



Chartered
Insurance
Institute

J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

October 2020 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 2021 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

J03 – The tax and legal aspects of business

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

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

Before the examination

Study the syllabus carefully

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

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

Note the assumed knowledge

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

Read widely

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

Make full use of the Examination Guide

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

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

Know the layout of the tax tables

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

Know the structure of the examination

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

Appreciate the standard of the examination

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

Read the Assessment information and Exam policies for candidates

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

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

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

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

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

Tackling questions

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

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

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs*, since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

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

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

Calculators

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

EXAMINERS' COMMENTS

Candidates' overall performance:

Candidates' performance was generally comparable to previous examinations. As usual, better prepared candidates did well in most of the subject areas examined. Many candidates continue to struggle with certain subjects, such as Limited Liability Partnerships, taxation of benefits in kind and company accounts.

Question 1

This area has been examined before, and it is unfortunate that many candidates are still struggling with this area. Weaker candidates gave answers which were not precise and confused the authority of Company House with that of the courts.

Question 2

This question was weakly answered by many candidates who demonstrated a lack of knowledge of Limited Liability Partnerships and frequently referred to the partnership agreement in their answer rather than the incorporation document. Many candidates could not state the extra responsibilities of designated members and generally gave generic answers such as "have extra legal responsibility".

Question 3

The calculation part of this question was answered well by the majority of candidates, although some candidates converted the ratio to a percentage, rather than leaving it as a ratio.

Some candidates who converted this to a percentage, did so incorrectly. For example, the answer to part (a)(i) is 1.69 which some candidates stated as 1.69% rather than 169%, demonstrating a worrying level of understanding of percentages and also of what the ratios mean.

In part (a)(ii) some candidates had difficulty in accurately commenting on the financial stability when comparing the two ratios.

Question 4

This question was generally well answered by the majority of candidates and appears to be an area learned well by them.

Question 5

This question was well answered by candidates who had prepared well. Part (a) was answered well enough by most candidates. In part (b), poorer candidates were unable to give good advantages and disadvantages.

Question 6

Part (a) was poorly answered by most candidates. Candidates tended to give generic answers rather than the specific answers required in relation to the benefit. Candidates would simply state that the benefit is a P11D benefit and would be taxed with no detail concerning the taxation.

In part (b) many could not give the exact amount that would qualify as an exempt benefit.

Question 7

The calculations in this question were generally well performed by the majority of candidates. The main error, occurring in part (a), was that candidates did not make any allowance for the £4000 employer allowance for national insurance. Part (b) presented no problems to candidates.

Question 8

Most candidates demonstrated a lack of knowledge in this area.

In part (a) the majority of candidates did not state that the business must keep electronic/digital records for accounting purposes.

Many could not state the four methods of accounting for VAT in part (b) although most could state at least two methods.

Part (c) was weakly answered by most candidates who did not know the circumstances in which bad debt relief could be claimed.

Question 9

Most candidates answered part (a) reasonably well. However, there was much confusion between hold-over relief and rollover relief with candidates obviously not understanding the difference between the two. Candidates are directed to read the course book so they have an understanding of the difference between these two reliefs as this is a subject that will be examined again.

Part (b) was also generally well answered by most candidates, the most common omissions being business relief at 50%.

Question 10

Part (a) of this question was well answered by most candidates. In part (b) candidates missed some of the points and generally were only able to give to suitable points which gained marks.

Question 11

In part (a) many candidates just gave bullet point answers without any additional explanation and in many cases, they referred to specific injuries even though it was clearly stated in the question that this was not required. In fact, many candidates gave a list of specific injuries as their answer and such could only gain one mark.

The majority of candidates adequately answered part (b) identifying the correct number of details required.

Question 12

Part (a) was poorly answered by very many candidates, which is quite concerning, considering that this is a major part of business protection. Many candidates stated that the policy would apply to a shareholder but were not specific in that it should be a shareholding director, and many did not include the business owner is a key person.

