



Chartered
Insurance
Institute

J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

June 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2021 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.

J03 – The tax and legal aspects of business

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. 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 Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate 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 obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

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. 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 two-hour written paper.
- All questions are compulsory.
- The paper is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper will carry a total of 130 marks.

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.

In the examination

The following will help:

Spend 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, 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 finish the examination confident that they have completed 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 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*, since this allows you to communicate your thoughts in the most effective way in the least time. 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. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Candidates will **not** lose marks due to poor spelling or grammar.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.

EXAMINERS' COMMENTS

Candidates' overall performance:

Candidates' performance was generally comparable to previous examinations. As usual, better prepared candidates did well in most of the subject areas examined. Many candidates continue to struggle with certain subjects, such as Limited Liability Partnerships, budgetary control and company administration. It is also a concern that many candidates could not provide adequate answers to the auto-enrolment question, especially as this topic has been examined frequently.

Candidates provide explanations in answers when none is required or has been requested. Candidates also do not take sufficient time to read the questions asked and hence give an answer to a question they think was asked.

Question 1

Some candidates still give personal protection solutions instead of solutions to reduce business risk. Some candidates can state the types of insurance but cannot explain what they cover. Generally, however, this question was well answered.

Question 2

Part (a) was answered well by the majority of candidates. Weaker candidates, however, stated that the partnership would continue.

It is clear from candidates' answers to part (b) that candidates do not understand how novation works and they could not explain the process. Most candidates could state that the liability would remain with the remaining partners but did not state that a new agreement between the existing partners and creditors would replace the old agreement that included Delmar.

Question 3

Candidates were not specific enough in their answers to part (a). For example, most candidates did not specify that an incorporation document needed to be registered at Companies House and with the details of the name and address of the LLP. Many candidates also stated that an IN01 needed to be completed. The IN01 is for limited companies. The correct form for an LLP is the LL IN01.

Part (b) was generally better answered, although most candidates did not mention the annual return.

Question 4

Candidates missed the main points for both share issues and the debentures, usually commenting on side issues in both cases, such as hostile takeovers for share issues and precedence for repayment for the debentures.

In part (a) many candidates suggested that directors would lose control of the company if shares were issued to new shareholders. This is unlikely, but new shareholders may have some influence in the running of the company due to shareholder rights. Candidates frequently confused control with influence.

Question 5

The main error candidates made in part (a) was to confuse company administration with personal bankruptcy and gave answers related to individual voluntary arrangements. Few candidates answered this part well.

In part (b) candidates had difficulty stating the aims of the administrator.

In part (c) many candidates thought that administration continues for five years. Very few candidates mentioned the ability of the administrator to extend the administration period. Most candidates mentioned the other two points.

Question 6

In part (a) candidates confused budgets and cashflow forecasting with budgetary control. Few candidates mentioned time periods and the majority of answers were about budgets rather than budgetary control.

In part (b) candidates described the benefits of using budgets rather than the requirements for effective budgetary control.

Question 7

Although this is a straightforward definition in part (a), which the majority of candidates gave, many candidates gave qualitative answers rather than the simple definition required. Some candidates gave the working capital ratio, rather than the definition of working capital.

Most candidates made a good attempt at answering part (b). However, many candidates suggested raising additional capital by a share issue or borrowing money. Ideally, working capital should be increased by optimising current operations.

A minority of candidates suggested increasing stock held. One should be decreasing stock and shortening the stock cycle as money tied up in stock cannot be used for continuing operations.

It was also clear that some candidates still do not know the difference between debtors and creditors, frequently interchanging the two incorrectly.

Question 8

Both parts were answered reasonably well by the majority of candidates and it appeared that candidates had learned this section well.

Question 9

Both parts of (a) were answered well by the majority of candidates. The main errors were in the actual dates given, perhaps due to an inaccurate calculation of the months elapsed. A minority of candidates provided the dates for personal self-assessment rather than corporate, when the question specifically related to Corporation Tax.

Part (b) was poorly answered by most candidates with few candidates giving the correct penalties. Most candidates answered with the penalties for filing a late return or the penalties for providing inaccurate tax returns rather than with the penalties for not telling HM Revenue & Customs that the company is liable for Corporation Tax.

