical note: differences between accounting and tax treatment affect taxable profit. Challenge: reconciling the two

methods in the tax computation.

Diverted Profits Tax (DPT) – concept; related terms: anti-avoidance, GAAR. A 25 % tax on profits that are artificially diverted from the UK to low-tax jurisdictions. Example: a multinational that uses a hybrid entity to shift profits and is subject to DPT. Practical deterrent: raises the cost of aggressive tax planning. Challenge: determining whether profits are “diverted” and dealing with complex international structures.

Double Taxation Agreement (DTA) – concept; related terms: tax treaty, relief from double taxation. Bilateral agreements that allocate taxing rights between two jurisdictions to avoid double taxation. Example: the UK-US DTA provides relief on dividends and interest. Practical use: reduces withholding tax and provides credit relief. Challenge: interpreting treaty provisions and applying the correct relief.

Enterprise Investment Scheme (EIS) – concept; related terms: tax relief, risk capital. A government-backed scheme offering income tax relief and CGT deferral for investments in qualifying small companies. Example: an investor receives 30 % income tax relief on a £100,000 EIS investment. Practical benefit: encourages venture capital. Challenge: meeting qualifying criteria and holding periods.

Estate Duty – concept; related terms: inheritance tax, taxable estate. Former name for inheritance tax, abolished in 1986; now known as inheritance tax (IHT). Example: the tax on the value of an estate exceeding the nil-rate band. Practical relevance: historical context for current IHT rules. Challenge: understanding legacy terminology when reviewing older cases.

Exempt Income – concept; related terms: tax-free, non-taxable. Income that is not subject to tax under UK law. Example: statutory maternity pay, certain state benefits, and lottery winnings. Practical impact: reduces the overall tax base. Challenge: correctly identifying what qualifies as exempt.

Exempt Gains – concept; related terms: CGT exemption, private residence relief. Gains that are not subject to capital gains tax. Example: gains on the sale of a primary residence up to the private residence relief limit. Practical benefit: reduces CGT liability. Challenge: applying the correct reliefs and calculating the exempt portion.

Filing Deadline – concept; related terms: self-assessment, late filing penalty. The date by which a tax return must be submitted to HMRC. Example: 31 January for online self-assessment returns. Practical importance: missing the deadline incurs penalties and interest. Challenge: managing multiple filing dates for individuals, partnerships, and companies.

Fiscal Year – concept; related terms: tax year, accounting period. The 12-month period for which tax is assessed. For individuals, the tax year runs 6 April to 5 April; for corporations, it is the accounting period. Example: a company with a year-end of 31 December files corporation tax for the period 1 January to 31 December. Practical relevance: determines the reporting period. Challenge: aligning accounting periods with tax periods, especially after a change of year-end.

Flat Rate Scheme – concept; related terms: VAT, small business. A simplified VAT accounting method where businesses pay a fixed percentage of turnover as VAT, rather than calculating input and output tax. Example: a retailer with turnover of £150,000 pays VAT at a 12 % flat rate. Practical advantage: reduced administrative burden. Challenge: eligibility thresholds and loss of input tax recovery.

Foreign Tax Credit (FTC) – concept; related terms: DTA, relief from double taxation. A credit against UK tax liability for foreign tax paid on the same income, provided under a double taxation agreement. Example: paying 15 % tax on dividends from a French company and claiming a credit against UK tax. Practical benefit: avoids double taxation. Challenge: calculating the credit and ensuring the foreign tax is comparable.

General Anti-Avoidance Rule (GAAR) – concept; related terms: anti-avoidance, tax avoidance. A statutory rule that enables HMRC to counteract tax arrangements that are abusive, lack commercial substance, and seek to obtain a tax advantage. Example: a scheme that artificially splits income to claim lower rates. Practical effect: can disallow the tax benefit and impose penalties. Challenge: proving the “abusive” nature and defending legitimate planning.

