Chartered Insurance Institute

R03

Diploma in Regulated Financial Planning

Unit 3 – Personal taxation

Based on the 2021/2022 syllabus examined until 31 August 2022

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Contents

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Unit 3 – Personal taxation

Based on the 2021/2022 syllabus examined until 31 August 2022

Introduction

This examination guide has been produced by the Qualifications and Assessment Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the R03 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of a R03 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the R03 reading list, which is located on the syllabus in this examination guide and on the CII website at **www.cii.co.uk.**

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

1) Visit **www.cii.co.uk/learning/qualifications/diploma-in-regulated-financial-planning-qualification/unit-personal-taxation-r03**
2) Select 'exam guide update' on the right-hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The R03 syllabus is published on the CII website at **www.cii.co.uk. Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises R03 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to *apply, understand and analyse* the subject matter. Each learning outcome begins with one of these cognitive skills:

Understanding - Candidates must be able to link pieces of information together in cause and effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Application - To answer application questions, the candidate must be able to apply his/her knowledge and/or understanding to a given set of circumstances. Typically questions may ask 'Calculate' – for example, 'Calculate liability to Income Tax'. Questions set on a be able to *apply* learning outcome can test knowledge and/or understanding as well as application.

Analysis - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires *analysis* so a conclusion can be drawn.

Examination Information

The method of assessment for the R03 examination is 50 multiple choice questions (MCQs): 39 standard format and 11 multiple response format. 1 hour is allowed for this examination.

The R03 syllabus provided in this examination guide will be examined from 1 September 2021 until 31 August 2022.

Candidates will be examined on the basis of English law and practice in the tax year 2021/2022 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

For areas of the syllabus that are focused on taxation, the general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

Given the fact that there is a single regulator for the whole sector, R03 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Extracts from tax tables will be provided at each examination, an example of which can be found in this examination guide. Candidates may find it beneficial to familiarise themselves with this information in advance of the examination. Candidates may **not** take their own tax tables into the examination

A standard format multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only one correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

A multiple response format question consists of a problem, followed by between four to six options. For each question more than one option is correct. Candidates must select **all** the correct options to gain the mark.

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.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique : Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate’s examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Personal taxation

Chartered Insurance Institute

Purpose

At the end of this unit, candidates will have investigated the:

- basic structure of the UK tax system;
- main taxes on income and capital that may be charged on individuals and trusts, the self assessment system and how tax liabilities are computed;
- taxation of investments as relevant to the needs and circumstances of individuals and trusts.

	Summary of learning outcomes	Number of questions in the examination*
1.	Understand the UK tax system as relevant to the needs and circumstances of individuals and trusts	15 standard format
2.	Analyse the taxation of investments as relevant to the needs and circumstances of individuals and trusts	8 standard format/ 7 multiple response
3.	Analyse the role and relevance of tax in the financial affairs of individuals and trusts	6 standard format/ 4 multiple response
4.	Apply the knowledge of personal taxation to the provision of investment advice	10 standard format

* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- Method of assessment: 50 questions: 39 standard format and 11 multiple response questions. 1 hour is allowed for this examination.
- This syllabus will be examined from 1 September 2021 to 31 August 2022.
- Candidates will be examined on the basis of English law and practice in the tax year 2021/2022 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit *www.cii.co.uk/qualifications*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

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1. Understand the UK tax system as relevant to the needs and circumstances of individuals and trusts

1.1 Explain the main features of Income Tax.

1.2 Explain the main features of National Insurance Contributions (NICs).

1.3 Explain the main features of Capital Gains Tax (CGT).

1.4 Explain the main features of Inheritance Tax (IHT).

1.5 Explain the implications of residence and domicile on UK tax liability.

1.6 Explain the main features of UK tax compliance.

1.7 Explain Stamp Duty Reserve Tax and Stamp Duty Land Tax.

1.8 Describe the rules and impact of Value Added Tax (VAT) and Corporation Tax.

2. Analyse the taxation of investments as relevant to the needs and circumstances of individuals and trusts

2.1 Analyse the taxation of direct investments.

2.2 Analyse the taxation of indirect investments.

3. Analyse the role and relevance of tax in the financial affairs of individuals and trusts

3.1 Analyse the impact of taxes on individuals, trusts and their investments in different situations.

3.2 Analyse the ways in which key elements of tax planning provide tax efficiency to individuals and trusts.

4. Apply the knowledge of personal taxation to the provision of investment advice

4.1 Calculate basic elements of Income Tax, NICs, CGT, and IHT, including the impact of lifetime transfers and transfers at death.

