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ACHIEVING PENSIONS EXCELLENCE

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Taxation, Retail Investment and Pensions

Mock Examination Notes

Recommended Time: 3 Hours

1. Laura is aged 43 lives in London and in the tax year 2018/19 has taxable income of £105,000 which comprises salary and gross interest on savings. Calculate her tax liability for the year.

10 marks

Taxable Income = £105,000

Personal allowance is reduced by £1 for every £2 taxable income (before the personal allowance) exceeds £100,000.

£5,000/2 = £2,500

Personal Allowance	=	£11,850 – £2,500	= £9,350
Chargeable Balance	=	£105,000 – £9,350	= £95,650
Basic Rate	=	£34,500 Taxed at 20%	= £6,900
Higher Rate	=	£61,150 Taxed at 40%	= £24,460
Additional Rate	=	£0 Taxed at 45%	= £0
Total tax liability	**=**	**£6,900 + £24,460 + £0**	**= £31,360**

Relevant section of the manual is Part 2 Chapter 1.5

10 marks

2. Outline the types of taxable benefits in kind.

10 marks

These include:

- Living accommodation
- Use of assets
- Fuel for a company car
- Gifts of assets
- Payments to cover income tax
- Scholarships
- Other benefits in kind like hotel accommodation

Relevant section of the manual is Part 2 Chapter 1.5.3

10 marks

3. In the tax year 2018/19, Bradley made capital gains of £45,000 of which £5,000 qualifies for entrepreneurs' relief. Bradley's chargeable income for income tax purposes, after deducting his personal allowance is £25,000. Set out how his capital gains tax liability would be calculated.

10 marks

Capital gain	= £45,000
Gains qualifying for entrepreneurs' relief	= £5,000 taxed at 10%
Balance	= £40,000
Unused Basic Rate Tax Balance (£34,500 – £25,000)	= £9,500
Less gain qualifying for entrepreneurs' relief	= (£5,000)
	= £4,500

£4,500 = charged at 18% (or 10% depending on type of asset on which gain is made).

£40,000-£4,500 (charged at 18% or 10%))	= £35,500
Less personal allowance	= (£11,700)
	= £23,800

£23,800 = charged at 28% (or 20%)

Relevant section of the manual is Part 2 Chapter 3

10 marks

4. You are a financial adviser and your firm is shortly to publish its quarterly newsletter during a period when the economy is in recession. Write an article for the newsletter outlining the characteristics of an economic recession. Your article should also make reference to the three other main stages involved in an economic cycle and their respective features.

20 marks

As this question asks for a specific format a small number of marks around 2 or 3 are available for this aspect.

In addition to the features of a recession, including:

- Declining demand
- Rising unemployment
- Falling inflation
- Increased government intervention

Answers should include reference to economic boom, slowdown and recovery.

Relevant section of the manual is Part 3 Chapter 1.3

20 marks

5. In the context of preparing a computation for inheritance tax purposes:

(a) Identify the questions which should be asked to establish whether a transfer is chargeable and if so, to determine the amount of inheritance tax payable.
(b) Outline the factors which need to be considered in respect of lifetime transfers.
(c) Outline the factors which need to be considered when an individual dies.

20 marks

Answer should cover;

Questions:
- Is there a transfer of value?
- Is the transfer covered by one of the exemptions
- If a lifetime transfer, is the gift a PET or immediately chargeable?
- Following death, are there any PETs which become chargeable and were there any CLTs which must be recalculated?
- Tax to be applied or re-applied as appropriate?
- Reliefs to be applied?

Lifetime transfers:
- Amount of transfer of value
- Agricultural or business property rates to be applied
- Annual exemptions available
- Cumulated chargeable transfers
- IHT scale rate to be applied
- Tax payable – by whom and when

Factors to consider when an individual dies:
- The entire estate
- Agricultural or business reliefs to be deducted
- Any items that are exempt
- Non-exempt gifts and gifts in which interest has been retained
- Value of Taxable estate
- Allowable deductions
- % of net estate left to charity
- IHT threshold and tax rate to be applied on excess

Relevant section of the manual is Part 2 Chapter 4

20 marks

6. Describe Payment Protection Insurance (PPI) and the advice to be followed when selling these policies issued by the FCA.

10 marks

Answer should include:
A description of PPI
FCA advice
- PPI optional
- Clear information
- Eligibility and exclusions
- Advice
- Fair Refund

Relevant section of the manual is Part 4 Chapter 2.7

10 marks

7. Describe the various types of statutory benefits that might be provided to an employee by an employer.

20 marks

Answer should cover:

- Statutory Sick Pay
- Statutory Maternity Leave and Statutory Maternity Pay
- Statutory Paternity Leave and Statutory Paternity Pay
- Statutory Adoption Leave and Statutory Adoption Pay
- Shared Parental Leave and Statutory Shared Parental Pay

Relevant section of the manual is Part 4 Chapter 1.1

20 marks