Gift Aid – concept; related terms: charitable donations, tax relief. A UK scheme allowing charities to claim back basic rate tax on donations, and donors to claim higher-rate relief. Example: a £100 donation results in a £125 contribution to the charity after Gift Aid. Practical benefit: increases charitable giving. Challenge: ensuring donor eligibility and proper record-keeping.

Gross Income – concept; related terms: total income, taxable income. The total amount of income before any deductions or allowances. Example: salary of £50,000 plus rental income of £10,000 gives a gross income of £60,000. Practical relevance: starting point for tax calculations. Challenge: aggregating multiple sources and applying pre-tax adjustments.

Group Relief – concept; related terms: associated companies, loss surrender. A mechanism allowing losses of one group company to be surrendered to another group company with profits, reducing the overall corporation tax bill. Example: a loss-making subsidiary transfers £200,000 of losses to a profitable parent. Practical benefit: efficient tax planning within groups. Challenge: meeting ownership tests and maintaining documentation.

Higher Rate Taxpayer – concept; related terms: income tax bands, marginal rate. An individual whose taxable income exceeds the basic-rate threshold, thus paying the higher income tax rate on income above that level. Example: earning £55,000 places a taxpayer in the higher rate band for income over £50,270 (2023/24). Practical implication: higher tax liability on additional income. Challenge: managing income to avoid unexpected jumps into higher bands.

HMRC – concept; related terms: tax authority, self-assessment. Her Majesty’s Revenue and Customs, the UK government department responsible for tax collection, customs, and related enforcement. Example: HMRC issues notices, processes returns, and conducts enquiries. Practical role: central point of contact for taxpayers. Challenge: navigating complex guidance and responding to enquiries promptly.

Income Tax – concept; related terms: self-assessment, PAYE. Tax on the earnings of individuals, including employment income, self-employment profits, and investment income. Example: an employee earning £40,000 pays income tax after personal allowance. Practical significance: major source of revenue. Challenge: correctly applying allowances, reliefs, and rates.

Interest-Deduction Limitation – concept; related terms: thin-capitalisation, BEAR. Rules that restrict the amount of interest expense that can be deducted for tax purposes, often based on a percentage of earnings. Example: a company may deduct interest up to 30% of EBITDA. Practical effect: prevents excessive debt financing to reduce tax. Challenge: calculating the deductible portion and maintaining compliant loan structures.

Investment Allowance – concept; related terms: capital allowances, annual investment allowance. A 100% deduction for qualifying capital expenditure in the year of purchase, up to a specified limit. Example: claiming the Annual Investment Allowance on £200,000 of plant and machinery. Practical benefit: immediate tax relief. Challenge: ensuring the assets qualify and do not exceed the allowance cap.

Joint Venture – concept; related terms: associated companies, tax partnership. A business arrangement where two or more parties share ownership, risks, and profits. Example: two companies forming a joint venture to develop a property. For tax, each party is taxed on its share of profits. Practical relevance: allocation of income and expenses. Challenge: drafting tax-efficient agreements and handling loss sharing.

Loss Relief – concept; related terms: carried-forward losses, group relief. Mechanisms that allow tax losses to be offset against profits, either in the same accounting period, future periods, or against group companies. Example: a trading loss of £30,000 set against current year profits. Practical benefit: reduces tax payable. Challenge: timing restrictions and interaction with other reliefs.

Marginal Relief – concept; related terms: corporation tax, adjusted profit limit. A relief that reduces the effective corporation tax rate for profits that fall within a narrow band above the small-profits threshold. Example: a company with profits of £300,000 receives marginal relief, lowering the effective rate. Practical effect: smooths the tax rate transition. Challenge: calculating the relief accurately.

Matching Principle – concept; related terms: accruals, revenue recognition. An accounting principle that requires expenses to be recorded in the same period as the revenues they help generate. Example: recording commission expense in the same quarter as the sale. For tax, this influences the timing of deductions. Practical importance: ensures consistency between accounting and tax. Challenge: identifying all relevant matches, especially with long-term contracts.