4.2 Recommend elementary tax plans in the context of investments and pensions advice.

Reading list

The following list provides details of further reading which may assist you with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts

Personal taxation. London: CII. Study text R03.

Books (and ebooks)

A modern approach to lifetime tax planning for private clients (with precedents). Christopher Whitehouse, Lesley King. Bristol: Jordans, 2016.

Booth and Schwarz: residence, domicile and UK taxation. Jonathan Schwarz. 20th ed. Bloomsbury Professional, 2018.

Mastering financial calculations: a step-by-step guide to the mathematics of financial markets instruments. 3rd ed. Bob Steiner. Harlow: FT Prentice Hall, 2012. *

The Financial Times guide to investing. 4th edition. Glen Arnold. FT Prentice Hall, 2020.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at *www.ftadviser.com*.

Financial times. London: Financial Times. Daily. Available online at *www.ft.com*.

Personal finance professional (previously Financial solutions). London: CII. Six issues a year.

Money management. London: FT Business. Monthly. Available online *www.ftadviser.com/brand/money-management*.

Money marketing. London: Centaur Communications. Weekly. Available online at *www.moneymarketing.co.uk*.

Further articles and technical bulletins are available at *www.cii.co.uk/knowledge-services/* (CII/PFS members only).

Reference materials

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon

* Also available as an ebook through eLibrary via *www.cii.co.uk/elibrary* (CII/PFS members only).

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Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.*

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (*www.revisionmate.com*). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

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1. In the tax year 2021/2022, Rebecca is liable to pay Class 4 National Insurance contributions. This shows that she has
A. been on maternity leave for part of the tax year.
B. earned at least part of her income from self-employment.
C. earnings from at least two concurrent sources.
D. not been liable for Class 2 National Insurance contributions.

2. With regard to Inheritance Tax, a necessary condition for satisfying the normal expenditure rule for exempt lifetime transfers is that the payments
A. must not exceed £3,000 per annum.
B. must not reduce the transferor's standard of living.
C. must be agreed in advance with HM Revenue & Customs.
D. may only be made to family members.

3. Felicia has recently moved to the UK, having **NOT** been resident in the UK during the previous three years. She has three UK ties as determined by HM Revenue & Custom's Statutory Residence Test. What **minimum** number of days will she need to reside in the UK during the tax year 2021/2022 to be regarded as a resident for that year?
A. 16
B. 46
C. 91
D. 121

4. How should an employed additional-rate taxpayer, with significant self-employed earnings, **normally** account for his self-employed income under the self-assessment tax regime for a given tax year?
A. By a single annual payment by the 31 January in the following year.
B. By a single payment within 9 months of his accounting year end.
C. By payments twice a year together with any balancing payment by 31 January in the following year.
D. Through the PAYE system, operated by his employer.

5. In respect of taxation, the Ramsay principle is used to
A. focus on the most serious offences in cases of multiple tax evasion.
B. give the benefit of doubt to a taxpayer in cases of accidental underpayment of tax.
C. ignore a series of transactions undertaken solely for tax avoidance, determining the transactions' tax liability by the end result.
D. limit the investigative powers of the tax authorities to a maximum of five years.

6. A limited company with a turnover of £500,000 has a trading year which ends on 30 June. According to HM Revenue & Customs, by which date should the company **normally** pay any Corporation Tax due?
A. 1 October the same year.
B. 1 February the following year.
C. 1 April the following year.
D. 5 April the following year.

7. Imogen purchased some eligible securities on AIM using a stock transfer form, sold some FTSE 100 shares through CREST and bought some gilts. To which stamp duty(ies), if any, was she liable?
A. None.
B. Stamp Duty only.
C. Stamp Duty Reserve Tax only.
D. Stamp Duty and Stamp Duty Reserve Tax.

