J01

THE CHARTERED INSURANCE INSTITUTE

FRIDAY 23 APRIL 2010

DIPLOMA IN FINANCIAL PLANNING
J01 – PERSONAL TAX

SPECIAL NOTICES

- **All questions in this paper are based on English law and practice applicable in the tax year 2009/2010, unless stated otherwise 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 2010 Budget.**

INSTRUCTIONS

- **Two hours are allowed for this paper.**
- **Read the instructions overleaf carefully before answering any questions.**
- Fill in the information requested on the answer book and form B.
- 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 and you must enter the serial number, model and make on the 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.**

THE CHARTERED INSURANCE INSTITUTE

J01 – Personal tax

CANDIDATE INSTRUCTIONS

READ THE INSTRUCTIONS BELOW BEFORE ANSWERING ANY QUESTIONS

Two hours are allowed for this paper.

The paper consists of 15 short answer questions and carries a total of 130 marks.

Read carefully the questions and information provided. 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.

Any rough notes made in your answer book must be crossed through before you hand it in.

Tax tables are provided at the back of the paper.

Answer each question on a new page and leave six lines blank after each question part.

It is important to show all steps in a calculation, even if you have used a calculator.

Please ensure that you understand the Special Notices printed in the box on the front page.

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. Explain the factors HM Revenue & Customs (HMRC) will consider when determining whether an individual is employed or self-employed. **(9)**

2. State the late or underpayment penalties that HM Revenue & Customs (HMRC) impose for individuals who are taxed under self-assessment. **(8)**

3. Jodie, aged 36, is employed and earns £44,000 per annum. She receives weekly child care vouchers of £68 from her employer and contributes £1,200 per annum to her occupational pension scheme.

Jodie received £1,000 interest from her on-shore building society savings account and dividend income of £240 from her UK share portfolio.

Calculate, **showing all your workings**, Jodie's Income Tax liability for the tax year 2009/2010. **(12)**

4. Describe briefly the circumstances in which National Insurance Contribution Credits are given. **(8)**

5. Andrew is employed and is a member of his employers' contracted-out final salary pension scheme earning £850 per week.

Calculate, **showing all your workings**, Andrew's weekly National Insurance liability including any **rebate**. **(10)**

6. Lucy is a director of a marketing company formed many years ago. She owns all of the ordinary share capital and has been a director of the company throughout. The business also owns its own offices.

As Lucy approaches retirement she has been considering either passing the business to her son, or selling the offices and continuing with the business in another part of the country.

(a) Explain briefly how holdover relief may apply if she gifts her company shares to her son. **(4)**

(b) Explain briefly how rollover relief could assist in mitigating tax, if Lucy sells her company premises. **(4)**

7. Explain the potential tax benefits of the following investments:

(a) Woodlands; **(4)**

(b) Permanent interest bearing shares (PIBS). **(2)**

8. Bill bought a house on 31 March 1995 for £125,000. He used it as his main residence until 1 April 2000, when he bought a second property which became his main residence. He sold the first house for £295,000 on 1 April 2010 having made no other disposals. He owns no other property.

Calculate, **showing all your workings**, Bill's Capital Gains Tax (CGT) liability on the sale. **(7)**

9. Wendy took out a qualifying with-profits policy in February 2002. The policy was set up with a term of 12 years and she sold the policy in December 2009, having paid all monthly premiums due.

Explain the tax liability on the sale. **(7)**

10. Martha was born on 15 May 1942. She purchased an investment bond for £18,000 and encashed it nine years later for £20,000 in the tax year 2009/2010. She has taken a 5% withdrawal every year from her bond since inception. The only other income she has is a pension of £15,000 per annum.

Calculate, **showing all your workings**, Martha's personal allowance after the encashment. **(8)**

11. Amanda is a widow. She gifted £300,000 to her son on 18 July 2004 and gifted a further £300,000 to her daughter on 18 July 2005. She died on 20 February 2010, having made no other gifts. Describe how the gift for each child will be treated for Inheritance Tax (IHT). Include any relief or exemptions that may apply. Her husband used up his full nil rate band (NRB) on death. *No calculation required.* **(9)**

12. Richard was born on 5 October 1956 and is employed with an income of £65,000 per annum. Explain the tax treatment of contributions to, and income received from, the following investments; include any limitations to the amounts that may be invested.

(a) Individual savings account (ISA). **(7)**

(b) Stakeholder personal pension. **(5)**

13. Jane, a UK domicile, married Bjorn eight years ago. Bjorn lives in the UK but has retained his Danish domicile. Jane ran a photography business, which she had owned for many years and was valued at £850,000 at the date of her death.

On 1 January 2009, Jane gave her sister Anne an outright gift of £120,000. No other gifts have been made.

Jane died on 1 March 2010, leaving her estate to Bjorn. Her estate comprised of her home, valued at £624,000, which she owned equally with Bjorn as tenants in common, and investments valued at £230,000, which she held in her own name.

Calculate, **showing all your workings**, the amount of Inheritance Tax (IHT) payable on Jane's death and who is liable to pay any tax due. **(10)**

14. James, a UK domicile and resident, has accepted a five year contract to work in Germany. He expects to return to the UK frequently to see family and attend business meetings.