Maximum Allowable Loss – concept; related terms: loss relief, tax loss. The greatest amount of loss that can be claimed in a tax year, after applying specific restrictions. Example: a limitation on rental losses that can be offset against other income. Practical relevance: caps the tax benefit of losses. Challenge: tracking the cumulative effect of loss caps across years.

Minimum Tax – concept; related terms: alternative minimum tax, tax base. A tax provision that ensures a taxpayer pays at least a minimum amount of tax, regardless of deductions and reliefs. The UK does not currently have a general AMT, but sector-specific minimum taxes exist (e.g., oil and gas). Practical implication: prevents excessive tax avoidance. Challenge: calculating the minimum liability when it applies.

Minority Shareholder – concept; related terms: associated companies, related party transaction. An individual or entity that holds less than 50% of the voting rights in a company. Example: a 30% shareholder in a plc. For tax, transactions with minority shareholders may be scrutinised for market value. Practical relevance: affects tax treatment of dividends and disposals. Challenge: ensuring arm's-length pricing.

Mortgage Interest Relief – concept; related terms: tax relief, property income. Historically, a deduction for interest paid on residential mortgage loans; largely abolished for most taxpayers, retained only for landlords of furnished holiday lets. Example: a landlord deducts mortgage interest against rental income. Practical effect: reduces taxable rental profit. Challenge: navigating the phased removal and potential impact on investment decisions.

National Insurance Contributions (NICs) – concept; related terms: PAYE, self-employment. Compulsory contributions to fund state benefits, payable by employees and employers (Class 1) and by self-employed individuals (Class 2 and 4). Example: an employee's NICs deducted from salary via PAYE. Practical significance: part of overall payroll tax. Challenge: staying compliant with thresholds and rates.

Negative Capital Gains – concept; related terms: chargeable gains, losses. When the disposal proceeds are less than the cost base, resulting in a capital loss. Example: selling shares for £8,000 that were bought for £10,000, creating a £2,000 loss. Practical use: can be offset against future gains. Challenge: proper record-keeping and timely claim.

Non-Resident Landlord (NRL) Scheme – concept; related terms; UK property income, tax withholding. A scheme allowing landlords who are not resident in the UK to receive rental income without tax being deducted at source, provided they register with HMRC. Example: a German landlord receives rent directly after registration. Practical benefit: avoids double taxation and cash flow issues. Challenge: maintaining registration and filing UK tax returns.

Notional Tax – concept; related terms: tax estimation, self-assessment. An estimated tax liability calculated by HMRC when a taxpayer fails to submit a return, based on available information. Example: HMRC issues a notional assessment after a missing corporation tax return. Practical implication: may lead to overpayment if the estimate is high. Challenge: contesting the assessment and providing accurate data.

Offsetting – concept; related terms: loss relief, tax credit. The process of using a tax loss or credit to reduce a current tax liability. Example: a £10,000 loss offset against £30,000 profit, reducing tax payable. Practical benefit: improves cash flow. Challenge: ensuring the offset complies with timing and amount restrictions.

PAYE (Pay As You Earn) – concept; related terms: income tax, NICs. The system whereby employers deduct

income tax and NICs from employees' wages each pay period and remit them to HMRC. Example: an employer withholds £500 in tax from a monthly salary. Practical importance: spreads tax payments throughout the year. Challenge: correct coding and real-time information (RTI) reporting.

Personal Allowance – concept; related terms: tax-free amount, income tax. The amount of income an individual can earn each tax year without paying income tax. Example: £12,570 for the 2023/24 tax year. Practical effect: reduces taxable income. Challenge: tapering for high earners and interaction with other allowances.

Portfolio Income – concept; related terms: investment income, dividends. Income derived from investments such as dividends, interest, and rent, as opposed to earned income from employment. Example: a taxpayer receives £5,000 in dividends. Practical relevance: subject to different tax rates and allowances. Challenge: correctly classifying income and applying the appropriate tax treatment.

