Chartered Insurance Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

April 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2018 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF1 – Personal tax and trust planning

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

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

Before the examination

Study the syllabus carefully
This is available online at www.cii.co.uk or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas, however you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge
For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks, *however, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination paper. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination
Assessment is by means of a three-hour written paper in two sections. All questions are compulsory:

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

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

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

Appreciate the standard of the examination
Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates
The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

In the examination

The following will help:

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, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the three questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates' should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many question have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates overall performance

The April exam tested the core areas of the AF1 syllabus and although performance varied significantly some candidates did demonstrate excellent knowledge and exam technique.

Candidates still need to be reminded however to read the question carefully before attempting an answer and in particular apply their knowledge to the information as given in the case study.

Where a question asks for 'factors' this is not asking the candidate to fact-find but simply asking them to state the factors that need to be considered. Future students should study the model answers to these types of question, so they can see where marks are awarded.

Question 1

In part (a)(i) Inheritance Tax calculations continue to be laid out in a sporadic and poor fashion. Candidates should use previous exam guides to practice this type of calculation so when they get into the exam they know exactly how to set them out.

Many candidates did correctly state that there would be no nil rate band (NRB) to set against the potentially exempt transfers (PET) as it had been used up by the Chargeable Lifetime Transfer (CLT) but they then went on to deduct the NRB from the estate. Most candidates used the correct figure for the art and realised the Enterprise Investment Scheme (EIS) would be exempt; however, this did need to be included to calculate the reduction in residence nil rate band. Very few candidates realised that the art could be transferred to the Crown in order to settle an Inheritance Tax bill.

The rules to qualify for the residence nil rate band had clearly been studied in full as we saw some very good answers to this question.

Few candidates however realised for part (c)(i) that the chargeable gain on the encashment of the bond would be assessed on James as settlor of the trust. This was disappointing as clearly a key part of understanding the taxation of bonds held within trusts.

However, the taxation of trusts generally was answered well, and candidates did demonstrate good knowledge for Income Tax, Capital Gains Tax and Inheritance Tax.

Part (d) did cause some issues and although many candidates did state the higher rates of Stamp Duty Land Tax would apply, many did not correctly state why this would be the case.

Part (e) tested the implications of divorce and marriage on Wills. This topic has been tested many times before and although we had some excellent answers which gained full marks, other candidates clearly had not looked at previous exam guides or properly studied the relevant supporting study guides.

Part (f) was answered very well with many candidates achieving full marks.

Question 2

Part (a) was an Income Tax calculation and was another demonstration of poor layout in some cases. There were some mistakes when candidates were working out how many years the bond had been in force for so frequently the incorrect top slice was calculated. Better prepared candidates correctly calculated the adjusted net income in order to reduce Anna's personal allowance, however the majority did not. In most cases the correct personal savings allowance was used and the dividend allowance seems to be firmly entrenched now. Only a very few candidates correctly reduced Anna's salary to take account of the fact that the last month was missed.

Part (b) was in the main answered very well with most candidates scoring well; the same can be said for (c) where most candidates achieved high to maximum marks.

Candidates are also demonstrating an improved level of knowledge around bankruptcy with some high scores in particular for part (d)(ii) where we saw a pleasingly high number of lists in the correct order of priority.

Question 3

Some candidates had clearly studied well to give some excellent answers to both part (a)(i) and part (a)(ii). Others were clearly guessing and hoping for the best.

In part (b)(i) we saw the majority of candidates achieving full marks but not so in part (b)(ii).

With the capital gains tax calculation in part (c) again candidates let themselves down by being unable to correctly calculate the number of months for PPR purposes and then being unable to correctly apply it to the gain.

Where candidates remembered lettings relief most identified that it would be the lower £40,000 that could be deducted. It was also good to see that in the majority of cases the correct Capital Gains Tax rate of 28% was used.

We saw mixed answers to part (d) which demonstrated a lack of wider understanding of topical issues.