8. Margaret, a married woman with employed earnings, has **NOT** paid any employee National Insurance (NI) contributions in the tax year 2021/2022, but her NI contribution record has been credited. This is because
A. her earnings were marginally above the lower earnings limit (LEL).
B. her husband's employed earnings combined with hers exceeded the primary contribution threshold.
C. she overpaid in the preceding tax year.
D. she retired part way through the tax year.

9. Oscar, an additional-rate taxpayer, having made no previous transfers, gifts £325,000 of gilts to a discretionary trust for his grandchildren and, in the same tax year, £325,000 of Real Estate Investment Trusts to an interest in possession trust for his daughter. Assuming that the trustees are to pay any tax due, what rate(s) of Inheritance Tax, if any, **usually** apply(ies) as an immediate result of the gifts?
A. None.
B. 20% only.
C. 40% only.
D. 20% and 40%.

10. Dave, a divorcee, died leaving an estate valued at £250,000. The estate was subject to Inheritance Tax at 40% because
A. all his assets were held overseas.
B. the estate derived from assets subject to Business Asset Rollover Relief.
C. his nil rate band had been transferred to his ex-wife.
D. of previous transfers.

11. A discretionary trust holds assets that generate both dividends and interest. The trustees, who are UK resident, should be aware that
A. all income received within the standard-rate band has a 10% Income Tax liability only.
B. the amount of the standard-rate band for the trust depends on the existence in the tax year of any other trusts created by the settlor.
C. dividends received may have a maximum 32.5% Income Tax liability.
D. interest received may have a maximum 40% Income Tax liability.

12. Paul is currently a basic-rate taxpayer. He is about to surrender an onshore assurance bond as well as making a share disposal. In both cases he is realising some gains. How do these two gains **finally** interact in determining his tax liability?
A. The capital gain is added to his gross income and then the chargeable gain, top sliced, is added.
B. The capital gain is added to his gross income and then the chargeable gain, without top slicing, is added.
C. The chargeable gain, top sliced, is added to his gross income and then the capital gain is added.
D. The chargeable gain, without top slicing, is added to his gross income and then the capital gain is added.

13. An investment portfolio with an acquisition value of £220,000 was subsequently disposed of for £248,000, without incurring a Capital Gains Tax liability. This was because
A. the disposal was made by trustees.
B. Inheritance Tax had already been paid on the acquisition value.
C. the portfolio consisted totally of gilts and Venture Capital Trust shares purchased at issue.
D. the portfolio consisted totally of Real Estate Investment Trust shares.

14. Alicia and Emilio are married and are both resident in the UK, living in rented accommodation. Alicia is domiciled in Spain for Inheritance Tax purposes and Emilio is domiciled in the UK. When Emilio died, on 1 August 2021, his £770,000 estate was inherited by Alicia. How much Inheritance Tax was due?
A. £48,000
B. £55,000
C. £156,000
D. £178,000

15. Joanna is a P11D employee, earning above the Income Tax allowance. She uses the company's work bus, provided free of charge, to travel to and from work. She is wondering whether to switch to a pool car for that travel to and from work; the pool car would be provided free of charge and garaged at her home overnight, available to her family for use. She should be advised that with regard to any benefits received from the work bus and the pool car
A. both generate an Income Tax liability, but only if she is a higher or additional-rate taxpayer.
B. neither generates an Income Tax liability, whatever her taxpaying status.
C. the pool car, but not the work bus, could generate an Income Tax liability.
D. the work bus, but not the pool car, could generate an Income Tax liability, depending on its CO_2 emissions.

16. In the tax year 2021/2022, Erskin's savings income consists solely of £1,000 from his UK building society account and £1,000 from his offshore bank account which he leaves to accumulate offshore. His **total** income for the tax year is £90,000. What is his Income Tax liability on his **total** savings income?
A. £200
B. £400
C. £600
D. £800

17. Russell, when aged 60, invested £20,000 in an onshore life assurance bond from which no withdrawals have been made. It was fully surrendered just over five years later in the tax year 2021/2022 for £27,500. Russell's other taxable income for the tax year, after allowances and deductions, is £50,000, which includes £1,000 of interest. What amount of Income Tax, if any, will Russell have to pay on surrender?

