THE CHARTERED INSURANCE INSTITUTE

J01

Diploma in Financial Planning

Unit J01 – Personal tax

October 2011 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2011/2012, 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.

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 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. Fiona is a landscape gardener and pays tax via self-assessment.

(a) List the factors that HM Revenue & Customs (HMRC) will take into account when deciding if she is self-employed. **(8)**

(b) State any penalties HMRC may impose should she submit her tax return late. **(4)**

2. Explain the rules regarding payment of Class 3 National Insurance contributions. **(6)**

3. Kimberley owns and operates a photography business as a sole trader. For the tax year 2011/2012, her gross profit is £210,000 and she also purchased a new photo processor for the business at a cost of £65,000.

She owns a portfolio of UK shares that have paid a net dividend of £4,600 in the tax year 2011/2012, and she has also received net interest on her personal savings of £5,440.

In September 2011, Kimberley purchased £60,000 of Venture Capital Trust shares.

Calculate, **showing all your workings**, Kimberley's personal Income Tax liability for the tax year 2011/2012. **(13)**

4. Explain briefly the rules regarding the taxation of children's bank and building society savings accounts. **(6)**

5. Ian, aged 55, is self-employed and earns £64,000 from his business in the tax year 2011/2012.

Calculate, **showing all your workings**, Ian's National Insurance liability for the tax year 2011/2012. *Assume a 52 week year.* **(6)**

6. Bradley, aged 68, has an income of £23,500 in the tax year 2011/2012. He is considering encashing a UK investment bond that will produce a significant gain.

Explain how this may impact on his personal allowance. *No calculation is required.* **(7)**

7. Catherine, a higher-rate taxpayer, purchased a property for £225,000 on 1 March 1990. She sold the property on 31 August 2011 for £860,000. She has never rented out the property and lived there as her only main residence apart from the following periods:

- 1 May 1995 – 30 April 1997, when she lived with her partner and classed that home as her main residence;
- 1 September 2009 – 31 August 2011, when she was caring for her mother, after which she did not return to the property.

(a) Explain briefly how HM Revenue & Customs will view each period of absence from her property in respect of any potential exemption she may receive from Capital Gains Tax (CGT). **(4)**

(b) Calculate, **showing all your workings**, any CGT liability that Catherine will have on the sale of her property. *She has not made any other disposals this year.* **(7)**

8. Samia is disposing of some personal assets in the tax year 2011/2012 and she expects to make a capital gain on these disposals. Samia has losses from the previous three tax years and also expects to make a loss on a separate disposal in the tax year 2011/2012.

Explain briefly to Samia how her losses may be used to minimise her gains in the current and future tax years and give details of any tax that could potentially be payable. *No calculation is required.* **(5)**

9. State the conditions that must be met in order to qualify for the relief available for furnished holiday lets. **(6)**

10. Hazel has employment income totalling £68,000 in the tax year 2011/2012 and other savings and investment income of £22,000. She sold her directly held UK gilts and her UK investment trust shares, making gains on both which totalled £37,000. These were her only disposals.

Explain how her income and gains from these investments will be taxed. *No calculation is required.* **(8)**

11. In January 2006, Jim gifted to his daughter his holiday cottage in Cornwall which, at that time, was valued at £180,000. He continued to use the cottage for holidays up until his death in September 2011, at which time the cottage was valued at £195,000. Jim had not previously made any lifetime gifts.

Explain briefly how this gift would be treated for Inheritance Tax purposes during Jim's lifetime and on his death if:

(a) a market rent was paid; **(3)**

(b) a market rent was not paid. **(5)**

No calculation is required.

Questions continue over the page

12. John, a basic-rate tax payer, took out a 10 year endowment policy on 1 July 2004. He sold the policy on the second hand market to Damian on 1 July 2011.

(a) Explain briefly any potential tax liability for John on the sale. **(6)**

(b) Explain briefly to Damian any potential tax liability on eventual maturity. *Assume he is a higher-rate tax payer when the policy matures.* **(5)**

13. Alison died on 1 May 2007, leaving her estate to her husband, Angus. She made a gift of £36,000 to her sister in July 2005 before her death. She had made no other gifts. *Nil Rate Band in the tax year 2007/2008 was £300,000.*

Angus made a gift of £400,000 to his son on 1 August 2007, and a further gift of £400,000 to his daughter on 1 September 2007. He had made no other gifts.

Angus died on 1 October 2011, leaving his estate to his children. His estate on death comprised:

- a well established family newsagent's shop valued at £250,000;
- a property valued at £300,000;
- a UK share portfolio valued at £150,000.

Calculate, **showing all your workings**:

(a) any Inheritance Tax (IHT) due on the gifts Angus made prior to his death, stating who is liable for the tax due on the gifts; **(9)**

(b) the IHT due on his estate. **(4)**

14. Peter is UK domiciled and resident. He has just accepted a two year contract to work in Germany and plans to return to the UK to visit family.

