

Chartered
Insurance
Institute

J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

April 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 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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Telephone: 020 8989 8464

Email: customer.serv@cii.co.uk

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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 obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

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:

Overall performance was good and compared to previous sessions there was an improvement in key areas of the syllabus. The calculations were in the main tackled well and some good marks were awarded for them.

Areas that showed the most improvement were business protection and the basis of assessment for a sole trader. This was good to see as it shows that candidates are using past papers and taking note of examiners' comments.

Areas that continue to achieve low marks are around employment law, business accounting and the Companies Act 2006.

Question 1

Overall this question on the types of insurance a sole trader can put in place to reduce business risk was answered very well and many candidates gained the maximum marks available.

Question 2

Most candidates were able to state the two ways that a partnership can be created but often did not give enough detail in their explanations of them to gain maximum marks.

Question 3

Most candidates were able to list two of the three documents needed for incorporation i.e. the 'articles of association' and 'memorandum of association' and the very well-prepared candidates were able to list the third document, the IN01 (Application to register a company). The second part of the question which asked candidates to describe briefly the process to achieve incorporation produced varying answers showing less knowledge and preparation.

Question 4

The first part of this question tested the role of a director and a shareholder and most candidates gained both of the marks available. Some candidates also achieved full marks on part (b) when asked to describe the non-statutory duties of a director which was impressive. However, part (c) which tested the rights of minority shareholders was not so well answered by candidates.

Question 5

This question was around audit requirements. Part (a) asked for a list of the conditions that must be met for a limited company to avoid the requirement of an audit and was answered well by many candidates. However, part (b) which tested the main statements that an auditor's report usually contains was not so well answered.

Question 6

Fixed and floating charges have been tested many times in the past and it was pleasing to see that candidates provided confident answers which clearly demonstrated understanding.

Question 7

This question on how expenditure incurred in setting up a sole trader business is treated for tax purposes was not so well answered with few candidates performing well.

Question 8

It was pleasing to see some very good answers to this question. The basis of assessment for sole traders has been answered poorly in the past so it was good to see that candidates had taken note of this and seemed very prepared for this question. Part (c) could have been answered better if candidates had taken time to understand the detail in the question; Henry needed to have paid his whole income tax liability for 2018/2019 as he only started trading in August 2018.

Question 9

Candidates provided some excellent answers to this question on National Insurance contributions with many achieving the maximum marks. Where candidates made a mistake, it was by including the private medical insurance (PMI) benefit in Hollie's calculation and excluding it from the employer's calculation whereas it should have been the other way around; excluded from Hollie's and included in the employer's calculation.

Question 10

Candidates provided mixed answers to this question with few identifying that the office furniture would have qualified for 100% annual investment allowance. Part (a)(ii) was well answered with many candidates identifying the car would have formed part of the special rate pool.

Question 11

This question covered employment law; the first part asked for the key information that has to be provided at the start of a redundancy consultation process and the second part asked for the criteria which must be met to qualify for statutory redundancy pay. Both parts of this question were poorly answered with many candidates failing to gain many of the available marks.

Question 12

This question on statutory paternity pay was also not well answered with few candidates providing enough detail to gain many of the available marks.

Question 13

The criteria that would normally allow premiums on key person policies to be tax deductible for the employer has been tested many times, so it was pleasing to see that part (b) of the question was answered well by most candidates.

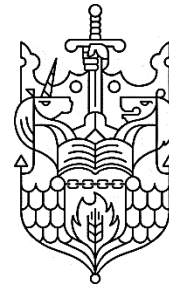
Candidates did struggle however to provide enough detail in part (a) to perform well. This is a key part of the syllabus and candidates should understand in full the financial implications to a company if one of its key employees is unable to work due to long term illness.

Question 14

This question on business protection was answered well, and it was pleasing to see that some candidates achieved the maximum marks available by providing a most comprehensive answer that covered all the important points of a shareholder protection arrangement.

Question 15

This question on a SIPP purchasing a commercial property was answered well with many candidates gaining good marks in the calculations as well as providing comprehensive answers to part (c) to gain equally high marks.



