Unit 9: Taxation, Investment Wrappers and Trusts

Student Workbook

CISI CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT EDUCATION PARTNER 2023-24

Unit 9

Unit Aim: Understand the different taxes, investment wrappers and features of trusts.

Relevance of this unit to the course:
Having explored ethical practice within the sector, this unit will identify some key features that will be reviewed in unit 11.

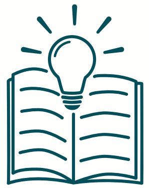
Learning Objective	Learning Outcomes	Chapter Section
9.1.1	Know the direct and indirect taxes affecting individuals • Income tax • Capital gains tax • Inheritance tax • Stamp duty • Corporation tax • State benefits / HMRC tax credits • National insurance • Residency / domicile	2
9.1.2	Know the main exemptions in respect of the main personal taxes	2

Learning Objective	Learning Outcomes	Chapter Section
9.2.1	Know the definition of and tax incentives provided by ISAs	3
9.2.2	Know the main types of ISA available: • Cash ISA • Stocks and shares ISA • Innovative ISA • Lifetime ISA • Junior ISA	3
9.3.1	Know the benefits provided by pensions	4
9.3.2	Know the basic characteristics of the following: • State Pension Scheme • Occupational Pension Scheme • Personal Pensions including SIPPs	4
9.4.1	Know the features of the main trusts: • Discretionary • Interest in possession • Bare	5
9.4.2	Know the definition of the following terms: • Trustee • Settlor • Beneficiary	5
9.4.3	Know the main reasons for creating trusts	5

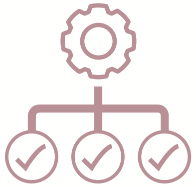
How to use this student workbook

Throughout this student workbook, look out for the different icons to support your learning:

Understand and learn – these sections will help you to develop your knowledge and understanding of the assessed learning objectives.



Apply and practise – Practise and test your newly acquired learning by undertaking a range of activities to help you prepare for the multiple choice assessment at the end of the course.



Further your knowledge – Consolidate your understanding of key concepts by reading and interacting with current, credible resources to help further enhance your learning.

Introduction

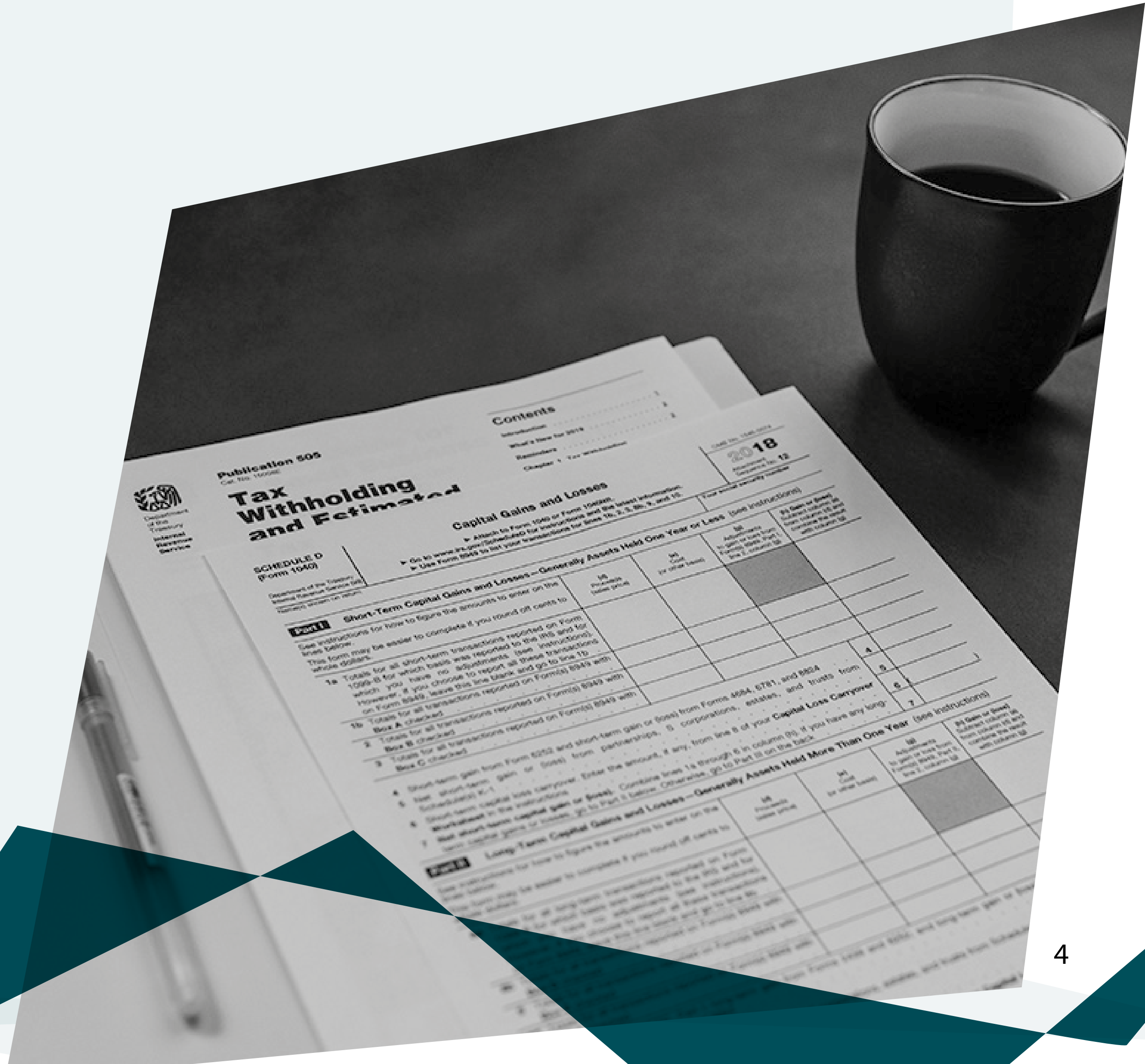
“Nothing is certain but death and taxes”

