



Chartered
Insurance
Institute

J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

October 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2018 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 or from Customer Service. 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 purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge/.

Know the layout of the tax tables

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

Know the structure of the examination

- Assessment is by means of a 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. For further information contact Customer Service.

In the examination

The following will help:

Spending your time in accordance with the allocation of marks:

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

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

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

Tackling questions

Tackle the 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.

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

Calculators

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

EXAMINERS' COMMENTS

Candidates' overall performance:

There was a wide variance of marks in this paper. As with the last sitting, the question that posed the most difficulty was over insolvency. Candidates knowledge and application of it was, in general, not of a sufficient level to score high marks in this area.

The question on application of financial ratios also seemed to cause issues generally.

It was pleasing that candidates displayed good knowledge in the question on business finance that has not been previously tested.

The calculation question on redundancy and Income Tax also seemed to cause problems with some candidates being unsure how the payments are taxed.

Overall the performance was in the main good.

It is however disappointing that again the question regarding insolvency was not well answered.

Question 1

Candidates performed well on this question with most achieving high marks.

Question 2

Not many candidates scored well on this question. Many did not know the process, or the steps involved. This area has consistently caused candidates problems.

Question 3

In general, the question was well answered. The common area missed is that the business must not be subject to a bonding contract of sale.

Question 4

Part (a) was well answered with several candidates achieving maximum marks. There was a wide variance in answers for part (b). The better prepared candidates scored maximum marks. As previously mentioned several candidates appeared to not know how redundancy payments are taxed.

Question 5

Part (a) was, in general, not well answered. Few candidates identified the taxation areas in sufficient details to score high marks.

Parts (b) and (c) were well answered with most candidates achieving a high percentage of the marks available.

Question 6

For an area that has not been tested before it was pleasing to see that both parts (a) and (b) were well answered with high marks, on average, being achieved.

Question 7

Part (a) was not particularly well answered. Candidates did not display a clear knowledge of why financial ratios are used, and what they are used to compare. Part (b) was in general well answered.

Question 8

Parts (a) and (b) were well answered with nearly all candidates achieving maximum marks. Part (c) showed clearly if candidates had knowledge of the area or not. Better prepared candidates scored high marks whereas the less well prepared struggled. There was a wide variance in answers for part (c).

Question 9

Both parts (a) and (b) were well answered. The consistent point missed was preference shares having priority over ordinary shares on wind up.

Question 10

Part (a) was well answered with nearly all candidates achieving full marks. Part (b) seemed to cause several candidates problems, with a wide variance of answers. In part (c) a high proportion of candidates did not give sufficient detail to score maximum marks.

Question 11

This question was well answered. This area has been tested several times previously and this shows that candidates are preparing themselves well for the examination.

Question 12

The better prepared candidates scored well in both parts (a) and (b).

Question 13

In part (a), while most candidates could identify the type of policy; few candidates could explain in sufficient detail the provisions, in order to achieve high marks. Most candidates struggled in part (b) also showing a lack of knowledge in this area in general.

Question 14

This question was answered very poorly with candidates displaying a very wide variance of answers.

Question 15

Both parts (a) and (b) were relatively well answered, candidates displayed a pleasing knowledge in the area of automatic enrolment.

THE CHARTERED INSURANCE INSTITUTE



J03

Diploma in Financial Planning

Unit J03 – The tax and legal aspects of business

October 2017 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise in the question, and should be answered accordingly.

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

Instructions

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

Unit 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.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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

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. Paul and Bilal are partners in a decorating business, BP Painters and Decorators. There is no formal partnership agreement in place. They no longer speak to each other and Bilal believes that Paul is acting dishonestly.
 - (a) Describe briefly the action Bilal can take to dissolve the partnership. (2)
 - (b) Explain how the partnership assets would be distributed on dissolution of the partnership. (4)

2. Describe the process that must be undertaken by a limited company, that is insolvent or contingently insolvent, to enter into a company voluntary arrangement (CVA). (8)

3. List the qualifying criteria that must be met for 100% Inheritance Tax relief to apply via Business relief. (5)

4. Loren is employed by a small company. Her annual salary is £40,000 per annum. The business is going through financial difficulty and is looking to reduce staff. Loren has been offered redundancy. The terms of the offer are a statutory payment of £4,500 and an ex-gratia payment of £37,000.
 - (a) State the conditions that must be met for the company to make Loren redundant. (2)
 - (b) Calculate, **showing all your workings**, the income tax liability due on Loren's redundancy offer (assume a full year's salary has been paid). (8)

