



Chartered
Insurance
Institute

AF2

Advanced Diploma in Financial Planning

Unit AF2 – Business Financial Planning

October 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 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.

AF2 – Business Financial Planning

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Published March 2018

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully

This is available online at 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 Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma 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. CII members can download free copies of older Examination Guides online at 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 three-hour written paper in two sections. All questions are compulsory:

Section A consists of one case study, worth 80 marks. You will be expected to carry out a variety of tasks, after analysing the information provided.

Section B consists of two shorter case studies worth a total of 80 marks. Again you will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

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/. 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 three 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. 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. Most 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

Most candidates struggled with question one but performed well on questions two and three.

Question one contained required knowledge from the AF2 case study workbook and the application of that knowledge. It was clear that most candidates had not made a good study of the information contained in this workbook and relied on the J03 manual only.

Questions two and three contained subjects frequently tested in previous examination papers and it appears that candidates are now learning and applying this subject matter. It was apparent which candidates had studied past examination papers to help with their preparation.

The model answers provided in the exam guides set out the steps the examiners are looking for in calculation questions yet many candidates are still struggling with these calculations. Some candidates are not answering the full question, and leaving out a calculation part, and it is clear from the context that this is not due to lack of knowledge but rather to the candidate having overlooked that part.

A few less well prepared candidates attempted answers in terms of recall of knowledge. This is inappropriate at this level of examination, as the case studies in this advanced paper are there to make candidates think about the consequences of the issues highlighted in the questions; they are concerned with application and not just knowledge.

Question 1

This question demonstrated a general lack of knowledge and application for some candidates about business acquisitions and pre-packaged administration.

Part (a) was about reasons for buying an existing business and business risks associated with acquisition. Many candidates re-quoted parts from the case study rather than supplying reasons for the purchase.

In terms of business risks, many candidates gave the risks of trading, e.g. market risk, rather than the risks associated with purchase.

Part (b) was about the best way for Gerald to sell the company and his existing commercial premises along with the taxation issues.

In part (b)(i) most candidates did not state the company is a trading company. Many candidates gave reasons why entrepreneurs' relief would apply, which was not required and also gave reasons why no double taxation occurs, which was also not required. A few candidates did not answer the question that was asked.

Part (b)(ii) was less well answered. Most candidates were not aware of associated disposals, which is clearly outlined in the AF2 case study workbook.

Part (b)(iii) was also less well answered. Many candidates did not associate the capital equipment with the pool of unrelieved capital expenditure or mention a balancing charge.

Part (c) has been tested before and was generally well answered by most candidates.

Part (d) was about business valuation, preparing the business to sale, and the VAT position of the company share purchase.

In part (d)(i) many candidates did not give valid explanations for a valuation based on business assets and struggled to gain marks in this part. Most candidates did manage to achieve half marks for this question part.

Part (d)(ii) was less well answered by most candidates and demonstrated a lack of knowledge in this area.

Part (d)(iii) was also less well answered by candidates, with many stating that VAT would apply. Those candidates that said that VAT would not apply did not give reasons and did not give any further locations of the VAT position.

Part (e) was about pre-packaged administration arrangements and how this works. Every candidate showed a great lack of knowledge in this area and it was clear that candidates had not studied the AF2 case study workbook in relation to this topic.

Part (f) was a calculation question regarding redundancy pay and this was generally well answered by most candidates.

Part (g) was about the inheritance implications of the business.

In part (g)(i) most candidates stated that his business assets will qualify for business relief but did not go on to state that the rest of his estate would be subject to Inheritance Tax on assets over the nil-rate band.

Part (g)(ii) was less well answered with many candidates not realising that the trust cannot claim business relief, and should the business be sold relatively quickly, within the next two years, then periodic charges would apply to any cash held in the trust.

Question 2

This question is about property purchase using a pension fund and also included aspects of auto-enrolment.

Part (a) was a combined calculation and explanation question regarding meeting the cost of property purchase.

Part (a)(i) was well answered by all candidates.

Part (a)(ii) was generally well answered. Some candidates identified that there would be a shortfall even after borrowing but did not go on to state that pension contributions using carry forward could be made to top up the fund. Many candidates provided a calculation in this part which was not required, and then repeated the calculation in part b(ii).

Part (b) required a little bit more detail about carry forward and a calculation using it.

Part (b)(i) was generally well answered by most candidates, although some candidates were not specific stating only that contributions up to his salary could be made.

