



J01

THE CHARTERED INSURANCE INSTITUTE

WEDNESDAY 21 OCTOBER 2009

**DIPLOMA IN FINANCIAL PLANNING
J01 – PERSONAL TAX**

SPECIAL NOTICE

- **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.**

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.**

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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 Notice 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. Susan is a self-employed lecturer. Her Income Tax payable for the tax year 2008/2009 was £13,500, of which £6,125 was paid on account for the tax year 2008/2009, prior to submission of her tax return. She has advised you that her Income Tax liability for the tax year 2009/2010 will be £15,600.

State the latest dates by which Susan will have to make payments of Income Tax, in respect of the tax year 2009/2010, without incurring any penalties. For **each** date identified, state the amounts payable, including any tax due in respect of other tax years. (8)

2. (a) Explain briefly the circumstances in which an employee will pay tax on benefits-in-kind. (2)

(b) State the rules governing the circumstances in which directors are not subject to taxation on the receipt of benefits-in-kind. (3)

3. Explain briefly the tax treatment and limitations of investing in a Venture Capital Trust (VCT). (8)

4. Brian, aged 58, is a self-employed marketing consultant. He will make a gross profit of £80,000 in the tax year 2009/2010. His accounting year is the same as the tax year.

This year, he has also spent £15,000 on a new telephone and computer system for the business. He has contributed £7,000 to his Retirement Annuity Contract (section 226), received £2,000 net income from his building society account and net dividends of £2,750 from his share portfolio.

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

5. State the rules that apply for an individual to be eligible to make Class 3 National Insurance contributions. (6)

6. Gordon, aged 50, is a self-employed builder. His net profit from self-employment will be £35,715 this year.

Calculate, **showing all your workings**, the National Insurance contributions Gordon will pay for the tax year 2009/2010. (6)

7. Explain an individual's liability to Capital Gains Tax and Income Tax when investing in:
- (a) a UK equity accumulation fund, within an open-ended investment company (OEIC); (7)
 - (b) an offshore equity, non-distributor fund. (4)
8. June, a widow, wants to reduce the value of her estate in order to mitigate Inheritance Tax (IHT). She is considering transferring ownership of her holiday home to her two daughters. June would still like to continue using the holiday home. She has made no other gifts.
- Explain, in detail, the IHT consequences of the transfer and how June's continued use of the holiday home may impact on her IHT planning. (10)
9. After 10 years, Sarah decided to sell her software business in which she held 100% of the share capital. She made a gain of £2,000,000 on the sale of the business in September 2009.
- Calculate, **showing all your workings**, the Capital Gains Tax Sarah will pay in the tax year 2009/2010, assuming she makes no other disposals this year. (7)
10. Explain to Robert, aged 59, how regular payments would be taxed for **each** type of taxpayer from each of the following investments:
- (a) an onshore investment bond; (5)
 - (b) a Purchased Life Annuity. (6)
11. Maria has Spanish-domicile and has lived in the UK for the past 12 years. She holds considerable investments in Spain and would like some advice on her UK tax position.
- Explain the choice Maria has in respect of the taxation of her foreign income and gains and the consequences of that choice. (9)
12. Amanda is considering renting out two of the bedrooms in her three bedroom house. Explain briefly to Amanda:
- (a) the rent-a-room relief rules; (6)
 - (b) the **two** ways in which income from the bedrooms could be taxed if Amanda were to receive £300 per month from each. (2)

13. Ruth Parker died in July 2009 and left the following estate:

	£
Main Residence	590,000
Individual Savings Accounts (ISAs)	80,000
Investment bond	150,000
National Savings Certificate	60,000

Ruth made a gift of £100,000 to her daughter in February 2006. No other gifts have been made. Her husband, David, died in October 2008, having used £78,000 of his nil rate band at that time.

Calculate, **showing all your workings**, the Inheritance Tax now due on Ruth's estate. (10)

14. David McHugh sold a rental property in August 2009 and is considering investing the proceeds. He has made a gain of £35,250 over the six years that he owned the property and has a £29,600 loss to bring forward. Before he invests, he would like an estimate of the likely tax liability relating to the recent sale. He has made no other disposals this year.

(a) Calculate, **showing all your workings**, the Capital Gains Tax position after the recent sale. (5)

(b) Explain briefly to David how the calculation in (a) above would have differed, if the losses had arisen in the same tax year that the gain was made. (4)

15. Veronique has French-domicile but has been resident in the UK for the last three years. She runs a dressmaking business from the UK and owns homes in both the UK and France.

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

(b) State her liability to Inheritance Tax, should she die. (2)

(c) Veronique's sister comes to stay frequently. Explain to her sister how she can ensure she does not become classed as a UK resident for Income Tax purposes. (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 (CO₂) 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 CO₂ 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 CO₂ 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

	0-3	3-4	4-5	5-6	6-7
Years before death					
% 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 CO2 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+

