

Chartered
Insurance
Institute

J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

October 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2019 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

J03 – The tax and legal aspects of business

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas. However, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge

For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements*. While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as ‘mock’ examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner’s comments on candidates’ actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge/.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination paper. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination

- Assessment is by means of a two-hour written paper.
- All questions are compulsory.
- The paper is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper will carry a total of 130 marks.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs*, since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

There were some very good results demonstrating excellent knowledge and exam technique. Other papers showed a very mixed level of understanding. The levels of knowledge in some areas in particular are still disappointing, for example business protection.

Question 1

Some candidates really struggled with this question - only managing one or two marks. The better prepared candidates however gained full marks.

Question 2

In the main this question on VAT registration was answered fairly well although part (b) required more detail than candidates provided in order to gain all of the marks available.

Question 3

The majority of candidates were able to explain well how the family home would be dealt with in bankruptcy with a good number achieving close to maximum marks.

Question 4

In part (a) many candidates were not able to describe what a debenture was, although most candidates gave good explanations for part (b) which asked candidates to state the difference between a floating charge and a fixed charge.

Question 5

The majority of candidates tackled this question well and many achieved the maximum marks available.

Question 6

Most answers from candidates did not provide the necessary detail to gain good marks on how losses made in the early years of a business can be mitigated.

Question 7

This question on business relief was approached well by candidates and consequently good marks were achieved.

Question 8

Part (a) on the qualifying criteria that must be met for an employee to qualify for Statutory Sick Pay was not well answered by candidates.

Part (b) tested flexible working and was answered well with many candidates gaining the maximum marks available.

Question 9

Part (a) required a calculation of net income from UK Shares and was answered very well by the majority of candidates. In part (b) very few candidates knew that UK Fixed Interest Securities needed to be grossed up by 20% in order to calculate the correct income tax.

Question 10

This question on benefits in kind was answered reasonably well by most candidates.

Question 11

A number of candidates described 'proportion of profits' as 'percentage of profits' or something else. Considering this is a business planning exam, this was disappointing to see.

Question 12

This question on Capital Gains Tax between spouses/civil partners was answered well with the majority of candidates achieving good marks.

Question 13

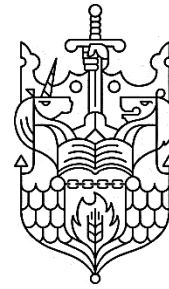
Considering this is a business planning paper, there were disappointing answers from some candidates on what the main features are of buy and sell and cross option agreements.

Question 14

The benefits and drawbacks of salary sacrifice were tackled well by candidates and in the main the calculation was answered well too.

Question 15

There were some very good answers from candidates to part (a) of this question on recycling a pension commencement lump sum' (PCLS) but not many marks were gained by candidates in part (b).



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Unit J03 – The tax and legal aspects of business

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SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit J03 – The tax and legal aspects of business

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.

Attempt ALL questions

Time: 2 hours

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

1. Explain briefly the difference between 'actual' and 'apparent' authority of a partner with reference to the Partnership Act 1890. (4)

2. (a) Explain briefly VAT registration for a sole trader. (4)
(b) Explain the consequences for a sole trader of being VAT registered. (5)

3. Jo's business as a florist has failed and she has been forced into bankruptcy by creditors. She is married to Marcus and they have two children, Amanda aged 7 and Guy aged 9. The family live in a house that Jo and Marcus bought as joint tenants.