Part (e) asked for the relevant factors that would need to be considered when advising on whether the EIS would be suitable for Nelle. Too many candidates have a tendency to go straight into fact-find mode which is not what is being asked. Answers need to be related back to the information that has been given in the case study, for example, one factor is that she has a medium to high attitude to risk – this just needed to be repeated to gain the mark - and the information was given in the case study. Those candidates that expressed this as fact-finding question, i.e. what is Nelle's attitude to risk, would not have achieved the mark. Future candidates should take care when approaching this type of question and ensure they study the model answer to ensure they do not lose marks by not answering the question that has been asked.

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

April 2018 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:

- Section A: 80 marks
- Section B: 80 marks

- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.

- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

- It is important to show all steps in a calculation, even if you have used a calculator.

- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

- Tax tables are provided at the back of this question paper.

- Answer each question on a new page and leave six lines blank after each question part.

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

SECTION A

This question is compulsory and carries 80 marks

Question 1

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

James, aged 58, is a successful businessman, with total earnings in the tax year 2017/2018 of £175,000. He has been divorced from his former wife Ellen for six years. They have one child, Miles, aged 16, who lives with James. Three years ago, James met Lucy and they are planning to marry next year, although they currently live separately.

Over the years, James has built up considerable wealth. His current estate comprises an investment portfolio of £678,000 which includes £200,000 of directly held gilts, and an investment worth £200,000 in an Enterprise Investment Scheme into which he invested £160,000 at launch five years ago. His home is valued at £600,000 and he also owns a collection of nineteenth century artwork by pre-eminent British artists. The artwork has a current estimated auction value of £800,000, although it is currently insured for £650,000.

On 5 May 2010, James settled £400,000 into a discretionary trust for his family which was invested in an onshore assurance bond. He appointed his sister Julia and his accountant, David, as additional trustees. The trustees encashed the bond in January 2018 for £490,000 and invested the proceeds into a portfolio of open-ended investment companies.

James has recently spoken with Julia and David regarding using some of the trust fund to purchase a property intended for Miles' future use. James has seen a flat that is currently on the market for £180,000.

James' sister, Julia, suffered financial hardship when her husband died five years ago and in June 2013 James gifted her £350,000 which she has used in total to pay off some of her debts.

James made a Will ten years ago when he was married to Ellen. As she was already wealthy, his estate is primarily left to Miles, except for one painting left to Ellen and £100,000 to Julia. Ellen was named as sole executor. When James makes his new Will, he plans to appoint his solicitor as sole executor.

Questions

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

(a) **(i)** Calculate, **showing all your workings**, the Inheritance Tax payable if James had died on 1 April 2018. **(15)**

(ii) State who will be liable to pay any Inheritance Tax due, as a result of James' death, and when it should be paid to avoid any penalties. **(3)**

(iii) Explain how any Inheritance Tax due, as a result of James' death, could be met if insufficient liquid assets are immediately available and what the consequences are of delayed payment. **(6)**

(b) Explain the rules in order for James' estate to qualify for the residence nil rate band. **(6)**

(c) With regard to the discretionary trust set up in May 2010 explain in detail:

(i) the tax treatment on the encashment of the onshore assurance bond; *(No calculation is required.)* **(9)**

(ii) the ongoing Income Tax treatment; **(8)**

(iii) the ongoing Capital Gains and Inheritance Tax treatment. **(7)**

(d) Explain the Stamp Duty Land Tax implications, assuming the trustees purchase the flat for Miles' future use. **(6)**

(e) With regard to James' Will, explain the implications if he:

(i) dies without making a new Will; **(6)**

(ii) revokes his existing Will and dies before making a new one; **(3)**

(iii) makes a new Will now prior to marrying Lucy. **(3)**

(f) Explain the main duties of the solicitor when appointed as sole executor of James' new Will. **(8)**

Total marks for this question: 80

SECTION B

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

Question 2

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

Jon, aged 43, and Anna, aged 39, married in May 2005. They have two children for whom Anna receives Child Benefit. Jon is employed and has an annual salary of £52,000 gross per annum. Anna is employed in her father's business which he operates as a sole trader. Anna receives a salary of £38,000 gross per annum which is payable on the first day of each month, in addition to a pension contribution equivalent to 5% of her salary.

