



Chartered
Insurance
Institute

J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

March 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the June 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

The majority of candidates managed to do well on this question. The point most often missed was that of the health and safety risk assessment. However, some candidates did incorrectly mention such points such as informing HM Revenue & Customs, allowing for Capital Gains Tax and claiming allowances against tax.

Question 2

This question was poorly answered by many candidates.

In part (a) many candidates stated that the Partnership Act 1890 entitled partners to share equally in the capital and did not go any further. They did not refer to any implied or actual agreement and stated that Daryl would be entitled to £45,000, which would not be the case.

In part (b) many candidates were not specific as to the amount of interest that could be paid, and poorer candidates made no reference to the Partnership Act 1890 or to any agreement to pay interest on undrawn profits.

Some candidates misread this question part and assumed that Averil took out a loan to pay the partnership, rather than Averil loaning the partnership her own money.

Question 3

The better prepared candidates attempted this question, but there was a surprising number that did not provide an answer for this question.

In part (a) many candidates stated that all partners are liable but did not continue with an explanation. Those candidates who did continue with an explanation usually omitted to state that any wrongful acts must be committed in the ordinary course of partnership business.

Most candidates did well in part (b) although some candidates still stated that the partners, rather than the LLP, would be liable.

Question 4

This question was poorly answered by the majority of candidates. Most candidates could not state the length of the disqualification and missed most of the points in part (a). The points most often identified in this part was the failure in filing company documents and wrongful trading.

In part (b) the only point identified by most candidates was bankruptcy and only the very well-prepared candidates mentioned “doctor’s opinion”. Most candidates missed the very obvious point of resigning as a director.

In very many cases candidates repeated the answers for part a in part to be, clearly demonstrating a lack of knowledge in this area.

Question 5

This question was poorly answered by most candidates. Considering that the question was about business protection, most candidates gave answers that had nothing to do with business protection in part (a). Instead, candidates concentrated on the company's value, profits, cashflow and solvency rather than on determining levels of cover. Some candidates stated that the accounts would help to identify Key Persons but did not then go on to state that it would help to identify the level of cover for key persons.

In part (b) some candidates stated that the directors report was not required, but in general most candidates missed both points required for the answer. Many candidates gave answers related to small companies, which was not asked for.

In part (c) the question was quite clear that the documents required would be at Companies House. Many candidates, however, gave answers with documents which did not have to be lodged at Companies House. Hardly any candidate mentioned the PSC01/persons with significant control document and many candidates mentioned the Incorporation document, the Memorandum of Association, or the Articles of Association.

While the Memorandum of Association may give details of the initial shareholders of a business, over time, the shareholders and directors may change, so the information in the Memorandum may not be up to date. That is the reason for examining the PSC 01 document, as this has to be kept up to date.

Question 6

In part (a) it was clear that candidates did not know how alphabet shares can be created in a company. Some candidates confused the issue with share incentive schemes and many candidates gave answers that would have been suitable for part (b) within part (a).

In part (b) candidates generally mentioned that different share classes could give different rights to shareholders, but many did not state that if there was a single class of share, all shareholders must be treated equally.

Many candidates gave explanations of preference shares and included these as part of the alphabet shares class. Alphabet shares are usually derived from ordinary shares. The three core rights that attach to all ordinary shares usually relate to dividends, voting and a right to capital upon a sale or winding up of a company.

Question 7

This calculation question was done well by most of the candidates. The main errors were either not allowing for the loan that Enzo had guaranteed or incorrectly using the remainder of the basic rate band.

Question 8

This question was adequately attempted by most candidates. However, most candidates did not state that this was an option to buy shares at a set date in the future. Candidates did not, in general, specify the correct tax treatment, with most candidates stating that the money paid in was not subject to tax, rather than the employee not being subject to income tax or national insurance contribution on gains.

Question 9

The calculation in part (a) was done well by the majority of candidates.

Part (b) was also answered well by most candidates; however, some candidates were not specific in their answer as to the correct dates and years and gave general answers such as NICs will be payable at the end of January or July, without being specific as to which payments were being paid in January and July.

