AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

October 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2019 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

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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. 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.

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

Overall candidates performed fairly consistently.

The majority of candidates had difficulty with question 1 (a) where they confused the marriage allowance with the married couple's allowance (MCA), even though the clients would not have qualified for the MCA due to their age. It was disappointing to see that candidates also struggled with question 1 (e) which tested how a sole trader would be taxed in the opening years of starting a new business.

The main calculations on income tax, capital gains tax and inheritance tax were overall answered well by candidates with many achieving good marks.

Question 2 was answered reasonably well with good answers in particular to question (a)(i) and (ii) which asked for the factors HM Revenue & Customs would use to decide if someone was employed or self-employed. Bankruptcy, although a key part of the syllabus, was not addressed well by candidates.

Question 3 did prove challenging for candidates, in particular question part (e) on charitable trusts, where candidates did not perform well, however some candidates did use their trust knowledge generally to provide a good answer.

General powers of attorney are not often tested, and this was reflected in the candidates' answers with some candidates answering as if we had asked them about a lasting power of attorney instead.

Residence and domicile are also key parts of the syllabus and these questions that formed part of this paper caused difficulty for some candidates.

Question 1

Overall part (a) was not answered well, with many candidates confusing the marriage allowance (MA) with the married couple's allowance (MCA). The calculation in part (a)(iii) was relatively straightforward and many candidates achieved good marks.

The Capital Gains Tax calculation in part (b) was answered well with a pleasing number of candidates achieving maximum marks.

Part (c)(i) and (ii) regarding a discounted gift trust, was also explained well with some very good answers by candidates.

In part (d)(i) and (ii) the majority of candidates did appreciate that the ability to offset mortgage interest against rental income is changing, some confused the detail, but a good number did realise that tax relief is gradually reducing to basic rate of income tax and that we are currently in a transition period.

In part (d)(iii), the advantages of a property being treated as a furnished holiday let were well explained and candidates demonstrated a good knowledge in this area.

Overall part (e) was not answered well by candidates.

In part (e)(ii), very few candidates were able to describe accurately how a sole trader would be assessed for tax in the first three years of business and very few included in their answer the relevant profits that he would be taxed on. This question was not looking for a description of payments on account but the amount of profit that would be used in each of the years. The better prepared candidate however did show an understanding of overlap profits and when these would be utilised. It is important for candidates to read a question fully and answer what is being asked for.

Part (e)(iii), was answered well for Class 4 National Insurance contributions (NICs) but only a few realised that only a part year of Class 2 NICs would be due. Similarly, only a few candidates mentioned that only one payment would be necessary for both Class 2 and Class 4.

Question 2

Part (a), how HM Revenue & Customs consider someone to be employed or self-employed, has been tested several times in the past so it was pleasing to see that candidates did well on this question and picked up the majority of the marks available.

Part (b) on bankruptcy was tested as it is a core part of the syllabus, so it was disappointing to see a mixture of answers being given. Most candidates did understand that the self-invested personal pension (SIPP) would be protected from bankruptcy and the contribution was also noted as one that could be deemed ‘excessive’. Similarly, the treatment of investments was also answered well by candidates, the bankrupt’s home however did present some difficulties for candidates as they did not often provide sufficient detail to gain the maximum marks available.

In part (c) most candidates were able to state that clothing/bedding/furniture needed for domestic use and any tools and vehicles needed in Steve’s business would be exempt from bankruptcy proceedings. However, many did not consider that Bella’s personal investments and her share of joint assets would also be exempt.

Part (d) was answered adequately by the majority of candidates.

Part (e) was surprisingly disappointing. Most candidates were able to correctly identify the minimum and maximum years of NICs that would be needed for the new State Pension. However only a handful of candidates discussed the foundation amount that would have been calculated as of 5 April 2016.

Question 3

Part (a) was undertaken reasonably well. The majority of candidates realised that the rate of 36% could be used rather than 40% due to the charitable gift. However, some did not then deduct it from the estate.

Part (b) (i) and (ii) tested aspects of domicile and were reasonably well answered by some candidates although there were still a surprising number unable to give enough detail to achieve good marks. Residence and domicile rules are a key part of the syllabus that will always be tested so it was disappointing that candidates did not perform well. It is important that candidates revise all the syllabus areas in full.