After they got married, Anna inherited a large sum of money which she used to repay their joint mortgage and invested the remainder. Jon has also built up some savings which are held in the joint instant access savings account. Their investments are as follows:

Owner	**Investment**	**Current Value £**	**Income received in 2017/2018 £**
Joint	Instant Access Savings	114,000	1,160
Anna	Cash ISA	123,000	1,150
Anna	Portfolio of Equity OEICs	130,000	2,600
Anna	Portfolio of corporate bond Unit Trusts	50,000	2,000

In addition to the above information, Anna has recently surrendered an onshore assurance bond. She invested £125,000 in June 2004 and since 1 June 2015 she has taken 5% of the original investment as an annual withdrawal.

On the 1 April 2018, Anna's father, Francis, was unable, for the first time, to pay the salaries or pension contributions for his employees. Anna has only just learned that the business is in serious financial difficulty and Francis may have to declare bankruptcy.

Anna's parents have lived in the same house for 20 years, which is currently worth £400,000, with a small mortgage of £15,000 outstanding. The property is held jointly as tenants in common. Francis has no further secured liabilities. His wife has recently lent him £30,000 to meet his short-term debts. Francis owes money to various firms for supplying him goods. He also has an outstanding Value Added Tax liability.

Questions

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

(a) Calculate**, showing all your workings**, the amount of Income Tax Anna will pay in the tax year 2017/2018. *Assume the assurance bond was encashed in July 2017 when the value was £169,950.* **(14)**

(b) Explain the impact of the high income Child Benefit tax charge on Jon and Anna in the tax year 2017/2018. **(5)**

(c) Explain briefly the financial actions Anna could have taken in the tax year 2017/2018 to reduce her Income Tax liability in that year. **(4)**

(d) **(i)** Outline the circumstances under which an employee could petition Francis for bankruptcy. **(7)**

(ii) List in order of priority, how the trustee in bankruptcy will settle Francis' debts, in the event of his bankruptcy. **(8)**

Total marks available for this question: 38

Question 3

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

Nelle, aged 46, is divorced and a higher-rate taxpayer. She lives in her own flat, currently worth £300,000 that she bought after her divorce.

Nelle has run her own printing business as a limited company for five years which she is intending to sell to pursue an alternative career. She has recently been offered full-time employment which would necessitate spending some time overseas.

Her business is comprised of a factory unit, machinery, stock, goodwill and the balance of her business account, which has accumulated over the past five years and currently stands at £200,000. The proposed sale of the business includes a storage unit which she used solely to house her personal belongings.

On 1 March 2018, Nelle received £500,000 from the sale of a house that she bought on the 1 April 2000, for £150,000, and lived in with her ex-husband until their separation on the 1 August 2010. As part of the divorce settlement, Nelle retained the house and from the date of separation the property has been let. The sale costs were £3,000 and she spent £1,500 on re-decorating two years ago. With the proceeds she is considering buying a smaller buy-to-let property.

Nelle, would like to know the tax implications of selling her residential rental property and her business assets and also understand how an Enterprise Investment Scheme might help with mitigating tax. She has no losses to carry forward and has a medium to high attitude to risk.