A. None.
B. £250
C. £300
D. £1,500

18. Simon, aged 62, with gross annual income of £58,000 in the tax year 2021/2022, is accessing for the first time part of his only pension, which is a personal pension, using an Uncrystallised Fund Pension Lump Sum. He is withdrawing £42,000. What is the **total** amount of Income Tax, if any, payable as a result of this withdrawal?

A. Nil.
B. £6,300
C. £12,600
D. £16,800

19. Barry, with annual income in excess of £800,000, incurred a chargeable capital gain of £160,000. Soon after he made the following investments into new issues

Investment	Amount
Venture Capital Trust (VCT)	£60,000
Enterprise Investment Scheme (EIS)	£100,000

With respect to his personal tax liability regarding these investments, he can defer the Capital Gains Tax liability on

A. the whole £160,000 and claim Income Tax relief of £48,000.
B. the whole £160,000 and claim Income Tax relief of £72,000.
C. a maximum of £100,000 and claim Income Tax relief of £48,000.
D. a maximum of £100,000 and claim Income Tax relief of £72,000.

20. Pauline, who has earnings from her employer sufficient to make her a basic-rate taxpayer, has a portfolio of equity unit trusts and fixed interest open-ended investment companies. She should be aware that

A. all income distributions from this portfolio may be offset against her dividend allowance.
B. any realised losses from this portfolio are allowable against realised gains regarding Capital Gains Tax.
C. only realised gains from the unit trusts may be liable to Capital Gains Tax.
D. she may offset realised gains from her portfolio against her dividend allowance if her Capital Gains Tax exemption had been fully utilised.

21. Brenda receives £600 net per month from her occupational pension scheme. Susan receives £600 net per month from her purchased life annuity. Both are higher-rate taxpayers. Ignoring personal allowances, when comparing the taxation implications of these payments, it can be inferred that
A. Brenda's gross annuity must be higher than Susan's.
B. both Brenda's annuity and Susan's annuity are fully taxable.
C. higher-rate Income Tax liability, when applicable, will be 32.5% for Susan while 40% for Brenda.
D. only Susan could reduce her Income Tax liability by placing her annuity under trust.

22. Maureen is an additional-rate taxpayer who holds 1,200 units in an equity unit trust. Having already received £12,300 of dividends from a private company earlier in the tax year 2021/2022, she now receives 27p per unit as dividend from that unit trust. What is her tax liability, if any, on that unit trust dividend?
A. None.
B. £121.50
C. £123.44
D. £145.80

23. Helene, aged 16, has been given £25,000 by her mother to invest in ISAs as far as possible in the tax year 2021/2022. Her mother is a basic-rate taxpayer. Helene should be aware that
A. interest over £100 received by her from a cash ISA would result in all of the interest being taxed as her mother's.
B. she is not permitted to invest in both a junior ISA and a cash ISA.
C. the maximum that she may invest in ISAs of any type, taken as a whole, in the tax year is £20,000.
D. interest over £100 received by her from a junior ISA would result in all of the interest being taxed as her mother's.

24. With regard to Inheritance Tax, John, having fully used his annual gift exemption in the previous tax year, makes the following gifts in the tax year 2021/2022

i)	£5,000 to his niece at age 21.
ii)	£4,500 to his godchild on her marriage.
iii)	£1,500 spread equally to his six nephews.

Ignoring exemptions through the normal expenditure rules, how much in total of the money gifted will be deemed potentially exempt?
A. £4,000
B. £5,250
C. £5,500
D. £7,000

25. Jim, an additional-rate taxpayer, has £300,000 of FTSE 350 property shares showing a gain of £150,000. He also owns an offshore assurance bond, with 100 segments, valued at £300,000 showing a £100,000 gain. He wants to gift £150,000 to his daughter, with the smallest tax liability for himself. He has already used his Capital Gains Tax exemption. How **best** is this done and with what tax liability, if any, for him?

A. Assign 50 segments of the bond with no tax liability.

B. Assign 50 segments of the bond with a tax liability of £22,500.

C. Gift £150,000 of the shares rolling over the tax liability.

D. Gift £150,000 of the shares with a tax liability of £21,000.

26. Dennis and Hannah are married. Dennis, aged 90, is in poor health and Hannah, aged 50, is in good health. They each have around £2,000,000 on deposit and readily transfer assets between themselves as they want. They are going to give their daughter, Tonia, £900,000 in total as soon as possible. With regard to avoiding any Inheritance Tax liability at the time of the gift and the likelihood of minimising Inheritance Tax overall, how **best** should they arrange any gifts?