In part (c) the question was clearly asking candidates about a general power of attorney, so it was disappointing to see that some candidates answered the question as if they had been asked about a lasting power of attorney. Candidates need to ensure that they read questions carefully and answer the question being asked.

Part (d) tested the DOTAS rules and part (e) asked candidates to explain the steps that Elizabeth must follow in order to set up and register a charitable trust. These two questions caused candidates the most difficulties in question 3, although some gave a good answer to part (e) using their knowledge of trusts generally to gain some of the available marks.

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Advanced Diploma in Financial Planning

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SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2018/2019, 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) and (e) which follow.

Brian, aged 82, is married to Clare, aged 81. Clare enjoys good health, but Brian has recently been diagnosed with type 2 diabetes.

Since she retired twenty years ago, Clare has been receiving an annual pension from a previous employer's pension scheme of £9,000. She also receives a State Pension of £8,000. Her other annual income includes interest of £2,000 from £200,000 she holds in a building society account and dividend income of £2,200 from her XYZ Ltd shares.

Clare bought the shares in XYZ Ltd as follows:

Acquisition date	Number of shares purchased	Purchase price
June 1996	5,000	£12,500
August 2005	5,000	£14,000
February 2016	6,000	£18,000

In June 2018, Clare sold 9,000 XYZ Ltd shares at a price of £4.20. At the same time, she sold a small portfolio of directly held gilts which resulted in her making a loss of £5,000.

Brian's only income is a State Pension of £9,750 gross per annum, although they both hold the maximum amount in premium bonds and regularly win small prizes. In the tax year 2018/2019 they each receive £400 in premium bond prizes.

Their home is mortgage free and has recently been valued at £950,000.

Brian and Clare have two grown up children, Amanda and Michael, both in their fifties. Amanda is married with twin boys, aged 17. Michael is unmarried with no children.

Their grandchildren are due to start university in 2019 and Brian and Clare would like to be able to help them with ongoing living costs. They are wondering whether to use some of Clare's savings to invest in a product that will provide them with extra income as well as help them reduce their Inheritance Tax liability.

Amanda owns several buy-to-let properties which she rents for a total gross monthly income of £5,000. She has interest only mortgages on the properties, which total £176,000 on which she pays a standard variable rate of 2.5%. Amanda has no other earnings.

In February 2018, Michael left his previous employer to set-up his own interior design business as a sole trader. He spent six months on a specialist course and started trading on 1 August 2018. He expects his earnings for the tax year 2018/2019 to be £50,000.

Questions

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

(a) When considering the joint liability of Brian and Clare's Income Tax in the tax year 2018/2019:

(i) State the criteria to qualify for the Marriage Allowance. **(4)**

(ii) Explain how the Marriage Allowance will operate for Brian and Clare including how it is claimed and received in full. **(7)**

(iii) Calculate, **showing all your workings**, Clare's Income Tax liability for the tax year 2018/2019. **(10)**

(b) **(i)** Calculate, **showing all your workings**, how much Capital Gains Tax Clare will pay as a result of her selling the shares in June 2018. *Ignoring the cost of sale.* **(10)**

(ii) State by when Clare must pay her Capital Gains Tax bill. **(1)**

(c) **(i)** State the benefits to Brian and Clare of using a joint life discounted gift trust. **(6)**

(ii) State the factors specific to Brian and Clare that an adviser would need to take into account before considering an investment in a joint life discounted gift trust. **(9)**

(d) With regard to Amanda's buy-to-let properties:

(i) Explain how the rules on claiming Income Tax relief on mortgage interest affect her in the tax year 2018/2019. **(4)**

(ii) Calculate, **showing all your workings**, the impact of these rules on her Income Tax position. **(3)**

(iii) Explain the personal tax advantages of her buy-to-let properties being treated as furnished holiday lets. **(6)**

(e) With regard to Michael's new interior design business, and bearing in mind his change of employment status:

(i) Explain how Michael would register as self-employed. **(3)**

(ii) Explain, in detail, how Michael is assessed for Income Tax purposes in the first three years of trading including, where relevant, the profits he will be taxed on. **(8)**

(iii) Calculate, **showing all your workings**, Michael's Class 2 and Class 4 National Insurance contributions in the tax year 2018/2019. **(6)**

(iv) State the dates that Michael will pay his National Insurance contributions due for the tax year 2018/2019. **(3)**

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 client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d) and (e) which follow.