Questions

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

(a) **(i)** If Nelle works overseas, explain the circumstances in which she would be treated as automatically **non-resident** in the UK. **(5)**

(ii) List **four** of the factors that would be considered when determining residency using the sufficient ties test. **(4)**

(b) **(i)** Explain briefly the conditions that must be satisfied for entrepreneurs' relief to apply on the sale of Nelle's business. **(2)**

(ii) Explain briefly how entrepreneurs' relief will apply to each of the specific assets referred to as part of the sale of the business. **(3)**

(c) Calculate, **showing all your workings**, Nelle's Capital Gains Tax liability on the sale of her rental property. **(12)**

(d) Assuming that Nelle remains in the UK and has not taken up the employment offer, outline the **advantages** and **disadvantages** of Nelle investing in a smaller buy-to-let property and purchases it:

(i) directly; **(4)**

(ii) through a limited company. **(6)**

(e) Outline the relevant factors that would need to be considered when advising Nelle on whether an Enterprise Investment Scheme would be an appropriate investment for her. **(6)**

Total marks for this question: 40

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a) **(i)** Chargeable Lifetime Transfer is more than seven years ago so not subject to Inheritance Tax.
Potentially exempt transfers (PET) from 2013 has now failed as he has died within 7 years.
No Nil Rate Band (NRB) available as Chargeable Lifetime Transfer is within seven years of making PET and this used up the NRB.

PET £350,000 - £6,000 = £344,000
x 40% =£137,600
x 60% taper relief (gift made between 4/5 years ago)
= £82,560 IHT

Estate on death £478,000 investment portfolio
£200,000 Enterprise Investment Scheme (EIS) – current value
£600,000 house
£800,000 art auction value
Remainder of James' estate = £2,078,000

£78,000 Excess estate for RNRB purposes
Residence Nil Rate Band, £78,000/2 = £39,000
£100,000 - £39,000 = £61,000

EIS qualifying exemption (£200,000)
Taxable estate £2,078,000 - £200,000 - £61,000 = £1,817,000
£1,817,000 x 40%
= £726,800

(ii)
- Liability on PET payable by done/ recipient/ Julia.
- Liability on estate paid by executors/Personal Representatives.
- IHT must be paid by the end of the 6th month/31 October after James' death.

(iii)
- Borrow against the value of assets/use of own assets.
- Apply to investment provider/Debt Management Office to use assets to pay IHT directly to HM Revenue and Customs.
- IHT can be paid by transferring national heritage property/the art work to the Crown.
- It could be paid in instalments over 10 years/10% each year if house is kept and lived in.
- If it is not paid by the due date interest will be charged/financial penalties.
- In the event that Julia has no assets to settle her liability on the potentially exempt transfers (PET), the estate will become liable.

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

- His home must be inherited by his direct descendants/Miles.
- The use of PETs in the years prior to death will not have an impact on Residence nil rate band (RNRB) qualification.
- It will be protected if James downsizes/stops owning his home;
- provided assets of the equivalent value are passed to Miles on his death.
- The RNRB will be tapered as James' estate has a net value of more than £2m (£2,078,000)/allowance is tapered above £2m.
- Withdrawal of £1 for every £2 over the threshold i.e. £39,000 so his RNRB is reduced to £61,000.
- The amount is £100,000 in 2017/2018.

(c) **(i)**

- The encashment of the bond was a chargeable event/chargeable gain (of £90,000).
- Subject to income tax.
- Tax charge assessed on James;
- as settlor of the trust.
- The Investment Bond is deemed to suffer the equivalent of basic rate tax/ 20%.
- James is subject to a further 25%;
- on the gain as an additional rate taxpayer.
- James can recover this;
- from the trustees/trust.

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

- The trustees are liable for the Income Tax.
- The trust has a standard rate band of £1,000.
- Standard rate of 20% /basic rate is charged within this on interest.
- Standard rate of 7.5% is charged on dividends.
- Above this; income tax is payable at 45%/38.1%.
- Trustees have no personal allowance.
- Expenses are allowable in calculating income chargeable.
- If income is distributed, it is paid with a 45% tax credit;
- which can be reclaimed;
- depending on the beneficiary's tax status.

(iii)

- The trustees/trust are liable for Capital Gains Tax on disposal of open-ended investment company (OEICs).
- They have an annual exempt amount of £5,650 (1/2 normal exempt amount).
- Above this they are chargeable at a rate of 20%.
- Holdover relief can be claimed on transfer to beneficiary.
- (Discretionary trusts are liable to 10 yearly) periodic charges.
- Exit charges (on distributions of capital).
- Maximum charge (is 30% x 20% = 6%).