Question 10

This question was answered poorly by the majority of candidates, with many candidates not even attempting to provide an answer. Many candidates gave the legal conditions required under the Companies Act 2006 for a share buyback rather than answering the question which was for the proceeds to be treated as a capital gain in the hands of Jeremiah.

Question 11

Very few candidates could answer these question parts satisfactorily. In most cases it appeared as if candidates guessed whether an expense would be allowable, and where they gave the correct answer, they could not give a correct explanation. Many candidates assumed that the dwelling in part (c) was also a furnished holiday let as in part (a) disregarding the fact that it was let to a young family.

Question 12

Part (a) was satisfactorily answered by the majority of candidates.

While part (b) was well answered by most candidates, quite a number of candidates stated that Ulla would be able to claim unfair dismissal and would be entitled to redundancy pay, this shows a surprising lack of knowledge especially as this topic has been examined previously and will be in past papers.

Part (c) was adequately answered by most candidates although only the better prepared candidates mentioned that contracts could be changed for economic, technical, or organisational reasons.

Question 13

This question was not well answered with many candidates not attempting an answer for part (b) and in some cases with a few candidates not supplying an answer at all.

Candidates gave unnecessarily complicated an in-depth answers to part (a) of this question explaining how a market valuation would be carried out using profits, turnover, assets et cetera, rather than simply stating that a valuation would need to be carried out by an independent valuer.

The level of complexity required in an answer can usually be determined from the number of marks on offer, and the marks available for part (a) did not require such an in-depth answer.

No candidate mentioned that the valuation should take place at the time that the share purchase agreement is put in place.

Very few candidates mentioned that the value of the company determined by the valuer divided by the number of shares would lead to the value of the shareholding of each shareholder. Some candidates even stated that the value of the shares would lead to the value of the company, when in fact we are trying to determine the value of the shares.

Part (b) was also not well answered although most candidates did mention that the valuation should be reviewed regularly every three years. Some candidates diverged from the question and talked about the process of setting up a share purchase arrangement and the benefits of such an arrangement and on tax consequences, which was not required.

Question 14

Part (a) of this question was answered adequately by most candidates. Some candidates, however, talked about the process of setting up the cover rather than answering the question that was asked.

It was good to see that many candidates have now grasped the point that cover for loans should be separate from key person cover to protect profits, to protect tax relief. This is a marked improvement on previous papers.

In part (b), candidates mentioned most of the relevant points the examiners expected. The point most often missed was that of savings that could be made if the replacement was, for instance, on a lower salary.

Question 15

Parts (a) and (b) were well answered by the majority of candidates.

Candidates struggled with part (c) and most candidates only managed to give two or three of the relevant points expected by the examiners. Very few candidates mentioned unregistered pension schemes and candidates referred to 'the pension provider' rather than the scheme trustees.

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. Brendan is starting a new marketing business. He has turned his spare bedroom into an office, and he intends running his business from here. Brendan has £50,000 outstanding on his mortgage.

Explain the actions Brendan must take regarding using his home as a business premises. (6)

2. Averil and Daryl are setting up in partnership together under the Partnership Act 1890 rules. To get their business started, Averil is contributing £50,000 and Daryl is contributing £40,000. In addition, Averil will be loaning the partnership an additional sum of £25,000.
 - (a) Explain briefly how much capital Daryl would receive should he decide to leave the partnership. (4)
 - (b) Explain briefly the rules on paying interest on the loan to the partnership as well as on any undrawn profits. (4)

3. A partner in a law firm has acted negligently whilst dealing with a client.

Explain briefly the tort liability if they were working within:
 - (a) an ordinary partnership; (3)
 - (b) a limited liability partnership. (2)

4.
 - (a) State **four** situations in which a company director can be automatically disqualified for general misconduct, and state the statutory length of disqualification. (5)
 - (b) State **four** additional reasons which may lead to a director's automatic disqualification. (4)