Explain his UK residency status when he leaves for Germany and how his visits home may affect his UK residency status. **(8)**

15. Miriam is Spanish domicile by birth but has been informed that she is deemed UK domicile.

(a) Explain briefly to Miriam the difference between domicile of origin and deemed domicile. **(3)**

(b) List **seven** factors which HM Revenue & Customs could consider to establish Miriam has UK domicile. **(7)**

The tax tables can be found on pages 8 – 12

INCOME TAX

RATES OF TAX	2010/2011	2011/2012
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	50%
Starting-rate limit	£2,440*	£2,560*
Threshold of taxable income above which higher rate applies	£37,400	£35,000
Threshold of taxable income above which additional rate applies	£150,000	£150,000

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

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£6,475	£7,475
Personal Allowance (age 65-74) §	£9,490	£9,940
Personal Allowance (aged 75 and over) §	£9,640	£10,090
Married/civil partners (minimum) at 10% †	£2,670	£2,800
Married/civil partners (age 75 and over) at 10%	£6,965	£7,295
Income limit for age-related allowances	£22,900	£24,000
Blind Person's Allowance	£1,890	£1,980
Enterprise Investment Scheme relief limit on £500,000 max	20%	30%
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.*
† *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	Withdrawn
CTC usually reduced by 41% of joint income (6.67% for 2010/2011) over	£50,000	£40,000

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£102	£442	£5,304
Primary threshold	£139	£602	£7,225
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£817	£3,540	£42,475

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate
Up to 139.00*	Nil	Nil
139.01 – 770.00	12%	10.4%
770.01 – 817.00	12%	12%
Above 817.00	2%	2%

** This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £102 per week. This £102 to £139 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	*Money purchase*
Below 136.00**	Nil	Nil	Nil
136.01 – 770.00	13.8%	10.1%	12.4%
770.01 – 817.00	13.8%	13.8%	13.8%
Excess over 817.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.50 where earnings exceed £5,315 per annum.
Class 3 (voluntary)	Flat rate per week £12.60.
Class 4 (self-employed)	9% on profits between £7,225 - £42,475 plus 2% on profits above £42,475.

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
2011/2012	£1,800,000	£50,000

ANNUAL ALLOWANCE CHARGE
20% - 50% 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 TRANSFERS	2010/2011	2011/2012
Transfers made after 5 April 2011		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTIONS		
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 exemption per donor	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent	£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 (CO2) emissions. There is no reduction for high business mileage users.

For 2011/2012:
The percentage charge is 15% of the car's list price for CO2 emissions at or below the qualifying level of 125g/km.

- Cars with CO_2 emissions of less than 75g/km have an appropriate percentage of 5%.
- Cars with CO_2 emissions of 76g/km to 120g/km have an appropriate percentage of 10% and thereafter the rate is 15% increasing by 1% for every 5g/km to the current maximum of 35% (emissions of 225g/km and above).

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

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£18,800 for 2011/2012) e.g. car emission 155g/km = 21% on car benefit scale. 21% of £18,800 = £3,948

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 13.8%.

PRIVATE VEHICLES USED FOR WORK

2011/2012 Rates

Cars	
On the first 10,000 business miles in tax year	45p 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

	2011/2012
Plant & machinery (excluding cars) 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%
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_2 emissions of g/km:	110 or less *	111-160	161 or more
Capital allowance:	100% first year	20% reducing balance	10% reducing balance

* If new

Research & Development:	Capital expenditure	100%

MAIN SOCIAL SECURITY BENEFITS

		2010/2011	**2011/2012**
		£	**£**
Child Benefit	first child	20.30	20.30
	subsequent children	13.40	13.40
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	N/A	Up to 53.45
	Aged 25 or over	N/A	Up to 67.50
	Main Phase		
	Work Related Activity Group	N/A	Up to 94.25
	Support Group	N/A	Up to 99.85
Attendance Allowance	lower rate	47.80	49.30
	higher rate	71.40	73.60
Retirement Pension	single	97.65	102.15
	married	156.15	163.35
Pension Credit	single person standard minimum guarantee	132.60	137.35
	married couple standard minimum guarantee	202.40	209.70
	maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		97.65	100.70
Jobseekers Allowance	Age 16 - 24		53.45
	Age 25 or over	65.45	67.50

CAPITAL GAINS TAX

EXEMPTIONS	2010/2011	2011/2012
Individuals, estates etc	£10,100	£10,600
Trusts generally	£5,050	£5,300
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	18%/28%*	28%
Trustees and Personal Representatives	18%/28%*	28%
Entrepreneurs' Relief – Gains taxed at:	10%	10%
Lifetime limit	£5,000,000/ £2,000,000**	£10,000,000

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

**18% rate applies to disposals on or before 22/06/10. 28% thereafter.*
***For disposals 06/04/10 to 22/06/10: £2,000,000. £5,000,000 until 05/04/11*

CORPORATION TAX

	2010/2011	2011/2012
Full rate	28%	26%
Small companies rate	21%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	27.5%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2011/2012
Standard rate	20%
Annual Registration limit	£73,000

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