The calculation in part (b)(ii), in some cases, lacked detail and many candidates did not apportion the amounts of carry forward to the relevant tax years. Many candidates did not state that the contributions would be restricted to his taxable earnings of £85,000 for tax relief as required by the question.

Part (c) was about the advantages of buying the property through a self-invested personal pension. This has been tested before on many occasions and was answered well by most candidates

Part (d) was about auto-enrolment responsibilities.

Part (d)(i) was answered well by most candidates.

In part (d)(ii) most candidates could not describe entitled workers and non-eligible jobholders and frequently confused the two.

Part (d)(iii) was also confused by candidates with many stating that the employer had to make pension contributions for entitled workers when this is not the case.

Question 3

This question was about the legal forms of business and identifying the most suitable business for the case study.

Part (a) was about the legal forms of business and was answered well by virtually all candidates.

Part (b) was about identifying an appropriate arrangement that would accommodate Natalie's wishes.

Part (b)(i) was about a protection arrangement and was well answered by most candidates.

In part (b)(ii) most candidates identified a limited company as being suitable but did not give sufficient reasons as to why this should be the case.

Part (c) was a calculation question on tax.

Part (c)(i) was answered by most candidates without any issues.

Part (c)(ii) was generally well answered by most candidates although many still retained the £1,000 allowance from (c)(i) which is incorrect.

Some candidates did not calculate the Corporation Tax and many candidates calculated the tax paid and not the net receipt as required by the question. Many candidates also ignored the £11,500 personal allowance. Where candidates used the dividend allowance, they did not deduct this from the basic rate allowance. Although the dividend allowance is tax free, it reduces the basic rate tax band by the amount of the allowance, and many candidates did not allow for this.

Part (c)(iii) presented no problems for candidates.

Part (d) was about choosing the best legal form of business and also to explain why it is better to hold retain profit in the business structure identified in part (d)(i). Both parts presented no problems to candidates.

THE CHARTERED INSURANCE INSTITUTE



AF2

Advanced Diploma in Financial Planning

Unit AF2 – Business financial planning

October 2017 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

- Three 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 AF2 – Business financial planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
- Section A: 80 marks
- Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.
- 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.

SECTION A

This question is compulsory and carries 80 marks

Question 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f) and (g) which follow.

Gerald, aged 60, is the sole shareholder director of a small electrical engineering company that he started some years ago. The strength of the business is his order book and his loyal and skilled workforce.

The business does not own the premises from which it operates. Gerald does personally own separate commercial premises that he rents out to another business. He bought these premises some time ago and these now have a very significant capital gain.

The business has 8 employees, one of whom, Tom, is aged 44. Tom has been with the company for 13 years and earns £550 a week. All the workers will be entitled to some element of holiday pay.

The business has expanded very quickly in the last two years and Gerald has spent a substantial amount of money on new machinery. The business looked as if it was doing well with a full order book. However, because of this expansion, the business is suffering from overtrading and is having problems with financing and covering day to day costs and regular outgoings. The business made small profits of £5,000 each year for the past two years.

Gerald is now considering two options: winding up the company or finding a buyer, in which case he will sell the business for £200,000. If he were to wind up the business and pay off the creditors, he would have a small profit. He has not yet decided whether he would sell his commercial property when he sells or winds up his electrical engineering company.

Richard, a competitor of Gerald's, is looking to buy a company to complement his current business. Richard wishes to grow his business rapidly rather than organically and his business is cash rich. He knows of Gerald's current situation and is very interested in buying Gerald's company. The two businesses are located within a quarter of a mile of each other. Richard has not decided whether to purchase from Gerald or wait until the business is due to go into administration. If the business is due to go into administration, Richard could negotiate with a potential administrator to get a pre-packaged administration deal.

Gerald has a Will which states that his total assets are to be held on trust to provide a lifetime income for his partner Jennifer, to whom he is not married. After the life interest expires, the estate passes in its entirety to the Charities Aid Foundation for distribution between a number of Gerald's favourite good causes.

Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.