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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. Lavan operates his business as a sole trader.
 - (a) List **four** types of insurance he can put in place to reduce his business risk. (4)
 - (b) Explain for **each** type mentioned in your answer to **part (a)** above the business risk that they cover. (4)
2. State and explain briefly the **two** ways that a partnership can be created under the Partnership Act 1890. (6)
3.
 - (a) List the documents that are needed for a company to incorporate. (3)
 - (b) Describe briefly the process to achieve incorporation. (3)
4.
 - (a) Define the role of a director and a shareholder. (2)
 - (b) Describe **six** non-statutory duties of a director of a limited company. (6)
 - (c) List **four** rights of minority shareholders. (4)
5.
 - (a) List the conditions that must be met for a limited company to avoid the requirement of an audit. (3)
 - (b) Describe briefly the main statements an auditor's report usually contains. (4)
6.
 - (a) Explain briefly the difference between a fixed charge and a floating charge. (2)
 - (b) Explain briefly why lenders prefer a fixed charge rather than a floating charge. (3)

7. Explain how expenditure incurred in setting up a sole-trader business is treated for taxation purposes once trading has started. (5)
8. Henry is self-employed and started trading on 1 August 2018. He makes up his accounts to 31 July. His profits for the year ending 31 July 2019 will be £35,000 and, in the year ending 31 July 2020 his forecasted profits should be £45,000.
- (a) Calculate, **showing all your workings**, where applicable, the profits chargeable to Income Tax in each of the following years:
- (i) 2018/2019. (3)
- (ii) 2019/2020. (1)
- (iii) 2020/2021. (1)
- (b) Explain briefly to Henry how his overlap profits could be used. (4)
- (c) Identify the elements that make up the self-assessment payment Henry will be liable for on the 31 January 2020. (4)
9. Hollie is an employee of a large advertising company. Her salary in the tax year 2018/2019 was £75,000. She also received private medical insurance (PMI); the annual premium for 2018/2019 was £3,500 paid by the company.
- (a) Calculate, **showing all your workings**, Hollie's weekly National Insurance contributions for the tax year 2018/2019. (5)
- (b) Calculate, **showing all your workings**, Hollie's employer's weekly National Insurance contributions for the tax year 2018/2019. (5)

10. Horca & Co is a long-established printing company. The accounting period is 12 months to the 31 March each year. As at 31 March 2017 the written down capital allowance pool was £18,450. During the year ending 31 March 2018 the business made the following acquisitions:
- July 2017 – office furniture £22,000.
 - February 2018 – car with CO² emissions of 160g/km £30,000.
- (a) Calculate, **showing all your workings** the:
- (i) balance carried forward to the general pool; (5)
 - (ii) balance carried forward to the special rate pool. (4)
- (b) State **three** examples of assets the business might buy that would not be included in either the general or special rate pool. (3)
11. (a) State the key information which must be provided to employees at the start of a redundancy consultation process. (5)
- (b) List the criteria which must be met to qualify for statutory redundancy pay. (2)
12. State the key qualifying conditions under which an employee would qualify for Statutory Paternity Pay. (4)
13. Dexter is the chief designer of a fashion company. The directors are concerned about the financial impact on the business should Dexter be unable to work due to long-term illness.
- (a) Describe briefly **five** financial implications to the company should Dexter contract a long-term illness. (5)
- (b) Explain briefly the criteria that normally allow premiums on key person income protection policies to be tax-deductible for the employer. (3)

14. Terry and Jake are equal shareholders in an online design business, NineNine Designs Ltd. They have been discussing shareholder protection. They wish to put in place effective cover in the most flexible and tax-efficient manner possible.

Explain how their shareholder protection should be set-up to satisfy their objectives. (9)

15. Leyton has a self-invested personal pension (SIPP) with a current fund value of £180,000. He wishes to purchase a commercial property which is available for £300,000. Incidental costs of the purchase will be £6,000.

(a) Calculate, **showing all your workings**, the total cost of the property including stamp duty. *Ignore VAT.* (5)

(b) Calculate, **showing all your workings**, the gross contribution required to purchase the property. *Assume maximum borrowing is taken out.* (5)

(c) List the main **tax advantages** of Leyton buying the commercial property via his SIPP as opposed to buying it personally. (8)

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

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

- Professional Indemnity Insurance.
- Product Liability Insurance.
- Public Liability Insurance.
- Employers' Liability insurance.
- Business Interruption Insurance.