Question 10

Part (a) was answered well by most candidates. Quite a few candidates, however, stated that zero-rated supplies are not subject to VAT, rather than stating the amount of VAT payable is zero as the rate of VAT applicable is 0%. Weaker candidates did not mention whether input VAT could be reclaimed.

In part (b) well prepared candidates had no difficulty in supplying examples of the exempt and zero-rated supplies.

Part (c) was poorly answered. Candidates frequently referred to turnover or income in their answers rather than being precise and referring to taxable income over £150,000.

Question 11

This calculation was performed well by the majority of candidates.

There were two main errors. One was using the full £175,000 Residence Nil Rate band (RNRB) rather than the reduced £131,000. The second occurred when candidates did not reduce the estate by the amount of the mortgage debt. Even some candidates who correctly used the reduced RNRB did not allow for the debt on the estate.

Question 12

In this question, many candidates gave answers in part (a) that belonged in part (b) and vice versa.

It became clear that many candidates did not know the answers to part (a) and answered this part by referring to common terms in employment contracts.

Although part (b) is about the implied duties in a contract many candidates answered along the lines of ‘..the employee is entitled to..’

Question 13

Part (a) was well answered by the majority of candidates, the main errors being in mixing up the words of the two methods, such as proportion of salary or multiple of profits.

Most candidates, in part (b), could adequately describe one advantage and one drawback of each method.

Candidates did not do as well in part (c) and the majority struggled to find four relevant factors, with most candidates identifying two or three. The ones usually identified were the time for replacement to become productive and the effect on profits.

Question 14

The advantages and drawbacks of automatic accrual is well covered in the study guide, yet candidates often gave inadequate answers to part (a).

In part (b), most candidates realised that the partners/estate of the deceased would not be compensated but many did not state that some form of additional compensation would be required. The other points were usually missed as well.

Question 15

Candidates frequently mixed up requirements and tasks in their responses to this question. Answers that should have been in part (a) were in part (b) and vice versa.

In part a (a) many candidates gave generic answers, for example, low cost, rather than referring to specific default fund charge caps.

In part (b) many candidates did not mention a point of contact for the Pensions Regulator and again were imprecise with their language, stating 'suitable pension scheme' rather than the correct 'qualifying pension scheme'. Many candidates also answered this part as if the scheme was already in place, rather than preparing for the scheme, as was asked in the question.

Unit J03 - The tax and legal aspects of business

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2020/2021, 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.

If you are sitting via remote invigilation please

- Write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g. 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are permitted.**
- Please familiarise yourself with **all** questions before starting the exam.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL questions

Time: 2 hours

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

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. Rishi has recently started a new business operating as a sole trader.
- List the **four** types of business insurance he should consider putting in place to help reduce risk and describe the risk they are designed to cover. **(8)**
2. Barry, Delmar and Amelia set up in partnership ten years ago. Delmar now wishes to retire.
- (a) Explain briefly how Delmar's retirement will impact the partnership if there is no partnership agreement in place. **(2)**
- (b) Explain briefly how novation of debts on behalf of Delmar would be put in place on his retirement. *You should assume that a partnership agreement already exists.* **(3)**
3. (a) Explain briefly the requirements to set up a limited liability partnership (LLP). **(4)**
- (b) Describe the additional responsibilities of designated members of an LLP. **(6)**
4. Yellow Sunny Ltd intends to expand and needs to raise capital.
- Describe **two** advantages and **two** disadvantages to the company of raising capital via:
- (a) a share issue; **(4)**
- (b) a debenture issue. **(4)**

5. Walkins and Cole Ltd has been in financial difficulty for some time and cannot now pay its debts. The directors are considering putting the company into Voluntary Administration.
- (a) Explain briefly the **advantages** for the company of entering Voluntary Administration. (4)
 - (b) State the aims of the Administrator. (2)
 - (c) Explain briefly how Administration comes to an end. (4)
6. (a) Explain briefly what is meant by the term budgetary control. (3)
- (b) Outline **four** requirements for effective budgetary control. (4)
7. (a) State the definition of 'working capital'. (2)
- (b) State **four** methods by which a business can improve its working capital. (4)
8. Marcus is setting up a new business as a sole trader and is considering the accounting date to choose for his first trading period.
- Explain **three** advantages and **two** disadvantages of him choosing an accounting date of:
- (a) 30 April. (5)
 - (b) 31 March. (5)