Benjamin Franklin, 1789.

Write down your thoughts on the following:

Why do we pay taxes?

What different types of taxes can you think of?



Learning Outcome 9.1 – Tax

9.1.1: Understand the direct and indirect taxes affecting individuals

- Income tax
- Capital gains tax
- Inheritance tax
- Stamp duty
- Corporation tax
- State benefits/HMRC tax credits
- National insurance
- Residency / domicile

9.1.2: Know the main exemptions in respect of the main personal taxes

Taxation

Read section 2 about the different types of taxation in chapter 9 of the course workbook.
In your own words **summarise** the 3 types of income tax in the table below.

Non-savings income	Savings income	Dividend income

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Income tax

The amount of **non-savings income tax** that individuals pay is based on earnings from employment and/or pension income. Using the Gov.UK website, answer the following questions:

1. What is the standard personal allowance currently in the UK and what does this mean?

2. What are the current income tax bands?

3. What is a tax code and how are these used?

4. Who administers income tax in the UK?

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Income tax

Interest on savings is taxed after earned income. In 2016, a personal savings allowance was introduced and is based on the individual's tax band. Using Gov.UK, read the information about tax on savings interest and complete the table on the right:

Band	Tax free savings allowance
Saving rate	
Basic rate	
Higher rate	
Additional rate	

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How it works – the savings rate

If an individual earns less than £17,570 per year, they are eligible for the "savings rate". This means that if a persons earns below the personal allowance, they can earn £5,000 in savings interest before they pay tax on it. For every £1 of other income above the Personal Allowance, it reduces the starting rate for savings by £1. Take a look at the example taken from Gov.UK showing how it works.

How much income tax will you pay on your earned income during that tax year?

You earn £16,000 of wages and get £200 interest on your savings.
Your Personal Allowance is £12,570. It's used up by the first £12,570 of your wages.
The remaining £3,430 of your wages (£16,000 minus £12,570) reduces your starting rate for savings by £3,430.
Your remaining starting rate for savings is £1,570 (£5,000 minus £3,430). This means you will not have to pay tax on your £200 savings interest.

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Calculating income tax

Carlos receives earned income of £24,000 and received savings interest of £300 during the year.
In total, how much income tax does he owe?

Earned income - £

Personal Allowance - £

Tax payable - £

Savings interest - £

Personal saving allowance - £

Tax payable - £

TOTAL INCOME TAX PAYABLE = £

Calculating income tax

Ash is a higher rate tax payer with earned income of £62,000 and received £1,200 in savings interest. How much tax do they owe?

Earned income - £

Personal Allowance - £

Tax payable - £

Savings interest - £

Personal saving allowance - £

Tax payable - £

TOTAL INCOME TAX PAYABLE = £

Tax on dividend income

You may get taxed in you earn shares in a company and receive dividend income each year. Read Gov.UK rules around the dividend allowance and the tax bands that apply and answer the following questions:

1. How are dividends taxed?

2. What is the current dividend allowance?

3. What are the current tax rates on dividends (over the allowance)

4. Write a case study about a client who has shares and pays tax on their dividends. Show all of your calculations

Income tax exemptions

List 5 tax free income streams below:

1.