Describe the main tests to determine whether James would be classed as a UK resident for Income Tax purposes. **(8)**

15. In respect of a non-domiciled UK resident who has elected to be taxed on the remittance basis, state:

(a) who else is classed as a relevant person, as defined by the rules for receipt of their remitted income; **(3)**

(b) any exemptions from the rules defining property purchased out of foreign income. **(5)**

TAX TABLES

INCOME TAX RATES

2009/2010		2008/2009	
Rate	**Band**	**Rate**	**Band**
%	**£**	**%**	**£**
10	1 - 2,440*	10	1 – 2,320*
20	1 – 37,400	20	1 – 34,800
40	Over 37,400	40	Over 34,800

* A new 10% starting rate is applied for savings income only from 06.04.2008. Only applicable where non-savings income after allowances is under £2,440 for 2009/2010.

NATIONAL INSURANCE CONTRIBUTIONS

2009/2010 Rates

Class 1 Employee	**Weekly**	**Monthly**	**Yearly**
	£	**£**	**£**
Lower Earnings Limit (LEL)	95	412	4,940
Upper Earnings Limit (UEL)	844	3,656	43,875
Upper Accruals Point	770	3,337	40,040

	Class 1 Employee contributions 2009/2010	
Total earnings £ per week	**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

	Class 1 Employer contributions 2009/2010		
Total earnings £ per week	**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 £95 per week. This £95 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.

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

INCOME TAX RELIEFS

	2009/2010 £	2008/2009 £
Personal (basic)	6,475	6,035
Personal (age 65-74)	9,490	9,030
Personal (aged 75 and over)	9,640	9,180
Married/civil partners (minimum) at 10% †	2,670	2,540
Married/civil partners (age under 75) at 10% †	N/A	6,535
Married/civil partners (age 75 and over) at 10%	6,965	6,625
Age-related relief reduced by 50% of income over	22,900	21,800
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
Blind person's allowance	1,890	1,800
Enterprise Investment Scheme relief limit @ 20%	500,000	500,000
Venture Capital Trust relief limit @ 30%	200,000	200,000

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

PENSIONS

Lifetime Allowance		Annual Allowance	
2006/2007	£1.5 million	2006/2007	£215,000
2007/2008	£1.6 million	2007/2008	£225,000
2008/2009	£1.65 million	2008/2009	£235,000
2009/2010	£1.75 million	2009/2010	£245,000
2010/2011	£1.8 million	2010/2011	£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.

CAR AND FUEL BENEFITS

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2009/2010:
The percentage charge is 15% of the car's list price for CO_2 emissions at or below the qualifying level of 135g/km.
The base percentage charge of 15% increases in 1% steps for every additional full 5g/km over the 135g/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.

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_2 emissions % relevant to the car and that % applied to a set figure (£16,900 for 2009/2010) e.g. car emission 160g/km = 20% on car benefit scale. 20% of £16,900 = £3,380.

Notes:

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

2009/2010 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

INHERITANCE TAX

	2009/2010	2008/2009
Nil-rate band*	£325,000	£312,000
Rate of tax on excess	40%	40%
Lifetime transfers to and from certain trusts	20%	20%
Overseas domiciled spouse/civil partner exemption	£55,000	£55,000

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
% of death charge	100	80	60	40	20
Annual exempt gifts	£3,000 per donor			£250 per donee	

* From 8 October 2007 up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band can be claimed on the surviving spouse's/civil partner's death.

MAIN SOCIAL SECURITY BENEFITS

		From 06.04.09 £	From 06.04.08 £
Child Benefit	first child	20.00	20.00*
	subsequent children	13.20	13.20*
Incapacity Benefit	short-term lower rate**	67.75	63.75
	short-term higher rate**	80.15	75.40
	long-term rate	89.80	84.50
Attendance Allowance	lower rate	47.10	44.85
	higher rate	70.35	67.00
Retirement Pension	single	95.25	90.70
	married	152.30	145.05
Pension Credit	single person standard minimum guarantee	130.00	124.05
	married couple standard minimum guarantee	198.45	189.35
	maximum savings ignored in calculating income	6,000	
	increased from November 2009	10,000	
Bereavement Benefit (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		95.25	90.70
Jobseekers Allowance		64.30	60.50

* From 5 January 2009
** Under State Pension Age

VALUE ADDED TAX

Standard rate	15%*/17.5%**
Annual registration limit - from 1 May 2009	£68,000

* Effective from 1 December 2008
** Effective from 1 January 2010

CORPORATION TAX

Financial Year	**2009** to 31/3/10	**2008** to 31/3/09
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

CAPITAL ALLOWANCES

Plant & machinery 100% annual investment allowance (first year)			£50,000
Plant & machinery in excess of annual investment allowance (first year)			40%
Plant & machinery, patent rights, know-how (reducing balance) per annum			20%
Certain long-life assets, integral features of buildings (reducing balance) per annum			10%
Industrial & agricultural buildings (straight line)			2%
Energy & water-efficient investments			100%
Qualifying flat conversions & business premises renovations			100%
Motor cars:	with emissions in excess of 160g/km		10%
	generally		20%*
	with CO_2 emissions of 110g/km or less		100%
Research & Development:	Capital expenditure		100%
	Revenue expenditure	- small/medium-size firms	175%
		- large firms	130%

* Maximum £3,000

CAPITAL GAINS TAX

Exemptions		**2009/2010**	**2008/2009**
Individuals, estates etc		£10,100	£9,600
Trusts generally		£5,050	£4,800
Chattels proceeds (5/3 excess gain is taxable)		£6,000	£6,000
Rates	Individuals	18%	18%
	Trusts and estates	18%	18%

ENTREPRENEURS' RELIEF

Entrepreneurs' Relief 2009/2010
4/9^{ths} of gain tax free. Lifetime limit eligible for relief: £1,000,000
For trading businesses and companies (minimum 5% employee shareholding) held for 1yr+

BLANK PAGE

BLANK PAGE

BLANK PAGE