9. Brendan and Joanne are setting up a new business as a limited company and are keen to understand the administration of their Corporation Tax liabilities. They have decided on an accounting year end of 30 June 2021.
- (a) (i) State when their Corporation Tax must be paid by. (3)
- (ii) State when they must submit their tax return to HM Revenue and Customs. (3)
- (b) Explain in detail how penalties are determined if they do not inform HM Revenue & Customs of their liability to Corporation Tax within the relevant timescale. (7)
10. (a) Explain how the application of VAT to 'exempt supplies' and 'zero rated supplies' differs. (5)
- (b) List **two** exempt and **two** zero rated supplies for VAT purposes. (4)
- (c) Explain the circumstances where a business is not eligible to join the flat-rate scheme for VAT purposes. (5)
11. Niamh, who has never been married, died in October 2020 leaving her estate to her two children in equal shares. Her gross estate was valued at £600,000 which included the flat where she lived, valued at £200,000. At the date of her death Niamh had an outstanding mortgage of £69,000.
- Calculate, **showing all your workings**, the Inheritance Tax liability on Niamh's estate. (6)
12. Explain in detail the implied duties of a contract of employment for the:
- (a) employer; (3)
- (b) employee. (4)

13. (a) State the **two** main methods usually used for calculating the level of cover in key person insurance. (2)
- (b) List **one** benefit and **one** drawback for each of the methods identified in **part (a)** above. (4)
- (c) State **four** factors to consider when working out the level of cover required for key person insurance. (4)
14. (a) State **two** benefits of automatic accrual for a partnership. (2)
- (b) State **four** drawbacks of automatic accrual for a partnership. (4)
15. (a) State **five** key requirements for a pension scheme to qualify as an auto-enrolment workplace pension scheme. (5)
- (b) State the key tasks for a newly set up company to prepare for automatic enrolment for its employees. (5)

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

- Professional indemnity insurance
- to mitigate the risk of being sued for negligent advice.
- Public liability insurance
- to cover claims made by members of the public for injury or damage that occur as a result of his business.
- Product liability insurance
- to cover claims arising from incidents caused by the products themselves.
- Employers' liability insurance
- to cover claims for any employee accident or sickness caused at work.

Model answer for Question 2

- (a)
- The Partnership Act 1890 does not deal with retirement of a partner.
 - The partnership will be automatically dissolved on Delmar's retirement.
- (b)
- A new agreement with creditors and the continuing partners.
 - Would replace any old agreements that included Delmar.
 - Making the continuing partners liable for the existing debts.

Model answer for Question 3

- (a)
- Register an Incorporation document with the registrar of companies.
 - With the name and address of the liability partnership (LLP).
 - Names, addresses and date of birth of members.
 - The names of the designated members.
- (b)
- Preparing, signing and delivering the annual return to the registrar of companies.
 - Appoint an auditor.
 - Signing accounts on behalf of members.
 - Delivering the accounts to the registrar of companies.
 - Notifying the registrar of changes of membership/address of registered office/name of LLP.
 - Act for the LLP if the LLP is wound up.

Model answer for Question 4

(a) Advantages of share issue

- No commitment to pay dividends.
- Company does not have to repay share capital.

Disadvantages of share issue

- Shareholders have influence over the running of the company.
- Dividends are not deductible for corporation tax.

(b) Advantages of debenture issue

- Interest paid is fully deductible for tax purposes.
- Debenture holders have no influence over the company.

Disadvantages of debenture issue

- Interest must be paid regardless of profits.
- Capital must be repaid so directors should make sure there are funds to cover this.

Model answer for Question 5

- (a)**
- The directors can appoint their own Administrator.
 - Gives the company breathing space to consider options.
 - Gives protection from creditors.
 - Can lead to better realisation of assets in the long term.
- (b)**
- Their aim is to rescue the company as a going concern so it has potential to continue trading.
 - They try and achieve a better result for the creditors than if the company were wound up.
- (c)**
- Administration usually ends after 1 year;
 - unless they apply to the court for an extension up to six months.
 - The Administrator can apply for the Administration to be ended (e.g., where they think the purpose has been achieved).
 - If problems are insurmountable, the company will need to be wound up.