2.

3.

4.

5.

National Insurance

Read the section about National Insurance in the course workbook and on Gov.UK. Complete the following questions:

1. What do National Insurance Contributions fund in the UK?

2. Who pays National Insurance?

3. What are the different National Insurance classes?

4. How can people check their National Insurance record and why should we all do this?

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Capital Gains Tax

Using the course workbook and Gov.UK website, answer the questions below:

1. In your own words, explain Capital Gains Tax.

2. What assets are liable to Capital Gains Tax?

3. What assets are exempt from Capital Gains Tax?

4. What are the current allowances and rates of Capital Gains Tax?

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Further your knowledge – Capital Gains Tax

Log in to the professional refresher section of the CISI learning platform and complete the Capital Gains Tax essentials module (45 mins). This module examines the different types of assets that are affected, the various rates and some of the special arrangements relating to residencies, possessions and investments.

Inheritance Tax

Using the course workbook and Gov.UK website, answer the questions below:

1. In your own words, explain Inheritance Tax.

2. What is the current Inheritance Tax threshold?

3. What is the current rate of standard Inheritance Tax?

4. What assets are exempt from Inheritance Tax?

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Further your knowledge – Inheritance Tax

Log in to the professional refresher section of the CISI learning platform and complete the Inheritance Tax essentials module (1hr 15 mins). This module examines the rates, excepted estates, how certain gifts fall into an estate and the effects of intestacy.

Watch the video on CISI TV about what tools financial planners can use to achieve client objectives when it comes to Inheritance Tax.

Stamp Duty and Stamp Duty Land Tax

Using chapter 9 of the course workbook and the Gov.UK website, answer the following questions:

1. What is the difference between Stamp Duty and Stamp Duty Land Tax (SDLT)?

2. What is Stamp Duty Reserve Tax (SDRT)?

3. What is the current rate of stamp duty?

4. What is the current threshold/rate of stamp duty land tax for residential properties?

5. What is exempt from stamp duty?

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Value Added Tax (VAT)

Using chapter 9 of the course workbook and Gov.UK, answer the following questions:

1. What is VAT?

2. What is the current standard rate of VAT?

3. What is VAT charged on?

4. What products and services are except from VAT?

Corporation Tax

Using chapter 9 of the course workbook and the Gov.UK website, answer the following questions:

1. What is Corporation Tax?

2. Is Corporation Tax paid on gross or net profit?

3. Explain the current different rates of Corporation Tax.

4. What organisations are except from Corporation Tax?

Residency / domicile

Using chapter 9 of the course workbook, answer the following questions:

1. What does domicile mean?

2. Explain the 3 types of domicile.

3. What is the difference between a UK resident and a non-resident?

Which tax is it?

Using your knowledge about the different types of UK taxation, decide which tax applies in the following scenarios

1. It is charged in a unit trust are sold for more that the original price paid

2. It is charged at 0.5% of the purchase price of shares

3. Has a nil-rate of tax for assets received by an individual of £325,000 or less

4. Charged at a standard rate of 20% on goods and service

5. Has a basic rate of 20% on earnings between £12,571 - £50,270

6. The sale of a buy to let property that is not your home

7. Company profits of £70,000

Further your knowledge – Tax

Complete the professional refresher module on taxation (2hrs 15 mins) on the CISI learning platform. This module explores all of the different taxes in the UK.

Learning Outcome 9.2 – Investment wrappers

9.2.1: Know the definition of and tax incentives provided by ISAs

9.2.2: Know the main types of ISA available:

- Cash ISA
- Stocks and shares ISA
- Innovative ISA
- Lifetime ISA
- Junior ISA

Individual Savings Accounts (ISAs)

Read the section about ISAs in chapter 9 of the course workbook and the [ISA section on the Gov.UK website]. Answer the following questions:

1. What is an ISA?

2. What does the term investment wrapper mean?

3. What is the key benefit of having an ISA?

4. What are the ISA subscription limits?

5. Is it possible to transfer ISAs? If so, how?

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Different types of ISAs

Using online sources, research and complete the table below about the different types of ISAs

Type of ISA	Annual Allowance (£)	Description and main terms
Cash ISA		
Stocks and Shares ISA		
Innovative Finance ISA		
Lifetime ISA (LISA)		
Junior ISA (JISA)		
Help to Buy ISA		

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ISA Essentials

Log in to the Professional Refresher section of the CISI learning platform using your username and password and complete the ISA Essentials module (30 mins). This module explores the different types of ISA and outlines their broader role and purpose.