It was surprising that in part (b) most candidates did not achieve full marks in what is clearly a limited set of options and one that they should be well versed in.

Question 13

The better candidates answered this question quite well. Many poorer candidates described how a cross option agreement worked and did not answer the question related to the case study. Many candidates also did not extract the information from the case study to use to amplify their answers.

Question 14

Most candidates made a reasonable attempt at this question. Poorer candidates had difficulty in articulating their answer correctly for part (a) and a minority were unable to answer this question part at all.

In part (b), better candidates usually achieved full marks and could easily explain three advantages and three drawbacks.

Question 15

This question was well answered by most candidates.

In part (a) some candidates added employee national insurance savings to the pension contribution when it specifically states in the question that only the employer's national insurance saving is added.

While most candidates did well in the calculation in part (b), weaker candidates struggled with the calculation of the reduced personal allowance or in many cases did not calculate it at all.

Unit J03 - The tax and legal aspects of business

Instructions to candidates

Read the instructions below before answering any questions

All questions in this examination are based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

- **Please write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- **Two hours are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.**
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- The tax tables are provided on the right-hand side of the interface.
- For each answer, please type in the full question number you are answering eg **1a**
- **Please note each answer must be typed in the correct corresponding answer box.**
- If required, have you shown your ID during the ID check? If not, show it to the camera now please.
- If required, did you show the edge of your screen with a mirror during the room scan? If not, use a mirror to show it now please.
- If you have blank paper for notes, if required did you show both sides to the camera? If not, show both sides to the camera now please.
- Please familiarise yourself with **all** questions before starting the exam.

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

Explain briefly the actions Nadia can take regarding Pierre's new business **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. It's 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)

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)**
- 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 2019/2020. 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)**

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

- Nadia can ask Pierre to change the name of his business.
- If he will not, then Nadia can bring about a 'passing off' claim.
- She will need to show that she owns goodwill in her business.
- And that there had been misrepresentation which had caused damage to her business.

- Nadia can register the name as a trademark.

Model answer for Question 2

- (a)
- By being named in the incorporation document.
 - If there are no designated members or only one.
 - All members become designated members automatically.
- (b) *Candidates would have gained full marks for any of the five following:*
- Appointing an auditor.
 - Preparing the accounts on behalf of the members;
 - Signing/delivering the accounts to the registrar of companies/Companies House;
 - Giving notice to the registrar/Companies House of changes (in the membership/address/name of the LLP);
 - Acting on behalf of the LLP if it is wound up.
 - Register business for self-assessment.

(a) Model answer for Question 3

(i) Working capital ratio = cash + debtors + stock / liabilities

- $(250,000 + 1,560,000 + 1,650,000)$
- $/2,050,000$
- = 1.69

(ii) Quick ratio = cash + debtors / liabilities

- $(250,000 + 1,560,000)$
- $/2,050,000$
- = 0.88

- (b)
- Assets cover liabilities, shown by the working capital ratio,
 - so business is technically solvent.
 - However, if stock is excluded, as in the quick ratio, liabilities are not covered,
 - The company could have cash flow issues/be potentially insolvent.

Model answer for Question 4

- Alexis would be closely involved in the process.
- The restrictions of bankruptcy are avoided.
- Alexis avoids the stigma and disqualifications of bankruptcy.
- Costs are generally less than formal bankruptcy.
- Alexis can continue trading.

Model answer for Question 5

- (a)
- Sales are recorded as income
 - when the goods and services are supplied.
 - Costs are recognised at the time they are incurred and
 - not when cash is received/paid (to ensure transaction falls in the correct accounting period).

- (b) *Candidates would have gained full marks for any two advantages and any two disadvantages from the following:*

Advantages

- Enables the business to meet the financial reporting standards
- Effective for financial management.
- Because income is matched to costs, financial statements give a truer picture of profits (during the accounting period).

