

J01

Diploma in Financial Planning

Unit J01 – Personal tax

October 2012 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2012/2013, 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 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. HM Revenue & Customs have a number of tests they apply to check an individual's employment status. List:
 - (a) six examples of tests that would only apply to an employed person and; (6)
 - (b) six examples of tests that would only apply to a self-employed person. (6)

2. Sasha is self-employed and expects a taxable profit of £58,000 for the tax year 2012/2013.
 Calculate, **showing all your workings**, her total liability to National Insurance for the tax year 2012/2013. Assume a 53 week tax year. (6)

3. Janet has been offered a job paying £38,000 per annum. As a car is essential to her role, her prospective employer has offered her the choice between:
 - a company car;
 - a car allowance.
 State what financial planning factors Janet should consider in making her decision between these options. *No calculation is required.* (8)

4. John, aged 63, is self-employed. He expects gross profits of £56,000 and drawings of £39,000 for the tax year 2012/2013. He purchased a replacement car on 1 September 2012 for £8,000 which he intends to use for business purposes 50% of the time.
 He receives annual UK share dividend income of £2,000 and building society interest of £250. He makes a pension contribution of £75 per month net.
 Calculate, **showing all your workings**, John's Income Tax liability for the tax year 2012/2013. (13)

5. Andrea, aged 50, has worked in the USA for the last few years and is considering returning to the UK. She is concerned about gaps in her National Insurance contribution record and the level of State Pension she may subsequently receive in the future.
 She is considering filling the gaps in her National Insurance contribution record by making additional Class 3 contributions.
 - (a) State the residence condition that the payment of Class 3 National Insurance contributions is subject to. (5)
 - (b) State any other conditions that must be fulfilled to make these contributions. (3)

6. Bobby, a higher rate taxpayer, purchased a second home for £350,000 in May 2010. He has just sold the property for £445,000, having spent £40,000 renovating the property. His legal costs for the purchase were £1,600 and he paid Stamp Duty of £10,500. The sale costs totalled £5,900.
- Calculate, **showing all your workings**, the amount of Capital Gains Tax that Bobby has to pay assuming he has made no other gains in the tax year 2012/2013. (8)
7. Leo has a portfolio of shares which he has accumulated over a number of years. He plans to sell some of these shares next month and will make a capital gain.
- (a) State the share identification rules that will apply to his portfolio. (5)
- (b) Identify how taxable gains must be declared to HM Revenue & Customs and exactly when Capital Gains Tax on these disposals is payable. (2)
8. Damian is due to return to the UK on 31 March 2013 after being a non-UK resident for seven years. Whilst non-UK resident, his UK flat has been let continually, although the current tenants will vacate the property at the end of December 2012. Damian wants to sell the flat which he owned as his principal private residence for five years prior to moving abroad.
- (a) Explain, giving your reasons, if Damian will be liable to Capital Gains Tax if he is non-UK resident when the property is sold. *No calculation is required.* (3)
- (b) Explain to Damian what exemptions and reliefs are available in calculating any capital gain if he is UK resident when the property is sold. *No calculation is required.* (5)
9. Explain briefly how a basic-rate tax payer will be taxed in the tax year 2012/2013 on the following events:
- (a) Maturity of a three year fixed rate deposit bond from a Building Society with all interest paid on the maturity date of 30 September 2012. (2)
- (b) Payments from a Purchased Life Annuity. (2)
- (c) A gilt purchased three months ago and sold before any interest is paid. (3)
10. Explain the maximum relief available and the conditions that must apply in order to receive:
- (a) Income and Capital Gains Tax relief on an investment in a qualifying Enterprise Investment Scheme; (5)
- (b) Income Tax relief on an investment in a qualifying Venture Capital Trust. (5)