Model answer for Question 6

- (a)
- Budgetary control is the process of using budgets to direct and monitor;
 - actual financial performance;
 - during the course of a year/budget period.
- (b) *Candidates would have gained full marks for any four of the following:*
- The budget must reflect the overall business plan.
 - The system must be able to easily compare actual performance against budget for each period during the year.
 - Comparison between actual and budgeted performance must be frequent/at least once a month.
 - Differences/variances between planned and actual performance should be fed back to management quickly so managers can correct the situation.
 - The system should be as simple and inexpensive as possible in comparison to the benefits it provides to management.

Model answer for Question 7

- (a)
- Current assets;
 - less current liabilities.
- (b)
- Extend the length of time taken to pay trade creditors.
 - Reduce the credit terms for debtors.
 - Be more proactive in collecting money owed.
 - Make efficiencies e.g. sourcing cheaper raw materials or make to order so less stock.

Model answer for Question 8

(a) Advantages

- Longest time between earning profits and paying tax on them.
- There will be 21 months to prepare accounts before an online tax return is due by 31 January following the tax year end.
- Profits likely to be known before due date of the first payment on account for the year in which they are taxed.

Disadvantages

- Will produce largest amount of overlap profits which may not be usable for many years.
- Assessment on up to 23 months profits in final tax year.

(b) Advantages

- No overlap profits.
- Calculation of assessable profits is simplified.
- No unduly large assessment will arise in the final tax year of self-employment.

Candidates would have gained two marks for any two of the following:

Disadvantages

- The shortest time is given between earning profits and paying tax on them.
- Only 10 months in which to prepare accounts before the tax return is due if filed online.
- First payment on account is due before the end of the accounting period.
- May be hard to determine level of earnings in time to make the maximum pension contribution for the tax year.

Model answer for Question 9

- (a)(i)**
- 9 months and 1 day;
 - after the end of the accounting period;
 - i.e. 1st April 2022.
- (a)(ii)**
- Within 12 months;
 - of the end of the accounting period;
 - i.e. 30 June 2022.
- (b)**
- If it was non-deliberate;
 - the penalty is 30%;
 - of the tax owed.
 - If it was deliberate;
 - the penalty is 70%.
 - If it was deliberate and concealed;
 - the penalty is 100%.

Model answer for Question 10

- (a)
- Exempt supplies - output VAT is not charged;
 - input VAT cannot be reclaimed (or restricted recovery).
 - Zero rated supplies– these are still taxable;
 - but the rate is 0%;
 - the business can reclaim input VAT on standard rated supplies made to it.
- (b) **Exempt – two from:**
- Insurance.
 - Finance.
 - Health.
 - Education.
 - Burial and cremation services.
- Zero rated – two from:**
- Most food and some drinks.
 - Domestic supplies of water/sewerage.
 - Books and newspapers.
 - New residential buildings, building for use by charities (and supplies used by contractors when building them)
 - Public transport.
 - Drugs and medicines for the disabled.
 - Clothing and shoes for children.
 - Sanitary products (from 1 January 2021).
 - Exports of goods and certain services to non-EU countries.
- (c)
- Where annual taxable income is more than £150,000 (excluding VAT).
 - Business expects total income in next 30 days to be more than £230,000 (including VAT).
 - Where the business left the scheme in the last 12 months.
 - The business committed a VAT offence in the last 12 months (e.g. VAT evasion).
 - The business is closely connected with another business.

Model answer for Question 11

Estate £600,000

- £600,000 - £69,000 = £531,000 = net estate
- Residence Nil Rate band (RNRB) that can be used is £200,000 - £69,000 = £131,000
- £531,000 - £131,000 = £400,000
- £400,000 - £325,000 = £75,000
- x 40%
- = £30,000

Model answer for Question 12

- (a)
- To preserve the relationship of trust and confidence;
 - between the employer and employee.
 - To take care of the employee's health and safety.
- (b)
- Fidelity and obedience.
 - Working with due diligence and care.
 - Confidentiality.
 - Giving at least the statutory period of notice where no specific notice period has been agreed.