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

- **Professional Indemnity Insurance** - to mitigate the risk of being sued for negligent advice.
- **Product Liability Insurance** - to cover any claims arising from incidents caused by his products.
- **Public Liability Insurance** - to cover any claims for injury or damage that occur as a result of his business/or on his business premises.
- **Employers' Liability Insurance** - to cover any claims for employee accident or sickness caused at work.
- **Business Interruption Insurance** - anything that would cause an interruption to business process.

Model answer for Question 2

- By implication; where people 'hold themselves out' to imply/or act in such a way that as a legal consequence a partnership exists.
- Expressly; where two or more people act together with a common view to profit, as evidenced expressly by an oral agreement or by signing a partnership agreement.

Model answer for Question 3

- (a)
- Form IN01.
 - The memorandum of association.
 - The articles of association.
- (b)
- The relevant documents are submitted to Companies House in paper form or by email together with the relevant fees.
 - The Registrar of Companies issues a certificate of incorporation.

Model answer for Question 4

- (a)
- The directors are those who manage the business on a daily basis.
 - The shareholders are owners of the company/investors/take commercial risk.
- (b) *Candidates would have gained full marks for any six of the following:*
Directors must:
- Not make a secret profit.
 - Have certain service contracts approved and available for inspection.
 - Produce annual accounts.
 - Make company information available to the auditors.
 - File the confirmation statement.
 - Provide information on the register of directors and that of the registrar.
 - Record directors' interest in the company.
 - Put contracts in writing where the director is also the sole shareholder.
 - Obtain prior consent of shareholders for substantial property transactions with the company.
- (c) *Candidates would have gained full marks for any four of the following:*
- The right to have an item placed on Annual General Meeting (AGM) agenda.
 - The right to circulate a written statement regarding a proposed resolution.
 - The right not to be unfairly prejudiced.
 - The right to have the company wound up by the Court.
 - The right to call a meeting.

Model answer for Question 5

- (a) Small companies are those that meet two or more of the following:
- Annual turnover of not more than £10.2m.
 - Balance sheet of not more than £5.1m.
 - 50 employees or fewer.
- (b)
- A note on the responsibilities of directors and auditors.
 - Auditor's statement that they have audited the accounts and set out their approach and procedures.
 - A statement that the accounts give a fair and true reflection of the company's accounts and that the accounts have been prepared in accordance with CA 2006.

Model answer for Question 6

- (a)
- A fixed charge is secured on a specific asset.
 - A floating charge is secured on general assets.
- (b)
- Assets with a fixed charge cannot be sold without the lenders permission.
 - Company is free to sell assets under a floating charge.
 - More security is offered by a fixed charge.

Model answer for Question 7

- Provided the expenditure is of a revenue nature and not capital, and incurred within seven years of starting to trade, expenditure is included as an expense in the first year's trading period.

Model answer for Question 8

- (a)
- (i) $2018/2019 = 8 / 12 \times £35,000 = £23,333.33$
 - (ii) $2019/2020 = £35,000$
 - (iii) $2020/2021 = £45,000$
- (b)
- Overlap profits can be carried forward to the final year of trading.
 - Or a tax year where he changes his accounting year end/date.
 - They can be set against profits of that tax year.
 - They are at the original amount/not indexed.
- (c)
- The whole of his Income Tax liability for 2018/2019.
 - The first payment on account for 2019/2020.
 - Class 2 National Insurance Contributions (NICs) since 1 August.
 - Class 4 NICs.

