



Chartered
Insurance
Institute

AF2

Advanced Diploma in Financial Planning

Unit AF2 – Business financial planning

October 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2020 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

AF2 – Business financial planning

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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 obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination 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:

Spending your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper;
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

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

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

Tackling questions

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

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

Answer format

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

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

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

Calculators

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

EXAMINER COMMENTS

Candidates overall performance

This advanced paper focuses on the application of knowledge gained through previous study, not on pure knowledge recall. Many less-well prepared candidates attempted answers in terms of recall of knowledge. The case studies provided in this advanced paper try to make candidates think about the real-world consequences of the issues highlighted in the questions, yet many candidates continue to give superficial answers.

The majority of candidates performed well in the calculations required in question 1 part (g), but not so well in the calculation required in part (f). Practising the common calculations that frequently arise in this paper will help a candidate to achieve full marks in the exam. The taxation of sole traders and questions on business budgets and budgetary control were not well answered but the business protection question was answered well.

It has been stated, in previous exam guides, that the case studies contain relevant information which should be used when constructing answers.

Many candidates still do not relate their answers to the case study and the information contained within them. This was demonstrated, for example, by candidates' answers to question 1 part (c) where candidates ignored the mortgage as a debt. Candidates must allow sufficient time in the exam to read the case study and identify the key factors which will help them answer the questions set.

It is very important to take time to read the instructions in the question and take note of the action words in the question stem which will help candidates to phrase their answers correctly. This gives guidance on the level of detail required in the answer. For example, 'outline' suggests that a high level description or list is required, where 'explain' leads to a more detailed answer where some justification is required.

In addition, the number of marks awarded for a question is a guide to how much should be written in an answer. Many candidates are still writing too much for an answer worth three to four marks and not enough for answers worth seven marks or more.

Question 1

This question was about a sole trader in financial difficulty and who would be selling his business.

Part (a) was about the process of (a)(i) making someone bankrupt, and (a)(ii), entering into an Individual Voluntary Arrangement (IVA).

In part (a)(i), it was clear that candidates were not aware of the process of making someone bankrupt and instead answered with what happens after bankruptcy is declared. Part (a)(ii), which has been tested frequently, was answered more successfully by most candidates.

Part (b) was about how assets would be treated under a bankruptcy order. The three sub-parts to this part of the question were reasonably well answered. Parts 1 and 2 have been frequently tested before and the answers reflected this. Part (b)(iii) was also well answered although most candidates failed to mention that bankruptcy could call Fred's appointment as a trustee into question.

Part (c) required candidates to recommend either bankruptcy or an Individual Voluntary Arrangement (IVA). The details in the case study point towards bankruptcy.

In most cases the candidates advising bankruptcy gave relevant reasons to support their answer. Candidates who advised an IVA usually did not calculate the outstanding debts and assets and, in many cases, forgot that a mortgage is a debt and did not include this in their deliberations. They also did not take into account the fact that if Fred sold the business, he would have no income with which to service the IVA. With bankruptcy he would be debt free after 12 months without having to pay off all his debts. Candidates who advised an IVA were more interested in protecting the creditors than in protecting Fred, their client.

Part (d) asked questions that were in relation to the sale of Fred's business. In part (d)(i), candidates gave generic answers and did not relate responses to the sale of the business and did not provide sufficient detail.

Part (d)(ii) was reasonably well answered although many candidates made general reference to redundancy in this part. This was unnecessary as the case study mentions redundancy for one employee which is covered in part (d)(iii). Part (d)(ii) was about the continuing employees. Candidates covered some of the basic points in part (d)(iii) but generally did not provide sufficient detail in their answers.

Many candidates gave the same answer to both parts of question part (e), either guessing at Capital Gains Tax (CGT) or, much less frequently, Income Tax for both parts. Few candidates gave the correct answer to both parts of the question. Most candidates correctly identified that goodwill would be subject to CGT.

Part (f) was about calculating taxable profits for two tax years. Many candidates apportioned the profits over tax years when this was unnecessary. In general, candidates answered this part quite poorly and many were unable to calculate the correct balancing charge to add to the profits.

Part (g) was about purchasing commercial premises through a pension scheme. This has been examined frequently with most candidates performing well in the three parts.

The main errors were in part (a)(i) where many candidates forgot to deduct the £40,000 loan twice and in part (a)(ii) most candidates did not calculate the VAT on the stamp duty land tax.

Question 2

This question concentrated on business protection.