5. You are advising a corporate client on business protection. Their accounts and statutory documents are filed at Companies House.
- (a) Explain briefly **three** reasons why being able to interpret company accounts is a valuable skill for an adviser when advising on business protection. (3)
- (b) State **two** statutory differences between filing accounts for a micro entity and a small company. (2)
- (c) State which **two** documents at Companies House you would need to examine to determine a company's directors, their approximate shareholdings, and the value of their shareholdings. (2)
6. (a) State how alphabet shares can be created by a company. (3)
- (b) Explain why a company might issue different classes of share. (6)
7. Heiko is an electrician operating as a sole trader. When he set up in business Heiko took out a loan and his friend Enzo acted as guarantor. Heiko has defaulted on the loan and Enzo has been called upon for the sum of £10,000.
- Enzo has self-employed taxable earnings (after deducting his personal allowance), of £35,500 and realised a gain of £30,000 from the recent disposal of an investment portfolio.
- Calculate, **showing all your workings**, Enzo's Capital Gains Tax liability for the 2020/2021 tax year. (8)
8. Explain the benefits and tax advantages for an employee of buying company shares under a Save As You Earn (SAYE) scheme. (10)
9. Kirsty is a self-employed florist. In the tax year 2020/2021 she made a profit of £39,000.
- (a) Calculate, **showing all your workings**, Kirsty's liability to National Insurance contributions (NICs). (5)
- (b) Explain when Kirsty will need to pay her NICs. (6)
10. Jeremiah has been a 15% shareholder in a private limited company for six years. He wishes to leave the company and sell his shares, but none of the other shareholders wish to buy them.
- State the conditions that must apply for the purchase to be treated as a capital gain for Jeremiah if the company buys back the shares. (7)

- 11.** Ania owns and manages a property portfolio. It includes three cottages in Cornwall which qualify as furnished holiday lettings, a block of flats rented furnished to students and a detached house let furnished to a young family.

State, **giving reasons**, whether Ania can claim the following expenditure as capital allowances.

- (a)** Fitting new security systems in all three Cornish cottages. **(2)**
- (b)** The cost of replacing carpets in one of the student flats. **(2)**
- (c)** Replacing a dishwasher in the detached property. **(2)**

- 12.** MotiCare Ltd is in the process of being acquired by Goldier Years Ltd. Under the proposal, the employees of MotiCare Ltd will automatically transfer to Goldier Years Ltd on their existing terms and conditions.

Ulla has worked for MotiCare Ltd for the past 15 years. She is concerned about the acquisition and transfer to Goldier Years Ltd.

- (a)** List the information, under the Transfer of Undertakings (Protection of Employment) Regulations 2006, which must be provided by the existing employer to the new employer at least 28 days before the transfer takes place. **(5)**
- (b)** Explain the consequences for Ulla if she refuses to have her contract transferred to Goldier Years Ltd. **(5)**
- (c)** Explain briefly the extent to which Goldier Years Ltd can make changes to the MotiCare Ltd employees' existing contracts following the transfer. **(3)**

- 13.** Richard, aged 46 and Robyn aged 48, are the directors of a private limited company. As part of their new share protection arrangements, they wish to value the company shares.

- (a)** Explain briefly how a market valuation would be carried out to determine their share value. **(4)**
- (b)** Explain how a fixed value valuation should be carried out to ensure there are no adverse tax implications for Richard and Robyn. **(5)**

- 14.** Lucia is a key profit generator in a small business; she is the reason why a bank authorised a loan to the business of £50,000.
- (a)** Explain, **giving reasons**, the protection cover that you would recommend to the business to ensure tax relief on premiums is preserved. **(5)**
 - (b)** List **six** factors a company may need to take into account when determining the sum insured on a key person policy. **(6)**
- 15.** Maggie has recently died aged 76. She was taking her pension benefits via flexi-access drawdown. Maggie has no children and had nominated her friend Clara to receive the benefits on her death.
- (a)** Outline how the pension benefits will be taxed if Clara continues in flexi-access drawdown. **(3)**
 - (b)** State how the pension benefits will be taxed if Clara dies, aged 69, leaving the fund to her daughter Laurie. **(3)**
 - (c)** Describe the circumstances when pension benefits may be subject to Inheritance Tax. **(5)**

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

- He should inform his local council and may have to register for business rates.
- He should inform his mortgage lender that his home will be used for business purposes.
- Notify his home insurer as his home insurance may need to be altered to cover business activity
- He must undertake a health and safety risk assessment.

