



Chartered  
Insurance  
Institute

# J03

## Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

April 2018 Examination Guide

### SPECIAL NOTICES

Candidates entered for the October 2018 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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## 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](http://www.cii.co.uk) or from Customer Service. 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 purchase copies of the most recent Examination Guides online at [www.cii.co.uk](http://www.cii.co.uk). CII members can download free copies of older Examination Guides online at [www.cii.co.uk/knowledge/](http://www.cii.co.uk/knowledge/).

### **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/](http://www.cii.co.uk/qualifications/assessment-information/introduction/). This is *essential reading* for all candidates. For further information contact Customer Service.

## In the examination

### The following will help:

#### Spending 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:

The standard of candidate in this examination session did vary somewhat but there were some very good results demonstrating excellent knowledge and exam technique.

The areas that stood out where good knowledge was displayed including the question on small self-administered pension schemes, ordinary shares and debentures and the calculation questions were also well tackled.

Sections of the paper did however cause some difficulty in particular the question on automatic accrual where a lack of knowledge was demonstrated on what can be considered a key part of the J03 syllabus. Also how a sole trader will be taxed in the early years caused some difficulty and again this must be considered as a key part of this syllabus.

Candidates are reminded to read the questions carefully and use any information given in the question to relate and support their answers.

### Question 1

This question was reasonably well answered with the majority of candidates realising the small self-administered personal pension scheme (SIPP) and the life policy under trust would be out of reach of the trustee in bankruptcy. A pleasing number of candidates also quoted the recent case where it was decided that members cannot be forced to draw benefits despite being over the age of 55.

### Question 2

Most candidates stated the duty of good faith that Billy owed to Paul and Adedayo and that the estate agency would unlikely be a competing business.

### Question 3

There were some very good answers to this question with a pleasing number of candidates appreciating the differences between ordinary shares and debentures to gain maximum marks.

### Question 4

Most candidates calculated the payback period correctly and also correctly stated that the purchase was unlikely to go ahead.

### Question 5

There were some mixed answers regarding crowdfunding with very few candidates being able to list the various types.

**Question 6**

This question was not well answered with the majority of candidates not correctly identifying how the profits in his first year in business would be used in the first two years of trading for tax purposes. How the self-employed are taxed is key to business planning and future students should ensure they study and practice this type of calculation.

**Question 7**

A few candidates provided very comprehensive answers to this question on Save As You Earn schemes however the majority did not.

**Question 8**

A disappointing number of candidates thought that National Insurance contributions were paid on the company car. This is not the case and should have been ignored for the first part of question 8.

**Question 9**

Mostly good answers were provided for this question with good explanations of how the carry forward of pension contributions operate.

**Question 10**

Some good answers for rollover relief although most candidates missed that the business must still be trading.

**Question 11**

A mixed response to the first part of this question with most people recognising direct discrimination only. However, most candidates were able to give four examples of exceptions to the two year continuous service rule for unfair dismissal.

**Question 12**

A disappointing number of candidates did not answer this question well yet it is a key part of the syllabus and candidates should have been better prepared in this area. Part (b) was answered better although some candidates thought that the policy would provide an income to the key person and taxed on them.

**Question 13**

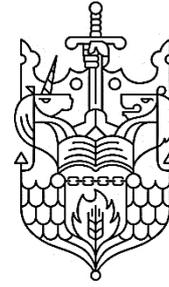
This question was not well answered. Some candidates correctly stated that automatic accrual is when the value of a business share/goodwill/intangible asset passes from one owner to another but then went on to confuse the detail with a cross option agreement.

**Question 14**

This question was answered well with the majority of candidates achieving full marks on part (a) and a pleasing number of candidates understanding the detail required to also gain full marks in part (b).

**Question 15**

This question was answered well with most candidates able to explain the ways in which a small self-administered pension scheme (SSAS) could help a sponsoring employer financially. Part (b) was less well answered but most candidates understood that residential property would be treated as taxable property but some of the detail was lacking.



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## Diploma in Financial Planning

### Unit J03 – The tax and legal aspects of business

April 2018 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, 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. Rob, aged 60, operated as a sole trader before being declared bankrupt after his business failed. His main asset is an uncrystallised self-invested personal pension (SIPP) valued at £600,000. He made a gross contribution of £120,000 into the SIPP shortly before the bankruptcy order. Ten years ago he set-up a whole of life assurance plan written under a discretionary trust at outset for the benefit of his two adult children.
  - (a) Explain how the SIPP and the recent contribution would be treated in his bankruptcy. **(5)**
  - (b) Explain how the life assurance policy may be affected by the bankruptcy order. **(4)**
  
2. Billy, Paul and Adedayo are partners in a legal practice. Billy has also recently established a new estate agency partnership with his brother.
 