5. (a) Outline the tax related responsibilities of a sole trader. (6)
- (b) State the key risks to which a sole trader is exposed. (3)
- (c) Identify how a sole trader could mitigate the key risks to which they are exposed. (2)
6. (a) State **three** advantages of invoice factoring to a business. (3)
- (b) State **four** disadvantages of invoice factoring to a business. (4)
7. (a) Explain the purpose of using financial ratios. (5)
- (b) Explain how the quick ratio differs from the working capital ratio in relation to cash flow. (4)
8. Oliver is the sole director and employee of a limited company. The company is set to make a gross profit for the current trading year of £400,000. During this trading period he has drawn a total salary of £44,000 and no other taxable benefits have been paid to Oliver.
- Oliver is considering making a pension contribution from the business as well as a personal contribution. He has a stakeholder pension but no contributions have been paid for over ten years.
- (a) Calculate, **showing all your workings**, the maximum pension contribution Oliver can make from the company and receive tax relief. (4)
- (b) State the criteria that must be met for the business contribution to receive tax relief. (2)
- (c) State the conditions that would need to be met should a loan back be made to the company, if Oliver were to establish a small self-administered scheme (SSAS). (7)

9. (a) State the advantages a preference share has over an ordinary share to an investor. (4)
- (b) State **three** reasons why a company may issue 'alphabet' shares. (3)
10. Moira, aged 42, has employment income of £115,000. She is considering making a contribution to her personal pension and understands that this could be efficient for her in terms of taxation.
- (a) Calculate, **showing all your workings**, Moira's current personal allowance, assuming no pension contributions have been made. (3)
- (b) Moira's Income Tax liability, without a pension contribution, is £37,700.
- Calculate, **showing all your workings**, the Income Tax saving for Moira if she made a pension contribution of £12,000 net. (7)
- (c) Explain how a personal pension contribution differs from salary sacrifice in terms of reducing National Insurance contributions. (3)
11. (a) State the criteria that would entitle a worker to make a formal request for flexible working arrangements. (2)
- (b) List **five** examples of a flexible working arrangement. (5)
12. (a) State **four** roles that might be considered for key person insurance within a business to protect against loss of profits. (4)
- (b) State the conditions necessary for premiums paid on a key person insurance policy to be treated as an allowable deduction for Corporation Tax purposes. (3)

- 13.** Freddie and Rupert are equal shareholder directors of a limited company. If either of them were to die, they want to ensure that:
- The surviving director can buy the deceased director's shares.
 - The deceased director's family is fairly compensated.
 - Any arrangement maintains Business Relief as Freddie is not married.
- (a) Recommend the most suitable form of shareholder protection agreement and describe the key provisions it should contain. **(8)**
- (b) They would also like similar protection in case of serious illness.
- Explain how a critical illness policy should be set up for shareholder protection. **(3)**
- 14.** Rosa has been given the opportunity to buy into a close company. To fund the purchase of the shares, she will need to take out a bank loan.
- (a) State the **two** main qualifying criteria for a close company. **(2)**
- (b) Explain to Rosa the conditions that must be met for the loan interest to qualify for Income Tax relief. **(4)**
- 15.** Neil is the director of a small printing company with six employees. He has been notified that his staging date for auto-enrolment purposes is November 2017.
- (a) Explain to Neil his duties under automatic enrolment. **(7)**
- (b) State Neil's responsibilities to entitled workers. **(3)**

NOTE ON MODEL ANSWERS

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

Model answer for Question 1

- (a)
- Can apply to Court for dissolution of partnership.
 - He can give notice orally or in writing to dissolve the partnership.
- (b) *Candidates would have gained full marks for any four of the following:*
- Partnership property is applied to pay off debts and liabilities.
 - Including the costs of dissolution.
 - The surplus is then used to pay out any revenue due to the partners.
 - And then any partnership capital.
 - Any residual funds are divided between the partners in profit share percentages.

Model answer for Question 2

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

- All the directors must agree.
- Passed via special or extraordinary resolution.
- They must appoint an insolvency practitioner.
- Who will work out any arrangement?
- Based on the amount of debt and a schedule of payments.
- The insolvency practitioner will write to all the creditors inviting them to vote.
- It must be approved by creditors who are owed at least 75% of the debt.
- If approved Scheme becomes binding on anyone who had notice to attend and vote.
- Creditors can no longer sue/seek winding up/Moratorium in place.
- The process is administered by the insolvency practitioner.

Model answer for Question 3

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

- Interest in unincorporated business.
- Qualifying trade.
- Shareholdings in unquoted or Alternative Investment Market listed.
- Must have been held for two years;
- and be a trading company.
- Not subject to a binding contract for sale at time of death.