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

- As the trust is a discretionary trust;
- and because James is a trustee;
- trustees are liable for the stamp duty.
- The higher rates of stamp duty land tax will apply to the purchase price (additional 3%)/£125,000 @ 3%;
- and £55,000 @ 5%.
- To avoid the higher rates the property should be bought through a bare trust;
- for Miles.

(e) **(i)**

- Divorce does not revoke a Will;
- or invalidate other entitlements;
- The divorce cancels any benefit to Ellen;
- unless the wording states that divorce should not affect entitlement.
- At the time of divorce Ellen is removed as executor;
- Another executor would need to be appointed before the estate could be administered.

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

- The laws of intestacy would apply.
- The administrators will need to be appointed.
- The estate will go to Miles.
- Julia would not receive her gift.

(iii)

- The new Will replaces the previous Will.
- The new Will is revoked by his marriage to Lucy.
- Unless it is made in anticipation of their marriage.

(f)

- Notify all relevant companies/organisations/people/register death.
- Establish assets and debts of the estate.
- Apply for a grant of probate.
- Complete relevant IHT form (400)/IHT return.
- Pay the IHT due.
- Collect all money due to the estate
- Pay any outstanding bills, tax and debt.
- Distribute the net estate according to James wishes.

Question 2

(a) Taxable Income

	Non-Savings (£)	Savings (£)	Dividends (£)
Salary	34,833.33		
Bank Interest		1,160/2 = £580	
Corporate Bond OEIC		2,000	
Dividends			2,600
	34,833.33	2,580	2,600

Chargeable Gain £188,700
- £125,000 = £63,700/13 = top slice of £4,900

Adjusted net income *(ANI)*
(£34,833.33 + £2580 + £2,600 + £63,700) = £103,713.33

Personal Allowance Reduction
£103,713.33 - £100,000/2 = £1,856.67
£11,500 - £1,856.67 = £9,643.33

Non-savings subject to tax
£34,833.33 - £9,643.33 = £25,190

Tax payable

Non Savings
£25,190 x 20% (1) = £5,038.

Savings
£2,580 - £500 x 0% = £0
£2,080 x 20% = £416

Dividends
£2,600 x 0% (as within dividend allowance) = £0

Bond Gain
Top Slice = £4,900
£3,130 x 0%
£1,770 x (40 – 20%) 20% = £354
£354 x 13 = £4,602

Total Income Tax payable: £5,038 + £416 + £4602 = £10,056

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

- Where 'adjusted net income' is in excess of £50,000.
- Income tax charge applies at a rate of 1% of the full amount;
- for each £100 of income between £50-£60,000.
- It reduces to nil after £60,000.
- Adjusted net income is reduced by grossed up gift aid donations and pension contributions.
- Adjusted net income is increased by the full chargeable gain.

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

- Anna could make a pension contribution.
- Contribution to a Venture Capital Trust (VCT)/Enterprise Investment Scheme (EIS).
- Utilise ISAs.
- Charitable donation via gift aid.
- Assign segments to Jon/transfer investments.
- Encash over different tax years.

(d) **(ii)**

- Employees would have to prove that Francis is unable to pay his debts;
- and that they are owed at least £5,000;
- in unsecured debt/unpaid wages.
- They would also have to demonstrate that Francis has not complied within 3 weeks;
- with a 'Statutory demand';
- or they have obtained a judgment;
- and is still unable to recover either in full or in part the money owed.

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

- The mortgage secured on the property is repaid first;
- The fees and costs/expenses of the Trustee in Bankruptcy.
- Preferential debts to include/outstanding pension salaries scheme contributions.
- Salaries subject to a cap of £800 each employee.
- Floating charges.
- Unsecured creditors/HM Revenue and Customs.
- Interest due on all debts since the bankruptcy restriction order.
- Money owed to spouse.