Disadvantages

- Does not show the cash flow.
- More complex than cash basis.
- Accountant estimates/guesswork because invoices do not coincide with events.
- Tax may be paid on goods for which cash has yet to be received.

Model answer for Question 6

- (a)
- The assessment is based on the annual value/market rent
 - or the property's gross rateable value (at the last rating valuation).
 - As the flat is more than £75,000 there is an extra charge.
 - Calculated as the excess of the cost of the property over £75,000.
 - multiplied by 2.25% (the official interest rate).
- (b)
- The first £8,000 qualifies as an exempt benefit.
 - The £1,000 above this
 - will be taxable on Abena.

Model answer for Question 7

- (a) National Insurance Class 1
- £40,000
 - - £8,788
 - = £31,212 x 13.8%
 - = £4,307.26
 - x 2
 - = £8,614.51 - £4,000 employer allowance
 - = £4,614.51
- (b) Corporation Tax
- £100,000 - £80,000
 - - £4,614.51
 - x 19%
 - = £2,923.24

Model answer for Question 8

- (a)
- Keep electronic/digital records.
 - Use Making Tax Digital compatible software to transfer information to HMRC.
- (b)
- Annual return.
 - Cash accounting.
 - Flat rate scheme.
 - Margin schemes.
- (c)
- The debt must be more than 6 months overdue.
 - But less than 4 years 6 months.
 - The debt must have been written off by the trader/written off from the trader's accounts.

Model answer for Question 9

- (a)
- The transfer is a disposal for CGT purposes.
 - Jodie and Rohan can jointly claim holdover relief.
 - This means no CGT is payable at the time of the gift.
 - But the gain is transferred to Rohan.
 - Rohan will acquire the premises at Jodie's original base cost (acquisition cost to him is reduced by the amount of the held over gain increasing the amount of gain).
 - Rohan can use his CGT annual exempt amount to offset the gain.
 - Anything above this will be charged at 10% or 20% depending on his tax position.
 - May be able to use business asset disposal relief if he sells the asset after 2 years.
- (b)
- The gift is a PET.
 - This will fall outside of Jodie's estate after 7 years.
 - If death occurs within 7 years, it will form part of Jodie's estate.
 - She will receive 50% business relief.
 - Taper relief
 - will be available after 3 years.

Model answer for Question 10

- (a) *Candidates would have gained full marks for any three of the following:*
- Capability including incompetence and sickness or injury.
 - Misconduct.
 - Redundancy.
 - Continued employment that would break the law.
 - Another substantial reason/reorganisation of business or demand from major customer to dismiss an employee.
- (b) *Candidates would have gained full marks for any four of the following:*
- As Ruby has more than 1 year of service.
 - She can ask to see the reasons
 - for her dismissal in writing.
 - The employer must provide this within 14 days of her request.
 - Failure to provide written reasons can lead to a tribunal award of two weeks' pay.

Model answer for Question 11

- (a) *Candidates would have gained full marks for any four of the following:*
- Deaths.
 - Specified injuries.
 - Over seven-day injuries: where an employee or self-employed person has an accident.
 - Injuries to members of the public where they are taken to hospital.
 - Work-related diseases.
 - Dangerous occurrences: where something happens that does not result in a reportable injury but which could have done.
- (b) *Candidates would have gained full marks for any three of the following:*
- Date.
 - Details of incident.
 - Name of injured person.
 - Near misses that could have resulted in injury.

Model answer for Question 12

- (a)
- Where the key person is likely to be important to the business over a long period or contribute significantly to the company over their working life.
 - Where it is important to have flexibility for increasing cover annually or on special events.
 - Where the key person is the business owner or a shareholding director.
- (b)
- Stop paying premiums.
 - Surrender the policy.
 - Maintain the policy/continue to pay premiums.
 - Assign the policy to the key person for their own use.