Model answer for Question 2

- (a)
- The Partnership Act (PA) 1890 states that 'all partners are entitled to share equally in the capital'.
 - On the face of it this means that Daryl could be entitled to £45,000.
 - However they have contributed different amounts so there is an implied agreement they withdraw capital unequally.
 - In the absence of any contrary agreement Daryl can withdraw £40,000 if he decided to leave.
- (b)
- Interest at 5% can be paid unless there is an agreement to the contrary
 - Under the Partnership Act (PA) 1890 interest is not payable on share of profits left in the business.
 - The partners could agree that interest will be paid on undrawn profits if they want to.

Model answer for Question 3

- (a)
- The partners are all liable for wrongful acts committed by any of the partners
 - carried out in the ordinary course of the partnership business.
 - as they have joint and several liability
- (b)
- The firm may be liable for wrongful acts committed by one of the partners
 - but the other partners are not individually liable.

Model answer for Question 4

- (a)
- Persistent default in filing company documents.
 - Director has been found guilty of a criminal offence with regard to running a company.
 - Director is considered unfit to hold the office of director, for example, failure to keep accounting records.
 - Director has been found liable for wrongful trading.
 - Statutory length of disqualification if from 2 to 15 years.
- (b)
- Director becomes bankrupt.
 - A doctor gives a written opinion stating that the director is physically or mentally incapable of acting as a director for 3 months or more.
 - Director is subject to a court order due to their mental health that prevents them carrying out the duties of a director.
 - He resigns as a director.

Model answer for Question 5

- (a)
- Helps with identifying cover/level of cover for key persons.
 - Identifying the level of shareholder protection required.
 - Identifying whether loan protection is needed and the level of loan protection required.
- (b)
- A micro entity does not require a directors' report or notes to the accounts.
- (c)
- PSC01/Persons with significant control document for shareholding as shareholdings could have changed since the company was set up.
 - Balance sheet to indicate company value hence approximate shareholder value.

Model answer for Question 6

- (a)
- They can be created on incorporation as part of the articles of association of the company
 - or as a result of special resolutions passed by the company.
- (b) *Candidates would have gained full marks for any six of the following:*
- If a company has a single class of share, dividends
 - and voting rights are divided equally between all the shareholders.
 - With Alphabet shares the holders might receive dividends at different rates
 - and times e.g. every 6 months or 12 months.
 - Different classes of share can also allow different voting rights to be assigned to different types of shareholder.
 - Keeping control of the company with a particular class of shareholder
 - They can also allow for different distribution/capital rights on a wind up.

Model answer for Question 7

Enzo has taxable earnings (the personal allowance has already been deducted) of £35,500 so he has £2,000 left of his basic rate band. (£37,500 - £35,500)

Gain = £30,000

- Less loss relief of £10,000
- Gain = £20,000
- Less CGT annual exempt amount of £12,300
- Net gain = £7,700
- £2,000
- x 10% = £200
- £5,700 (ft)
- x 20% = £1,140
- Total - £1,340 (ft)

Model answer for Question 8

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

- Employees have an option to buy company shares
- at a set date in the future
- at a discount, maximum 20% or for no less than 80% of the share market value at the time the scheme is set up.
- Employees save monthly from £5 to £500
- into a Save As You Earn (SAYE) approved contract with a bank or building society.
- If the market value is lower than the option/discounted price,
- employees do not have to buy shares and can take back their savings
- plus any interest or bonuses paid.
- Employees who leave within three years of the Save As You Earn (SAYE) scheme start date can get their money back.
- Option can be exercised on death/disability/retirement/redundancy.
- The interest and bonuses added are tax-free.
- The employee is not subject to income tax or National Insurance Contributions (NIC) on gains.