- (a) (i) State **four** business reasons why Richard may wish to buy Gerald's existing business. (4)
- (ii) State **five** specific business risks to Richard associated with his acquisition of Gerald's business. (5)
- (b) (i) Explain why it may be preferable for Gerald to sell the shares in his company rather than the business and assets. (6)
- (ii) Explain to Gerald why it would be beneficial for him to sell the commercial premises he rents out at the same time as he sells his company. (3)
- (iii) Explain how the proceeds will be taxed if Gerald sells the business as a going concern for £200,000. Assume it is apportioned: 80% for goodwill; and 20% for plant, machinery and other capital equipment. No calculation is required. (7)
- (c) If Richard buys the business from Gerald, they must both comply with the Transfer of Undertakings (Protection of Employment) Regulations 2006.
- (i) State **four** items of information that Gerald must supply to Richard regarding employees transferring to the new business. (4)
- (ii) Explain to Gerald the responsibilities and liabilities the regulations will place on both Gerald and Richard if the company is bought by Richard as a going concern. (8)
- (d) (i) Explain to Gerald why a valuation based on business assets may be useful in calculating the sale value of the company. (4)
- (ii) Describe how Gerald might prepare his business for sale. (6)
- (iii) Comment on the Value Added Tax position of the company share purchase, should Richard buy the business. (4)

- (e) (i) Describe how a pre-packaged administration ('pre-pack') arrangement works. (4)
- (ii) State **three** advantages to Gerald of a pre-pack sale. (3)
- (iii) Explain why pre-pack sales may not be beneficial for creditors. (5)
- (f) (i) Calculate, **showing all your workings**, the amount of statutory redundancy pay Gerald will have to pay to Tom if he winds up the business. (8)
- (ii) Explain the tax treatment of the:
- redundancy payment; (2)
 - holiday pay entitlement. (2)
- (g) Assuming Gerald dies before Jennifer while still owning his business assets, comment on the:
- (i) Inheritance Tax implications of Gerald's Will; (2)
- (ii) Tax implications for the trust assuming it sells the business. (3)

Total marks available for this question: 80

SECTION B

**Both questions in this section are compulsory
and carry an overall total of 80 marks**

Question 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c) and (d) which follow.

Steve, aged 40, is a sole trader who has been running a successful garden design business for the past 10 years. In the last 12 months, he has expanded into making bespoke garden furniture and now needs bigger premises from which to work.

Steve has found suitable premises, priced at £275,000, which he would like to buy. He has been informed there will be a VAT charge. Stamp Duty Land Tax will amount to £6,000.

His only pension provision is a personal pension plan which has a current value of £150,000 invested in various medium risk equity funds. He would like to use this pension plan to fund the purchase of the premises rather than approaching his bank for a loan. Steve has not made a pension contribution in the tax year 2017/2018, but, in each of the previous 5 years he has made a £10,000 gross contribution. Steve's main residence has recently been valued at £450,000 and he has no mortgage. He has stocks and shares ISAs valued at £35,000 and £50,000 held in a deposit account. Steve's taxable earnings for the tax year 2017/2018 are £85,000.

In July 2017, Steve took on four permanent members of staff to help him with his increased workload. He has been informed that he needs to set up an auto-enrolment pension scheme by February 2018.

Questions

- (a) (i) Calculate, **showing all your workings**, the total cost of buying the business premises assuming that legal costs amount to £8,000. (3)
- (ii) Explain to Steve how he could use his personal pension to meet the purchase price of the property. (7)
- (b) (i) Explain how Steve can increase the net value of the pension scheme to reduce the shortfall for the property purchase. (3)
- (ii) Calculate, **showing all your workings**, the maximum amount that Steve can contribute to his personal pension in the tax year 2017/2018 and receive tax relief on the amount. (6)
- (c) State **five** advantages to Steve of buying the property through a self-invested personal pension (SIPP) rather than directly using his own investments/cash. (5)
- (d) (i) Outline the minimum requirements for Steve to meet his auto-enrolment responsibilities. (8)
- (ii) Describe:
- a non-eligible jobholder; (2)
 - an entitled worker. (2)
- (iii) Outline Steve's responsibilities towards both workers described in part (d)(ii) above. (4)

Total marks available for this question: 40

Question 3

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c) and (d) which follow.

Alan, Natalie and Chan are three engineers working for an industrial engineering group who now want to set up on their own account. They intend to establish a common enterprise under which they can work collaboratively, each developing their own connections with the aim of generating profit and value for the future.

They will require working capital to buy equipment and tools, and to finance the business in the early years. They are giving up well paid jobs and are each investing £20,000. Once established, they will each be capable of generating fees sufficient to meet overheads, their income needs and leave a surplus to reinvest in the business. They intend to build up retained profits to take stakes in future projects.

All three of them have their own concerns about which legal form the business should take.

Alan wants to make sure that he will only be putting at risk the money he invests in the business.

