

# J01

## Diploma in Financial Planning

### Unit J01 – Personal tax

July 2011 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2010/2011, unless stated otherwise in the question, and should be answered accordingly.

Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.

Candidates should answer based on the legislative position immediately BEFORE the 2011 budget.

#### 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 handing 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 J01 – Personal tax

### 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 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**

1. List **nine** circumstances in which it will be necessary for a self-assessment tax return to be completed. **(9)**
2. Rebecca, aged 42, is employed on a salary of £65,000 for the tax year 2010/2011. During the tax year, she made a net contribution of £960 to a personal pension and a single charitable donation of £240 via Gift Aid. In addition, Rebecca received £500 dividend income from her UK share portfolio and £125 interest from her UK building society account.
- Calculate, **showing all your workings**, Rebecca's Income Tax liability for the tax year 2010/2011. **(13)**
3. State **nine** circumstances under which an individual is entitled to receive credits for National Insurance contributions. **(9)**
4. Joan has self-employed earnings of £15,000 and employed earnings of £10,000 in the tax year 2010/2011. She is contracted-out of State Second Pension.
- Calculate, **showing all your workings**, her total weekly National Insurance contributions. *Assume a 52 week year.* **(6)**
5. Philip transferred his business to his brother David, but received a payment from him which was less than the current market valuation. Phillip wishes to claim holdover relief on the gift element of the transaction.
- (a) State who must apply for the holdover relief. **(1)**
- (b) If holdover relief is granted, explain:
- (i) the Capital Gains Tax (CGT) implications for Phillip on the transfer of the business to David; **(2)**
- (ii) the CGT implications for David should he sell the business at a later date. **(5)**
6. Jill's earned income, less allowances and reliefs, was £50,000 for the tax year 2010/2011. She sold the following:
- a painting on 23 April 2010 and made a gain of £15,000;
  - shares on 5 May 2010 at a loss of £5,000;
  - her UK holiday home on 10 January 2011 for a gain of £30,000.
- Calculate, **showing all your workings**, the Capital Gains Tax (CGT) payable by Jill for the tax year 2010/2011. *Assume that Jill uses her losses and CGT exemption to her best advantage.* **(7)**

7. Alison has taken to buying and selling goods on the internet.  
HM Revenue & Customs may use a set of indicators, known as 'Badges of Trade', established by the Courts to help decide if such activities are trading and therefore liable for Income or Capital Gains Tax.  
List **six** examples of these indicators. (6)
8. Describe the tax treatment of a Venture Capital Trust. (10)
9. Describe the tax treatment of a Friendly Society 10 year regular premium savings plan on:  
(a) maturity; (2)  
(b) surrender after six years. (7)
10. List **six** circumstances where transactions between individuals involving Pre-owned Assets are exempt or excluded from an Income Tax charge. (6)
11. Neil, a single male, made two gifts to discretionary trusts as shown in the table below. He has made no other gifts.
- | Date of gift | Donee               | Amount of gift |
|--------------|---------------------|----------------|
| 1 Jan 2010   | Discretionary trust | £120,000       |
| 1 Jan 2011   | Discretionary trust | £400,000       |
- Calculate, **showing all your workings**:
- (a) the Inheritance Tax (IHT) payable on the gift to the second discretionary trust, assuming that the Trustees paid the IHT at the time it was made; (7)
- (b) the IHT payable on the gift to the second discretionary trust had Neil elected to pay the IHT at the time it was made. (5)
12. Describe the tax treatment of a:  
(a) Purchased Life Annuity; (6)  
(b) Immediate Needs Annuity. (4)