Questions continue over the page

11. Joan and Peter wish to invest some money for their grandchildren.
Describe the tax treatment of any returns that would apply if they invest in a:
- (a) National Savings & Investments Children's Bonus Bond; (4)
- (b) Friendly Society Regular Premium Savings Plan. (4)
12. Jayne, aged 45, was a divorced single parent who died in August 2012 and left her estate to her two children Tom and Julie.
Jayne had insured her life for £95,000 in March 2010.
In June 2012 she assigned an endowment policy to her children jointly. The policy had a sum assured of £80,000 and, at the time of the transfer, the market value of the policy was £23,000 as agreed with HM Revenue & Customs. Jayne had continued to pay the monthly premiums out of her normal expenditure. No other transfers have been made.
Her estate comprises:
- House worth £350,000.
 - Cash deposits of £45,000.
 - Stocks and Shares ISA of £65,000.
 - Mortgage of £175,000 secured on the property.
- (a) Calculate, **showing all your workings**, the Inheritance Tax payable at the time of her death. (8)
- (b) State who must pay the tax and when it is due. (3)
13. Tony has decided to retire and transfer his dairy farm to his son. Tony has owned and worked the farm for over forty years.
Explain how agricultural property relief will apply to this transfer. (6)
14. Amelia, a widow, gifts £350,000 into a discretionary trust for the benefit of her children and grandchildren. She dies five years later having made no other gifts. The value of Amelia's estate upon her death was £300,000 and she has no carry forward Nil Rate Band from her former spouse.
Explain the impact of the gift on the Inheritance Tax liability for Amelia's estate on her death. *No calculation is required.* (8)
15. Dermot was originally born in the Republic of Ireland but has lived in the UK now for several years, working on a five year contract. He has recently inherited considerable property and deposits, currently situated in the Republic of Ireland.
- (a) Explain briefly HM Revenue & Customs' (HMRC) definition of residence. (5)
- (b) Explain briefly how the HMRC definition of ordinarily resident applies to Dermot. (2)
- (c) Describe the criteria Dermot must fulfil to be deemed domicile for Inheritance Tax purposes and the effect on his estate. (3)

The tax tables can be found on pages 8 – 12

INCOME TAX

| RATES OF TAX | 2011/2012 | 2012/2013 |
|---|-----------|-----------|
| Starting rate for savings* | 10% | 10% |
| Basic rate | 20% | 20% |
| Higher rate | 40% | 40% |
| Additional rate | 50% | 50% |
| Starting-rate limit | £2,560* | £2,710* |
| Threshold of taxable income above which higher rate applies | £35,000 | £34,370 |
| 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 | N/A | £50,000 |

*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) § | £7,475 | £8,105 |
| Personal Allowance (age 65-74) § | £9,940 | £10,500 |
| Personal Allowance (aged 75 and over) § | £10,090 | £10,660 |
| Married/civil partners (minimum) at 10% † | £2,800 | £2,960 |
| Married/civil partners (age 75 and over) at 10% | £7,295 | £7,705 |
| Income limit for age-related allowances | £24,000 | £25,400 |
| Blind Person's Allowance | £1,980 | £2,100 |
| Enterprise Investment Scheme relief limit on £1,000,000 max (£500,000 in 2011/2012) | 30% | 30% |
| Seed Enterprise Investment relief limit on £100,000 | N/A | 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.

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

| | | |
|---|------|---------|
| Child Tax Credit (CTC) | | |
| - Child element per child (maximum) | N/A | £2,690 |
| - family element | £545 | £545 |
| Threshold for tapered withdrawal of CTC | N/A | £15,860 |

NATIONAL INSURANCE CONTRIBUTIONS

| Class 1 Employee | Weekly | Monthly | Yearly |
|----------------------------|--------|---------|---------|
| Lower Earnings Limit (LEL) | £107 | £464 | £5,564 |
| Primary threshold | £146 | £634 | £7,605 |
| 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 (money purchase) | Contracted-out rate (final salary) |
| Up to 146.00* | Nil | Nil |
| 146.01 – 770.00 | 12% | 10.6% |
| 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 £107 per week. This £107 to £146 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 144.00** | Nil | Nil | Nil |
| 144.01 – 770.00 | 13.8% | 10.4% | 13.8% |
| 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 £2.65 where earnings exceed £5,595 per annum. |
| Class 3 (voluntary) | Flat rate per week £13.25. |
| Class 4 (self-employed) | 9% on profits between £7,605 - £42,475 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 |
| 2012/2013 | £1,500,000 | £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 2011/2012 2012/2013

