



Chartered  
Insurance  
Institute

# J03

## Diploma in Financial Planning

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

April 2018 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. Rob, aged 60, operated as a sole trader before being declared bankrupt after his business failed. His main asset is an uncrystallised self-invested personal pension (SIPP) valued at £600,000. He made a gross contribution of £120,000 into the SIPP shortly before the bankruptcy order. Ten years ago he set-up a whole of life assurance plan written under a discretionary trust at outset for the benefit of his two adult children.
  - (a) Explain how the SIPP and the recent contribution would be treated in his bankruptcy. (5)
  - (b) Explain how the life assurance policy may be affected by the bankruptcy order. (4)
  
2. Billy, Paul and Adedayo are partners in a legal practice. Billy has also recently established a new estate agency partnership with his brother.

Paul and Adedayo are concerned as to how Billy's new partnership will affect their existing business. They are aware that the partners owe each other a duty of good faith under the Partnership Act 1890.

  - (a) Summarise Billy's obligations regarding his accountability to Paul and Adedayo. (3)
  - (b) Explain how Billy's new partnership is likely to be treated under the 'competing business' good faith duty. (5)
  
3. Explain the differences between ordinary shares and debentures to an investor with regards to:
  - (a) Returns. (5)
  - (b) Voting rights. (2)
  - (c) Capital on wind-up. (3)

4. A company is planning to buy a machine to use in the business. The machine will cost £25,000. The expected annual revenue from use of the machine is £4,000. The company expects to recoup initial expenditure within five years.
- (a) Calculate, **showing all your workings**, the payback period. (2)
- (b) State, giving a reason, whether the purchase is likely to go ahead. (2)
5. State and explain briefly the **three** main types of crowdfunding. (6)
6. Rahul set-up his business as a sole trader on 1 September 2016 and makes up his accounts to 31 August. In his first year of business his profits were £48,000 and in the second year of business they were £49,000.
- (a) Calculate, **showing all your workings**, the income tax due on his profits in the first two tax years of trading. (Assume that Rahul has no other income). (9)
- (b) Explain the implications for Rahul had he chosen, at inception of the business, an accounting year end of the 5 April to align with the tax year rather than the 31 August. (4)
7. State the conditions that must be fulfilled for a Save As You Earn (SAYE) scheme contract to receive preferential tax treatment. (8)
8. Karim works as an employee for a pension transfer company. In 2017/18 his salary will be £50,000. He also has a company car which has a taxable benefit value of £10,000.
- (a) Calculate, **showing all your workings**, Karim's total national insurance contributions for the tax year 2017/18. (6)
- (b) Calculate, **showing all your workings**, Karim's employer's total national insurance contributions for the tax year 2017/18. (5)

QUESTIONS CONTINUE OVER THE PAGE

9. Sarah is aged 40, self-employed and has a self-invested personal pension (SIPP). For the past five years she has been making a gross annual contribution of £20,000. She makes this contribution on the 5 September which is the end of her accounting year. In September 2018 she wants to contribute the maximum amount she is able to. **Assume that in the 2018/19 tax year she has relevant earnings of £80,000.**
- Explain in detail to Sarah how much she can contribute in September 2018 to obtain maximum tax relief. (Assume she has never been subject to the tapered annual allowance). *No calculation is required.* (10)
10. Phil is a sole trader and runs a translation business from a small office he bought in 2014. He is now expanding the business and is selling his existing office to buy bigger premises.
- Explain to Phil the criteria for him to make a successful claim for business asset rollover relief. (5)
11. (a) List the **four** types of discrimination as identified in the Equality Act 2010. (4)
- (b) State **four** examples of exceptions to the two year continuous service rule for unfair dismissal. (4)
12. (a) State the criteria that must be satisfied for a limited company to claim the premiums on a key person income protection insurance as a deductible business expense. (4)
- (b) Explain how the proceeds of a key person income protection insurance are taxed when received by a limited company. (2)
13. (a) In a business protection context, explain what is meant by 'automatic accrual'. (5)
- (b) State the main drawback of automatic accrual for the deceased partners beneficiaries. (1)
- (c) Explain the action that can be taken in order to address the issue identified in **part (b)** above. (8)

- 14. (a)** State the general principle for employer pension contributions to receive full corporation tax relief. **(2)**
- (b)** Explain the circumstances which would result in an employer pension contribution being spread over different accounting periods. **(4)**
- 15. (a)** Explain **three** ways in which a small self-administered pension scheme (SSAS) can help a sponsoring employer financially. **(6)**
- (b)** State the consequences of a SSAS investing in a residential property. **(6)**

The tax tables can be found on pages 9 – 17



## 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
<i>*not applicable if taxable non-savings income exceeds the starting rate band.</i>		
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%
<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>		
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.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.85 where profits exceed £6,025 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £14.25.
<b>Class 4 (self-employed)</b>	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.

### ANNUAL ALLOWANCE

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%

*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 (CO<sub>2</sub>) 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 CO<sub>2</sub> emissions of 50g/km or less.
- For cars with CO<sub>2</sub> emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO<sub>2</sub> 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 CO<sub>2</sub> 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
<b>Cars</b>		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	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%
<b>Motor cars:</b> Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)		
CO <sub>2</sub> emissions of g/km:	75 or less*	76-130
Capital allowance:	100%	131 or more
	first year	reducing balance
		8%
		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%

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