Explain how the trustee in bankruptcy would deal with the family home as part of the bankruptcy proceedings. (9)

4. (a) Describe briefly a debenture. (3)
(b) State the difference between a floating charge debenture and a fixed charge debenture should a company become insolvent. (4)

5. Crews Ltd is an active trading business. Its financial position for the last accounting period are detailed below:

	Year end 31/03/2018
Cash at bank	£450,000
Debtors	£1,560,000
Stock	£1,750,000
Current liabilities	£2,250,000

- (a) Calculate, **showing all your workings**, the working capital ratio. (3)
- (b) Calculate, **showing all your workings**, the quick ratio. (3)
- (c) Based on your answers to **parts (a) and (b)** above, comment on the financial stability of Crews Ltd. (3)
6. Ben, aged 45, has recently retrained and qualified as an electrician. He has set himself up in business as a sole trader. Ben has had to buy various tools and a van and in the first year expects to make a loss.
- Explain to Ben how losses made in the early years of his business could be mitigated against his income from previous tax years. (6)
7. (a) State the criteria that must be met for shares in an unlisted business to qualify for business relief. (4)
- (b) State **three** conditions that would result in an asset **not** qualifying for business relief. (3)
8. (a) List the qualifying criteria that must be met for an employee to qualify for Statutory Sick Pay. (4)
- (b) An employee is returning from long-term illness and has requested flexible working.
- State **five** examples of flexible working. (5)

9. Flynn is employed and his salary is £60,000 gross per annum. He has an investment portfolio, details of which are given below:

	Value	Expected income
UK Shares	£225,000	£6,750
UK Fixed Interest Securities	£460,000	£22,300

Calculate, **showing all your workings**, the net income Flynn would receive from the;

- (a) UK Shares; (5)
- (b) UK Fixed Interest Securities. (7)
10. Saffia has been granted a loan of £250,000 from her employer which she has used to buy her first flat. The interest rate is 1.5%. Her friend Melissa has been granted a loan of £8,500 from her employer which she uses to buy a car. Her interest rate is also 1.5%.
- (a) Explain briefly how beneficial loans are generally taxed. (2)
- (b) Explain briefly how Saffia's loan will be treated for tax purposes. (2)
- (c) Explain briefly how Melissa's loan will be treated for tax purposes. (2)
11. (a) State the **two** main methods for calculating the sum insured under a key person insurance policy. (2)
- (b) State **two** benefits and **two** drawbacks for **each** of the methods stated in your answer to **part (a)** above. (8)
12. Frankie and Sally are married and live together. Frankie is selling his shares in his investment company and wants to minimise any Capital Gains Tax that may be due by making use of their annual exemptions.
- Explain the Capital Gains Tax consequences if Frankie transfers some of his shares to Sally prior to the sale of his investment company. *Assume they have no other capital gains in the tax year the transaction takes place.* (7)

13. (a) List the main features of a buy-and-sell agreement. (4)
- (b) List the **four** main features of a cross-option agreement. (4)
- (c) Describe how a life policy should be set up in conjunction with either of the above agreements. (4)
14. Eden, aged 40, has a gross salary of £98,000 for the tax year 2018/2019. He has also been offered a bonus of £26,000.
- (a) State the **benefits** and **drawbacks** to Eden of using salary sacrifice for the bonus payment in order to increase his pension contributions. (6)
- (b) Calculate, **showing all your workings**, the total tax savings for Eden if he makes a pension contribution via salary sacrifice of the whole bonus amount. (9)
15. (a) Explain what is meant by 'recycling a pension commencement lump sum' (PCLS). (3)
- (b) Explain how HM Revenue & Customs determines whether recycling of a PCLS has taken place. (5)

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- Actual authority is where a partner is authorised;
- by all partners to act on behalf of the partnership.
- Apparent authority is where a partner appears to have authority;
- to a third party to act on behalf of the partnership.

Model answer for Question 2

- (a)
- A sole trader must register for VAT if their taxable turnover is more than £85,000 or is expected to be more than £85,000 in the next 30 days.
 - They can also register voluntarily.
 - The flat scheme can be used if taxable turnover is less than £150,000.
- (b)
- Once registered, a sole trader must charge VAT;
 - and pay this to HM Revenue and Customs.
 - This is offset against the goods and services they buy for the business.
 - Quarterly VAT returns must be submitted.
 - They must issue invoices that comply with VAT regulations.