Pre-payment – concept; related terms: tax instalments, cash flow. An advance payment of tax before the liability is formally assessed, often required for self-assessment or corporation tax. Example: quarterly instalments of corporation tax based on estimated profit. Practical benefit: spreads tax cost over the year. Challenge: estimating profit accurately to avoid under- or over-payment.

Profit and Loss Account – concept; related terms: income statement, taxable profit. The financial statement summarising revenue, expenses, and profit for a period. Example: a company's P&L shows £200,000 turnover and £50,000 expenses, yielding £150,000 profit. For tax, the profit figure is the starting point for corporation tax computation. Practical relevance: essential for tax reporting. Challenge: reconciling accounting profit with taxable profit due to timing differences.

Property Income – concept; related terms: rental income, taxable income. Income earned from letting property, including rent, service charges, and any associated fees. Example: a landlord receives £12,000 in annual rent. For tax, allowable expenses are deducted to arrive at taxable property profit. Practical importance: forms part of the individual's or company's taxable income. Challenge: correctly apportioning joint ownership and claiming allowable expenses.

Qualified Investment Fund (QIF) – concept; related terms: tax-efficient investment, offshore fund. A collective investment scheme that meets specific UK tax criteria, allowing investors to benefit from tax-efficient growth. Example: a UK investor holds units in a QIF and enjoys tax-free capital gains. Practical benefit: encourages investment in certain sectors. Challenge: ensuring the fund retains its qualified status.

Qualifying Corporate Bond (QCB) – concept; related terms: interest income, tax exemption. A UK government or corporate bond that meets specific criteria, making the interest exempt from UK income tax for individuals. Example: an individual holding a QCB receives tax-free interest. Practical advantage: tax-efficient fixed-income investment. Challenge: verifying the bond's qualifying status.

Real-Time Information (RTI) – concept; related terms: PAYE, HMRC reporting. The system whereby employers

submit payroll information to HMRC each time they pay employees, rather than at year-end. Example: a payroll software sends RTI submissions after each payday. Practical benefit: up-to-date tax and NIC records. Challenge: ensuring software compliance and data accuracy.

Reference Price – concept; related terms: transfer pricing, arm's length. The price that would be charged in an open market transaction between independent parties, used to assess related-party transactions for tax purposes. Example: a UK subsidiary sells goods to its overseas parent at a price below the reference price, triggering a transfer-pricing adjustment. Practical relevance: ensures fair taxation. Challenge: determining the appropriate method and supporting documentation.

Remittance Basis – concept; related terms: non-resident taxation, foreign income. A tax treatment for non-resident individuals where foreign income and gains are only taxed when remitted to the UK, subject to a £30,000 or £60,000 annual charge. Example: a non-resident with offshore dividends only pays UK tax when the funds are brought into the UK. Practical advantage: potential tax deferral. Challenge: tracking remittances and paying the annual charge.

Research and Development (R&D) Tax Credit – concept; related terms: innovation relief, corporation tax. A relief that allows companies to claim a credit for qualifying R&D expenditure, either as a tax deduction or a cash payment. Example: a tech firm claims a 13% enhanced deduction on £200,000 qualifying R&D spend. Practical benefit: reduces corporation tax or provides cash. Challenge: meeting the definition of qualifying R&D and maintaining robust documentation.

Residence Test – concept; related terms: tax residency, statutory residence test. The set of rules used to determine whether an individual is a UK tax resident for a given tax year. Example: an individual spending 183 days in the UK passes the automatic residence test. Practical importance: determines tax liability on worldwide income. Challenge: applying the complex statutory residence test (SRT) when ties are extensive.

Revenue Account – concept; related terms: taxable income, profit and loss account. The part of a company's accounts that records income and expenses from its trading activities, as opposed to capital items. Example: sales revenue of £500,000 recorded in the revenue account. For tax, revenue account figures form the basis of taxable profit. Practical relevance: separates operating profit from capital gains. Challenge: correctly allocating mixed-purpose expenditures.