True or False – ISAs

	True	False
1. The primary purpose of an ISA is to provide a guaranteed income for pensioners	◯	◯
2. Only interest earned on cash ISAs is tax free	◯	◯
3. An investment wrapper refers to the protective regulations surrounding ISA investments	◯	◯
4. HMRC is responsible for approving firms that offer ISA investment products	◯	◯
5. ISAs can be gifted or transferred to another individual	◯	◯
6. The annual subscription limit is determined by an individuals income	◯	◯

Learning Outcome 9.3 – Pensions

9.3.1: Know the benefits provided by pensions

9.3.2: Understand the basic characteristics of the following:

- State Pension Scheme
- Occupational Pension scheme
- Personal Pensions including SIPPs

Pensions

Read the section about pensions in chapter 9 of the course workbook and answer the following questions:

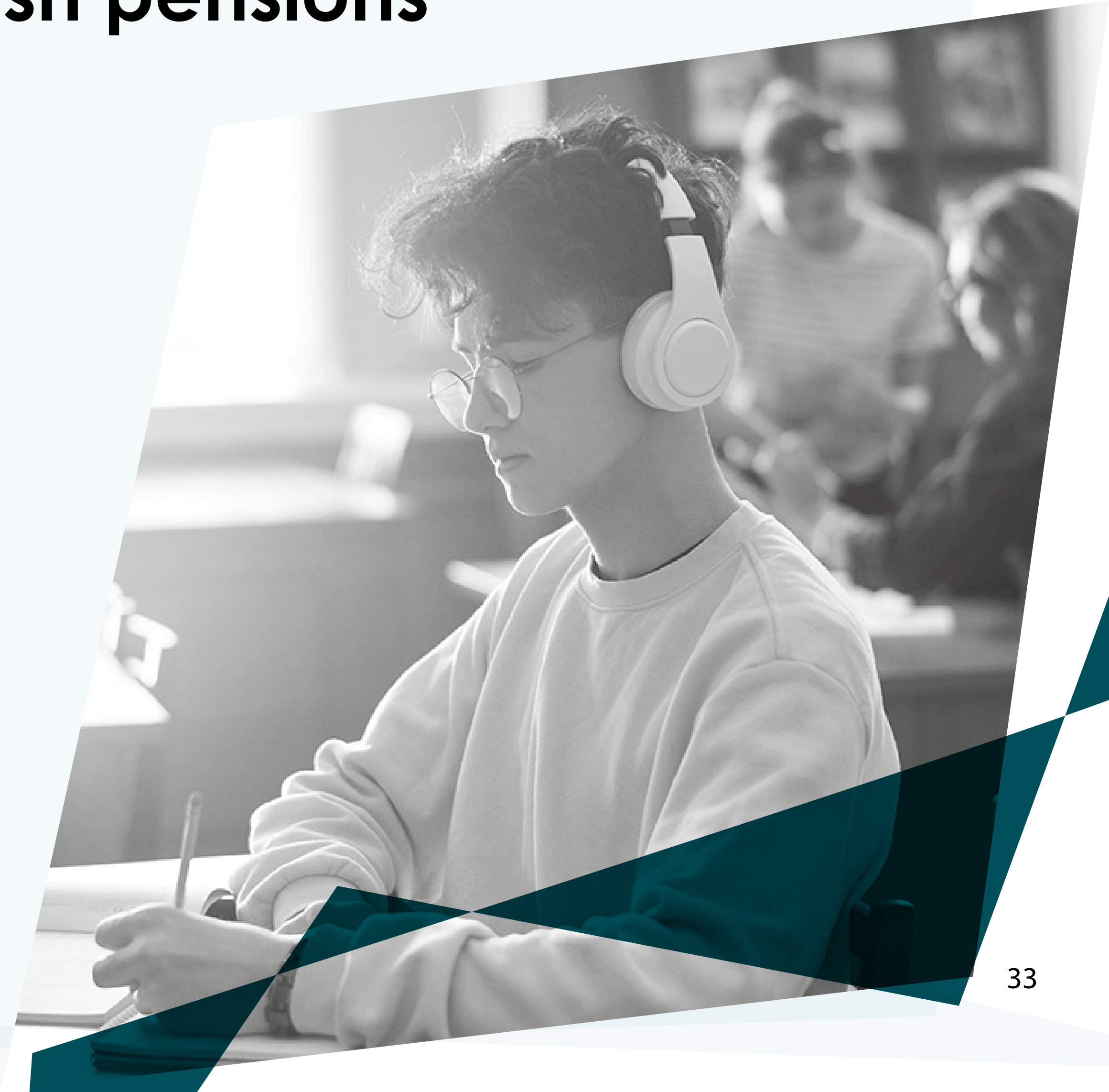
1. What is a pension?

