

# THE CHARTERED INSURANCE INSTITUTE

## J03

### Diploma in Financial Planning

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

April 2014 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2013/2014, 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.

Candidates should answer based on the legislative position immediately BEFORE the 2014 budget.

#### 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 you **must** show **all** your workings and express your answers to **two** decimal places.

1. Philip, a web designer, has just been made redundant. He now intends to set up his own web design business as a sole trader.
  - (a) State the main advantages to Philip of setting up as a sole trader rather than other forms of business. (6)
  - (b) State **three** obligations to HM Revenue & Customs that Philip would have as a sole trader in respect of his tax affairs. (3)
  
2.
  - (a) State the purpose of the Partnership Act 1890. (3)
  - (b) Explain the main points relating to secret profits under the Partnership Act 1890. (4)
  - (c) List the circumstances under which property is considered partnership property under the Partnership Act 1890. (4)
  
3.
  - (a) State the **two** events affecting partners that will result in the dissolution of a partnership under the Partnership Act 1890. (2)
  - (b) Explain the term 'novation of debts' as it applies to a retiring partner. (4)
  
4. Describe **four** differences between the relationship a limited liability partnership and a limited company has with its members. (8)
  
5. State the **two** principal documents required in the formation of a company and explain briefly their purpose. (6)

6. (a) List the conditions that a company can use to claim exemption from a statutory audit requirement.
- (b) Explain the practical implications of the audit exemption in respect of the preparation and filing of accounts.

(3)

7. The following **two** investments are being considered by a manufacturing company.

	Cost (£)	Term	Income per annum (£)
Investment 1	45,000	3 years	15,000
Investment 2	50,000	3 years	25,000

Calculate, **showing all your workings**, the net present value of each investment and state which investment is the better value. Assume all costs are chargeable immediately, a discount rate of 6% and income accumulates at the end of each year.

(10)

8. Charlie, previously a sole trader, has changed his business to a limited company.

Charlie currently owns the freehold of the business premises valued at £200,000. He has a personal pension fund worth £250,000.

He has asked if he should retain ownership of the business premises and allow the business to use them, or transfer them to the limited company.

- (a) Explain the tax implications to both Charlie and the new company, of him retaining ownership of the property and renting it to the limited company.
- (b) State **three** advantages to Charlie of him retaining ownership of the premises personally rather than transferring them to the business.
- (c) State **three** advantages and **three** disadvantages to Charlie of using his pension fund to purchase the property.

(3)

(3)

(6)

Questions continue over the page

9. Gary has recently incorporated his sole trader business in order to benefit from limited liability.
- (a) State why Gary requires a personal guarantee to receive the same credit facilities from his bank, now that the business is incorporated. (2)
- (b) Explain Gary's options in relation to the guarantee required in order to limit his potential liability to the bank. (4)
10. Elliott carries out work as a freelance practice manager for doctors' surgeries, with over 80% of his time being spent at one surgery. The work is always carried out at the surgery premises, during surgery hours. He is paid gross as a self-employed individual by the surgeries.
- (a) State **seven** determining factors HM Revenue & Customs will look for when deciding if Elliott is employed or self-employed. (7)
- (b) Explain if Elliott will be deemed employed or self-employed by HM Revenue & Customs. (4)
11. Jessica's employer has re-located to a new town a considerable distance away. They have paid Jessica £8,500 for removal and re-location expenses and are providing her with rent-free unfurnished accommodation that the company bought for £180,000.
- As part of her move, her salary has been increased to £50,000 and she has been provided with benefits under a non-contributory group income protection insurance (IPI) scheme.
- (a) Describe how the tax charge on the accommodation would be calculated. (5)
- (b) Describe Jessica's current tax position in relation to the relocation expenses and her benefits under the IPI scheme. (*No calculation required*). (3)

- 
12. Alan incorporated his sole trader business, trading as a limited company, from 1 April 2013. The business is continuing to expand and Alan wants to gain a greater understanding of the tax treatment of purchasing business assets.
- (a) Identify the main differences between capital and revenue expenditure, giving an example of each. (4)
- (b) Outline how Alan will claim relief on capital expenditure incurred now that he is trading as a limited company. (4)
13. (a) List **three** implied employee's duties. (3)
- (b) State **two** implied employer's duties. (2)
14. Fresh Foods Ltd operates a chain of convenience stores employing 200 people. At present they offer a matched pension scheme contribution, with one rate, 6% employee and 6% employer contributions. This is open to all employees aged 22 or above and contributions are based on P60 earnings.
- (a) List **four** key requirements their existing scheme must meet to satisfy the new auto-enrolment legislation. (4)
- (b) Fred, an employee, aged 30, on a current salary of £30,000 per annum, has taken up a salary exchange offer from his employer in respect of his 6% contribution to top up his pension contributions. The company has offered to add half of the employer's National Insurance saving to his pension.
- Calculate, **showing all your workings**:
- (i) Fred's net annual earnings after tax and insurance; (7)
- (ii) the total pension contribution paid. (4)