Part (a) was about key person cover. Part (a)(i) was generally well answered although many candidates did not state that the policy should be short-term for the premiums to benefit from Corporation Tax relief.

In part (a)(ii), many candidates did not recommend shareholder protection for Erin nor did they give a reason for the cover when they did recommend it. Many candidates also recommended only covering the loan and did not suggest key person cover for loss of profits.

Part (b)(i) asked candidates to explain why Erin would not qualify for Corporation Tax relief on the premiums. This was answered well by most candidates, but many candidates just stated that they did not comply with the Anderson rules but did not explain what the Anderson rules were. Part (b)(ii) was also generally well answered although some candidates did not state the obvious point that Cameron contributes significantly to profits before going on to suggest the proportion of profits approach would be better.

Part (c) was well answered with many candidates scoring maximum marks. The point most often missed was that this is done to allow shareholders to keep control of the business.

Part (d)(i) has been examined frequently and candidates performed well on this part of the question giving sufficient detail to score high marks.

Part (d)(ii) was not well answered with very few candidates able to explain why a business trust should be used for shareholder protection.

Question 3

This question was about sole traders changing to a different business structure.

Part (a)(i) was about a sole trader's responsibilities for paying tax. This part was answered quite poorly with a surprising number of candidates being unable to get the sequence of payment dates. As a consequence, some very low marks were awarded for this part of the question. Part (a)(ii) was about limited company taxation and the owner's responsibilities for paying tax. This was answered a little better than part (a)(i) but many candidates did not state that the limited company would also be liable to Corporation Tax on investment income and capital gains.

Part (b) was answered reasonably well with most candidates recognising that as only Stefanos had assets, then in the event of default, creditors are likely to pursue him for the full amount of the debt.

Both parts of part (c) were reasonably well answered. In part (c)(i) some candidates did not refer back to the case study in terms of the retained income as a reason for moving to a limited company. Weaker candidates stated that liability would be limited to share capital but did not go on to state that this would not be the case if they gave personal guarantees or were guilty of wrongful trading.

In part (c)(ii) some candidates stated that the losses from the sole trader business can be relieved against profits from the company rather than against personal income.

Part (d) was about budgets and budgetary control and neither part was well answered by candidates. This topic is well covered in the study guide, but candidates were not able to reproduce the information and use it in this question.



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AF2

Advanced Diploma in Financial Planning

Unit AF2 – Business financial planning

October 2019 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise in the question, and should be answered accordingly.

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

Instructions

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

Unit AF2 – Business financial planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
 - Section A: 80 marks
 - Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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

SECTION A

This question is compulsory and carries 80 marks

Question 1

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

Fred, aged 52, is married to Ruby. They have three teenage children. Fred is the sole income earner in the family. Fred and Ruby are trustees of a trust fund set up for their children 10 years ago by Fred's parents.

Twenty years ago, Fred set up a design and print business as a sole trader. In recent years he has seen a steady decline in profits as shown in the table below.

Year ending	31 January 2017	31 January 2018	31 January 2019
Profit	£78,000	£46,000	£32,000

Due to his falling profits, Fred and Ruby have exhausted their savings and Fred has been using personal credit cards to maintain the family's lifestyle. He now has over £60,000 in credit card debt.

Fred and Ruby own their own home as joint tenants. Their home has recently been valued at £300,000. They have a mortgage of £200,000. In the last three months, Fred has been unable to pay their monthly mortgage payment, nor has he paid his monthly credit card payments. Fred rents his business premises and has not paid the rent for six months. The value of his missed monthly rental payments is £20,000. He has overdue invoices from his suppliers to the value of £15,000. Fred has not yet been sued by any of his creditors.

Fred has a Self-Invested Personal Pension (SIPP). It has a current value of £390,000. At the beginning of 2019 he made a lump sum contribution of £40,000.

A competing business, run by two friends, Max and Alex, has agreed to buy Fred's business as a going concern for a sum of £20,000 for the goodwill, £15,000 for equipment and £2,000 for stock. The business has also agreed to take on three of the four employees that Fred employs.

Max and Alex are considering buying bigger premises to accommodate their expanding business. The property they are considering has a purchase price of £600,000 which will be subject to VAT and Stamp Duty Land Tax. The business has a small self-administered pension scheme (SSAS) for Max and Alex. The scheme was set up in 2009 and is currently valued at £590,000. The SSAS has made a loan to the sponsoring employer with £40,000 currently outstanding.