2. What are the benefits provided by pensions?

Complete the Pensions and Provisions module (1hr 45 mins) on the Professional Refresher section of the CISI learning platform. This module examines the definition, legislation and regulation around the different types on pensions. It also explores saving for retirement and retirement planning.

The problems with British pensions

Listen to the CISI podcast episode about the problems with British pensions. Summarise the key issues discussed.



State pension scheme

Read the section on the Gov.UK website about state pensions, how to check your state pension age and how to check your state pension forecast. Using the Gov.UK website and the section on pensions in chapter 9 of the course workbook, create a handout for your clients explaining the principles of the new state pension, who is eligible, how to check your state pension age and forecast plus any other details that your clients might consider important.

Other resources to help create your state pension handout include:

MoneyHelper

Money Saving Expert

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Occupational pension scheme

Using the section about occupational pension schemes in chapter 9 of the course workbook and information about [workplace pensions on the Gov. UK website](), answer the following questions:

1. What are the benefits of being a member of a workplace pension scheme?

2. Explain the differences between defined benefit and defined contribution pension schemes. Consider the benefits and implications of each.

3. What is "auto-enrolment"?

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Defined Benefits

Complete the Defined Benefits Pension Schemes module (2hrs 15 mins) on the Professional Refresher section of the CISI learning platform. This module explores the differences between defined benefits and contributions schemes, with particular attention paid to the options for scheme holders and employers.

Personal Pensions / Private Pensions (including SIPPs)

Read the section on personal/private pensions in the chapter 9 course workbook and answer the following multiple choice questions.

1. What type of pension plans are private pensions or personal pensions?

- [ ] A. Defined benefit schemes
- [ ] B. Defined contribution schemes
- [ ] C. State pension schemes
- [ ] D. Joint pension arrangements

2. What type of personal pension allows individuals to decide which investments are included?

- [ ] A. Defined benefit scheme
- [ ] B. Workplace pensions
- [ ] C. Group personal pension scheme
- [ ] D. Self-invested personal pensions

Personal Pensions / Private Pensions (including SIPPs)

Read the section on personal/private pensions in the chapter 9 course workbook and answer the following multiple choice questions.

3. Which of the following is NOT a benefit of private pension schemes?

- ☐ A. Tax-deductible contributions
- ☐ B. Tax-exempt investment income
- ☐ C. Tax-exempt capital gains
- ☐ D. Guaranteed retirement income

4. How are private pensions different from occupational schemes?

- ☐ A. Private pensions offer higher contribution limits
- ☐ B. Private pensions are managed by employers
- ☐ C. Private pensions require self-organisation and investment choices
- ☐ D. Private pensions are tax-exempt

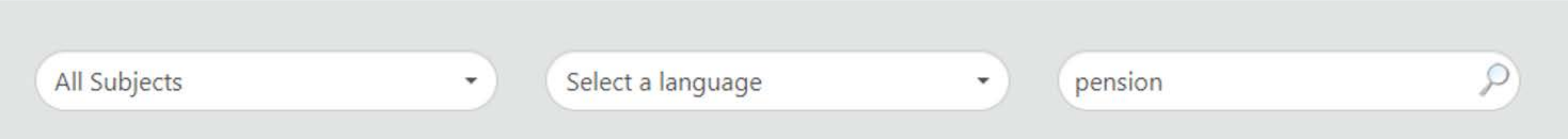
Pensions Advice and pension freedoms

Complete the Pensions Advice module (1 hr) on the Professional Refresher section of the CISI learning platform. This module investigates the issues relating to giving advice and guidance following government changes around pension freedoms.

Case study

Alex is 26, works full time and has paid into a workplace, defined contribution pension since he started working for his employer 4 years ago. Along with his employer, Alex has only ever paid the minimum contributions but is now thinking about other ways to boost his retirement pot whilst he can. As Alex's financial adviser, what other information might you need and what pension recommendations might you suggest?