Paul and Adedayo are concerned as to how Billy's new partnership will affect their existing business. They are aware that the partners owe each other a duty of good faith under the Partnership Act 1890.

  - (a) Summarise Billy's obligations regarding his accountability to Paul and Adedayo. **(3)**
  - (b) Explain how Billy's new partnership is likely to be treated under the 'competing business' good faith duty. **(5)**
  
3. Explain the differences between ordinary shares and debentures to an investor with regards to:
  - (a) Returns. **(5)**
  - (b) Voting rights. **(2)**
  - (c) Capital on wind-up. **(3)**

4. A company is planning to buy a machine to use in the business. The machine will cost £25,000. The expected annual revenue from use of the machine is £4,000. The company expects to recoup initial expenditure within five years.
- (a) Calculate, **showing all your workings**, the payback period. (2)
- (b) State, giving a reason, whether the purchase is likely to go ahead. (2)
5. State and explain briefly the **three** main types of crowdfunding. (6)
6. Rahul set-up his business as a sole trader on 1 September 2016 and makes up his accounts to 31 August. In his first year of business his profits were £48,000 and in the second year of business they were £49,000.
- (a) Calculate, **showing all your workings**, the income tax due on his profits in the first two tax years of trading. (Assume that Rahul has no other income). (9)
- (b) Explain the implications for Rahul had he chosen, at inception of the business, an accounting year end of the 5 April to align with the tax year rather than the 31 August. (4)
7. State the conditions that must be fulfilled for a Save As You Earn (SAYE) scheme contract to receive preferential tax treatment. (8)
8. Karim works as an employee for a pension transfer company. In 2017/18 his salary will be £50,000. He also has a company car which has a taxable benefit value of £10,000.
- (a) Calculate, **showing all your workings**, Karim's total national insurance contributions for the tax year 2017/18. (6)
- (b) Calculate, **showing all your workings**, Karim's employer's total national insurance contributions for the tax year 2017/18. (5)

9. Sarah is aged 40, self-employed and has a self-invested personal pension (SIPP). For the past five years she has been making a gross annual contribution of £20,000. She makes this contribution on the 5 September which is the end of her accounting year. In September 2018 she wants to contribute the maximum amount she is able to. **Assume that in the 2018/19 tax year she has relevant earnings of £80,000.**
- Explain in detail to Sarah how much she can contribute in September 2018 to obtain maximum tax relief. (Assume she has never been subject to the tapered annual allowance). *No calculation is required.* **(10)**
10. Phil is a sole trader and runs a translation business from a small office he bought in 2014. He is now expanding the business and is selling his existing office to buy bigger premises.
- Explain to Phil the criteria for him to make a successful claim for business asset rollover relief. **(5)**
11. (a) List the **four** types of discrimination as identified in the Equality Act 2010. **(4)**
- (b) State **four** examples of exceptions to the two year continuous service rule for unfair dismissal. **(4)**
12. (a) State the criteria that must be satisfied for a limited company to claim the premiums on a key person income protection insurance as a deductible business expense. **(4)**
- (b) Explain how the proceeds of a key person income protection insurance are taxed when received by a limited company. **(2)**
13. (a) In a business protection context, explain what is meant by 'automatic accrual'. **(5)**
- (b) State the main drawback of automatic accrual for the deceased partners beneficiaries. **(1)**
- (c) Explain the action that can be taken in order to address the issue identified in **part (b)** above. **(8)**

- 14. (a)** State the general principle for employer pension contributions to receive full corporation tax relief. **(2)**
- (b)** Explain the circumstances which would result in an employer pension contribution being spread over different accounting periods. **(4)**
- 15. (a)** Explain **three** ways in which a small self-administered pension scheme (SSAS) can help a sponsoring employer financially. **(6)**
- (b)** State the consequences of a SSAS investing in a residential property. **(6)**

**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)
- Trustee in bankruptcy cannot claim value/the SIPP is not included in his assets.
  - Cannot force Rob to draw benefits despite him being over 55.
  - Unless contribution deemed excessive/disadvantaging creditors.
  - Can be ordered to restore position prior to contribution.
  - Court can order pension provider to pay the funds to trustee in bankruptcy.
- (b)
- Written under trust so not property of Rob/owned by the trustees.
  - Cannot be claimed by trustee in bankruptcy.
  - Trustee in Bankruptcy unlikely to continue paying premiums though.
  - Therefore cover may lapse.

