



Taxation, Retail Investment and Pensions

Assignment 3 Notes

(Part 2 – The UK Tax System)

Recommended Time: 3 Hours

1. Identify the main legislation that governs personal taxation in the UK.

5 marks

Answer should cover:

The main legislation takes three forms:

- Primary legislation
- Secondary legislation
- Case law

The main source of new legislation is the annual Finance Act.

A full answer could include a little further detail on each and possibly an example.

Relevant section of the manual is Part 2 Overview

5 marks

2. Outline the different types of income for the purposes of Income Tax.

5 marks

Answer should cover:

The main division is between earned and unearned income.

Examples of each would be required.

Relevant section of the manual is Part 2 Chapter 1.1

5 marks

3. **A client based overseas has asked you for an explanation of how the residency rules for UK Income Tax may impact on an individual working abroad. Prepare some notes for use in a conference call with the client.**

15 marks

Answer should cover:

Establishing residency and hence the liability for Income Tax is crucial for an individual working abroad.

There are several options under the following headings:

- Statutory residence
- Automatic overseas tests
- Ordinary Residence
- Domicile

These should be linked to the concept of working abroad.

This question is looking for a specified format, notes for use in a call and therefore answers could take the form of bullet points perhaps arranged under relevant headings. Two to three marks would be available for each category and the balance for format and coherence.

Relevant sections of the manual are Part 2 Chapter 1.2, 1.6 and 1.7.

15 marks

4. **Write short notes on:**

- (i) **taxable benefits in kind**
- (ii) **tax free benefits in kind.**

10 marks

This question is literally seeking notes on the two types of benefits, approximately 5 marks for each.

Answers should include an explanation of benefits in kind: Benefits in kind are perks provided by an employer as part of an overall remuneration package

Examples of taxable and tax free benefits should be included as well as the tax treatment of such benefits. A full answer might include comment on the use of salary sacrifice.

Relevant sections of the manual are Part 2 Chapter 1.5.2 and 1.5.3.

10 marks

- 5. In connection with Inheritance Tax, describe the differences between an Exempt Transfer and a Potentially Exempt Transfer. Illustrate your description with an example.** **20 marks**

A full answer should begin with a brief explanation of Inheritance Tax to provide the context for answering the specific question. The definition of an exempt transfer and a potentially exempt transfer are found within the study manual and up to 5 marks would be available for defining each correctly. A further 5 marks are available for explaining the difference between them.

This question asks for an example and one should be provided worth up to 5 marks.

Relevant sections of the manual are Part 2 Chapter 4.2.5 and 4.2.7.

20 marks

- 6. In connection with Capital Gains Tax outline the concept of Entrepreneurs' Relief.** **10 marks**

Answer should provide an overview of Entrepreneurs' Relief, qualifying assets and any restrictions following the disposal of assets lent to the business.

Relevant section of the manual is Part 2 Chapter 3.4.

10 marks

- 7. In an email to a client describe the different rates of Stamp Duty Land Tax and the available exemptions.** **15 marks**

This question asks for a specific format and therefore 2 -3 marks would be available for answers that comply with the request.

A full answer would include a brief explanation of Stamp Duty Land Tax (It is generally payable on the purchase or transfer of property or land in the UK) before describing the different rates and exemptions. Significant changes were made to Stamp Duty Land Tax in December 2014 and a note of the impact of the changes and main differences would be relevant.

These are covered in the study manual and a table covers the different rates.

Exemptions include:

- Disadvantaged areas (claims for this relief required before 6 May 2014)
- SDLT is not payable on any part of the purchase price that is attributable to such things as carpets, curtains and any other items which the venter leaves in the property.
- when property is left to another person in a will.
- when a couple get divorced or separate – or end their civil partnership – and the parties agree to split their property and land between them, or the property is split under the terms of a court order.

Relevant section of the manual is Part 2 Chapter 5.1.

15 marks

8. **A new colleague has asked you for an explanation of VAT rates. He has told you he knows there are only two rates but is confused about exempt goods and zero rated goods. Prepare a note for your colleague confirming the different rates and correcting any confusion he may have on them.**

20 marks

This question asks for a specific format and therefore 2 -3 marks would be available for answers that comply with the request.

A full answer should include a brief explanation of VAT: a tax that is charged on most goods and services provided in the UK. 3 marks are available. It should then include explanation and ideally examples of the different rates of VAT depending on the goods and services provided, these are:

- Standard rate of 20 %
- Reduced rate of 5 %
- Zero rate
- Exempt Goods and Services, where a business supplies exempt goods and services they do not charge VAT on them and they normally cannot claim back the VAT on related purchases.
- Zero- rated Supplies, if a business makes zero-rated supplies it does not add VAT to the selling price but can still reclaim input tax on purchases and expenses

Approximately 3-4 marks available for each.

Relevant section of the manual is Part 2 Chapter 6.2.

20 marks