Model answer for Question 13

- Because the business has been in existence for more than 2 years.
- Business Relief (BR) would be available on 100% of the shares.
- As a Cross Option Agreement is not a binding contract for sale;
- BR is available/preserved
- and the value of her shares would be payable to Keith free of any IHT.
- A buy & sell agreement is a binding contract for sale
- and would not qualify for BR.
- Meaning that her estate would be liable for IHT at 40%
- as her other assets already exceed the NRB.

Model answer for Question 14

- (a)
- Factoring allows businesses to raise finance.
 - Against their unpaid invoices
 - At a discount to the invoice.
- (b) *Candidates would have gained full marks for any three advantages and any three disadvantages from the following:*

Advantages

- Maximises cash flow.
- Cash available quickly/within 24 hours usually.
- Reduces time and cost of debt collection as the factor company is responsible for costs of debt collection.
- Factor's credit rating facilities can be used to vet new customers.
- Can minimise cost/risk of doing business overseas.

Disadvantages

- Factor deals with company's clients. Could have negative public relations (PR) effect on the company.
- Factor may wish to pre-approve customers causing business delays or may set credit limits and will not recover bad debts.
- Cost of factoring fees – reduces amount available to business.
- Ending arrangement with factoring company could be expensive and may cause cashflow issues.
- Factoring not available for all types of businesses.

Model answer for Question 15

- (a)
- Manuel - $\pounds 130,000 \times 5\% = \pounds 6,500$
 - Employer - $\pounds 130,000 \times 6\% = \pounds 7,800$
 - NICs saving = $\pounds 6,500 \times 13.8\% = \pounds 897$

 - Total pension contribution = $\pounds 15,197$
- (b)
- $\pounds 130,000 - \pounds 6,500 = \pounds 123,500$
 - $\pounds 123,500 - \pounds 100,000 = \pounds 23,500$
 - $\pounds 23,500 / 2 = \pounds 11,750$
 - $\pounds 12,500 - \pounds 11,750 = \pounds 750$ personal allowance
 - $\pounds 750 \times 0\%$
Taxable income = $\pounds 122,750$
 - $\pounds 37,500 \times 20\% = \pounds 7,500$
 - $\pounds 85,250 \times 40\% = \pounds 34,100$
 - Total income tax due = $\pounds 41,600$

October 2020 Examination - J03 The tax and legal aspects of business
Syllabus learning outcomes being examined

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

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

The Tax Tables which follow are applicable to the October 2020 and March 2021 examination.

INCOME TAX

RATES OF TAX	2019/2020	2020/2021
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%
MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †		
Married/civil partners 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 †		
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**		
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max		
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max		
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.		
** Investment above £1,000,000 must be in knowledge-intensive companies.		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee

Weekly

Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week

CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 183.00*	Nil
183.00 – 962.00	12%
Above 962.00	2%

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

Total earnings £ per week

CLASS 1 EMPLOYER CONTRIBUTIONS

Below 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)

Flat rate per week £3.05 where profits exceed £6,475 per annum.

Class 3 (voluntary)

Flat rate per week £15.30.

Class 4 (self-employed)

9% on profits between £9,500 - £50,000.

2% on profits above £50,000.

PENSIONS

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

LIFETIME ALLOWANCE CHARGE

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

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

ANNUAL ALLOWANCE

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

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

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

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

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

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

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

2019/2020 2020/2021

Transfers made on death

- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%

Transfers

- Lifetime transfers to and from certain trusts	20%	20%
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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:

- 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%

PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2019/2020	2020/2021	
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000	
Plant & machinery (reducing balance) per annum	18%	18%	
Patent rights & know-how (reducing balance) per annum	25%	25%	
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%	
Energy & water-efficient equipment	100%	100%	
Zero emission goods vehicles (new)	100%	100%	
Electric charging points	100%	100%	
Qualifying flat conversions, business premises & renovations	100%	100%	
 Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)			
CO ₂ emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	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 8th July 2020 and 31st March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.

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

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

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

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

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