Model answer for Question 4

- (a)
 - Reducing/diminishing need for work that Loren carries out.
 - Her job must disappear/cannot be replaced.

(b) Total taxable earnings = £40,000

Taxable

£11,500	-	0%
£28,500	-	20%

Remaining basic rate band

£33,500 - £28,500
= £5,000

Redundancy Package

£4,500 + £37,000 = £41,500

£30,000 tax free

£11,500 taxed as:

£5,000 x 20% = £1,000

£6,500 x 40% = £2,600

Total tax due (£1,000 + £2,600) = £3,600

Model answer for Question 5

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

- Keep records of business sales and expenses.
- Send a self-assessment tax return every year.
- Pay Income Tax on profits;
- and Class 2 and Class 4 National Insurance contributions (NICs);
- must register with HM Revenue & Customs;
- by 5th October of 2nd year of business.
- Register for VAT if applicable.

(b)

- Unlimited liability for debts.
- Qualify for fewer social security benefits than employed.
- May have difficulties in raising finance/limited opportunity for business growth as a result.

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

- Take out professional indemnity insurance.
- Take out public liability insurance.
- Take out personal protection insurance.

Model answer for Question 6

- (a) *Candidates would have gained full marks for any three of the following:*
- Maximises/improves cash flow.
 - Reduces time/cost of chasing debts.
 - Access to factoring companies credit services.
 - Efficient way of doing business overseas/international trading.
- (b) *Candidates would have gained full marks for any four of the following:*
- Bad service from factor could lose clients as they deal directly with clients.
 - Imposition of credit limits from factoring company on clients.
 - Minimum invoice amount.
 - Cost of factoring/fees will reduce profits.
 - Ending factoring agreement can be complicated and expensive.

Model answer for Question 7

- (a) *Candidates would have gained full marks for any five of the following:*
- General to interpret/make sense of financial statements.
 - Areas of concern/strength analyse relationships between figures/highlight important information.
 - Understand current financial performance of a business.
 - Historical used to analyse performance trends over time within a company.
 - Versus sector/competitor compare and contrast performance between related companies.
 - Investor help with investor decisions.
- (b)
- The working capital ratio includes stock.
 - Which may be difficult to realise.
 - The quick ratio does not include stock/only more liquid assets.
 - The quick ratio is therefore a better indicator of a company's ability to cover its debts at short notice.

Model answer for Question 8

- (a)
- Full allowance;
 - for current year.
 - Full allowance for preceding 3 tax years;
 - Total **£160,000**
-
- Tax year 2017/18 £40,000
 - Tax year 2016/17 £40,000
 - Tax year 2015/16 £40,000
 - Tax year 2014/15 £40,000
 - Total **£160,000**

- (b) *Candidates would have gained full marks for any two of the following:*
- Meets the wholly and exclusively test.
 - Meets the normal rules for deductions of Income and Corporation Taxes Act 1988.
 - Appropriate for role in business/not excessive.
- (c) *Candidates would have gained full marks for any seven of the following:*
- Loan must be secured as a first charge;
 - against assets of an equal value of loan plus interest.
 - Maximum loan is 50% of the net small self-administered scheme (SSAS) value.
 - Term of the loan is no more than 5 years.
 - Interest charged at 1.0% above average base rate of six main clearing banks.
 - Loan to be repaid in equal instalments of capital and interest.
 - Charge needs to be registered at Companies House.
 - Repayments need to be made at least annually.
 - Can be used for any business reason.
 - Term of the loan is no more than five years.

Model answer for Question 9

- (a)
- Has a fixed/known dividend.
 - Right to receive dividend ahead of ordinary shares.
 - Will receive capital ahead of ordinary shares on wind up.
 - Unpaid dividends are cumulative.
- (b)
- To give different voting rights to shareholders.
 - To create different dividend rights.
 - Different rights on wind up/capital.

Model answer for Question 10

(a) No pension contribution

- £115,000 - £100,000 = £15,000 above £100,000 threshold for loss of Personal allowance (PA).
- Loss of PA at a rate of £2 for every £1 over £100,000 = £15,000/2 = £7,500.
- Therefore, PA becomes £11,500 - £7,500 = £4,000.

(b) With pension contribution

- Gross up the pension contribution = £12,000/0.8 = £15,000 gross contribution.
- Adjusted Net Income therefore £115,000 - £15,000 = £100,000. Therefore, no loss of PA.
- £0 to £11,500 @ 0% = £0
- Basic rate extends by gross pension contribution therefore becomes £33,500 + £15,000 = £48,500
- £48,500 @ 20% = £9,700
- £55,000 @ 40% = £22,000
- Total Income Tax = £31,700
- Income Tax saving is therefore £9,000
- (£37,700 - £31,700 = £6,000 + £3,000 (relief at source) from pension contribution as paid net).