Question 1

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

- (a) Explain to Fred the process if he were to:
- (i) declare himself bankrupt; (6)
 - (ii) enter into an Individual Voluntary Arrangement (IVA). (8)
- (b) Explain to Fred how the following will be treated under a bankruptcy order:
- (i) his house; (6)
 - (ii) his pension; (5)
 - (iii) the trust property. (3)
- (c) Recommend, giving reasons, whether Fred should declare himself bankrupt or whether he should enter into an IVA. (8)
- (d) Describe to Fred, in relation to the sale of his business;
- (i) the full extent of his liabilities as a sole trader; (5)
 - (ii) his legal position with regard to his employees and the information he must provide to each of them; (6)
 - (iii) his responsibilities towards his employee who is not required by Max and Alex. (7)
- (e) Explain briefly to Fred, in relation to the sale of the business, the tax treatment of:
- (i) the goodwill in his business; (3)
 - (ii) his stock. (3)

- (f) Assume Fred transfers his business to the buyer on the 30 October 2019 and profits between the 1 February 2019 and 30 October 2019 are £26,000. His overlap profit from the transition year is £5,000.

The written down tax pool value on equipment being sold is £11,000 and he makes a loss on sale of stock of £1,500.

Calculate, **showing all your workings**, the amount of taxable profits that will fall into the tax years 2018/2019 and 2019/2020 using the profits in the table on page 4 and the information above. (5)

- (g) With regards to Max and Alex buying their new business premises through their SSAS:

(i) calculate, **showing all your workings**, the maximum amount available to the SSAS for the purchase; (5)

(ii) calculate, **showing all your workings**, the total cost of the purchase, assuming legal fees of £15,000; (6)

(iii) state **four** advantages of Max and Alex buying the property through the SSAS compared to buying the premises themselves. (4)

Total marks available for this question: 80

SECTION B

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

Question 2

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

Hayden and Erin are the shareholding directors of an electronics company which is making significant profits. The shares are owned 60% by Hayden and 40% by Erin. Hayden and Erin are not related to each other.

Their account manager, Cameron, an employee, is responsible for much of the profits and sales due to his contacts and ability. Should anything happen to Cameron, Hayden and Erin think that it could take a long time to find a replacement for him.

Erin is the main research development engineer and is responsible for their original electronic designs. It is due to her ability that the bank has made a large development loan to the company.

Should either of the main shareholders die, the survivor would like to retain control of the business in the most tax efficient way. The company has a standard Memorandum and Articles of Association.

There are no protection plans currently in place.

Question 2

- (a) (i) Explain the benefits of keyperson cover for Cameron to Hayden and Erin. (7)
- (ii) State, with reasons, the protection cover you would advise for Erin. (5)
- (b) The company has decided to take out a short term keyperson cover for Cameron and Erin. In Erin's case this will be to cover the loan and loss of profits.
- (i) State, with reasons, why the premiums for keyperson cover on Erin will not qualify for Corporation Tax relief. (4)
- (ii) Explain briefly why a multiple of salary approach for keyperson cover may not be appropriate for Cameron. (3)
- (c) State the purpose of shareholder protection. (4)
- (d) Hayden and Erin have agreed to use own life policies for their shareholder protection.
- (i) Explain, giving your reasons, your recommendations for an arrangement that would suit their needs and keep any taxation to a minimum. (12)
- (ii) Explain briefly why a business trust should be used for shareholder protection. (5)

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) and (d) which follow.

Kyriakos and Stefanos are self-employed plumbers. They have been friends for a long time. Stefanos has now obtained a large contract with a major building project and he and Kyriakos have decided to go into business together to service the contract.

Stefanos owns a house with no mortgage and has investments of £45,000. Kyriakos had made a loss in his business in the previous tax year 2018/19. He has no significant personal assets.

They now need to decide on a relevant business structure for their new enterprise. The assets from their existing businesses will be incorporated into the new structure.

They wish to reinvest future profits to help to grow their new business. They also wish to limit their personal liabilities in any new business structure that they set up.