Model answer for Question 9

- (a)
- Class 1 NICs on salary: $£75,000 / 52 = £1,442.31$
 - $£162 \times 0\%$
 - Between $£162$ and $£892 = £730 \times 12\% = £87.60$
 - Over $£892 - £1,442.31 = £550.31 \times 2\% = £11.01$
 - $£87.60 + £11.01 = £98.61$
- (b) Class 1 secondary contributions/Class 1A:
- $£75,000 + £3,500 = £78,500$
 - $£78,500 / 52 = £1,509.62$
 - $£1,509.62 - £162 = £1,347.62$
 - $\times 13.8\%$
 - $= £185.97$

Model answer for Question 10

(a)	(i)		General Pool
		Balance brought forward	£18,450
		Year Ended 31/03/2018	
		Additions Qualifying for AIA	£22,000
		AIA 100% £22,000	-£22,000
		WDA 18% x £18,450	-£3,321
		Balance carried forward	£15,129

(b)	(ii)		Special Rate Pool
		Addition	£30,000
		WDA 8% x £30,000	£2,400
		Balance carried forward	£27,600

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

- Cars costing more than £12,000 purchased before April 2009.
- Short life assets.
- Eco friendly vehicles/energy efficient equipment that qualify for the first-year allowance.
- Assets which don't have a wholly business purpose/used partly for non-business purposes.

Model answer for Question 11

(a) *Candidates would have gained full marks for any five of the following:*

- The reasons for the potential redundancies.
- The number and categories of employees involved.
- The numbers of employees in the categories involved.
- How the employer intends to select employees.
- How the redundancies will be carried out.
- How redundancy pay will be calculated.

(b) • Employees who have at least two years' continuous service since their 18th birthday.

Model answer for Question 12

- The qualifying date is the end of the 15th week before the baby is due.
- The employee must still be working for the employer at the time of the birth.
- The employee must be the child's biological father or the mother's husband or partner.
- The employee must have responsibility for the child's upbringing.

Model answer for Question 13

- (a) *Candidates would have gained full marks for any five of the following:*
- Profits may fall/may lose contracts/cost of finding a replacement.
 - Creditors may no longer be prepared to offer the same facilities during a period of instability.
 - The bank may cancel or restrict overdraft facilities.
 - The bank may ask for loans to be repaid.
 - Finance for new ventures may be less easily available.
 - It may become difficult to meet commitments to existing loans or overdraft payments/cashflow may suffer.
- (b)
- Cover is short term.
 - The relationship is employer/employee.
 - Benefit is paid to the employer to cover loss of profits arising from the key person's absence.

Model answer for Question 14

- The agreement for the purchase of shares should be in a double option (cross option) agreement.
- This will detail the purchase and sale option of the shares.
- This will be backed by own life insurance policies.
- These policies should be written under a business trust to maintain flexibility for additional shareholders to be added/leave.
- The sum assured should be equal to the value of the shares.
- There should be an agreed method of valuation of the shares.
- There should be an agreed timescale to exercise the option.
- Double option agreements retain business relief for IHT.

Model answer for Question 15

(a) Property Value = £300,000

Stamp Duty (SD)

0 - £150,000 x 0% = £0

150,000 - £250,000 x 2% = £100,000 x 2% = £2,000

£250,000+ x 5% = £50,000 x 5% = £2,500

Total SD Due = £4,500

Total Cost = £300,000 + £6,000 + £4,500 = £310,500

(b) Property Price = £310,500

- £180,000 x 50% = £90,000

- £180,000 + £90,000 = £270,000

Shortfall

- £310,500 - £270,000 = £40,500

Contribution

- £40,500 x 2/3 (or /1.5)

- = £27,000

(c) *Candidates would have gained full marks for any eight of the following:*

- Outside of estate for Inheritance Tax purposes.
- Contributions to SIPP get income tax relief.
- Purchase cost effectively reduced by tax relief.
- Rent received by SIPP is tax free.
- Any growth in value of the building is free from Capital Gain Tax (CGT) on sale.
- Rent paid builds up the value of his pension fund.
- Rent paid does not impact on his annual allowance.
- Offers protection against creditors.
- SIPP can be VAT registered so VAT can be reclaimed.

April 2019 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.	1. Understand the main legal forms of business in the UK.
5.	2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business.
6.	3. Understand the main internal and external options for financing a business.
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.	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.
9.	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.
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.	5. Understand the impact of employment law on business.
12.	5. Understand the impact of employment law on business.
13.	6. Understand the main principles of business protection insurance.
14.	6. Understand the main principles of business protection insurance.
15.	7. Understand the role of pensions in a business environment.

All questions in the October 2019 paper will be based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise and should be answered accordingly.

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

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
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**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
Motorcycles	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.