Natalie is concerned about the growing value of the business and the money she will have tied up in it. Natalie is unmarried and lives with her partner and their two children. She would like her family to benefit from her share of the value of the enterprise on her death. She wants to be certain that if either Alan or Chan dies the business will continue.

Chan has a young family and a mortgage and she is concerned about income. Chan recognises that her earnings are likely to be reduced in the early months and years of the enterprise. She wishes to pay as little tax as possible on her income.

Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.

- (a) Considering Alan's main concern:
- (i) State the **four** legal forms of business that could be adopted, and for each, explain its ability to meet Alan's requirement to limit his capital risk. (10)
 - (ii) Identify **two** legal forms that best suit Alan's objective. (2)
- (b) Considering Natalie's concerns and assuming that none of the three of them operates as a sole trader:
- (i) Describe the appropriate arrangement you would advise Natalie to ensure that her wishes can be accommodated. (10)
 - (ii) State, giving **two** reasons, the one legal form that is best suited to such an arrangement as described in your answer to **part (b)(i)** above. (3)
- (c) Considering Chan's concerns:
- (i) Calculate, **showing all your workings**, the Income Tax Chan would pay on a profit share of £121,000 as a sole trader. *Ignore any National Insurance contributions and assume that this is her only taxable income.* (5)
 - (ii) Calculate, **showing all your workings**, the net of tax sum Chan would receive from a company profit of £121,000 in the year commencing after 31 March 2017, after payment of Corporation Tax, with the balance being distributed as a dividend. *Assume Chan is not in receipt of any salary.* (6)
 - (iii) Identify the legal form which gives the greatest net income from your answers in **parts (c)(i)** and **(c)(ii)** above. (1)
- (d) (i) State the legal form of business that is best suited to meeting the concerns of Alan, Natalie and Chan. (1)
- (ii) Explain why it is better to hold retained profit in the business structure you have identified in **part (d)(i)** above rather than in any other legal form of business. (2)

Total marks available for this question: 40

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) (i) *Candidates would have gained full marks for any four of the following:*
- Purchase may be the fastest way for Richard to increase sales to generate greater profits or
 - to buy some business attribute or asset from Gerald's company e.g. a brand, intellectual property, strong order book.
 - or some other technology or capacity.
 - To buy expertise that Richard particularly wants. e.g. a well-trained and/or motivated workforce.
 - To remove a competitor from the marketplace.
- (ii) *Candidates would have gained full marks for any five of the following:*
- Does not understand the business he bought.
 - Overestimated sales or underestimated costs.
 - Insufficient due diligence and discovered unexpected problems.
 - Paid too much to acquire the business and becomes over-leveraged.
 - Cannot devote enough time and/or effort to properly run the business.
 - Skilled staff may leave, leaving skills shortage.
- (b) (i)
- As the company is a trading company;
 - there is certainty of getting entrepreneurs' relief.
 - No double taxation of Corporation Tax and Capital Gains Tax.
 - Simpler accounting for sale of business as individual assets do not have to be apportioned to sale price.
 - The business continues and there are no redundancy payments and so there are no Transfer of Undertakings (Protection of Employment) implications.
 - There is a clean break from the company.
- (ii)
- Entrepreneurs' Relief can be claimed for an associated disposal
 - such as a business property owned personally by the seller;
 - made at the same time as the main disposal.
- (iii) *Candidates would have gained full marks for any seven of the following:*
- Goodwill**
- The goodwill is subject to Capital Gains Tax (CGT).
 - The base cost is nil as Gerald started the business.
 - Taxable gain is £160,000, the cash value of the goodwill element of the sale.
 - Less the annual exempt amount.
 - Entrepreneurs' relief will apply.

Plant, machinery and other capital equipment.

- Is deducted from income before tax.
- The amount received of £40,000 for plant and machinery is deducted from the tax pool of unrelieved capital expenditure
- to produce a balancing charge.

(c) (i) *Candidates would have gained full marks for any four of the following:*

- Identity and age of employee.
- Contract of employment or statement of particulars.
- Collective agreements that apply.
- Legal action in previous two years and potential legal action.
- Details of grievance and formal disciplinary actions in previous two years.

- (ii)
- Gerald must inform each employee of the proposed transfer and consult with them regarding details of the transfer.
 - He is obliged to provide the new employer with full details of each employee and relevant details of their service and terms and conditions and disputes.
 - If Gerald follows the correct procedures he will be absolved of any responsibilities which are assumed in full by Richard.
 - If procedures are not followed, employees can claim compensation from the tribunal.
 - The awards from the tribunal are made jointly against both Gerald and Richard.