Questions continue over the page

- 13.** Arnold, a widower, gifts £200,000 into a bare trust for the benefit of his son. He dies five years later having made no other gifts. The value of Arnold's estate upon his death was £300,000 and he has no carry forward Nil Rate Band from his former spouse.
- (a)** Explain the impact of the gift on the Inheritance Tax (IHT) liability for Arnold's estate on his death. *No calculation is required.* **(7)**
- (b)** State when the IHT on his estate is due to be paid. **(2)**
- 14.** Describe briefly the conditions that would need to be fulfilled for an individual who was previously residing abroad to be regarded as a UK resident for UK tax purposes. **(7)**
- 15.** Alfred is resident, but not domiciled, in the UK and has both foreign and UK sources of income and gains. For the tax year 2010/2011 he has elected to be taxed on the remittance basis.
- (a)** Explain how Alfred will be taxed on both his remitted and UK generated income and gains, if his unremitted foreign income and gains are more than £2,000. **(6)**
- (b)** State what difference it will make if his unremitted foreign income and gains are less than £2,000. **(3)**

The tax tables can be found on pages 8 – 12

# INCOME TAX

RATES OF TAX	2009/2010	2010/2011
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	N/A	50%
Starting-rate limit	£2,440*	£2,440*
Threshold of taxable income above which higher rate applies	£37,400	£37,400
Threshold of taxable income above which additional rate applies	N/A	£150,000

\*restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.

## MAIN PERSONAL RELIEFS

Income limit for Personal Allowance §	N/A	£100,000
Personal Allowance (basic) §	£6,475	£6,475
Personal Allowance (age 65-74) §	£9,490	£9,490
Personal Allowance (aged 75 and over) §	£9,640	£9,640
Married/civil partners (minimum) at 10% †	£2,670	£2,670
Married/civil partners (age 75 and over) at 10%	£6,965	£6,965
Income limit for age-related allowances	£22,900	£22,900
Blind person's allowance	£1,890	£1,890
Enterprise Investment Scheme relief limit at 20%	£500,000	£500,000
Venture Capital Trust relief limit at 30%	£200,000	£200,000

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age from 2010/2011.

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

Child Tax Credit (CTC)		
- family element	£545	£545
- family element baby addition	£545	£545
CTC usually reduced by 6.67% of joint income over	£50,000	£50,000

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£97	£421	£5,044
Primary threshold	£110	£477	£5,715
Upper Earnings Limit (UEL)	£844	£3,656	£43,875
Upper Accruals Point	£770	£3,337	£40,040

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate
Up to 110.00*	Nil	Nil
110.01 – 770.00	11%	9.4%
770.01 – 844.00	11%	11%
Above 844.00	1%	1%

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	Money purchase
Below 110.00**	Nil	Nil	Nil
110.01 – 770.00	12.8%	9.1%	11.4%
770.01 – 844.00	12.8%	12.8%	12.8%
Excess over 844.00	12.8%	12.8%	12.8%

\* This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £97 per week. This £97 to £110 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

\*\* Secondary earnings threshold.

<b>Class 2 (self-employed)</b>	Flat rate per week £2.40 where earnings exceed £5,075 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £12.05
<b>Class 4 (self-employed)</b>	8% on profits between £5,715 - £43,875 plus 1% on profits above £43,875

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000

### NOTIONAL EARNINGS CAP

£123,600 – (For schemes that require post-1989 benefits to be still subject to a cap).

### ANNUAL ALLOWANCE CHARGE

40% member's tax charge on the amount of total pension input in excess of the annual allowance.

### 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.

# INHERITANCE TAX

RATES OF TAX ON DEATH	2009/2010	2010/2011			
Transfers made after 5 April 2010					
- Up to £325,000	Nil	Nil			
- Excess over £325,000	40%	40%			
- Lifetime transfers to and from certain trusts	20%	20%			
<b>MAIN EXEMPTIONS</b>					
Transfers to					
- UK-domiciled spouse/civil partner	No limit	No limit			
- non-UK-domiciled spouse/civil partner (from UK domiciled spouse)	£55,000	£55,000			
- UK-registered charities	No limit	No limit			
Lifetime transfers					
- annual exemption per donor	£3,000	£3,000			
- small gifts to same person	£250	£250			
Wedding/civil partnership gifts by					
- parent	£5,000	£5,000			
- grandparent/party to marriage/civil partnership	£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%

## CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO<sub>2</sub>) emissions. There is no reduction for high business mileage users.