Model answer for Question 3

- As Marcus is a joint owner;
- he has a legal interest in the property.
- The Trustee in Bankruptcy can only claim the amount of;
- Jo's interest in the property.
- Jo has minor dependent children;
- so the needs of Marcus and the children will be taken into account.
- The home cannot be sold without a court order.
- A sale can be postponed in these circumstances for 12 months.
- The trustees have three years from the bankruptcy order to deal with their property.

Model answer for Question 4

- (a)
- A debenture is a written agreement between a lender and a borrower.
 - Acknowledging a debt from the company;
 - to the debenture holder.
- (b)
- A floating charge debenture gives the holder priority rights for repayment against an unspecified asset.
 - With a fixed charge debenture there is a legal charge against a defined asset.

Model answer for Question 5**(a) Working Capital Ratio**

$$£450,000 + £1,560,000 + £1,750,000 = £3,760,000$$

$$\frac{£3,760,000}{£2,250,000} = 1.67$$

(b) Quick Ratio

$$£450,000 + £1,560,000 = £2,010,000$$

$$\frac{£2,010,000}{£2,250,000} = 0.89$$

- (c)**
- Assets cover liabilities so business is solvent.
 - Though if stock is excluded liabilities are not covered.
 - Could have cash flow issues/potentially insolvent.

Model answer for Question 6

- Losses made in the first four tax years of a new business may be carried back.
- They can be carried back and relieved against Ben's other income for the three years preceding the year of the loss.
- Relief is given against earlier years first.
- An early year's claim is subject to a maximum of £50,000 or 25% of adjusted total income in the year of the loss whichever is the greater.

Model answer for Question 7

- (a)**
- To qualify for business relief shares must be held for at least two years.
 - The company must be classed at least as 50% trading company;
 - and not an investment company.
 - The company must not be subject to a binding contract for sale.
- (b)** *Candidates would have gained full marks for any three of the following:*
- If the asset qualifies for agricultural relief.
 - If it wasn't mainly used in the business for the preceding two years.
 - If it isn't needed for future use in the business.
 - Where the assets are used in businesses wholly or mainly engaged in investments.
 - Or where a business is not carried on for a gain.
 - When the asset is in a business that is subject to a contract for sale.

Model answer for Question 8

- (a)
- To qualify for Statutory Sick Pay an employee must earn above the National Insurance Lower Earnings Limit, £113 per week for 2017/2018.
 - Cannot work for four days in a row;
 - due to physical or mental illness.
 - Absences are linked if less than 8 weeks apart.
- (b) *Candidates would have gained full marks for any five of the following examples of flexible working:*
- Annualised hours.
 - Flexi time.
 - Part time.
 - Compressed hours.
 - Job sharing.
 - Shift working.
 - Staggered working.
 - Term time.
 - Home working/tele working.

Model answer for Question 9

	Dividend (a)	Fixed Interest (b)
Payment Received	£6,750	£22,300
Tax Taken at source	Nil	£5,575
Gross Payment	£6,750	£27,875
Less savings allowance (for part (b))		£500
Less Dividend Allowance (for part (a))	£2,000	
Tax Due on	£4,750	£27,375
Tax Rate	32.5%	40.0%
Tax Due		£10,950
Less tax paid at source		£5,575
Tax payable	£1,543.75	£5,375
Net Amount Received	£5,206.25	£16,925

Model answer for Question 10

- (a) *Candidates would have gained full marks for any two of the following examples:*
- Beneficial loans are treated as a benefit in kind/they are taxed on the value of the benefit.
 - The benefit is the difference between the amount of interest at the official rate of 2.5%; and the interest she actually pays.
- (b)
- Taxable benefit = £2,500 ($£250,000 \times 1\% = £2,500$).
 - Tax is paid on the full benefit of £2,500 at Saffia's highest rate.
- (c)
- As Melissa's loan is below £10,000;
 - there are no tax implications for her.

Model answer for Question 11

- (a)
- Multiple of salary.
 - Proportion of profits.