Question 3

Explain briefly Kyriakos and Stefanos’s responsibilities for paying tax, **excluding VAT**, to HM Revenue & Customs as:

- | | | | |
|------------|-------------|--------------------|------------|
| (a) | (i) | sole traders; | (5) |
| | (ii) | a limited company. | (5) |
- | | | | |
|------------|-------------|---|------------|
| (b) | (i) | State three advantages for Kyriakos and Stefanos operating as a partnership. | (3) |
| | (ii) | Outline the potential business liability issues for Kyriakos and Stefanos if they set up their new business as a partnership. | (6) |
- | | | | |
|------------|-------------|---|------------|
| (c) | (i) | Recommend, with reasons, the business structure that Kyriakos and Stefanos could use to transfer their sole trader businesses. | (8) |
| | (ii) | Explain briefly the benefits to Kyriakos if his sole trader business was transferred to the structure you have recommended in part (c)(i) above. | (3) |
- | | | |
|------------|--|--|
| (d) | Kyriakos and Stefanos, as sole traders, are new to the concept of budgets and budgetary control. | |
|------------|--|--|

Explain to Kyriakos and Stefanos the:

- | | | |
|-------------|--|------------|
| (i) | concept and purpose of a business budget for their business; | (6) |
| (ii) | concept of budgetary control. | (4) |

Total marks available for this question: 40

NOTE ON MODEL ANSWERS

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

Model Answer for Question 1

- (a) (i) *Candidates would have gained full marks for any six of the following:*
- He must prepare for bankruptcy by making an online application.
 - Prove that he is unable to pay his debts.
 - He must show that he has not complied within three weeks with a 'statutory demand' to repay a debt.
 - Pay the appropriate fee.
 - He must provide a written statement of affairs/list of assets and liabilities.
 - A decision is made by an adjudicator.
 - He will have to wait 28 days for adjudicators to make their decision whether to make a bankruptcy order or reject the application.
- (ii) *Candidates would have gained full marks for any eight of the following:*
- He will need to appoint an insolvency practitioner.
 - A formal proposal is made to his creditors that he will repay part or all of the debt.
 - He must provide a list of assets and liabilities.
 - The insolvency practitioner will apply to the Court for an interim order:
 - which prevents creditors from proceeding with a bankruptcy petition.
 - If more than 10% of creditors by value object:
 - a vote must be taken by creditors;
 - if 75% of creditors by value agree this is reported to the court.
 - The repayment programme then becomes binding on him and his creditors.
 - The insolvency practitioner then makes payments in accordance with the agreed scheme for the life of the Individual Voluntary Agreement (IVA).
 - Payments must be completed/agreed debt repaid within five years.
- (b) (i) House
- Candidates would have gained full marks for any six of the following:*
- As the house is in joint names Ruby has a legal interest.
 - Only Fred's half of the equity is at risk.
 - Ruby and the children's position is considered before his creditors.
 - House will not be immediately available to creditors and will not be sold for up to a year.
 - After one year the needs of the creditors are assumed to outweigh all other considerations.
 - The house is mortgaged so the lender has first call on the property and they can take possession and sell it.
 - House must be dealt with within three years of the date of any bankruptcy order.

(ii) Pension

- Pension schemes benefit from statutory protection from creditors.
- Once the pension is in payment (past age 55) the trustee in bankruptcy (TIB) could attempt to obtain an order to attach his pension income.
- The £40,000 contribution made may be seen as excessive and may have unfairly prejudiced the creditors which the Trustee in Bankruptcy (TIB) can claim from the pension provider if the court agrees.

- (iii)** • Bankruptcy order has no direct effect on the trust as the trust property does not belong to Fred but may call into question his suitability to be a trustee.

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

- Fred should make himself bankrupt:
- as his debts are larger than his assets.
- With bankruptcy he will be debt free/discharged:
- without having to repay all of his debt;
- as long as he is not culpable in any way for the bankruptcy.
- He will be released from bankruptcy after 12 months or earlier.
- He is unlikely to face any post-bankruptcy restrictions.
- With an IVA he will be paying back his creditors for a long period/five years.
- When he sells his business, he will have no income to service the IVA.

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

- Fred is personally liable for all debts, both his personal and business debts
- and staff redundancy payments.
- He must comply with Transfer of Undertakings (Protection of Employment) (TUPE) law:
- and any unpaid employee tax and National Insurance due to HM Revenue & Customs.
- He is liable for any personal & business tax including VAT if applicable.
- He will be liable for any future damages arising from past activities from customers, the public or employees.

- (ii)** • Fred must ensure that the employees' terms and conditions of employment are maintained by the buyer.
- Fred must inform each employee of the proposed transfer and Consult with them regarding details of the transfer 28 days before the transfer.
 - Fred must supply information about the employees to the new employer.
 - He remains liable for any damages awarded for breaching TUPE regulations.