### For 2010/2011:

The percentage charge is 15% of the car's list price for CO<sub>2</sub> emissions at or below the qualifying level of 130g/km.

The base percentage charge of 15% increases in 1% steps for every additional full 5g/km over the 130g/km threshold, up to a maximum of 35% of the car's list price.

A lower percentage charge of 10% of the car's list price applies for emissions at or below 120g/km and 5% for emissions at or below 75g/km.

If price of car exceeds £80,000 then its price for tax purposes will be fixed at £80,000.

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards or registered after 31 December 2005. However, the maximum charge remains 35% of the car's list price.

**Car fuel** The benefit is calculated as the CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£18,000 for 2010/2011) e.g. car emission 160g/km = 21% on car benefit scale. 21% of £18,000 = £3,780.

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 Contributions (Class 1A) of 12.8%.

## PRIVATE VEHICLES USED FOR WORK

### 2010/2011 Rates

#### Cars

On the first 10,000 business miles in tax year 40p per mile  
 Each business mile above 10,000 business miles 25p per mile

#### Motor Cycles

24p per mile

#### Bicycles

20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

### 2010/2011

Plant & machinery 100% annual investment allowance (first year)	£100,000
Plant & machinery (reducing balance) per annum	20%
Patent rights & know-how (reducing balance) per annum	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	10%
Industrial & agricultural buildings (straight line)	1%
Energy & water-efficient equipment	100%
Zero emission goods vehicles (new)	100%
Qualifying flat conversions, business premises & renovations	100%

#### Motor cars: Expenditure on or after 01/04/09 (Corporation Tax) or 06/04/09 (Income Tax)

CO <sub>2</sub> emissions of g/km:	110 or less *	111-160	161 or more
Capital allowance:	100%	20%	10%
	first year	reducing balance	reducing balance

\* If new

Research & Development: Capital expenditure	100%
Revenue expenditure: Small/medium companies:	175%
Large companies:	130%

## MAIN SOCIAL SECURITY BENEFITS

### 2009/2010    2010/2011

		£	£
Child Benefit	first child	20.00	20.30
	subsequent children	13.20	13.40
Incapacity Benefit	short-term lower rate*	67.75	68.95
	short-term higher rate*	80.15	81.60
	long-term rate	89.80	91.40
Attendance Allowance	lower rate	47.10	47.80
	higher rate	70.35	71.40
Retirement Pension	single	95.25	97.65
	married	152.30	156.15
Pension Credit	single person standard minimum guarantee	130.00	132.60
	married couple standard minimum guarantee	198.45	202.40
	maximum savings ignored in calculating income	6,000.00	10,000.00
Bereavement Benefit (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		95.25	97.65
Jobseekers Allowance		64.30	65.45

\* under State Pension Age

## CAPITAL GAINS TAX

### RATES OF TAX

Chargeable gains, less allowable losses, are charged to tax as follows from 23 June 2010:

- for individuals who are non-taxpayers or basic-rate taxpayers, the rate chargeable is 18%.
- for individuals who are higher-rate taxpayers or additional-rate taxpayers, the rate chargeable is 28%.
- for trustees of trusts and personal representatives the rate chargeable is 28%.
- Entrepreneurs' Relief reduces the rate to 10% on qualifying assets subject to a lifetime limit of £5,000,000.

### ANNUAL EXEMPTION

- The annual exemption is £10,100.
- Most trusts have an annual exemption of £5,050.

### CHATELS EXEMPTION

- Gains on chattels are exempt if proceeds do not exceed £6,000 per item.

## CORPORATION TAX

	2009/2010	2010/2011
Full rate	28%	28%
Small companies rate	21%	21%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	29.75%
Upper marginal limit	£1,500,000	£1,500,000

## VALUE ADDED TAX

Standard rate to 03/01/11	17.5%
Standard rate from 04/01/11	20%
Annual Registration limit	£70,000

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