Questions continue over the page

- 
15. Nick, Lee and Gareth are equal shareholders in Partridge Ltd. They have recently been looking into shareholder protection and specifically the structure in which to hold any life insurance policies.
- (a) Describe key provisions that should be covered by an appropriate business trust. (4)
- (b) Describe the tax implications of using the business trust. (5)



The tax tables can be found on pages 10 - 16

## INCOME TAX

RATES OF TAX	2012/2013	2013/2014
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	45%
Starting-rate limit	£2,710*	£2,790*
Threshold of taxable income above which higher rate applies	£34,370	£32,010
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
*Restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.		
MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic if born after 5 April 1948) §	£8,105	£9,440
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,500
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) (if born before 6 April 1935) at 10% †	£2,960	£3,040
Married/civil partners (if born before 6 April 1935) at 10% †	£7,705	£7,915
Income limit for age-related allowances	£25,400	£26,100
Blind Person's Allowance	£2,100	£2,160
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000	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)	£2,690	£2,720
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,860	£15,910

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£109	£473	£5,668
Primary threshold	£149	£646	£7,755
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£797	£3,454	£41,450

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 149.00*	Nil	Nil
149.01 – 770.00	12%	10.6%
770.01 – 797.00	12%	12%
Above 797.00	2%	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £109 per week. This £109 to £149 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	Money purchase
Below 148.00**	Nil	Nil	Nil
148.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 797.00	13.8%	13.8%	13.8%
Excess over 797.00	13.8%	13.8%	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.70 where earnings exceed £5,725 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £13.55.
<b>Class 4 (self-employed)</b>	9% on profits between £7,755 - £41,450 2% on profits above £41,450.

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000
2012/2013	£1,500,000	£50,000
2013/2014	£1,500,000	£50,000

### ANNUAL ALLOWANCE CHARGE

20% - 45% member's tax charge on the amount of total pension input in excess of the annual allowance.

### 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.

## CAPITAL GAINS TAX

EXEMPTIONS	2012/2013	2013/2014
Individuals, estates etc	£10,600	£10,900
Trusts generally	£5,300	£5,450
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
<b>TAX RATES</b>		
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	28%	28%
Trustees and Personal Representatives	28%	28%
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 DEATH TRANSFERS	2012/2013	2013/2014
Transfers made after 5 April 2013		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

*\*For deaths after 5 April 2013, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

MAIN EXEMPTIONS					
Transfers to					
- UK-domiciled spouse/civil partner			No limit		No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)			£55,000		£325,000
- UK-registered charities			No limit		No limit
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			£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%

## 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 2013/2014:

- Cars that cannot emit CO<sub>2</sub> have a 0% charge.
- The percentage charge is 5% of the car's list price for CO<sub>2</sub> emissions of 75g/km or less.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 10%.
- For cars with CO<sub>2</sub> emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO<sub>2</sub> emissions of 100g/km have a percentage charge of 12% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 215g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 35% 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 (£21,100 for 2013/2014) e.g. car emission 100g/km = 12% on car benefit scale. 12% of £21,100 = £2,532.

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 Contributions (Class 1A) of 13.8%.

## PRIVATE VEHICLES USED FOR WORK

	2012/2013 Rates	2013/2014 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

	2012/2013	2013/2014	
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£25,000	£250,000	
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 2013 (Corporation Tax) or 06 April 2013 (Income Tax)			
CO <sub>2</sub> emissions of g/km:	95 or less*	96-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance
*If new			
Research & Development:	Capital expenditure		100%

## CORPORATION TAX

	2012/2013	2013/2014
Full rate	24%	23%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	25%	23.75%
Upper marginal limit	£1,500,000	£1,500,000

## VALUE ADDED TAX

	2012/2013	2013/2014
Standard rate	20%	20%
Annual registration threshold	£77,000	£79,000
Deregistration threshold	£75,000	£77,000

## MAIN SOCIAL SECURITY BENEFITS

		2012/2013	2013/2014
		£	£
Child Benefit	First child	20.30	20.30
	Subsequent children	13.40	13.40
	Guardian's allowance	15.55	15.90
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.25	Up to 56.80
	Aged 25 or over	Up to 71.00	Up to 71.70
	Main Phase		
	Work Related Activity Group	Up to 99.15	Up to 100.15
	Support Group	Up to 105.05	Up to 106.50
Attendance Allowance	Lower rate	51.85	53.00
	Higher rate	77.45	79.15
Retirement Pension	Single	107.45	110.15
	Married	171.85	176.15
Pension Credit	Single person standard minimum guarantee	142.70	145.40
	Married couple standard minimum guarantee	217.90	222.05
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's Allowance		105.95	108.30
Jobseekers Allowance	Age 16 - 24	56.25	56.80
	Age 25 or over	71.00	71.70
Statutory Maternity, Paternity and Adoption Pay		135.45	136.78



**BLANK PAGE**

**BLANK PAGE**