**Model answer for Question 2**

- (a)
- Must disclose all relevant information about the new partnership /duty of faith;
  - to his existing fellow partners/Paul and Adedayo.
  - Whether or not the information was asked for.
- (b)
- Unlikely to be deemed as a competing business.
  - As in different commercial areas.
  - Unless Billy provides legal conveyancing services.
  - No recourse to Paul and Adedayo/existing partnership assets.
  - Unless Partnership property/assets used in new venture.

**Model answer for Question 3**

- (a) **Returns**
- Shares receive variable dividends/may not receive dividends.
  - Paid from profits.
  - Debentures receive fixed coupon/interest.
  - Paid regardless of profits.
  - As a debenture is a loan to the company.
- (b) **Voting Rights**
- Generally shares have voting rights.
  - Debentures have no voting rights.
- (c) **Wind up**
- Shares rank last/receive at end.
  - Debentures rank higher and more likely to be repaid.
  - As secured on assets.

**Model answer for Question 4**

- (a)
- £25,000/£4,000
  - = payback period = 6.25 years.
- (b)
- The purchase is not likely to go ahead.
  - As the period of time taken to recover the investment is longer than the company would like.

**Model answer for Question 5**

- Donation or reward crowdfunding;
- does not usually receive anything in exchange/philanthropic.
- Peer to peer lending (or loan based crowdfunding).
- Where a platform matches up investors with borrowers/receives interest.
- Investment based.
- Where people invest in an opportunity in return for shares/a small stake in the business/project.

**Model answer for Question 6**

- (a) Year 1: 1 September 2016 - 5 April 2017 (2016/17 tax year).

- 48,000 x 7/12
- = 28,000
- Less £11,000
- £17,000 x 20% = £3,400

Year 2: 1 September 2016 - 31<sup>st</sup> August 2017 (2017/18 tax year)

- 48,000
- - £11,500
- 33,500 x 20% = 6700
- 3,000 x 40% = 1200
- £7900

- (b) *Candidates would have gained full marks for any four of the following:*
- His first years profits would not be taxed twice/no overlap profits.
  - No certainty over profits for pension contribution purposes.
  - Shortest time between earning profit and paying tax.
  - First payment on the account is due before the end of the accounting period.
  - Only ten months to prepare accounts if submitted online/simplified accounting.

**Model answer for Question 7**

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

- Must be open to all full-time employees and part time employees on broadly similar terms.
- Term is 3 or 5 years.
- Employer can impose a 5 year qualifying period.
- Shares must be offered at no less than 80% of the market value at the time the option is granted.
- Money used to buy shares must come from an approved SAYE contract.
- Minimum saving is £5 per month and the maximum is £500 per month.
- If the option is not exercised the employee can withdraw the savings.
- Bonuses are added every 3 or 5 years.
- Scheme must lapse for those that leave employment within 3 years of the start date.
- There must be scheme rules that permit exercise of option in the event of death, redundancy or retirement.

**Model answer for Question 8**

**(a) Class 1 NICs on Salary only**

- $£50,000/52 = £961.54$
- $£157 \times 0\%$
- $£709 \times 12\% = £85.08$
- $£95.54$
- $\times 2\% = £1.91$
- Total =  $£86.99 \text{ pw} \times 52 = £4,523.48$

**(b) Class 1 secondary contributions.**

- $£961.54 - £157 = £804.54$
- $\times 13.8\%$
- $= £111.03 \times 52 = £5,773.38$

**Class 1A on company car**

- $£10,000 \times 13.8\% = £1,380$
- Total =  $£7,153.38$

**Model answer for Question 9**

- As her contribution for the last 3 tax years;
- has been less than the annual allowance of £40,000.
- The excess can be carried forward;;
- to increase her contribution in 2018/19.
- She can carry forward £20,000 from 2015/16, 2016/17 and 2017/18.
- With the 2018/19 annual allowance she has available unused allowance of £100,000.
- She will only get tax relief on £80,000 of contributions.
- As her income for this tax year is £80,000/restricted by net relevant earnings.
- She must use this year's allowance first.

- She can then carry forward £20,000 from the earliest year, ie 2015/16 and £20,000 from 2016/17.

**Model answer for Question 10**

- The new office must be bought between 12 months before;
- and up to 3 years after;
- the date of selling the original office.
- To obtain rollover relief Phil must reinvest the proceeds in the new office.
- The business must still be trading.