Steve, aged 55, was employed in the engineering sector for twenty years before deciding, in 2017, to work for himself operating as a sole trader. The majority of his work comes from his previous employer where he worked for over ten years. This client trusts only Steve to do their work so does not consider it appropriate that he contracts this work to anyone else.

Steve is married to Bella, aged 52, they have two adult children who are not dependant. Bella works full-time as a teacher.

Their home is valued at £300,000 and owned as joint tenants. Steve has £30,000 invested in UK equity unit trusts. Bella has a regular savings stocks and shares ISA invested in European equities with a value of £12,000. They have joint savings of £5,000 held in a building society account.

Steve has been making pension contributions to his self-invested personal pension (SIPP) for the last five years and has recently made a one-off contribution of £30,000. The total value of the SIPP is £250,000.

Steve has recently had a serious car accident and has been told that he will not be able to work for at least twelve months. He is concerned that as a result of him not being able to work, he will face bankruptcy.

Questions

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

(a) Detail the factors that will be taken into account by HM Revenue & Customs to ascertain whether Steve is treated as;

(i) employed; **(5)**

(ii) or self-employed. **(4)**

(b) In the event that Steve was eventually declared bankrupt.

Explain the effects of a bankruptcy order on Steve's:

(i) home; **(6)**

(ii) investments; **(2)**

(iii) SIPP. **(7)**

(c) List any other property of Steve and Bella that are likely to be exempt from the bankruptcy proceedings. **(4)**

(d) State the impact of insolvency on Steve, had he originally established his business as a limited company. **(5)**

(e) Explain how Steve's entitlement to State Pension is calculated. **(7)**

Total marks available for this question: 40

Question 3

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

Elizabeth, aged 79, has never been married. She has one son, John, aged 56, who settled in Australia in 2012. In March 2018, John married his long-term Australian partner, Reuben.

In August 2013, Elizabeth settled £250,000 into a discretionary trust for the future benefit of John. In July 2014, she made a gift to a children's charity of £50,000. In February 2018 she made a gift to John of £20,000 in anticipation of his marriage to Reuben.

John arranged a general Power of Attorney before he left the UK so his mother could look after things on his behalf while he is in Australia.

John is now considering retiring and he and Reuben are now relocating to the UK. One of John's concerns when he returns to the UK is being subjected to high levels of tax, so he has expressed an interest in considering schemes that specifically aim to reduce his tax liability.

Elizabeth has recently written a Will which leaves £40,000 to a local dog charity with the remainder to John. She has an estate of £500,000 which includes an Enterprise Investment Scheme (EIS) with a value of £75,000 which she has held for four years. Elizabeth has, since 2013, lived with her sister after selling her house and currently owns no property in her own name. With her interest in charity work, Elizabeth is considering setting up a charitable trust.

Questions

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

(a) Assuming Elizabeth dies in November 2018, calculate, **showing all your workings**, the Inheritance Tax liability due on her estate. **(12)**

(b) If Reuben was to move to the UK permanently:

(i) Describe how Reuben's domicile will be determined. **(5)**

(ii) Explain how Reuben's tax position will change once he becomes deemed domiciled in the UK. **(5)**

(c) Explain briefly the authority granted to Elizabeth in the general Power of Attorney arranged by John. **(6)**

(d) John has been informed that one of the investments that he is considering is under investigation by HM Revenue & Customs for tax avoidance.

Describe briefly, the disclosure of tax avoidance schemes rules that will apply to both John and the provider of the scheme. **(5)**

(e) Explain the steps that Elizabeth must follow in order to set up and register a charitable trust. **(7)**

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)**

- Must be married or in a civil partnership.
- Where one spouse/civil partner has income of less than £11,850/nontax payer/not using personal allowance.
- As long as the recipient spouse has income between £11,850 and £46,350/basic rate tax payer.
- Must have an allowance remaining to transfer.