Question 3

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

- If she is in the UK for less than 16 days in the tax year.
- If she is in the UK for fewer than 46 days in the current tax year;
- and hadn't been resident in any of the previous 3 tax years.
- If she works full time overseas/at least 35 hours a week. overseas;
- provided she is in the UK for less than 91 days in the tax year;
- and spends less than 31 days in the tax year working in the UK.

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

- Spending more time in the UK than any other country.
- Having a spouse, civil partner or child who is resident in the UK.
- Having home/residence in the UK (which she uses during the year).
- Working for more than 40 days in the UK during the tax year.
- Spending more than 90 days in the UK;
- in either of the previous 2 tax years.

(b) **(i)**

- She must have been an employee or director of the company and held at least 5% of the voting shares.
- She must have owned the assets for at least one year before the disposal.

(ii)

- Relief is only available in respect of gains arising from the sale of assets used in the business (premises, machinery, stock and goodwill).
- Any chargeable gains arising from the investments are excluded.
- The storage unit is excluded as not used in the business.

(c) **Chargeable gain** £500,000 - £150,000 - £3,000
= £347,000 gross gain

PPR 1st April 2000 – 1st August 2010 = 124 months plus last 18 months
= 142 months
142/215 = of the gain is covered by Private Residence Relief
= £347,000 x 142/215
= £229,181.40 exempt
£117,818.60 remaining

Lettings Relief The lower of
£229,181.40, £117,818.60 and £40,000 = £40,000

Net gain £347,000 - £229,181.40 - £40,000
= £77,818.60

Less Annual exempt amount - £11,300

Taxable gain = £77,818.60 - Annual exempt amount £11,300 = £66,518.60
CGT at 28% - £18,625.21

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

Personally held BTL – Advantages:

- Annual exempt amount to reduce Capital Gains Tax.
- Lower accountancy costs/simple to administer as there are no company accounts and returns to complete.

Personally held BTL – Disadvantages:

- Income is subject to Income Tax at full higher marginal rates.
- Income taxed on an arising basis.
- Mortgage interest relief gradually being reduced.
- Additional 8% surcharge applicable to capital gains on disposal.
- Additional Stamp Duty surcharge of 3% on purchase of property.

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

Limited Company – Advantages

- Subject to Corporation Tax (19%) on profits which is lower than higher/additional rate tax (40/45%).
- Mortgage interest is an allowable expense.
- Dividends within the dividend allowance are tax-free.
- Limited company can retain profits tax-free/deferral of personal tax/more cash available to reinvest.
- Losses can be set against other income.

Limited Company – Disadvantages

- Gains would be subject to corporation tax at 19% with no Annual Exempt Amount.
- Annual returns and company accounts increases accountancy costs.
- Mortgage interest rates and fees are generally higher.
- More restricted range of mortgage products available.

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

- She has a medium to high attitude to risk/capacity for loss.
- Whether it fits into her current portfolio/diversification.
- Timeframe of reinvestment (1 year before sale/3 year after disposal rule)/period of ownership for tax claw back.
- It only defers the tax (it is not exempted).
- Is she likely to be a basic rate taxpayer in the future to benefit from lower rate?
- To claim the relief she must be a UK resident.
- CGT charge is triggered if she becomes non-UK resident.
- Whether she has an IHT liability (business relief).
- Liquidity of the EIS.

All questions in the October 2018 paper will be based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the April 2018 examinations.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

**not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£5,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances†	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.85 where profits exceed £6,025 per annum.
Class 3 (voluntary)	Flat rate per week £14.25.
Class 4 (self-employed)	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member’s taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2016/2017	2017/2018
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£100,000	£100,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2017/2018:

- The percentage charge is 9% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates	2017/2018 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2016/2017	2017/2018
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

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

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98

*Only applicable where spouse or civil partner died on or after 6 April 2007**

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

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

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

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