

## J03

### Diploma in Financial Planning

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

April 2017 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2016/2017, 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.

Candidates should answer based on the legislative position immediately BEFORE the 2017 budget.

#### 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. (a) State the definition of a partnership. (3)
- (b) State **one** advantage and **one** disadvantage of including:
- (i) a 'fixed term' clause in the partnership agreement; (2)
- (ii) a 'minimum notice period' when a partner wishes to leave. (2)
2. (a) Explain the procedure for putting an individual voluntary arrangement (IVA) in place;
- (i) for the debtor; (4)
- (ii) for the creditors. (3)
- (b) Explain briefly **three** advantages of an IVA for the debtor. (3)
3. LM Photography Ltd is considering whether to invest in new camera equipment. The camera costs £26,000 and they expect that the extra net revenue generated from its use will be £10,000 a year for the next three years. At the end of the third year assume that the camera will be sold for £8,000.
- (a) Calculate, **showing all your workings**, the net present value of the revenue generated using a discount rate of 9%. *Assume the revenue accrues at the end of each year.* (12)
- (b) Explain briefly whether LM Photography Ltd should make the investment in the camera. (2)

4. (a) Explain briefly the dividend rights for the following:
- (i) cumulative preference shares; (2)
- (ii) participating preference shares. (2)
- (b) State **three** examples when a preference shareholder would have voting rights. (3)

5. Wiltons Law was started by three solicitors who each invested their own capital to set up a partnership. In the tax year 2016/2017 the profits of the firm are £120,000. The partnership agreement dictates that profits will be distributed in the same ratio as the capital invested as shown below.

| Partner   | Capital invested |
|-----------|------------------|
| Partner 1 | £20,000          |
| Partner 2 | £25,000          |
| Partner 3 | £35,000          |

- Calculate, **showing all your workings**, the amount of profit due to each partner. (6)
6. Explain how losses can be treated for Income Tax purposes in the early years of a new business. (6)
7. Outline how shares can be acquired under a share incentive plan. (6)
8. Marianne, a sole trader, has total profits of £90,000 for the tax year 2016/2017.
- (a) Calculate, **showing all your workings**, Marianne's liability to Class 2 and Class 4 National Insurance contributions (NICs). (4)
- (b) Explain how Class 2 and Class 4 NICs are collected giving relevant dates. (5)
9. Explain how chargeable gains are calculated and taxed for a limited company. *No calculations are required.* (8)

QUESTIONS CONTINUE OVER THE PAGE

10. Simon is the shareholding director of a small limited company. In the tax year 2016/2017 there is £30,000 from post-tax profits to be used for his benefit. Simon has a salary of £60,000 and he receives no other dividends or income.

Calculate, **showing all your workings**, ignoring any further implications for the company, the net amount that would be paid to Simon should the £30,000 be paid to him as a:

- (a) dividend; (4)
- (b) bonus. (5)
11. (a) Explain briefly the annual investment allowance for limited companies. (3)
- (b) A small limited company has made capital expenditure of £265,000 for the financial year ending 31 March 2017.
- Explain how the expenditure is treated for capital allowances purposes. (8)
12. (a) Describe the criteria to qualify for business relief on the transfer of shares and assets in a limited company on death of a shareholder. (7)
- (b) List **three** business interests that would not qualify for business relief. (3)
13. Gillian is pregnant with her first child and has worked for a large bank for 18 months. She is concerned that her job will not be left open for her whilst she is on maternity leave.
- (a) Explain Gillian's rights should she take maternity leave of:
- (i) less than 26 weeks; (3)
- (ii) more than 26 weeks. (4)
- (b) Explain the criteria for Gillian to be eligible for shared parental leave. (5)

**14.** Explain why a relevant life policy is not suitable for shareholder protection. **(6)**

**15.** Billy, a company director, has a small self-administered scheme valued at £2,400,000 and has enhanced protection. His company has an auto-enrolment staging date of 01 June 2017. Billy is intending to retire in two years.