- (c)**
- Personal contributions do not save National Insurance contributions.
 - By opting for salary sacrifice, there would be a 2% saving for Moira;
 - and a 13.8% saving for her employer.

Model answer for Question 11

- (a)**
- Must be an employee.
 - With at least 26 week's continuous service.

(b) *Candidates would have gained full marks for any five of the following:*

- Job sharing.
- Working from home.
- Working part-time.
- Flexible hours/term time working.
- Annualised hours/compressed hours.
- Staggered hours.

Model answer for Question 12

- (a) *Candidates would have gained full marks for any four of the following:*
- Those key to the management of the business - Executive Directors.
 - Those with strong relationships with customers – Sales.
 - Those who give confidence to investors and finance sources - Finance Director.
 - Those key in sourcing materials and resources - Purchasing Manager.
 - Those who ensure products are delivered - Production Manager.
 - Those who control/understand the intellectual property - Design Manager.
- (b)
- Sole relationship of employer and employee.
 - Sole purpose is to replace lost profits.
 - Annual or short-term policy only.
- Class 4 National Insurance contributions = $(£43,000 - £8,060) \times 9\% = £3,144.60$
 - $£90,000 - £43,000 = £47,000 \times 2\% = £940$
 - Total class 4 National Insurance contributions are $£3,144.60 + £940 = £4,084.60$

(a) **Model answer for Question 13**

- Cross option agreement.
 - An option for either party to exercise a right to buy/sell.
 - Which once exercised is binding on the other party.
 - Meaning the surviving shareholder can force a sale.
 - As this is a commercial arrangement Business Relief (BR) is maintained.
 - Therefore, Freddie's beneficiaries should not pay Inheritance Tax on the business assets.
 - An agreed method of valuation.
 - To ensure the family obtain a fair value.
- (b) *Candidates would have gained full marks for any three of the following:*
- Set-up under a business trust.
 - Single option agreement.
 - So that the ill director is not forced to sell.
 - Suitable sum assured/equal to business value.

Model answer for Question 14

- (a)
- Five or fewer shareholders.
 - Or unlimited number of shareholder directors.
- (b)
- Used to acquire ordinary shares.
 - Where the individual is involved in management.
 - Owns at least 5% of ordinary share capital.
 - Either personally or with associates.

Model answer for Question 15

- (a)**
- Consultation process.
 - Choose a provider.
 - Segment the workforce.
 - Automatically enrol eligible employees.
 - Every three years re-enrol the opt outs.
 - Deduct contributions and pass to the pension provider.
 - Notify the pension regulator that the scheme is in place.
- (b)**
- Has to inform them.
 - Have to be enrolled if request it.
 - No obligation to contribute.

October 2017 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.	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.
4.	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.
	5. Understand the impact of employment law on business
5.	1. Understand the main legal forms of business in the UK.
6.	2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business.
	3. Understand the main internal and external options for financing a business.
7.	2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business.
8.	7. Understand the role of pensions in a business environment.
9.	3. Understand the main internal and external options for financing a business.
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.	6. Understand the main principles of business protection insurance.
13.	6. Understand the main principles of business protection insurance.
14.	3. Understand the main internal and external options for financing a business.
15.	7. Understand the role of pensions in a business environment.

All questions in the April 2018 paper will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the April 2018 examinations.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

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

Dividend Allowance		£5,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances †	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee Weekly

Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 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 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)
Class 3 (voluntary)
Class 4 (self-employed)

Flat rate per week £2.85 where profits exceed £6,025 per annum.
 Flat rate per week £14.25.
 9% on profits between £8,164 - £45,000.
 2% on profits above £45,000.

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

LIFETIME ALLOWANCE CHARGE

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

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

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

*tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£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	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS 2016/2017 2017/2018

Transfers made on death after 5 April 2015

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

Transfers made after 5 April 2015

- Lifetime transfers to and from certain trusts	20%	20%
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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*	£100,000	£100,000
- UK-registered charities	No limit	No limit

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

Lifetime transfers

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

Wedding/civil partnership gifts by

- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

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

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

CAR BENEFIT FOR EMPLOYEES

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

For 2017/2018:

- The percentage charge is 9% of the car's list price for CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO₂ emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates	2017/2018 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

2016/2017 2017/2018

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%
Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)		
CO ₂ emissions of g/km:	75 or less*	76-130
Capital allowance:	100%	131 or more
	first year	18%
		8%
	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98
<i>Only applicable where spouse or civil partner died on or after 6 April 2007*</i>			

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

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

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

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

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

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