(b) **Multiple of salary**

Benefits

Candidates would have gained marks for any two of the following benefits:

- Simplicity.
- Where it's difficult to determine profits/low profits;
- useful if company is new.

Drawbacks

Candidates would have gained marks for any two of the following drawbacks:

- Salary may not be true reflection of earnings.
- May not show individuals true value to business/contribution to profits.
- Does not take into account cost/length of time to replace.

Proportion of profits**Benefits**

- More reflection of contribution of individual.
- More precise/scientific.

Drawbacks

Candidates would have gained marks for any two of the following drawbacks:

- Artificial low profits for tax purposes skews figures;
- if the company is showing a loss.
- Not useful if company is new.

Model answer for Question 12

Candidates would have gained full marks for any seven of the following:

- As they are married and live together;
- there is no chargeable gain between spouses.
- The no gain/no loss rule applies.
- Sally receives the shares at Frankie's original acquisition cost.
- Any gain is deferred to Sally.
- It is fully assessed on Sally when she sells the shares.
- This makes use of both of their annual exempt amounts.
- Entrepreneurs' relief is not available as it is an investment company.

Model answer for Question 13**(a) Buy and Sell**

- Binding contract for sale.
- Beneficiaries must sell to surviving partners/shareholders.
- Surviving partners/shareholders must buy.
- At a previously agreed valuation.

(b) *Candidates would have gained full marks for any four of the following:***Cross Option**

- Beneficiaries have the option to sell.
- Survivors have the option to buy.
- If either takes up the option, it is binding on the other party.
- Exercisable within a set period.
- Using an agreed method of valuation.

(c)

- Own life policy.
- Set up under a business trust.
- With surviving shareholders as trustees.
- Sum assured is at least equal to their share of the business.

Model answer for Question 14**(a) Benefits**

Candidates would have gained marks for any three of the following benefits:

- He saves National Insurance Contributions (NICs) on the bonus given up.
- The employer's NIC savings may be recycled back into his pension scheme at the discretion of the employer.
- He retains/regains his Personal Allowance.
- He will have higher pension benefits.

Drawbacks

Candidates would have gained marks for any three of the following drawbacks:

- No access until age 55.
- Could reduce Death in Service and Income Protection provision that are based on salary.
- May affect mortgage borrowing capacity.

(b) £98,000 + £26,000 = £124,000

£34,500 @ 20% = £6,900

£89,500 @ 40% = £35,800

= £42,700

NICs

£46,350 - £8,424 = £37,926 @ 12%

= £4,551.12

£77,650 @ 2%

= £1,553

= £6,104.12

Total Tax = £48,804.12

Pay Pension/Salary Sacrifice

£11,850 @ 0% = £0

£34,500 @ 20% = £6,900

£51,650 @ 40% = £20,600

= £27,560

NICs

£98,000 - £4,6350 @ 2% = £1,033

+ £4,581.12

= £5,614.12

£48,804.12 - (£27,560 + £5,614.12) = £15,630

Model answer for Question 15

- (a)
- Recycling is where a member takes their tax-free cash (pension commencement lump sum (PCLS) and reinvests it to increase their payments into a pension plan by the additional tax relief.
- (b)
- If the amount received over 12 months;
 - is more than £7,500;
 - if contributions are increased by more than 30% of what might have been expected;
 - if the additional contributions are more than 30% of the PCLS received;
 - and if the recycling was pre-planned.

October 2018 Examination - J03 The tax and legal aspects of business	
Syllabus learning outcomes being examined	
1.	1. Understand the main legal forms of business in the UK.
2.	1. Understand the main legal forms of business in the UK.
3.	1. Understand the main legal forms of business in the UK.
4.	3. Understand the main internal and external options for financing a business.
5.	2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business.
6.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
7.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
8.	5. Understand the impact of employment law on business
9.	3. Understand the main internal and external options for financing a business.
10.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
11.	6. Understand the main principles of business protection insurance.
12.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
13.	6. Understand the main principles of business protection insurance.
14.	7. Understand the role of pensions in a business environment.
15.	7. Understand the role of pensions in a business environment.