Explain the implications to Billy of auto-enrolment on his enhanced protection. **(9)**

The tax tables can be found on pages 9 - 15



## INCOME TAX

| RATES OF TAX  | 2015/2016 | 2016/2017 |
|---|-----------|-----------|
| 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     | £31,785   | £32,000   |
| 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) §              | £10,600  | £11,000  |
| Personal Allowance (if born between 6 April 1938 and 5 April 1948) § | £10,600  | £11,000  |
| Personal Allowance (if born before 6 April 1938) §                   | £10,660  | £11,000  |
| Married/civil partners (minimum) at 10% †                            | £3,220   | £3,220   |
| Married/civil partners at 10% †                                      | £8,355   | £8,355   |
| Transferable tax allowance for married couples/civil partners        | £1,060   | £1,100   |
| Income limit for age-related allowances §                            | £27,700  | £27,700  |
| Blind Person's Allowance   | £2,290   | £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)     | £2,780  | £2,780  |
| - family element                        | £545    | £545    |
| Threshold for tapered withdrawal of CTC | £16,105 | £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 Earnings Limit (UEL) | £827   | £3,583  | £43,000 |

| Total earnings £ per week | CLASS 1 EMPLOYEE CONTRIBUTIONS |
|---------------------------|--------------------------------|
|---------------------------|--------------------------------|

|                 |     |
|-----------------|-----|
| Up to 155.00*   | Nil |
| 155.01 – 827.00 | 12% |
| Above 827.00    | 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 |
|---------------------------|--------------------------------|
|---------------------------|--------------------------------|

|                    |       |
|--------------------|-------|
| Below 156.00**     | Nil   |
| 156.01 – 827.00    | 13.8% |
| Excess over 827.00 | 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 - £43,000.<br>2% on profits above £43,000. |

## 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 §        |
| 2016/2017 | £1,000,000         | £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

| 2015/2016 | 2016/2017 |
|-----------|-----------|
| £10,000*  | £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  | 2015/2016 | 2016/2017 |
|---|-----------|-----------|
| Individuals, estates etc  | £11,100   | £11,100   |
| Trusts generally  | £5,550    | £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% | 10% |
| Above basic rate limit                                  | 28% | 20% |
| Surcharge for residential property and carried interest | 0%  | 8%  |

|                                       |     |     |
|---------------------------------------|-----|-----|
| Trustees and Personal Representatives | 28% | 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

|   | 2015/2016 | 2016/2017 |
|---|-----------|-----------|
| 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%       |

*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 |
| - 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 2016/2017:

- The percentage charge is 7% 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 11%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 16% 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 (£22,200 for 2016/2017) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,200 = £3,774.

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

|  | 2015/2016 Rates | 2016/2017 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

|  | 2015/2016   | 2016/2017        |                  |
|--|-------------|------------------|------------------|
| Plant & machinery (excluding cars) 100% annual investment allowance (first year)                         | £500,000    | £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

## CORPORATION TAX

|                         | 2015/2016  | 2016/2017 |
|-------------------------|------------|-----------|
| Standard rate           | 20%        | 20%       |
| Small companies rate    | 20%        | N/A       |
| Small companies limit   | £300,000   | N/A       |
| Effective marginal rate | 20%        | N/A       |
| Upper marginal limit    | £1,500,000 | N/A       |

## VALUE ADDED TAX

|                               | 2015/2016 | 2016/2017 |
|-------------------------------|-----------|-----------|
| Standard rate                 | 20%       | 20%       |
| Annual registration threshold | £82,000   | £83,000   |
| Deregistration threshold      | £80,000   | £81,000   |

## MAIN SOCIAL SECURITY BENEFITS

|   |   | 2015/2016    | 2016/2017    |
|---|---|--------------|--------------|
|   |   | £            | £            |
| Child Benefit                                   | First child                                   | 20.70        | 20.70        |
|   | Subsequent children                           | 13.70        | 13.70        |
|   | Guardian's allowance                          | 16.55        | 16.55        |
| 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 109.30 |
| Attendance Allowance                            | Lower rate                                    | 55.10        | 55.10        |
|   | Higher rate                                   | 82.30        | 82.30        |
| Retirement Pension                              | Single  | 115.95       | 119.30       |
|   | Married                                       | 185.45       | 190.80       |
| Single Tier State Pension                       | Single  | N/A          | £155.65      |
| Pension Credit                                  | Single person standard minimum guarantee      | 151.20       | 155.60       |
|   | Married couple standard minimum guarantee     | 230.85       | 237.55       |
|   | 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                      |   | 112.55       | 112.55       |
| 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       | 139.58       |

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