Model answer for Question 9

- (a)
- Class 2 National Insurance Contributions (NICs) = £3.05p per week = £158.60 per year
 - Class 4 National Insurance Contributions (NICs) = £39,000 - £9,500
 - = £29,500 x 9% =
 - £2,655
 - Total = £2,813.60
- (b)
- Kirsty will pay class 2 National Insurance Contributions (NICs)
 - on 31st January following the tax year.
 - She will pay class 4 National Insurance Contributions (NICs)
 - with her payments on account/31st January in the tax year
 - 31st July in the same calendar year (after end of tax year).
 - With a balancing payment on 31st January following the tax year.

Model answer for Question 10

- Must be a trading unquoted company.
- Purchase must benefit the trade of the company.
- Jeremiah must be UK resident.
- It must not be done to avoid tax.
- Must have owned the shares for minimum 5 years before sale
- After the sale Jeremiah must not be connected with the company.

Model answer for Question 11

- (a)
- The cost of security systems can be claimed as a capital allowance
 - because all three properties meet the conditions of a furnished holiday letting.
- (b)
- The cost of carpets cannot be claimed as a capital allowance
 - because the carpets are in an individual flat, not in the communal area.
- (c)
- The cost of the dishwasher cannot be claimed as a capital allowance
 - as residential dwellings do not qualify/as it is a residential dwelling.

Model answer for Question 12

- (a)
- Names/dates of birth of employees.
 - Employees' contracts of employment.
 - Details of grievances/formal disciplinary actions from the last two years.
 - Details of any legal action taken in the last two years or potential legal action where there are reasonable grounds to believe such action may occur.
 - Details of any collective agreements.
- (b)
- Ulla would be regarded as having resigned
 - with effect from the transfer date.
 - She would not be treated as being dismissed and cannot claim unfair dismissal.
 - She would have no right to redundancy pay.
 - Goldier Years Ltd/new employer would not be obliged to employ her.
- (c)
- Changes to the contract are only possible if Goldier Years Ltd can show that the change is for economic/technical/organisational reasons.
 - The employee agrees to the change.
 - The contract wording permits the change.

Model answer for Question 13

- (a)
- This is assessed at the time of putting a share purchase arrangement in place
 - by an independent valuer.
 - Value of company
 - divided by number of shares owned by each leads to the proportion of company owned.
- (b)
- Initial price should be set at current market value.
 - Valuation should last for a maximum 3 years and must be revalued or reviewed every 3 years.
 - Owners are of similar age and health.
 - Owners must not be connected persons.
 - If revaluation missed the valuation defaults to current market value.

Model answer for Question 14

- (a)
- Separate loan protection cover and key person cover.
 - As loan protection does not qualify for tax relief on premiums.
 - Key person cover to protect profits,
 - less than 5 years duration/annual/short term
 - and relationship must be employer/employee only.
- (b) *Candidates would have gained full marks for any six factors from the following:*
- Present cash position.
 - Past profits and projections for the next year.
 - Possible effect on profits if the key person died or became incapacitated.
 - The cost of recruiting and introducing a replacement.
 - The time it would take for a replacement to settle in and begin contributing to profits.
 - Potential loss if key person was working on a special project.
 - Any loans that might be recalled on key person's death.
 - Any savings that may be made (if replacement has a lower salary).

Model answer for Question 15

- (a)
- As Maggie was over age 75 when she died
 - any withdrawals Clara makes will be taxed on her
 - as income at her marginal rate.
- (b)
- As Clara is aged below 75 when she dies
 - the benefits will be tax free for Laurie as successor.
- (c)
- Inheritance Tax (IHT) will apply to lump sum death benefits where
 - the pension scheme trustees
 - have no discretion as to the destination of benefits
 - IHT will apply to lump sums payable from non-registered pension schemes.
 - Where there is discretion IHT may apply if lump sum death benefits are not distributed within 2 years of death.
 - IHT may apply if pension are transferred in ill health
 - and the transferee dies within 2 years of the transfer HM Revenue & Customs may treat it as a transfer of value.

March 2021 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.	1. Understand the main legal forms of business in the UK.
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.	3. Understand the main internal and external options for financing a business.
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.	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.
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 March and June 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% †	£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.*

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%
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	10%	10%
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Business Asset Disposal Relief* – Gains taxed at:

Lifetime limit	£10,000,000	£1,000,000
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**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:

- 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%
	first year	reducing balance
		6%
		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%