A. Dennis gifts £900,000 to Tonia.

B. Dennis and Hannah each gift £450,000 to a flexible interest in possession trust with Tonia as default beneficiary.

C. Hannah gifts £900,000 to Tonia.

D. Hannah gifts £900,000 to a discretionary trust with Tonia included among the possible beneficiaries.

27. Niamh has been rightly advised that she would be better off, on taxation grounds, if she invested in an offshore life assurance bond rather than unit trusts. She is an additional-rate taxpayer who makes use of her Capital Gains Tax exemption each year through her other assets. Which feature of the bond is **most likely** to be in the adviser's mind as **most important**?

A. No possibility of any tax liability within the funds of such bonds.

B. The top slicing feature to reduce eventual possible tax liability on full surrender.

C. The top slicing feature to reduce possible tax liability on partial withdrawals.

D. Withdrawal of up to 5% per annum of the original investment permitted with Income Tax deferred.

28. Jack owned a second property as a joint tenant with his daughter Miranda. They purchased it 10 years ago, each paying 50% of the purchase price. On Jack's death, the property was valued at £900,000. All his other assets were solely in his name and were bequeathed to his wife. What Inheritance Tax, if any, was due?

A. Nil.

B. £50,000

C. £180,000

D. £230,000

29. In June 2018, Marisa invested £50,000 into asset X which qualified for Business Relief. In June 2020, she invested £350,000 into asset Y that also qualified for Business Relief. On her death, in August 2021, the value of X was £100,000 and the value of Y was £400,000. Those assets were bequeathed to her daughter, the rest of her estate going to her husband. What, if anything, was the Inheritance Tax liability?
A. Nil.
B. £10,000
C. £30,000
D. £70,000

30. Bill, a single man, having fully used his annual gift exemptions, made a potentially exempt transfer of £100,000 four and a half years before his death. He made no other gifts. His residual estate on his death in the tax year 2021/2022 was valued at £500,000 and includes his £250,000 home which his son inherits. The Inheritance Tax liability resulting from his death is
A. £40,000
B. £50,000
C. £70,000
D. £110,000

31. Alexis is a higher-rate taxpayer. Ignoring the use of the capital gains tax exemption, if she claims business asset disposal relief on a £150,000 gain made in August 2021, by how much will her tax liability be reduced compared with no such relief being available?
A. £12,000
B. £15,000
C. £27,000
D. £42,000

32. Jessica, a higher-rate taxpayer, bought an equity unit trust two years ago for £60,000, which is currently valued at £109,200. In the tax year 2021/2022, she has already sold some gilts, making a loss of £5,000 and she is wanting to encash some of the trust's units, but only sufficient to maximise use of this year's Capital Gains Tax exemption. What **total** value of units should she be advised to sell?
A. £12,300
B. £17,300
C. £27,300
D. £32,300

33. Albert died in March 2002, when the Inheritance Tax nil rate band was £242,000. With the exception of a £48,400 bequest to his daughter, he gifted his entire estate to his spouse. Her estate is currently valued at £800,000 which contains no property. If she died today, how much nil rate band, in effect, would be available to the estate?
A. £518,600
B. £567,000
C. £585,000
D. £650,000

34. Elaine has annual earnings of £200,000. She is now surrendering an offshore assurance bond with a gain of £72,000 and an onshore assurance bond with a gain of £36,000. She has received no dividend income. What is her personal total tax liability as a result of these surrenders?
A. £29,160
B. £36,400
C. £39,150
D. £41,400

35. Peter has annual earnings of £30,000. He also receives £1,000 annually of building society interest. His investment portfolio consists of some gilts, some corporate bond unit trusts and some UK high income equity open-ended investment companies (OEICs). His annual income from the gilts and the corporate bond unit trusts total £2,000 each. His annual income from the OEICs totals £1,000. From an Income Tax efficiency perspective only, which of the portfolio holdings could more sensibly have been held within ISAs?
A. Gilts only.
B. Corporate bond unit trusts only.
C. Gilts and corporate bond unit trusts.
D. UK high income equity OEICs together with the corporate bond unit trusts.