Transfers made after 5 April 2012

| | | |
|---|-----|-----|
| - Up to £325,000 | Nil | Nil |
| - Excess over £325,000 | 40% | 40% |
| - Lifetime transfers to and from certain trusts | 20% | 20% |

**For deaths after 5 April 2012, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

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 | £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 2012/2013:

- Cars that cannot emit CO₂ have a 0% charge.
- The percentage charge is 5% of the car's list price for CO₂ emissions of 75g/km or less.
- For cars with CO₂ emissions of 76g/km to 99g/km the percentage is 10%.
- Cars with CO₂ emissions of 100g/km have a percentage charge of 11% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 220g/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 CO₂ emissions % relevant to the car and that % applied to a set figure (£20,200 for 2012/2013) e.g. car emission 100g/km = 11% on car benefit scale. 11% of £20,200 = £2,222.

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 | 2012/2013 Rates |
|--|-----------------|-----------------|
| Cars | | |
| 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 |
| Motor Cycles | 24p per mile | 24p per mile |
| Bicycles | 20p per mile | 20p per mile |

MAIN CAPITAL AND OTHER ALLOWANCES

| | 2011/2012 | 2012/2013 | |
|--|---------------------|------------------|------------------|
| Plant & machinery (excluding cars) 100% annual investment allowance (first year) | £100,000 | £25,000 | |
| Plant & machinery (reducing balance) per annum | 20% | 18% | |
| Patent rights & know-how (reducing balance) per annum | 25% | 25% | |
| Certain long-life assets, integral features of buildings (reducing balance) per annum | 10% | 8% | |
| Energy & water-efficient equipment | 100% | 100% | |
| Zero emission goods vehicles (new) | 100% | 100% | |
| Qualifying flat conversions, business premises & renovations | 100% | 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% | 18% | 8% |
| | first year | reducing balance | reducing balance |
| * If new | | | |
| Research & Development: | Capital expenditure | 100% | |

MAIN SOCIAL SECURITY BENEFITS

| | 2011/2012 | 2012/2013 | |
|---|---|-------------|--------------|
| | £ | £ | |
| Child Benefit | First child | 20.30 | 20.30 |
| | Subsequent children | 13.40 | 13.40 |
| | Guardian's allowance | | 15.55 |
| Employment and Support Allowance Assessment Phase | Age 16 – 24 | Up to 53.45 | Up to 56.25 |
| | Aged 25 or over | Up to 67.50 | Up to 71.00 |
| | Main Phase | | |
| | Work Related Activity Group | Up to 94.25 | Up to 99.15 |
| | Support Group | Up to 99.85 | Up to 105.05 |
| Attendance Allowance | Lower rate | 49.30 | 51.85 |
| | Higher rate | 73.60 | 77.45 |
| Retirement Pension | Single | 102.15 | 107.45 |
| | Married | 163.35 | 171.85 |
| Pension Credit | Single person standard minimum guarantee | 137.35 | 142.70 |
| | Married couple standard minimum guarantee | 209.70 | 217.90 |
| | 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 | 100.70 | 105.95 | |
| Jobseekers Allowance | Age 16 - 24 | 53.45 | 56.25 |
| | Age 25 or over | 67.50 | 71.00 |
| Statutory Maternity, Paternity and Adoption Pay | 128.73 | 135.45 | |

CAPITAL GAINS TAX

| EXEMPTIONS | 2011/2012 | 2012/2013 |
|---|-----------|-----------|
| Individuals, estates etc | £10,600 | £10,600 |
| Trusts generally | £5,300 | £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 | 28% | 28% |
| Trustees and Personal Representatives | 28% | 28% |
| 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.

CORPORATION TAX

| | 2011/2012 | 2012/2013 |
|-------------------------|------------|------------|
| Full rate | 26% | 24% |
| Small companies rate | 20% | 20% |
| Small companies limit | £300,000 | £300,000 |
| Effective marginal rate | 27.5% | 25.0% |
| Upper marginal limit | £1,500,000 | £1,500,000 |

VALUE ADDED TAX

| | 2011/2012 | 2012/2013 |
|---------------------------|-----------|-----------|
| Standard rate | 20% | 20% |
| Annual Registration limit | £73,000 | £77,000 |

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