All questions in the April 2019 paper will be based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the October 2018 and April 2019 examinations.

INCOME TAX

RATES OF TAX	2017/2018	2018/2019
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£33,500	£34,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

**not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,500	£11,850
Married/civil partners (minimum) at 10% †	£3,260	£3,360
Married/civil partners at 10% †	£8,445	£8,695
Transferable tax allowance for married couples/civil partners	£1,150	£1,190
Income limit for Married couple's allowance †	£28,000	£28,900
Rent a Room relief	£7,500	£7,500
Blind Person's Allowance	£2,320	£2,390
Enterprise Investment Scheme relief limit on £1,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935.

** maximum for 'standard' investment but for 'knowledge intensive' investment, the limit is £2,000,000.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee

Weekly

Lower Earnings Limit (LEL)	£116
Primary threshold	£162
Upper Earnings Limit (UEL)	£892

Total earnings £ per week

CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 162.00*	Nil
162.01 – 892.00	12%
Above 892.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week

CLASS 1 EMPLOYER CONTRIBUTIONS

Below 162.00**	Nil
162.01 – 892	13.8%
Excess over 892.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)

Flat rate per week £2.95 where profits exceed £6,205 per annum.

Class 3 (voluntary)

Flat rate per week £14.65.

Class 4 (self-employed)

9% on profits between £8,424 - £46,350.

2% on profits above £46,350.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

*tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.

MONEY PURCHASE ANNUAL ALLOWANCE	2017/2018	2018/2019
	£4,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2017/2018	2018/2019
Individuals, estates etc	£11,300	£11,700
Trusts generally	£5,650	£5,850
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES

Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

2017/2018

2018/2019

Transfers made on death after 5 April 2015

- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%

Transfers made after 5 April 2015

- Lifetime transfers to and from certain trusts	20%	20%
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A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

Transfers to

- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£100,000	£125,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished*

Lifetime transfers

- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250

Wedding/civil partnership gifts by

- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO₂) emissions. There is no reduction for high business mileage users.

For 2018/2019:

- The percentage charge is 13% of the car's list price for CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 16%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 19%.
- Cars with CO₂ emissions of 95g/km have a percentage charge of 20% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 190g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£23,400 for 2018/2019) e.g. car emission 90g/km = 19% on car benefit scale. 19% of £23,400 = £4,446.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2017/2018 Rates	2018/2019 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

2017/2018 2018/2019

Plant & machinery (excluding cars) 100% annual investment allowance (first year)			
		£200,000	£200,000
Plant & machinery (reducing balance) per annum			
		18%	18%
Patent rights & know-how (reducing balance) per annum			
		25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum			
		8%	8%
Energy & water-efficient equipment			
		100%	100%
Zero emission goods vehicles (new)			
		100%	100%
Qualifying flat conversions, business premises & renovations			
		100%	100%
Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)			
CO ₂ emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2017/2018	2018/2019
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.70	17.20
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group Support Group	Up to 102.15 Up to 109.65	Up to 102.15 Up to 110.75
Attendance Allowance	Lower rate	55.65	57.30
	Higher rate	83.10	85.60
basic State Pension	Single	122.30	125.95
	Married	195.60	201.45
new State Pension	Single	159.55	164.35
Pension Credit	Single person standard minimum guarantee	159.35	163.00
	Married couple standard minimum guarantee	243.25	248.80
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
Bereavement Support Payment**	Higher rate - First payment	3,500.00	3,500.00
	Higher rate - monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		140.98	145.18

*Only applicable where spouse or civil partner died before 6 April 2017.

** Only applicable where spouse or civil partner died on or after 6 April 2017.

CORPORATION TAX

	2017/2018	2018/2019
Standard rate	19%	19%

VALUE ADDED TAX

	2017/2018	2018/2019
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.