There is huge variety of videos on the CISI TV channel around pensions from changes to the lifetime allowance to the role of the regulator. To extend your knowledge of pensions, search the extensive video library using the filter below and choose a couple of themes to watch that might interest you.



Learning Outcome 9.4 – Trusts

9.4.1: Understand the features of the main trusts:

- Discretionary
- Interest in possession
- Bare

9.4.2: Know the definition of the following terms:

- Trustee
- Settlor
- Beneficiary

9.4.3: Understand the main reasons for creating trusts

Trusts

Complete the module on Trusts (1hr 15 mins) on the Professional Refresher section of the CISI learning platform. This module provides an understanding of the definition of trusts, the different types available and their features and benefits.

Trust terms

Choose the correct definition that matches main roles of the individuals involved the process of establishing trusts.

1. Trustee
2. Settlor
3. Beneficiary

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Main features of a trust

Choose the correct definition to go with the different types of trusts.

1. Discretionary
2. Interest in possession
3. Bare

KEY

A. The beneficiary has the right to the income of the trust during their life and the capital passes to others on their death.

B. A trustee holds assets for one or more person absolutely

C. The trustees have discretion over to whom the capital and income is paid

CISI TV

To further your knowledge about trusts, watch the Royal London Series: It's all about the trust(s) video on CISI TV. This looks at the business opportunities of making trusts a key part of protection propositions.

End of Unit 9
Multiple Choice Assessment

Test your knowledge

1. The annual allowance for a stocks an shares ISA is:

- A. £4,000
- B. £16,000
- C. £20,000
- D. £9,000

2. Firms offering ISAs must be approved by:

- A. FCA
- B. HMRC
- C. FOS
- D. Bank of England

Test your knowledge

3. ISAs are NOT:

- A. Tax free
- B. Investment wrappers
- C. Arranged on a joint basis and put into a trust
- D. A way to save and/or invest

4. Which of the following are except from income tax? *(tick all that apply)*

- A. Premium bond prizes
- B. ISAs
- C. Dividends on ordinary shares
- D. Statutory redundancy payments

Test your knowledge

5. A basic taxpayer has a savings tax allowance of:

- A. £5,000
- B. £0
- C. £500
- D. £1,000

6. Capital Gains Tax is not liable on:

- A. The sale of shares
- B. Your main home
- C. Sale of a second rental property
- D. Unit trusts

Test your knowledge

7. If you buy shares electronically and no stock transfer form is used, you will pay:

- A. Stamp Duty Reserve Tax
- B. Stamp Duty
- C. Stamp Duty Land Tax
- D. Capital gains Tax

8. The Inheritance Tax threshold for an individual is:

- A. £325,000
- B. £200,000
- C. £650,000
- D. £175,000

Test your knowledge

9. A defined contribution pension is not…

- A. Also called a "final salary scheme"
- B. Related to the number of years service
- C. Able to passed to a spouse, civil partner or dependent when you die
- D. Determined by the value of investment funds at retirement

10. SIPP stands for

- A. Self-invested personal pension
- B. State-invested personal pension
- C. Self-invested pension pot
- D. State-initiated pension pot

Test your knowledge

11. If a client chooses to take all of their pension as a lump sum, what proportion is tax free?

- A. 75%
- B. 50%
- C. 25%
- D. 10%

12. A settlor is

- A. A person who benefits from a trust
- B. A person who creates a trust
- C. A person who looks after a trust for someone else
- D. A person who manages lots of trusts

Test your knowledge

13. An interest in possession trust is:

- A. When a trustee holds assets for one or more person absolutely
- B. When a trustee has discretion over whom the capital and income is paid
- C. When a trustee is able to pass a trust to someone of their choice
- D. When a beneficiary has access to the income of the trust during their life and the capital passes to others an their death

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Test your knowledge

14. Domicile helps to determine:
    (tick all that apply)

- ○ A. How much IHT is payable and where
- ○ B. Who inherits, if there is no will
- ○ C. Where someone lives
- ○ D. Who has the right to inherit assets on death

15. What tax helps to build entitlement to the UK state pension?

- ○ A. Income tax
- ○ B. National Insurance Contributions
- ○ C. Capital gains Tax
- ○ D. VAT

Monitoring my progress – Unit 9

My multiple choice assessment mark is / 15

I am happy with the progress that I made on the multiple choice assessment

○ Yes ○ No

To improve my knowledge and understanding, I now need to….

1.

2.

3.

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Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 9 multiple choice questions in the course workbook.