Model answer for Question 13

- (a)
- Multiple of salary.
 - Proportion of profits.
- (b) **Multiple of Salary – Benefit**
- Multiple of salary is simple.

Multiple of Salary – Drawback – one from:

- Salary may not be total remuneration.
- Does not demonstrate employee's true value to the business.
- Does not allow for time factor to replace key person.

Proportion of profits – Benefit – one from:

- More of a scientific approach to the level of cover/more accurate.
- Net profit is a good reflection of business performance.

Proportion of profits Drawback – one from:

- Can be difficult to determine a time factor.
- Does not work where the company is showing a loss.

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

- Cash position of the business.
- Past profits.
- Projection of profits for the next year.
- Effect on profits if key person died/became long term ill/potential loss if working on a key project.
- Cost of recruitment.
- Time it would take for a replacement to start contributing to profits.
- Recall of any loans.
- Any savings that could be made, e.g. lower salary/benefits package for the replacement etc..

Model answer for Question 14

(a) Benefits

Candidates would have gained full marks for any two from the following:

- Easier for new partners to buy in to partnership;
- as purchase of business interests of a leaving partner by the new partner is not required.
- Existing partners do not have to purchase/find cash for the accrued share of the business and do not have to deal with deceased partner's family.

(b) Drawbacks

- Usually only applies to goodwill. Loan accounts and undrawn profits not included.
- Must be written into a partnership agreement at start of partnership. May not work for existing established partnerships.
- Additional compensation arrangements may need to be made for partner/beneficiaries;
- as partner/beneficiaries do not receive any compensation for the business/goodwill assets.

Model answer for Question 15

- (a)**
- Contributions must meet minimum requirements.
 - Must have a default investment option.
 - Charges for the default option/fund must not exceed 0.75%
 - Must meet governance standards set by regulators/government.
 - Members must not need to take any action to join the scheme.

(b) *Candidates would have gained full marks for any five from the following:*

- Nominate a contact
- for the pensions regulator.
- Segment the workforce.
- Choose a qualifying pension scheme.
- Ensure that IT and payroll systems can cope with the requirements.
- Prepare communication to inform staff.

June 2021 Examination - J03 The tax and legal aspects of business

Syllabus learning outcomes being examined

1.	1. Understand the main legal forms of business in the UK.
2.	1. Understand the main legal forms of business in the UK.
3.	1. Understand the main legal forms of business in the UK.
4.	1. Understand the main legal forms of business in the UK.
5.	1. Understand the main legal forms of business in the UK.
6.	2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business.
7.	3. Understand the main internal and external options for financing a business.
8.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
9.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
10.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
11.	4. Understand the principles and application of the following taxes and allowances in the business context Income Tax, National Insurance contributions, Corporation Tax, Capital allowances, Value Added Tax, Capital Gains Tax and Inheritance Tax.
12.	5. Understand the impact of employment law on business.
13.	6. Understand the main principles of business protection insurance.
14.	6. Understand the main principles of business protection insurance.
15.	7. Understand the role of pensions in a business environment.

All questions in the final September 2021 paper will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the March and June 2021 examination.

INCOME TAX

RATES OF TAX	2019/2020	2020/2021
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	£37,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
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	£100,000
Personal Allowance (basic) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance †	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 183.00*	Nil
183.00 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 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 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,475 per annum.
Class 3 (voluntary)	Flat rate per week £15.30.
Class 4 (self-employed)	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

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
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021	£1,073,100

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£40,000*
2020/2021	£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 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.

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£4,000	£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	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
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%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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
- main residence nil rate band*	£150,000	£175,000
- 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:

	0-3	3-4	4-5	5-6	6-7
- Years before death					
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

	0-1	1-2	2-3	3-4	4-5
- Years since IHT paid					
- Inheritance Tax relief	100%	80%	60%	40%	20%

PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 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

	2019/2020	2020/2021
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
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	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	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:	50 or less*	51-110
		111 or more
Capital allowance:	100%	18%
	first year	reducing balance
		6%
		reducing balance

*If new

MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	57.90	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20

CORPORATION TAX

	2019/2020	2020/2021
Standard rate	19%	19%

VALUE ADDED TAX

	2019/2020	2020/2021
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£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%

Important note: For residential properties purchased between 8th July 2020 and 31st March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, 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.

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.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%