- (d) (i)
- His profits are low so any method based on profits would produce an unrealistic figure.
 - His business machinery has a value in excess of his profits
 - and his order book is a valuable asset that can be used in the sale calculation.

(ii) *Candidates would have gained full marks for any six of the following:*

- Ideally show some years of consistent profitability.
- Ensure that contracts with suppliers and customers are in order.
- Secure ownership of, and title to, assets such as intellectual property.
- Identify and eliminating any potential threats such as possible litigation.
- Make certain that key staff are in place and likely to remain, and that the business can be run independently of the current owner.
- Have their financial statements prepared by professionally qualified accountants and audited even if no statutory audit is required.
- To add to the credibility of their reported results.

(iii) *Candidates would have gained full marks for any four of the following:*

- On the sale and purchase of shares, there is no transfer of the business for VAT;
- because the business remains in the company.
- There is no need to account for output VAT on the share transfer;
- as it is an exempt supply.
- Therefore any input VAT on professional costs associated directly with the share transfer cannot be reclaimed.

- (e) (i)
- An arrangement in which the sale of all or part of a company's business or assets is negotiated with a purchaser before the appointment of an administrator.
 - The administrator effects the sale immediately on, or shortly after, being appointed.
- (ii) *Candidates would have gained full marks for any three of the following:*
- Avoids the costs and risks of continued trading after entering administration.
 - Where there may not be sufficient funds to continue trading as in this case.
 - Avoids the risk of the value of the business going down if trading continues during administration.
- (iii) *Candidates would have gained full marks for any five of the following:*
- They lack transparency and;
 - unsecured creditors may have no say in the process.
 - Being pre-arranged, the best price may not be obtained for the business.
 - The administrator can be seen to have a conflict of interest;
 - as they are appointed on the basis of their preference for the proposed pre-pack.
 - But they have a duty to act in the interests of all the creditors/administrator may not act in the best interest of creditors.
- (f) (i)
- Pay capped at £489 a week.
 - 1 weeks pay for each year of service between 22 and 41.
 - $£489 \times 10 = £4890$.
 - 1.5 weeks pay for each year over 41.
 - $3 \times 1.5 \times £489 = £2,200.50$.
- (ii) **Redundancy payment:**
- Free of tax:
 - As it is less than £30,000
- Holiday pay:**
- Taxed at marginal rate;
 - and National Insurance (NI) deducted.
- (g) (i) *Candidates would have gained full marks for any two of the following:*
- His business assets will qualify for business relief.
 - His remaining estate would be liable to Inheritance Tax;
 - on any amount in excess of the nil-rate band.
- (ii) *Candidates would have gained full marks for any three of the following:*
- The trust will not qualify for Business Relief (BR) in the first two years of ownership.
 - Once the business is sold by the executors/trustees;
 - periodic charges may be payable on any cash held within the trust.
 - On Jennifer's subsequent death, the transfer to charity will be an exempt transfer.

Model Answer for Question 2

- (a) (i)
- Purchase price = £275,000 + VAT at 20% = £55,000.
 - Plus total costs of £14,000 – (Stamp Duty of £6,000 + costs of £8,000).
 - Total cost = £344,000.
- (ii)
- He would need to transfer his personal pension to a self-invested personal pension scheme (SIPP).
 - As a SIPP can buy property but a personal pension cannot.
 - As the fund value is not enough to buy the property;
 - the SIPP can borrow funds up to 50% of net scheme assets to use for investment purposes.
 - He can make a pension contribution of up to 100% of earnings and
 - utilise carry forward.
- (b) (i)
- He can carry forward any unused allowance from the previous 3 years.
 - Maximise this current tax year's allowance.
- (ii)
- Using unused allowance - £40,000.
 - Maximum contribution brought forward from 2014/2015 - £30,000
 - £15,000 brought forward from 2015/2016.
 - Total £85,000.
- (c) *Candidates would have gained full marks for any five of the following:*
- The rent received by the SIPP is tax free;
 - which increases the size of his pension fund.
 - The rent does not contribute to his annual contribution allowance.
 - Growth on the property will be free of CGT.
 - The asset is protected should he ever become bankrupt.
 - He would not have to use his own personal assets which could be used for other purposes.
 - SIPP can reclaim VAT if registered for VAT.
 - Outside his estate for Inheritance Tax (IHT) purposes.
- (d) (i) *Candidates would have gained full marks for any eight of the following:*
- Inform and consult with staff.
 - He will need to provide information to his employees regarding the scheme.
 - He will need to establish which of his employees are eligible and segment the work force.
 - He will have to choose a provider;
 - and choose a default investment fund.
 - Automatically enrol eligible employees.
 - He will have to pay the minimum employer contribution of 1% of qualifying earnings.
 - He will need to deduct contributions from his employee's salaries.
 - He will need to pay these and his contributions to the scheme on time.
 - He will need to set up a process for opt outs.