36. Andrew, a higher rate taxpayer, has two children, a son aged 16 who is able-bodied and a disabled daughter, aged 13. He has not made a will and wants to gift £500,000 of his estate in equal shares to his children. From an Inheritance Tax planning perspective, what action could Andrew take and possibly reduce his potential Inheritance Tax liability?
A. Establish a discretionary trust for each child
B. Establish a discretionary trust for the son and a disabled person's trust for the daughter.
C. Establish a will trust for the daughter.
D. Establish a will trust for the son.

37. Genevieve, aged 67, has self-employed earnings of £100,000 per year and savings income of £10,000 per year. What is her Income Tax liability for the tax year 2021/2022?
A. £27,432
B. £31,232
C. £33,232
D. £33,432

38. On Brian's death in August 2021, his estate was valued at £820,000. He owned no property. He bequeathed £40,000 to a registered charity and split the balance before tax equally between his registered civil partner and his brother. Assuming he made no lifetime transfers, what will the Inheritance Tax liability be?
A. £22,750
B. £23,400
C. £26,000
D. £34,000

39. Sophie and Stanley are married and live together in the Cotswolds. Sophie is a higher-rate taxpayer and Stanley has taxable earnings of £6,000 per annum. Sophie has already realised capital gains of £5,000 in total for the tax year 2021/2022, though Stanley has realised no gains. Sophie is about to transfer some shares, showing a £31,700 gain, to Stanley for his immediate disposal. With regard to the Capital Gains Tax liability, when will it arise, at what rate and on what amount?
A. On disposal by Stanley at 10%, assessed on £13,400.
B. On disposal by Stanley at 10%, assessed on £19,400.
C. On transfer by Sophie at 10%, assessed on £24,400.
D. On transfer by Sophie at 20%, assessed on £22,400.

For Questions 40-50 more than 1 option is correct. You must select <u>all</u> the correct options to gain the mark.

40. Eric invested £100,000 in an offshore assurance bond on 1 October 2016. He has taken regular withdrawals of £5,000 for each of the five policy years. He fully surrendered the bond on 31 August 2021 for £110,000. How is he taxed as a result, assuming that the chargeable gain does **NOT** alter his tax status and that he has made full use of any personal savings allowance, but no use of his dividend allowance?
A. If he is a basic-rate taxpayer, there will be no further tax to pay.
B. If he is a basic-rate taxpayer, he will be liable to 20% Income Tax on £35,000.
C. If he is a higher-rate taxpayer, he will be liable to 40% Income Tax on £30,000.
D. If he is an additional-rate taxpayer, he will be liable to 45% Income Tax on £35,000.

41. Martin is a basic-rate taxpayer, Joyce is a higher-rate taxpayer and Peter is an additional-rate taxpayer. If they have each received a £90 dividend cheque in respect of their shareholdings in the same UK company
A. Joyce will have a 32.5% Income Tax liability on the dividend, assuming she has already used her dividend allowance.
B. any unused personal savings allowance may be used against the dividend by them, if the share is a banking share.
C. they may each have no Income Tax liability through use of the dividend allowance.
D. Peter may have a 38.1% Income Tax liability on that dividend.

42. Lucinda, an additional rate taxpayer, has just invested £100,000 into a Real Estate Investment Trust (REIT) in the tax year 2021/2022. The taxation consequences for her relating to the investment is such that
A. as much as £30,000 of tax relief could be secured against her tax liability for 2021/2022 and 2020/2021.
B. non-property income distributions received may be offset in part or in whole against her dividend allowance.
C. property income distributions received may be offset in part or in whole against £500 of her personal savings allowance.
D. tax may be due on the non-property income distributions at 38.1%.

43. Robin, earning £120,000, has for the first time invested in an Enterprise Investment Scheme, purchasing £100,000 of a new issue. Carol, earning £40,000, has invested £10,000 in her first Venture Capital Trust, also a new issue. When considering their respective tax situations
A. Robin will receive Income Tax relief of £36,000.
B. Carol will receive Income Tax relief at 30% on the whole of her investment.
C. Robin must remain resident in the UK to maintain the full tax benefits.
D. Carol will be exempt from Capital Gains Tax whenever she disposes of her shares.