**Model answer for Question 11**

- (a)
- Direct.
  - Indirect.
  - Victimisation.
  - Harassment.
- (b) *Candidates would have gained full marks for any four of the following:*
- Pregnancy/maternity/paternity/adoption/parental leave/time off for a dependant.
  - Refuse to join or represent a trade union.
  - Seek to claim employment rights.
  - Take certain specified actions on health and safety grounds.
  - Carry out their duties as trustee of a company pension scheme.
  - Have disclosed wrongdoing in the workplace (ie whistleblowing).
  - Have exercised their right to be accompanied or act as a companion at a disciplinary.
  - Have taken part in lawfully organised, official industrial action lasting 12 weeks or less.
  - On jury service.
  - Have asked to work flexibly.
  - Enforced a right under the Working Time Regulations 1998.
  - Have political opinions/affiliations.

**Model answer for Question 12**

- (a)
- the cover is short term/five years or less;
  - the relationship is employer/employee; and
  - the benefit is paid directly to the employer;
  - to cover loss of profits arising from the key person's absence.
- (b)
- Treated as trading receipt
  - and subject to corporation tax.

**Model answer for Question 13**

- (a)
- Automatic accrual is when the value of a business share/goodwill/intangible asset
  - passes from one owner/partner of a business
  - to the other surviving owners/partners of a business
  - in specified circumstances
  - without any form of compensation being paid.
- (b)
- Beneficiaries will not receive any compensation for business assets.
- (c)
- A clause in the partnership agreement.
  - Which details what happens on death on an automatic accrual.
  - All partners agree to take out life insurance policies
  - and to maintain premiums.
  - Premiums should be paid as a first charge on the profits of the firm.
  - The policies should be written under trust
  - with the members of the partner's family as beneficiaries.
  - The claim is on the proceeds of the life policy and not the partnership/compensation for family.

**Model answer for Question 14**

- (a)
- Contributions are 'wholly and exclusively'
  - for the purposes of the trade.
- (b)
- If it is more than 210% of the contribution paid;
  - in the previous chargeable period, and;
  - the amount of the excess is over 110% of the contribution paid in the previous chargeable period.
  - Is £500,000 or more.

**Model answer for Question 15**

- (a)
- Make a loan to the sponsoring employer.
  - Subject to a maximum of 50% of market value of net scheme funds.
  - Buying the company's shares.
  - Subject to a maximum of 5% of scheme assets.
  - Purchasing business premises/assets to rent/lease back to the sponsoring employer.
  - Subject to a market rent being paid by the company.
- (b)
- HMRC will treat it as taxable property.
  - Unauthorised payment charge of 40%.
  - Scheme sanction charge at 40%;
  - on income and capital gains/rent or capital gain.
  - If unauthorised payment is more than 25% of the value of the members share.
  - There is a 15% member surcharge.

**April 2018 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.	2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business.
5.	3. Understand the main internal and external options for financing a business.
6.	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.
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.	7. Understand the role of pensions in a business environment.
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.	6. Understand the main principles of business protection insurance.
13.	6. Understand the main principles of business protection insurance.
14.	7. Understand the role of pensions in a business environment.
15.	7. Understand the role of pensions in a business environment.

All questions in the April 2018 paper will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are those that were used in April 2018 examinations. The October 2018 will use the published 2018/2019 Tax Tables which can be found online on the CII website:  
[www.cii.co.uk](http://www.cii.co.uk).

## INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

*\*not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£5,000
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)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances †	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
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.

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)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

### Total earnings £ per week

### CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 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 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*\*\* Secondary earnings threshold.*

**Class 2 (self-employed)**  
**Class 3 (voluntary)**  
**Class 4 (self-employed)**

Flat rate per week £2.85 where profits exceed £6,025 per annum.  
 Flat rate per week £14.25.  
 9% on profits between £8,164 - £45,000.  
 2% on profits above £45,000.

## 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

### 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.

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*

~ 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	2016/2017	2017/2018
	£10,000	£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	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
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 2016/2017    2017/2018

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	£100,000
- 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 (CO<sub>2</sub>) emissions. There is no reduction for high business mileage users.

### For 2017/2018:

- The percentage charge is 9% of the car's list price for CO<sub>2</sub> emissions of 50g/km or less.
- For cars with CO<sub>2</sub> emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% 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 CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

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

	2016/2017 Rates	2017/2018 Rates
<b>Cars</b>		
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
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

2016/2017    2017/2018

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%
<b>Motor cars:</b> Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)				
CO <sub>2</sub> emissions of g/km:	75 or less*	76-130	131 or more	
Capital allowance:	100%	18%	8%	
	first year	reducing balance	reducing balance	

\*If new

## MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
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	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	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		139.58	140.98
<i>Only applicable where spouse or civil partner died on or after 6 April 2007*</i>			

## CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

## VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£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, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the 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.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%