(ii)

- Brian is not using his whole personal allowance.
- He can transfer £1,190/10% to Clare.
- This will save Clare £238 in this tax year (£1,190 x 20%).
- They can also backdate the claim to include any tax year since 5 April 2015/ previous 3 years that they were eligible.
- Clare will receive a cheque/payment as a lump sum.
- Her future tax code will be adjusted.
- Brian has the lowest income so makes the claim.

(iii)

Pension Income	**Savings**	**Dividends**
£9,000	£2,000	£2,200
£8,000		
Less personal allowance £11,850 + £1,190 Marriage Allowance	£1,000 within PSA	Dividend Allowance £2,000
£3,960 @ 20% = £792	£1,000 @ 20% = £200	£200 @ 7.5% = £15

Total income Tax = £1,007

(b) **(i)**

Share Pool	**Number of Shares**	**Cost**
June 1996	5,000	£12,500
August 2005	5,000	£14,000
February 2016	6,000	£18,000
Total	16,000	£44,500
Disposal June 2018		
9,000 / 16,000 x £44,500	(9,000)	£25,031.25
= £25,031.25	7,000	£19,468.75

Proceeds 9,000 x £4.20 = £37,800 - £25,031.25
= £12,768.75 - £11,700
= £1,068.75 x 10% = £106.88

(ii) 31 January 2020.

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

- Withdrawals of capital for the rest of their lives or until investment runs out.
- No further income tax on the withdrawals/5% tax deferred.
- Possible immediate discount on the size of the gift/immediate Inheritance Tax (IHT) benefit/use of annual gift allowances.
- Discount is determined by underwriting criteria/life expectancy.
- Remainder of gift is outside of their estate after 7 years.
- Growth outside of their estate/IHT free;
- on first death income is paid to the survivor.
- Both can be trustees to maintain a level of control.
- Can include future grandchildren/range of potential beneficiaries.

(ii)

- Their health and their age will affect the size of the discount they receive.
- Whether they will survive 7 years for it to be outside of their joint estate.
- The fact they have an IHT liability.
- Whether they need access to the capital.
- The amount of income needed to help with university costs/their income needs.
- Their attitude to risk/capacity for loss.
- Their tax position.
- Whether it leaves sufficient emergency funds.
- The impact of it being her money/impact on any discount.

(d) **(i)**
- Amanda can offset the mortgage interest against her rental income.
- The amount of Income Tax relief is gradually being reduced to basic rate.
- In 2018/2019 Amanda can offset 50% of the mortgage interest from rental income to get tax relief at her highest rate.
- The other 50% is restricted to basic-rate tax relief.

(ii)
- £2,200 x 40% = £880
- 50% = £2,200 x 20% = £440.
- This is deducted from her Income Tax bill.

(iii) *Candidates would have gained full marks for any six of the following:*
- She could make pension contributions based on the profits as UK relevant earnings.
- She can offset all the mortgage interest against her rental income as excluded from the rules restricting relief on mortgage interest;
- Can claim expenses e.g. agent management fees etc.
- She could use Capital Gains Tax rollover relief/holdover relief.
- Business Relief available on death after 2 years.
- Entrepreneurs' relief available on disposal.
- She can claim capital allowances on expenditure on furniture/equipment/ fixtures.

(e) **(i)**

- Register self-assessment with HM Revenue & Customs.
- This must be done within 3 months of 1 August 2018, i.e. when he started to trade.
- He must register for Class 2 National Insurance contributions.

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

- He will be assessed on profits from the date he starts trading 1 August 2018 to the 5 April 2019 (tax year 2018/2019).
- He will be taxed on 8/12ths/£75,000 for full trading year.
- £50,000 = 8/12ths of a full trading year.

- In year 2 he will be assessed on the first 12 months of trading.
- 1 August 2018 - 31 July 2019 =
- Tax year 2019/2020 - taxed on full £75,000.

- In the third year 2020/2021 - he will be taxed on the current year basis.
- The £50,000 taxed twice are his overlap profits.

