

## J03

### Diploma in Financial Planning

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

October 2015 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2015/2016, 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. State the legal identity of a sole trader and their personal responsibilities in connection with running their business. **(6)**
  
2. The two director shareholders of a small limited company have provided personal guarantees to their bank as a condition of obtaining a loan.
  - (a) Explain the steps the bank could take to recover their money should the company default on the loan. **(3)**
  - (b) Explain the financial implications of a director's personal guarantee, should the company go into liquidation, and the directors are unable to repay the loan. **(3)**
  
3. Richard, Christopher and William started a business partnership in 1995. Richard retired on 1 September 2015 in accordance with the terms of the partnership agreement, but his retirement was not publicly announced. Richard entered into a contract on 2 September 2015 on behalf of the partnership with an existing client, without Christopher's or William's knowledge and on terms with which they would not have agreed.
  - (a) Explain why Christopher and William may have difficulty in cancelling the contract with the existing client. **(4)**
  - (b) Outline the steps that Christopher and William should take to prevent Richard from acting for the partnership. **(3)**
  
4. Philip is one of several minority shareholders in Roftil Ltd.  
  
Explain to Philip the rights of minority shareholders if they are unhappy with the way the company is being run together with any attaching conditions. **(8)**

5. Querule Ltd has just released its annual accounts which show a gearing ratio of 90% and a debtors ratio of 95 days. The company's normal policy is settlement of invoices within 30 days.
- (a) (i) Explain what each of the above ratios measures. (2)
  - (ii) Explain the significance of Querule Ltd's debtors ratio. (3)
  - (iii) State **one** benefit and **one** drawback of a high gearing ratio to shareholders. (2)
  - (b) State **four** benefits of studying ratios derived from a company's accounts. (4)
6. James entered into a partnership with two friends and placed a significant amount of his own money into the partnership capital account. He has heard that he could have funded the capital he introduced into the partnership with a personal bank loan.
- (a) State the Income Tax benefits to James should he fund the capital with a qualifying personal loan. (2)
  - (b) List the steps, in the correct order, that must be followed for James to refinance his contribution to the business with a qualifying personal loan. (4)
  - (c) State any other factors that should be considered before and after starting the process that HM Revenue & Customs may raise. (4)
7. Dorothy is employed as a chartered surveyor on a gross salary of £50,000. During the tax year 2015/2016 she has no other taxable earnings. She is considering making a net pension contribution of £12,000, to her self-invested personal pension scheme (SIPP).
- (a) Calculate, **showing all your workings**, the tax that Dorothy would save on the pension contribution to the SIPP and state the effective rate of Income Tax relief on the gross contribution. (11)
  - (b) Calculate, **showing all your workings**, the total Class 1 National Insurance contributions during the tax year 2015/2016 that Dorothy will pay. *Assume a 52 week year.* (4)

QUESTIONS CONTINUE OVER THE PAGE

8. Gary sold his shares in an unlisted company, realising taxable gains of £50,000 after all allowances. He has been looking at options to reduce his Capital Gains Tax liability and has been told about entrepreneurs' relief.
- (a) List the conditions which determine whether entrepreneurs' relief may be claimed by Gary. (4)
- (b) Explain to Gary the **benefit** of obtaining entrepreneurs' relief. (2)
9. (a) State when a flexible whole of life policy may be suitable for key person cover. (3)
- (b) State the actions a limited company could take on the policy if the key person leaves. (5)
10. Neil has been running his business from leased premises and now wishes to purchase his own business premises. He is interested in purchasing a commercial property for £350,000 using his pension fund. Neil has an existing self-invested personal pension scheme (SIPP) worth £100,000 and his contribution history is detailed below.
- | Year      | Contribution amount |
|-----------|---------------------|
| 2012/2013 | £0                  |
| 2013/2014 | £30,000             |
| 2014/2015 | £10,000             |
| 2015/2016 | £0                  |
- (a) Calculate, **showing all your workings**, the maximum pension contributions, (*remaining within the annual allowance*), the maximum borrowings and the total SIPP fund value available for the property purchase. (8)
- (b) List **three** additional costs of the purchase Neil will need to take into account. (3)
11. (a) State **two** conditions under which HM Revenue & Customs (HMRC) can record a VAT default. (2)
- (b) List **four** circumstances where HMRC may impose penalties on traders who fail to adhere to proper VAT procedures. (4)

12. Charles and Suzanne are about to set up a firm of solicitors and are seeking information about limited liability partnerships (LLP).
- (a) Explain to Charles and Suzanne, the key reasons for setting up the firm on an LLP basis instead of a traditional partnership under the Partnership Act 1890. (3)
- (b) State the key requirements and the process for forming an LLP. (5)
13. Nadia runs a company and has been told that the Equality Act 2010 contains important information about discrimination. She has approached you for further information.
- (a) State the **four** forms of unlawful discrimination identified in the Equality Act 2010. (4)
- (b) Outline the basis of redress, including any limits, on which an employment tribunal could make an award against Nadia's company should a claim for discrimination be upheld. (3)
14. Greg has just started a new job. His new employer has provided him with a car, with a list price of £19,300 and CO<sup>2</sup> emissions of 132g/km, accommodation on which he pays £7,000 a year rent and a mobile phone valued at £425 for his use.
- The annual rateable value of the property is £5,400 and the property has a value of £275,000.
- (a) Explain what is meant by a P11D benefit. (3)
- (b) Calculate, **showing all your workings**, the taxable benefit that Greg has received. (8)
15. Lentshill Manufacturing Ltd declared taxable profits of £630,000 on 30 September 2015, which is the end of their accounting period.
- (a) Calculate, **showing all your workings**, the Corporation Tax payable by the company on these profits. (7)
- (b) Explain the penalties if, on a single occasion, the company was to file its accounts four months late. (3)