- He will need to register the scheme with the Pensions Regulator.

(ii) *Candidates would have gained full marks for any two of the following:*

Non-eligible jobholder

- Age between 16 -21 or State Pension Age to age 74.
- Earning above auto-enrolment threshold amount /£10,000.
- OR
- Age between 16-74.
- Earning between £5,824 and £10,000

Entitled worker

- A worker who is aged between 16 and 74.
- Is working in the UK under contract.
- Does not have qualifying earnings/earnings below £5,824.

(iii) **Non-eligible jobholder**

- Treated the same as eligible jobholders if they opt in;
- and the company must make pension contributions for them.

Entitled workers

- Has to offer them access to the scheme.
- He does not need to make an employer contribution.

Model Answer for Question 3

(a) *Candidates would have gained full marks for any ten of the following:*

(i) **Sole Trader**

- Sole trader.
- Alan would be exposed to unlimited liability for his actions.
- To the full extent of his personal wealth with no limitation to his capital risk.

Partnership

- Partnership
- Alan would be exposed to unlimited liability arising from his actions;
- and of those of his partners jointly and severally.
- To the full extent of his personal wealth.

Limited Company

- Limited Company.
- Liability limited to the sum invested in the limited company/£20,000.
- Unless he provides personal guarantees or is guilty of wrongful trading.

Limited Liability Partnership

- Limited Liability Partnership.
- Liability limited to the sum of partner's capital account and;
- current account unless he provides capital guarantees or is negligent.

(ii)

- Limited Company.
- Limited Liability Partnership.

(b) (i) *Candidates would have gained full marks for any ten of the following:*

- All three enter into a shareholder or partnership protection arrangement;
- using a cross option agreement;
- A cross option agreement will preserve Business Relief for her share;
- and each takes out a life policy written in trust for the other two.
- Life insurance to the value of the respective shareholdings.
- The cross option gives the estate of the deceased a right to request a sale;
- and a matching right for the survivors in business to request a purchase;
- the exercise of which by any party becomes binding on them all.
- On Natalie's death her policy will pay out to the surviving two;
- to provide the funds for them to purchase her share of the business.
- If either Alan or Chan dies Natalie will receive half the life policy claim.

(b) (ii) *Candidates would have gained full marks for any three of the following:*

- Limited company.
- All rights are held in shares and are easily transferred;
- and give a legal right to fair share of all a company's assets;
- which has the benefit of perpetual succession.

(c)	(i)	Income	£121,000
		Personal Allowance	£11,500
		Personal Allowance abatement (21,000/2)	(£10,500)
			£1,000
		0% tax on £1,000	-
		20% tax on £33,500	£6,700
		40% tax on £86,500 (£121,000 – 33,500 – 1,000)	£34,600
		Total tax to pay	£41,300
	(ii)	Gross profit	£121,000
		Corporation tax @ 19%	(£22,990)
		Dividend	£98,010
		Personal Allowance	£11,500
		0% on £16,500 (£5000 + £11,500)	-
		7.5% tax on £28,500	£2,137.50
		32.5% tax on £53,010	£17,228.25
		Total personal tax	£19,365.75
		Net receipt	£78,644.25

(iii) • Sole trader

(d) (i) • Limited Company.

(ii) *Candidates would have gained full marks for any two of the following:*

- All the legal forms other than a limited company are tax transparent;
- which would cause them to pay personal income tax;
- on the retained profits they intend to build up.

All questions in April 2018 papers 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 applicable to the April 2018 examinations.

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 (CO₂) 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 CO₂ emissions of 50g/km or less.
 - For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 13%.
 - For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO₂ 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 CO₂ 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
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

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%
Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)				
CO ₂ 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%

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.*

Class 2 (self-employed)	Flat rate per week £2.80 where profits exceed £5,965 per annum.
Class 3 (voluntary)	Flat rate per week £14.10.
Class 4 (self-employed)	9% on profits between £8,060 - £43,000. 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 (CO₂) 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 CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 11%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO₂ 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 CO₂ 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
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

	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%	
Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)			
CO ₂ 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