44. Esther is trying to understand some central Capital Gains Taxation features that apply to any gains she makes on her FTSE 100 shares. She should be aware that
A. gifts of shares, without reservation, to her children are not disposals for Capital Gains Tax purposes.
B. the annual Capital Gains Tax exemption, if not fully used, may be carried forward one year.
C. two different Capital Gains Tax rates may be applied to her realised gains in the same year.
D. when shares are transferred to discretionary trusts, any Capital Gains Tax liabilities may be held over.

45. Nora is an additional-rate taxpayer. She is wondering whether to invest in some onshore or offshore life assurance bonds. With regard to her personal tax position relating to these bonds, she should be aware that
A. a personal Income Tax liability may arise on surrender of 25% for the onshore and 45% for the offshore bond with regard to any realised gains.
B. where the 5% tax deferral rule applies, the 5% refers to the value of the bond when the withdrawal is made.
C. while an additional-rate taxpayer, top slicing does not help to reduce any Income Tax liability regarding either of the bonds.
D. withdrawals of up to 5% per annum with tax deferred are available only on onshore bonds.

46. Keith, a higher-rate taxpayer, is investing in commercial property to generate an income. His financial adviser has recommended that he considers Real Estate Investment Trusts (REITs), so he should be made aware that
A. they are the highest yielding of all property sector investment vehicles.
B. they may be held within stocks and shares ISAs.
C. realised gains on REITs may be subject to Capital Gains Tax.
D. they are structured as closed-end companies.

47. George and Charles are civil partners and are UK domiciled. Charles is about to move abroad for two years and they are both considering Inheritance Tax (IHT) implications relating to transfers between them. They should be made aware that
A. transfers between them may be exempt both during life and on death.
B. if their civil partnership breaks down, any transfers made between them prior to the final order of dissolution would be exempt from IHT.
C. while Charles is abroad, certain transfers to Charles may have a 20% IHT liability.
D. while Charles is abroad, any gifts received from George in excess of £325,000 would be potentially exempt transfers.

48. Emma and Aimee are 15-year-old twins. Their mother opened Child Trust Fund (CTF) accounts for them when they were 1 year old. She is wanting to invest further on a tax-efficient basis for them, in their own names. She should be aware that

A. the CTFs may be retained, while investments are made into junior ISAs for them.

B. the CTFs may be transferred into junior ISAs with contributions then being made to the junior ISAs only.

C. If Junior ISAs are opened for both children, the maximum £9,000 contribution must be divided equally between them.

D. payments into pension plans are allowable for the twins with tax relief.

49. Ethel has died and left all her estate, valued at £1,200,000, to her two children. Which of the following gifts made during her lifetime could be included in her estate for Inheritance Tax purposes?

A. Her main residence until her death, the ownership of which was transferred to her children eight years ago.

B. Her £425,000 gift made to her UK-domiciled husband earlier in the tax year of her death.

C. A gift to her son of £12,000, made just over three years prior to her death.

D. Part of the £350,000 gift made to a UK-registered charity in the tax year of her death.

50. Delia, an additional-rate taxpayer, is interested in saving for her retirement and is considering pensions and ISAs. She should be aware that

A. income withdrawals from ISAs do not generate any Income Tax liabilities.

B. capital gains realised within pension funds and ISAs are subject to Capital Gains Tax at the reduced rate of 10%.

C. pension funds have a tax liability regarding dividends received from AIM shares.

D. she may receive basic-rate tax relief at source regarding pension contributions, but not ISA contributions.

INCOME TAX

RATES OF TAX	2021/2022
Starting rate of 0% on savings income up to*	£5,000
Personal Savings Allowance	
Basic rate	£1,000
Higher rate	£500
Basic rate of 20%	£0 to £37,700
Higher rate of 40%	£37,701 to £150,000
Additional rate of 45%	£150,001 and over

**For other income less than £17,570 only. The starting rate for savings is a maximum of £5,000.*

Dividend Allowance	£2,000
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
Personal Allowance (basic) §	£12,570
Marriage Allowance	£1,260
Rent-a-room scheme - tax-free income allowance	£7,500

§ *Reduced allowance of £1 for every £2 of adjusted net income over and above £100,000*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**per week**
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Class 1	**Employee**	**Employer**
NICs rate	12%	13.8%
No NICs on the first (per week)*	£184	£170**
NICs rate charged up to (per week)	£967	No limit
2% NIC charged on earnings over	£967	n/a

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £184 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*
*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 and £50,270. 2% on profits above £50,270.