- (iii)** • He will make the employee redundant.
- He must consult with the employee giving them reasons for the redundancy and the basis for their selection.
 - If the employee has more than two years' service Fred must pay redundancy pay and tell the employee how redundancy payments will be calculated.
 - He must take care to avoid potential discrimination claims.
 - He must give the employee a notice period no less than they are entitled to under their contracts.

- (e) (i) • The sale of goodwill is subject to Capital Gains Tax but the amount within his annual exempt amount will be tax free.
 • Transfer of a business as a going concern is outside the scope of VAT so there will be no VAT to pay.
- (ii) • He will have to pay Income Tax on excess over the cost of the stock or if it is a loss it will be deducted from taxable profits.
 • No VAT issues for transfer as a going concern.

Tax Year 2018/2019	
Based on profits on year ending 31 January 2019	= £32,000
Tax Year 2019/2020	
Based on profits between 1st February 2019 and 30 October 2019	
Profits	£26,000
Less overlap profits	(£5,000)
Less loss on sale of stock	(£1,500)
Plus balancing charge on equipment	<u>£4,000</u>
	£23,500

- (g) (i) • Pension scheme value = £590,000
 • - less loan of £40,000 = £550,000
 • Maximum borrowing = $550,000 \times 50\% = £275,000$
 • £275,000 - £40,000 = £235,000
 • Total available = £550,000 plus £235,000 = £785,000
- (ii) • Purchase price = £600,000
 • Plus 20% VAT = £120,000
 • Stamp Duty Land Tax (SDLT) on property £19,500
 • Plus SDLT on VAT £6,000
 • Plus legal fees of £15,000
 • Total = £760,500
- (iii) *Candidates would have gained full marks for any four of the following:*
- Rental income will be received tax free by the pension fund.
 - Protected from any insolvency.
 - No Capital Gains Tax (CGT) on sale.
 - No Inheritance Tax (IHT) liability on the property.
 - Rental payments will increase pension fund value.
 - Rental payment does not contribute to annual allowance.
 - Does not use up their personal cash.

Model Answer for Question 2

- (a) (i) • Keyperson covers loss of profits/financial loss to the business/company on death or serious illness of Cameron.
- The premiums could qualify for Corporation Tax relief, if short term as Cameron is an employee of the business and the sole relationship is employee/employer.
- It includes replacement costs of a new employee.
- (ii) • Erin – shareholder protection as a director to protect the value of her shares for her dependants.
- Keyperson cover to cover loss of profits and to cover loan from bank.
- (b) (i) • Erin is a 40% shareholding director of the company, so the sole relationship is not one of employer and employee.
- Her cover also covers the loan and for keyperson cover to qualify for tax relief it must be solely for loss of profits.
- (ii) • He contributes significantly to profits so a proportion of profits approach could give a higher figure than multiple of salary.
- Multiple of salary does not take into account the time factor in finding a replacement for Cameron.
- (c) • Shareholder protection is used to provide funds to surviving shareholders to purchase the deceased shareholder's share of the business from the estate/representatives and so keep control of the business.
- (d) (i) *Candidates would have gained full marks for any twelve of the following:*
- Put in place a shareholder agreement (SA).
 - The own life policies should be written under a business trust.
 - There should be a cross option agreement in place:
 - as this will maintain Business Relief;
 - as it will not be a binding contract for sale;
 - meaning that their estates will not pay Inheritance Tax/arrangement is tax efficient on death.
 - The shareholder agreement should refer to the cross-option agreement.
 - The shareholder agreement should include a method of valuation.
 - To ensure all parties receive a fair value for their shares:
 - and state a specific timescale to ensure benefits are paid in a reasonable time.
 - The SA should state how the shareholding is to be distributed especially as there is an unequal shareholding.
 - The option once exercised is binding:
 - on both parties.
 - This ensures that the survivor can retain control of the business.
 - As the own life policies will provide the funds to purchase the shares.

- (ii) *Candidates would have gained full marks for any five of the following:*
- To ensure HM Revenue & Customs view it as a commercial arrangement.
 - Only shareholders are involved as beneficiaries;
 - and trustees.
 - To allow for any future changes in the composition of the membership of the limited company.
 - To avoid the risk of a reservation of benefit arising.
 - Reversion to settlor clause allowable/no Pre-Owned Assets Tax charge likely as plan value will be nil/low:
 - if pure protection plan is used.