Answers

Page 7

1. What is the standard personal allowance currently in the UK and what does this mean? £12,570 (as of June 24) – amount you can earn before income tax is paid
2. What are the current income tax bands? –
   Income Tax bands 2024/25
   £0 to £12,570 - 0%
   £12,571 to £50,270 - Basic rate: 20%
   £50,271 to £125,140 - Higher rate: 40%
   Over £125,140 - Additional rate: 45%
3. What is a tax code and how are these used? – used by your employer or pension provider to work out how much income tax to take from your pay/pension
4. Who administers income tax in the UK? HMRC

Page 8

Savings rate – up to £5,000
Basic rate - £1,000
Higher rate - £500
Additional rate - £0

Page 9

Income - £16,000 (basic tax payer)
Personal allowance - £12,570
Pay 20% on the remaining £3,430 = **£686**

Page 10

Answer based on 2024/25 rules
Earned Income - £24,000
Personal allowance - £12,570
Tax payable on £11,430 (£24,000-12,570) @20% = **£2,286**
Savings interest - £300
Personal saving allowance - £1,000 (basic taxpayer)
Tax payable - 0
TOTAL INCOME TAX PAYABLE = £2,286 + £0 = **£2, 286**

Page 11

Answer based on 2024/25 rules
Earned Income - £62,000
Personal allowance - £12,570
Income @20% (£12,571 - £50,270) = £37, 699 @20% = **£7,540** (rounded up)
Income at 40% (50,271 - £62,000) = £11,729 @40% = **£4,692** (rounded up)
Tax payable on earned income = £7,540 + £4,962 = **£12,232**
Savings interest - £1,200
Personal saving allowance - £500 (higher taxpayer)
Tax payable - £1,200 - £500 = £700 @40% higher tax tax =
Tax payable on savings = **£280**
TOTAL INCOME TAX PAYABLE - £12,232 + £280 = **£12,512**

Page 12

1. **How are dividends taxed?**
   You do not pay tax on any dividend income that falls within your Personal Allowance (the amount of income you can earn each year without paying tax).
   You also get a dividend allowance each year. You only pay tax on any dividend income above the dividend allowance.
   You do not pay tax on dividends from shares in an ISA
2. **What is the current dividend allowance?** £500
3. **What are the current tax rates on dividends (over the allowance)?**
   How much tax you pay on dividends above the dividend allowance depends on your income tax band

Answers

Tax band	Tax rate on dividends over the allowance
Basic rate	8.75%
Higher rate	33.75%
Additional rate	39.35%

To work out your tax band, add your total dividend income to your other income. You may pay tax at more than one rate.

Page 13

1. Premium bond prizes
2. Interest on national saving certificates
3. Income from ISAs (Individual Savings Accounts)
4. National lottery/gambling wins
5. Statutory redundancy payments and up to £30,000 loss of employment
6. Dividends on ordinary shares of a venture capital trust (VCT)

Page 14

Answers based on 24/25 rules

1. **What do National Insurance Contributions fund in the UK?** State pension, maternity allowance, bereavement support payment, JSA, contribution based ESA
2. **Who pays National Insurance?**
   You pay mandatory National Insurance if you're 16 or over and are either:
- an employee earning more than £242 per week from one job
- self-employed and making a profit of more than £12,570 a year
3. **What are the different National Insurance classes?** https://www.gov.uk/national-insurance/national-insurance-classes
4. **How can people check their national Insurance record and why should we all do this?** Log onto your Governments Gateway Account. You can see how many years you have paid into the state pension and how to "top up" missed years.

Page 20

1. **What is the difference between Stamp Duty and Stamp Duty Land Tax (SDLT)?**
   Stamp duty is a tax paid on UK shares by the purchaser
   Stamp duty land tax (SDLT) is payable by the purchaser on purchases of land and property in the UK.
2. **What is Stamp Duty Reserve Tax (SDRT)?** Stamp duty reserve tax (SDRT) is payable when an individual buys shares electronically and no stock transfer form is used.
3. **What is the current rate of stamp duty?** 0.5% - paid by the purchaser
4. **What is the current threshold/rate of stamp duty land tax for residential properties?**
   SDLT is paid on properties over £250,000 (paid price)
   You pay stamp duty at these rates if, after buying the property, it is the only residential property you own.
   You usually pay 3% on top of these rates if you own another residential property.
   Up to £250,000 – Zero
   The next £675,000 (the portion from £250,001 to £925,000) - 5%
   The next £575,000 (the portion from £925,001 to £1.5 million) - 10%
   The remaining amount (the portion above £1.5 million) - 12%
5. **What is exempt from stamp duty?**
   You do not have to pay tax if you:
- are given shares for nothing
- subscribe to a new issue of shares in a company
- buy shares in an 'open ended investment company' (OEIC) from the fund manager
- buy units in a unit trust from the fund manager