- Overlap profits can be reclaimed on change of accounting date or closure of business.

(iii)

- Class 2 = £2.95 per week (35/36 weeks) = £103.25/£106.20
- £8,424 - 46,350 = £37,926
- @ 9% = £3,413.34
- Over £46,350 = £3,650 x 2% = £73
- Total Class 4 = £3,486.34

(iv)

- 31 January 2020;
- Class 4 contributions in full;
- and Class 2.

Model answer for Question 2

(a) **(i)** **Employed**

- Steve's previous employer has a level of control over the way Steve works/he cannot sub-contract.
- He appears to be working for just one client/an integral part of the business.
- Is there a contract of service/employment/master servant relationship?
- Does he work set hours?
- Does he get any benefits/holiday pay/sick pay?

(ii) **Self-employed**

Candidates would have gained full marks for any four of the following:

- Does he provide his own equipment?
- Does he have a contract to provide for services?
- Whether he is taking on the financial risk himself?
- He pays his own pension contributions/no employee benefits.
- Ability to sub-contract or refuse work/flexibility to choose work.

(b) **(i)**

- Joint tenancy is severed.
- Steve's share can pass to his bankruptcy estate/Trustee in bankruptcy (TIB) could sell Steve's share to someone else which could be Bella.
- The house cannot be sold without a Court order.
- A court will consider the needs of Bella/she has a legal interest in the property.
- The court is unlikely to order an immediate sale/postponed for 12 months.
- The TIB has 3 years in which to deal with the home.

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

- Investments will pass to the TIB/the investments can be encashed for the benefit of the creditors.
- Any income can be claimed by the TIB.
- The joint tenancy on the building society account will be severed and Steve's share will pass to his bankruptcy estate.

(iii)

- Approved/registered pension schemes are protected from bankruptcy/the TIB cannot claim.
- If the TIB/Court believes Steve has made an excessive contribution in the anticipation of being made bankrupt/to defraud creditors, the Court can order the pension provider to pay it to the TIB.
- The TIB cannot force Steve to start taking an income to pay off his debt even though he is aged 55 and is able to access the self-invested personal pension (SIPP).
- Steve can continue to make investment decisions.

(c)

- The tools/vehicles/equipment required for Steve's business.
- Clothing/bedding/furniture required for his domestic use.
- Bella's personal investments.
- Bella's share of joint assets.

(d)

- He would have limited liability to the value of his shareholding.
- His personal assets would be protected as long as he had not given any personal guarantees or been negligent.
- He would have restrictions imposed on him as a director following the failure of his business.

(e)

- State pension is based on qualifying years of National Insurance contributions.
- If Steve has fewer than 35 years of contributions he will get a pro-rata amount.
- The minimum number of years is 10.
- A foundation amount is calculated as of 5 April 2016.
- If Steve was contracted out when he was employed, it will impact the foundation amount.
- It will be the higher of either: the amount he would have got under the old rules/protected payment and the amount he would get if the new State pension had been in force at the start of his working life.

Model answer for Question 3

(a) **August 2013**
£250,000 chargeable lifetime transfer (CLT) - £6,000 = £244,000

July 2014
Charitable gift – exempt from Inheritance Tax.

Feb 2018
£20,000 to John less marriage gift/£5,000 and 2 x £3,000/£6,000
= £9,000 potentially exempt transfer (PET)

Estate
£500,000 - £75,000 EIS = £425,000

£425,000 - £40,000 charitable gift = £385,000

Minus the Nil rate band (NRB) = £385,000 - £72,000 = £313,000 (taxable estate)
Add back the donation = £313,000 + £40,000 = £353,000 (net estate)
As the charitable donation is more than 10% of the net estate, use rate of 36%

Taxable estate = £313,000 x 36% = £112,680

(b) **(i)**
- Reuben will retain his non-UK domicile status initially;
- unless he has a clear intention to stay in the UK permanently;
- and breaks any significant ties with Australia.
- He will be deemed domicile in the UK for Inheritance Tax (IHT) purposes when he has been resident in the UK for 15 out of the 20 tax years immediately before the relevant tax year.
- He can elect to be domiciled in the UK.