The tax tables can be found on pages 9 – 15



## INCOME TAX

RATES OF TAX	2014/2015	2015/2016
Starting rate for savings*	10%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,880*	£5,000*
Threshold of taxable income above which higher rate applies	£31,865	£31,785
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
---	---------	---------

*\*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 if born after 5 April 1948) §	£10,000	£10,600
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,600
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) at 10% †	£3,140	£3,220
Married/civil partners at 10% †	£8,165	£8,355
Transferable tax allowance for married couples/civil partners	N/A	£1,060
Income limit for age-related allowances §	£27,000	£27,700
Blind Person's Allowance	£2,230	£2,290
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)	£2,750	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,010	£16,105

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£112	£486	£5,824
Primary threshold	£155	£672	£8,060
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£815	£3,532	£42,385

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate (final salary)
Up to 155.00*	Nil	Nil
155.01 – 770.00	12%	10.6%
770.01 – 815.00	12%	12%
Above 815.00	2%	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £112 per week. This £112 to £155 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 156.00**	Nil	Nil	Nil
156.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 815.00	13.8%	13.8%	13.8%
Excess over 815.00	13.8%	13.8%	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.80 where profits exceed £5,965 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £14.10.
<b>Class 4 (self-employed)</b>	9% on profits between £8,060 - £42,385. 2% on profits above £42,385.

## 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
2013/2014	£1,500,000	£50,000
2014/2015	£1,250,000	£40,000
2015/2016	£1,250,000	£40,000 §

### ANNUAL ALLOWANCE CHARGE

20% - 45% member's tax charge on the amount of total pension input in excess of the annual allowance.

### MONEY PURCHASE ANNUAL ALLOWANCE

2014/2015	2015/2016
N/A	£10,000*

### 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.

§ increased to £80,000 from 6 April - 8 July 2015. If not used, can be carried forward to 9 July 2015 - 5 April 2016, subject to a maximum of £40,000.

\* transitional rules apply to the calculation for pre/post 8 July 2015 position.

## CAPITAL GAINS TAX

EXEMPTIONS	2014/2015	2015/2016
Individuals, estates etc	£11,000	£11,100
Trusts generally	£5,500	£5,550
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.

## INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2014/2015	2015/2016
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%

*For deaths after 5 April 2015, 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)		£325,000		£325,000
- 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 (CO<sub>2</sub>) emissions. There is no reduction for high business mileage users.

### For 2015/2016:

- The percentage charge is 5% 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 9%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 13%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 14% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 210g/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 (£22,100 for 2015/2016) e.g. car emission 100g/km = 15% on car benefit scale. 15% of £22,100 = £3,315.

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

	2014/2015 Rates	2015/2016 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

	2014/2015	2015/2016
Plant & machinery (excluding cars) 100% annual investment allowance (first year) §	£500,000	£500,000
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 2015 (Corporation Tax) or 06 April 2015 (Income Tax)		
CO <sub>2</sub> emissions of g/km:	75 or less*	76-130
Capital allowance:	100%	131 or more
	first year	reducing balance
		reducing balance

\*If new

§ From 01 January 2016 allowance will decrease to £200,000.

## CORPORATION TAX

	2014/2015	2015/2016
Full rate	21%	20%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	21.25%	20%
Upper marginal limit	£1,500,000	£1,500,000

## VALUE ADDED TAX

	2014/2015	2015/2016
Standard rate	20%	20%
Annual registration threshold	£81,000	£82,000
Deregistration threshold	£79,000	£80,000

## MAIN SOCIAL SECURITY BENEFITS

		2014/2015	2015/2016
		£	£
Child Benefit	First child	20.50	20.70
	Subsequent children	13.55	13.70
	Guardian's allowance	16.35	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.35	Up to 57.90
	Aged 25 or over	Up to 72.40	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 101.15	Up to 102.15
	Support Group	Up to 108.15	Up to 109.30
Attendance Allowance	Lower rate	54.45	55.10
	Higher rate	81.30	82.30
Retirement Pension	Single	113.10	115.95
	Married	180.90	185.45
Pension Credit	Single person standard minimum guarantee	148.35	151.20
	Married couple standard minimum guarantee	226.50	230.85
	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		111.20	112.55
Jobseekers Allowance	Age 18 - 24	57.35	57.90
	Age 25 or over	72.40	73.10
Statutory Maternity, Paternity and Adoption Pay		138.18	139.58

**BLANK PAGE**



**BLANK PAGE**

**BLANK PAGE**