CAPITAL GAINS TAX

TAX RATES	**2021/2022**
Individuals:	
Up to basic rate limit	10%
Above basic rate limit	20%
Surcharge for residential property and carried interest	8%
Trustees and Personal Representatives	20%
Business Asset Disposal Relief* – Gains taxed at:	10%
Lifetime limit	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least two years.*

EXEMPTIONS	
Individuals, estates etc	£12,300
Trusts generally	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

PENSIONS

	2021/2022
Lifetime Allowance	£1,073,100
Annual Allowance*	£40,000
Money Purchase Annual Allowance	£4,000

** Tapered by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2021/2022
Transfers made on death	
- Up to £325,000	Nil
- Excess over £325,000	40%
- Reduced rate (where appropriate charitable contributions are made)	36%
Chargeable lifetime transfers to trusts	20%

MAIN EXEMPTIONS

Transfers to	
- UK-domiciled spouse/civil partner	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000
- main residence nil-rate band*	£175,000
- UK-registered charities	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
- Small gifts exemption	£250
Wedding/civil partnership gifts by	
- Parent	£5,000
- Grandparent/bride or groom	£2,500
- other person	£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%

CORPORATION TAX

	2021/2022
Standard rate	19%

VALUE ADDED TAX

	2021/2022
Standard rate	20%
Annual registration threshold	£85,000
Deregistration threshold	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Important Note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- **For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000. For purchases above £250,000, the band rates above apply as normal.**
- **For purchases from 1 October 2021, the band rates above apply as normal.**

Additional SDLT rules still apply as below.

- *Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons in some circumstances.*
- *First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional rates of LBTT and LTT apply in Scotland and Wales respectively for the purchase of additional residential properties. First-time buyers benefit from LBTT relief in Scotland. There is no LTT relief for first-time buyers in Wales.*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022
Child Benefit	First child	£21.15
	Subsequent children	£14.00
	Guardian’s allowance	£18.00
Basic State Pension	Single	£137.60
	Married	£275.20
the new State Pension	Single	£179.60
Pension Credit	Single person standard minimum guarantee	£177.10
	Married couple standard minimum guarantee	£270.30
Bereavement Support Payment	Higher rate - lump sum	£3,500
	Higher rate - monthly payment	£350
	Standard rate – lump sum	£2,500
	Standard rate – monthly payment	£100

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Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format Questions						**Multiple Response Questions**		
Learning Outcome 1			**Learning Outcome 3**			**Learning Outcomes 2 and 3**		
1	B	1.2	24	C	3.2	40	B, D	2.2
2	B	1.4	25	A	3.2	41	A, C, D	2.1
3	C	1.5	26	C	3.2	42	B, D	2.2
4	C	1.6	27	D	3.1	43	B, D	2.2
5	C	1.6	28	B	3.2	44	C, D	2.1
6	C	1.8	29	C	3.2	45	A, C	2.2
7	A	1.7	**6 Questions**			46	B, C, D	2.2
8	A	1.2				47	A, B	3.2
9	B	1.4	**Learning Outcome 4**			48	B, D	3.2
10	D	1.4	30	A	4.1	49	A, C	3.2
11	B	1.1	31	B	4.1	50	A, D	3.2
12	C	1.3	32	C	4.2	**11 Questions**		
13	C	1.3	33	C	4.1			
14	A	1.4	34	D	4.1			
15	C	1.1	35	C	4.2			
15 Questions			36	B	4.2			
			37	C	4.1			
Learning Outcome 2			38	B	4.1			
16	C	2.1	39	B	4.2			
17	D	2.2	**10 Questions**					
18	C	2.2						
19	C	2.2						
20	B	2.2						
21	A	2.2						
22	C	2.2						
23	A	2.2						
8 Questions								