



Chartered  
Insurance  
Institute

# J03

## Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

October 2020 examination

### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise in the question, and should be answered accordingly.

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

## Unit J03 – The tax and legal aspects of business

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the right-hand side of the interface.

**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.**

**Attempt ALL questions****Time: 2 hours**

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

1. Nadia has been running a successful driving instructor business named 'Pass First Time'. Another driving instructor, Pierre, has recently set up his own business and named this 'Pass 1<sup>st</sup> Time'.

Explain briefly the actions Nadia can take regarding Pierre's new business name **and** state the action Nadia can take to ensure the name 'Pass First Time' is not used by anyone else. (6)

2. (a) State how members of an LLP can become designated members. (3)
- (b) State **five** extra responsibilities of a designated member. (5)

3. Dumas Percy Ltd is an active trading company. Its financial position for the previous trading period is shown below.

	Year end 31/03/2020 (£)
Cash at bank	250,000
Debtors	1,560,000
Stock	1,650,000
Current liabilities	2,050,000

- (a) Calculate, **showing all your workings**, the company's:
- (i) working capital ratio; (3)
- (ii) quick ratio. (3)
- (b) Based on your answers to **part (a)(i)** and **part (a)(ii)** above, comment on the financial stability of Dumas Percy Ltd. (4)

4. Alexis has a small landscape gardening business. Due to a decline in business he has built up credit card debt of over £20,000 and is beginning to struggle to service this debt each month.
- Explain briefly to Alexis the advantages of him entering into an Individual Voluntary Arrangement to repay his debt. (5)
5. (a) Describe briefly the accruals basis for drawing up company accounts. (4)
- (b) State **two** advantages and **two** disadvantages of the accruals basis. (4)
6. Abena has recently been relocated for her job. Her company has paid her £9,000 for removals expenses. The company is also providing her with an unfurnished flat that it purchased in 2018 for £200,000. Abena is not paying rent to the company to live in the flat.
- (a) Describe briefly how the Income Tax charge will be calculated on the accommodation. *No calculations are required.* (5)
- (b) State how the removals expenses will be treated for Income Tax purposes. (3)
7. Mita and Harish are the directors and the only employees of Crazy Days Limited, an adventure holiday company. At the end of their financial year the company had recorded profits of £100,000 and they awarded themselves a bonus of £40,000 each. This was the only income they had from the company.
- Calculate, **showing all your workings**, the company's liability to:
- (a) National Insurance contributions; (7)
- (b) Corporation Tax. (4)

QUESTIONS CONTINUE OVER THE PAGE

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8. (a) State how businesses over the VAT threshold will need to comply with HM Revenue & Customs Making Tax Digital. (2)
- (b) List the **four** methods of accounting for VAT that can be used by traders. (4)
- (c) Explain briefly the circumstances in which a trader can claim bad debt relief for VAT already paid. (3)
9. Jodie and her son Rohan are partners in a catering business. Jodie has owned the business premises for over five years and they have been valued at £400,000. Jodie now wishes to gift the catering premises to Rohan.
- In relation to the proposed gift:
- (a) explain the Capital Gains Tax position, how this can be deferred and the tax implications of the deferral. *No calculations are required.* (8)
- (b) state the Inheritance Tax consequences. (6)
10. Ruby has worked for two years at XYZ Ltd. She has received a letter stating that they are dismissing her. They have not provided her with the reasons for the dismissal in the letter.
- (a) List **three** reasons for dismissal where the reason is potentially fair. (3)
- (b) Explain briefly Ruby's rights to be informed of the reasons for her dismissal. (4)
11. (a) List **four** reportable work-related injuries, under The Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 (RIDDOR 2013). *You are not required to refer to specific injuries, e.g. broken leg in your answer.* (4)
- (b) Identify the details required to be entered into a workplace accident book in the event of a serious injury or dangerous incident. (3)

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12. (a) State when a flexible whole of life policy may be appropriate to use for key person insurance. (3)
- (b) Identify the options available in respect of a flexible whole of life policy if the key person leaves the business. (4)
13. George and Amber have been the shareholding directors of an advertising company for 10 years. Amber's personal assets are in excess of the Inheritance Tax nil rate band. In her Will, Amber has left her shares in the business to her long-term partner Keith.
- Explain the benefits of a cross option agreement, compared with a buy and sell agreement, in relation to the potential Inheritance Tax liability on Amber's share of the business in the event of her death. (9)
14. (a) Explain briefly what is meant by the term 'factoring' in a business context. (3)
- (b) State **three** advantages and **three** drawbacks of factoring. (6)
15. Manuel received a gross salary of £130,000 in the tax year 2020/2021. He made pension contributions by salary sacrifice of 5% and his employer made pension contributions of 6% on his behalf. Manuel's employer increased their contribution by their full saving of National Insurance contributions.
- (a) Calculate, **showing all your workings**, the total pension contribution for Manuel. (4)
- (b) Calculate, **showing all your workings**, the Income Tax payable by Manuel. (8)

The tax tables can be found on pages 9 – 16

## INCOME TAX

RATES OF TAX	2019/2020	2020/2021
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance †	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962
Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 183.00*	Nil
183.00 – 962.00	12%
Above 962.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*\*\* Secondary earnings threshold.*

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

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021	£1,073,100

### LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income.

### ANNUAL ALLOWANCE

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

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

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

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£4,000	£4,000

### ANNUAL ALLOWANCE CHARGE

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

## CAPITAL GAINS TAX

EXEMPTIONS	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£1,000,000

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

## INHERITANCE TAX

### RATES OF TAX ON TRANSFERS

	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

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

### MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£150,000	£175,000
- UK-registered charities	No limit	No limit

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

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

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

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

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

## PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 Rates
<b>Cars</b>		
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
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	2019/2020	2020/2021
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

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

CO <sub>2</sub> 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

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

## CORPORATION TAX

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

## VALUE ADDED TAX

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

## STAMP DUTY LAND TAX

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

**Important note: For residential properties purchased between 8<sup>th</sup> July 2020 and 31<sup>st</sup> March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.**

*Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

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

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

*First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*

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



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