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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 2022/23 has taxable income of £105,000 which comprises her salary. 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 = £12,570 – £2,500 | = £10,070 |
|  | Chargeable Balance = £105,000 – £10,070 | = £95,650 |
|  | Basic Rate = £37,700 Taxed at 20% | = £7,540 |
|  | Higher Rate = £57,950 Taxed at 40% | = £23,180 |
|  | Additional Rate = £0 Taxed at 45% | = £0 |
|  | **Total tax liability = £7,540 + £23,180 + £0**    Relevant section of the manual is Part 2 Chapter 1.5 | **= £30,720**  **10 marks** |
| **2.** | **Outline the types of taxable benefits in kind.**  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** |

**10 marks**

1. **In the tax year 2022/23, 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 (£37,700 – £25,000) = £12,700

= ( £5,000)

Less gain qualifying for entrepreneur’s relief = £7,700

£7,700 = charged at 18% (or 10% depending on type of asset on which gain is made).

£40,000-£7,700 (charged at 18% or 10%)) = £32,300

=(£12,300)

Less personal allowance =£20,000

£20,000 = charged at 28% (or 20%)

Relevant section of the manual is Part 2 Chapter 3

**10 marks**

1. **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 aggregate demand for output

• contracting employment / rising unemployment

• a sharp fall in business confidence and profits and a decrease in capital investment spending

• de-stocking and heavy price discounting

• reduced inflationary pressure and falling demand for imports

• increased Government borrowing

• lower interest rates from central bank.

Answers should include reference to

Economic boom. A boom occurs when national output is rising strongly. This is likely to be at a rate which is faster than the trend rate of growth (or long-term growth rate) of about 2.5% per year. In these conditions, output and employment will both be expanding and the level of demand for goods and services is likely to be very high. Typically, businesses will use this opportunity to raise output and to widen their profit margins.

Slowdown - A slowdown occurs when national output is still rising but the rate of growth slows. If the economy can continue to grow at a slower rate without falling into recession, this is known as a “soft-landing”.

Recovery. A recovery occurs when national output picks up from the low point of the recession.

Relevant section of the manual is Part 3 Chapter 1.3

**20 marks**

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

* 1. **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.**
  2. **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**

1. **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 - Payment Protection Insurance (PPI) is a form of insurance that an individual might purchase to cover the cost of a loan (and debt from credit agreements) if they cannot meet the repayments for some reason, such as falling ill or being made redundant. One of the most common forms of PPI is mortgage payment protection insurance, which covers the cost of the policyholder’s mortgage repayments should they be unable to repay the loan.

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**

1. **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 - When an employee is unable to work due to sickness or disability, employers must make payments for time off sick to at least a minimum level. Therefore, during the first 28 weeks of time off work employers must, as a minimum, make statutory payments
  + Statutory Maternity Leave and Statutory Maternity Pay - Employees eligible for SML can take up to 52 weeks’ maternity leave. Employees must take at least two weeks after the birth (or four weeks if they are a factory worker). The earliest leave can be taken is 11 weeks before the expected week of childbirth.
  + Statutory Paternity Leave and Statutory Paternity Pay - Employees eligible for Ordinary Statutory Paternity Leave can choose to take either one week or two consecutive weeks’ leave – even if they have more than one child (e.g., twins)
  + Statutory Adoption Leave and Statutory Adoption Eligible employees can take up to 52 weeks SAL.Pay.
  + Shared Parental Leave and Statutory Shared Parental Pay - SPL and ShPP must be taken between the baby’s birth and first birthday (or within 1 year of adoption). Partners can share the leave if they are both eligible for SPL and choose how much of the leave each will take. The mother must take a minimum of 2 weeks’ maternity leave following the birth (4 if she works in a factory)

Relevant section of the manual is Part 4 Chapter 1.1

**20 marks**