(ii)
- Reuben will no longer be able to claim the remittance basis of taxation.
- He will be assessed for tax on his worldwide income and gains on the arising basis.
- If Reuben is deemed domicile when he dies, his worldwide assets will form part of his estate for calculating Inheritance Tax.
- There will be no limit on any inheritance from John/removal of the £325,000 limit.

(c)

- Powers can be general or for specific matters specified in the deed.
- Elizabeth can do anything that John could lawfully have done/she can sign documents on John's behalf, using her own signature/finances and property.
- She cannot act if John becomes mentally incapable.
- She cannot take over his position as trustee or personal representative.
- She cannot give away his assets or make gifts unless she has specific permission in the deed/she cannot make a Will.
- The power remains in force for time specified in deed/or until cancelled.

(d)

- The provider must disclose the arrangement to HM Revenue & Customs (HMRC).
- HMRC will give the provider a reference number for the scheme.
- The provider must give HMRC quarterly lists of clients using the scheme.
- John must show the scheme reference number on his UK tax return.
- The reference number does not mean that the scheme is approved by HMRC; but it brings it to the attention of HMRC early, so it can block it.

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

- Register with Charity Commission, if based in England and Wales, and;
- has income over £5,000 a year.
- Only apply to register once it's set up.
- Decide on the purpose.
- Write a governing document/deed.
- Choose a name.
- Recruit trustees.
- Decide how the charity will be funded e.g. investments.

All questions in the April 2019 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 October 2018 and April 2019 examinations.

INCOME TAX

RATES OF TAX	2017/2018	2018/2019
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	£33,500	£34,500
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

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

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)	£11,500	£11,850
Married/civil partners (minimum) at 10% †	£3,260	£3,360
Married/civil partners at 10% †	£8,445	£8,695
Transferable tax allowance for married couples/civil partners	£1,150	£1,190
Income limit for Married couple's allowance †	£28,000	£28,900
Rent a Room relief	£7,500	£7,500
Blind Person's Allowance	£2,320	£2,390
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.
*** maximum for 'standard' investment but for 'knowledge intensive' investment, the limit is £2,000,000.*

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)	£116
Primary threshold	£162
Upper Earnings Limit (UEL)	£892

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 162.00*	Nil
162.01 – 892.00	12%
Above 892.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 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 162.00**	Nil
162.01 – 892	13.8%
Excess over 892.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.95 where profits exceed £6,205 per annum.
Class 3 (voluntary)	Flat rate per week £14.65.
Class 4 (self-employed)	9% on profits between £8,424 - £46,350. 2% on profits above £46,350.

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

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*
2018/2019	£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	2017/2018	2018/2019
	£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	2017/2018	2018/2019
Individuals, estates etc	£11,300	£11,700
Trusts generally	£5,650	£5,850
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	2017/2018	2018/2019
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

	2017/2018	2018/2019
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	£125,000
- 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*

	2017/2018	2018/2019
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 2018/2019:

- The percentage charge is 13% 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 16%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 19%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 20% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 190g/km and above).

There is an additional 4% 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 (£23,400 for 2018/2019) e.g. car emission 90g/km = 19% on car benefit scale. 19% of £23,400 = £4,446.

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

	2017/2018 Rates	2018/2019 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

	2017/2018	2018/2019
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:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2017/2018	2018/2019
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.70	17.20
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 109.65	Up to 110.75
Attendance Allowance	Lower rate	55.65	57.30
	Higher rate	83.10	85.60
basic State Pension	Single	122.30	125.95
	Married	195.60	201.45
new State Pension	Single	159.55	164.35
Pension Credit	Single person standard minimum guarantee	159.35	163.00
	Married couple standard minimum guarantee	243.25	248.80
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
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
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		140.98	145.18

**Only applicable where spouse or civil partner died before 6 April 2017.*
*** Only applicable where spouse or civil partner died on or after 6 April 2017.*

CORPORATION TAX

	2017/2018	2018/2019
Standard rate	19%	19%

VALUE ADDED TAX

	2017/2018	2018/2019
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%

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 is 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.