Model Answer for Question 3

(a) (i) Sole traders

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

- First payment on account for Income Tax is 31 January in the tax year.
- Second payment on account is 31 July in the calendar year.
- Balancing payment and first payment on account for the next tax year:
- is due the following 31 January.
- Pay class 2 National Insurance Contributions (NICs) with the balancing payment.
- Pay class 4 NICs with payments on account.
- File online self-assessment tax return by 31 January/paper tax return by 31 October.
- Following the end of the tax year to which it relates.

(ii) Limited company

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

- Limited company is liable to corporation tax for trading income:
- and investment income and capital gains.
- The Corporation Tax self-assessment must be returned within 12 months of the accounting period end:
- apportioned over tax years;
- if the accounting period straddles two tax years.
- Pay Corporation Tax within nine months and one day after the end of the accounting period.

(b) (i) Benefits

- Easy to set up with low start-up costs.
- There is limited external statutory regulation.
- It will be easy to change business structure later, perhaps to a limited company.

- (ii)
- Only Stefanos has any assets.
 - As they have joint and several liability for partnership debts, in the event of default, creditors are more likely to pursue Stefanos for the full debt.
 - Their personal assets would be at risk and they could face personal bankruptcy as there is no separation between them and the business.

- (c) (i) • Limited company.
- One rate of 19% tax/only Corporation Tax (CT) payable on income, capital gains, investment income:
 - resulting in higher retained income in business.
 - A limited company has a separate legal identity to Kyriakos and Stefanos:
 - so, their liability would be limited to the share capital;
 - unless they provided personal guarantees;
 - or were guilty of wrongful trading;
 - in which case their personal assets would be at risk.
- (ii) • His losses from his sole trader business can be relieved against his salary income or dividends from the limited company.
- (d) (i) • A budget is a statement that expresses a business's plans in quantitative/financial, terms.
- The budget will allow them to think through the financial consequences of their business plans.
 - Ensure that the plans and resources of each part of the business fit into the overall strategy.
 - The business can plan its overall financial needs including how to use retained funds or borrow over the course of the next year.
 - It will give each of them the freedom within their budgets, to spend and invest as they think fit, without having to keep making decisions together.
 - It can ensure that the business meets its income and expenditure targets.
- (ii) • Budgetary control is the process of using budgets to direct and monitor actual financial performance during the accounting year.

All questions in the April 2020 paper will be based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the October 2019 and April 2020 examinations.

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
<i>*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.</i>		
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)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,390	£2,450
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- 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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Total earnings £ per week CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 166.00*	Nil
166.01 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £118 per week. This £118 to £166 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 166.00**	Nil
166.01 – 962	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.00 where profits exceed £6,365 per annum.
Class 3 (voluntary)	Flat rate per week £15.00.
Class 4 (self-employed)	9% on profits between £8,632 - £50,000. 2% on profits above £50,000.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000

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
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£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	2018/2019	2019/2020
	£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	2018/2019	2019/2020
Individuals, estates etc	£11,700	£12,000
Trusts generally	£5,850	£6,000
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 (2018/2019), two years (2019/2020).*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS 2018/2019 2019/2020

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*				£125,000	£150,000
- UK-registered charities				No limit	No limit

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

Lifetime transfers					
- Annual exemption per donor				£3,000	£3,000
- Small gifts exemption				£250	£250

Wedding/civil partnership gifts by					
- parent				£5,000	£5,000
- grandparent/bride and/or groom				£2,500	£2,500
- other person				£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO₂) emissions. There is no reduction for high business mileage users.

For 2019/2020:

- The percentage charge is 16% of the car's list price for CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 19%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 22%.
- Cars with CO₂ emissions of 95g/km have a percentage charge of 23% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 165g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro 6 emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£24,100 for 2019/2020) e.g. car emission 90g/km = 22% on car benefit scale. 22% of £24,100 = £5,302.

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

	2018/2019 Rates	2019/2020 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

2018/2019 2019/2020

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

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

CO ₂ emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	6%
	first year	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2018/2019	2019/2020
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	17.20	17.60
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 110.75	Up to 111.65
Attendance Allowance	Lower rate	57.30	58.70
	Higher rate	85.60	87.65
Basic State Pension	Single	125.95	129.20
	Married	201.45	201.45
Single Tier State Pension	Single	164.35	168.60
Pension Credit	Single person standard minimum guarantee	163.00	167.25
	Married couple standard minimum guarantee	248.80	255.25
	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
Jobseeker's Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		145.18	148.68

*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

	2018/2019	2019/2020
Standard rate	19%	19%

VALUE ADDED TAX

	2018/2019	2019/2020
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.

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