Rollover Relief – concept; related terms: capital gains tax, reinvestment. A CGT relief that allows the gain on the disposal of an asset to be deferred if the proceeds are reinvested in a similar asset within a specified period. Example: selling a business asset for £300,000 and buying a replacement asset within 12 months, deferring the CGT. Practical benefit: cash-flow preservation. Challenge: meeting the timing and asset-type criteria.

Self-Assessment – concept; related terms: tax return, HMRC. The system by which individuals and some businesses calculate and report their own tax liability to HMRC. Example: a freelancer completes an online self-assessment return by 31 January. Practical necessity: ensures tax is paid on time. Challenge: accurate

record-keeping and meeting filing deadlines.

Shareholder Loan – concept; related terms: related party transaction, taxable benefit. A loan made by a shareholder to the company, often used to fund working capital. Example: a shareholder lends £50,000 to the company, which must be repaid with interest at HMRC-approved rates. Practical use: flexible financing. Challenge: avoiding deemed benefit-in-kind if interest is below market rates.

Small Companies Regime – concept; related terms: corporation tax, tax thresholds. A set of tax provisions that apply to companies with profits below a certain threshold, such as the lower corporation tax rate and simplified filing. Example: a company with profits of £45,000 qualifies for the small-profits rate. Practical advantage: lower tax burden. Challenge: monitoring profit levels to remain within the regime.

Statutory Residence Test (SRT) – concept; related terms: residence test, tax residency. The detailed set of rules introduced in 2013 to determine UK tax residence, based on days spent in the UK and connections (ties). Example: an individual with 120 days in the UK and strong ties may still be non-resident under the SRT. Practical importance: clarifies residency status. Challenge: applying the “ties” matrix and managing split-year cases.

Tax Avoidance – concept; related terms: anti-avoidance, GAAR. The use of legal arrangements to minimise tax liability, often exploiting loopholes. Example: a scheme that re-characterises employment income as dividend income to benefit from lower rates. Practical reality: may be challenged by HMRC. Challenge: distinguishing legitimate planning from abusive avoidance.

Tax Base – concept; related terms: adjusted tax base, taxable profit. The amount on which tax is calculated after applying all allowable deductions, reliefs, and adjustments. Example: gross profit of £500,000 less capital allowances of £120,000 results in a tax base of £380,000. Practical relevance: determines the tax due. Challenge: ensuring all adjustments are correctly applied.

Tax Credit – concept; related terms: foreign tax credit, relief. An amount that reduces the tax payable, often arising from foreign tax paid or from specific reliefs. Example: a £2,000 foreign tax credit reduces UK tax liability by the same amount. Practical benefit: prevents double taxation. Challenge: calculating the allowable credit and avoiding over-claims.

Tax Evasion – concept; related terms: criminal offence, penalties. The illegal act of deliberately misrepresenting or concealing taxable income to reduce tax liability. Example: under-reporting cash sales to avoid VAT. Practical consequence: criminal prosecution, fines, and possible imprisonment. Challenge: robust compliance systems are needed to prevent accidental evasion.

Tax Efficient Investment – concept; related terms: QIF, VCT. Investment vehicles designed to minimise tax on returns, such as Venture Capital Trusts or Enterprise Investment Schemes. Example: an investor places £10,000 in a VCT and receives 30% income tax relief. Practical benefit: enhances after-tax returns. Challenge: meeting eligibility and holding period requirements.

Tax Filing Deadline – concept; related terms: self-assessment, late filing penalty. The final date by which a tax return must be submitted to HMRC for a given tax year. Example: 31 October for paper returns, 31 January for online returns. Practical importance: missing the deadline triggers penalties. Challenge: managing multiple deadlines for individuals, partnerships, and corporations.

Tax Loss Carry-Back – concept; related terms: loss relief, corporation tax. The ability to offset current year losses against profits of previous years