Page 21

1. **What is VAT?** VAT (Value Added Tax) is a tax added to most products and services sold by VAT-registered businesses. Businesses have to register for VAT if their VAT taxable turnover is more than £90,000.
2. **What is the current standard rate of VAT?** 20%

Answers

3. **What is VAT charged on?**
   VAT is charged on things like:
- goods and services (a service is anything other than supplying goods)
- hiring or loaning goods to someone
- selling business assets
- commission
- items sold to staff - for example canteen meals
- business goods used for personal reasons
4. **What products and services are except from VAT?** https://www.gov.uk/guidance/rates-of-vat-on-different-goods-and-services
   VAT exempt goods and services include:
- financial services, investments and insurance
- garages, parking spaces and houseboat moorings
- property, land and buildings
- education and training
- healthcare and medical treatment
- funeral plans, burial or cremation services
- charity events
- antiques
- gambling or lottery tickets
- sports activities

Page 22
1. **What is Corporation Tax?** Tax on business profit – Ltd and PLC only
2. **Is Corporation Tax paid on gross or net profit?** Net profit
3. **Explain the current different rates of Corporation Tax.**
- Small profit rate (up to £50,000 net profit) – 19%
- Marginal relief (profit between £50,000-£250,000
- Main rate – net profit above £250,000 - 25%
4. **What organisations are except from Corporation Tax?** – clubs and associations

Page 23
1. **What does domicile mean?** Domicile is the country that a person treats as their permanent home, or lives in and has a substantial connection with
2. **Explain the 3 types of domicile**.
   1. **Domicile of origin** – the domicile that every person acquires at birth.
   2. **Domicile of choice** – this is acquired by a person residing in a country with the intention of continuing to do so permanently or indefinitely.
   3. **Domicile of dependency** – this arises in respect of children, married women and mentally disordered persons. Their domicile will generally be the same as, and will change (if at all) in
3. **What is the difference between a UK resident and a Non-resident?**
   Whether a person is a UK resident usually depends on how many days they physically spend in the UK in the tax year (6 April to 5 April the following year). You are automatically resident if either:
- you spent 183 or more days in the UK in the tax year, or
- your only home was in the UK – you must have owned, rented or lived in it for at least 91 days in total – and you spent at least 30 days there in the tax year.
- You are automatically non-resident if either:
- you spent fewer than 16 days in the UK (or 46 days if you have not been classed as UK resident for the three previous tax years), or
- you work abroad full time (averaging at least 35 hours a week) and spent fewer than 91 days in the UK, of which no more than 30 were spent working.

Page 24
1. It is charged in a unit trust are sold for more that the original price paid – Capital Gains Tax
2. It is charged at 0.5% of the purchase price of shares – Stamp Duty or SDRT
3. Has a nil-rate of tax for assets received by an individual of £325,000 or less – Inheritance Tax
4. Charged at a standard rate of 20% on goods and service - VAT
5. Has a basic rate of 20% on earnings between £12,571 - £50,270 – Income Tax
6. The sale of a buy to let property that is not your home – Capital Gains Tax
7. Company profits of £70,000 – Corporation Tax

Answers

Page 27

1. **What is an ISA?**
   Individual savings accounts (ISAs) were set up by the government to encourage individual investment. They were introduced in 1999 and have since been the main vehicle for saving and investing tax efficiently. The particular incentive for investment is that the investments held within an ISA are free of income tax and CGT.
2. **What does the term investment wrapper mean?**
   An ISA itself is often referred to as an investment wrapper because it is essentially an account that holds other savings and investments, such as deposits, shares, OEICs and unit trusts, and allows them to be invested in a tax-efficient manner. The ISA acts as a wrapper, shielding the return on savings and investments held in it from tax. Firms offering investments in ISAs, such as banks, building societies and fund management companies, must be approved by HM Revenue & Customs (HMRC).
3. **What is the key benefit of having an ISA?**
   Tax free. No income and capital gains tax payable
4. **What are the ISA subscription limits?**
   Subscription limits are set annually and are usually increased by the rate of inflation unless the Chancellor announces a different rate at the budget. For the 2024–25 tax year, the ISA subscription limit is £20,000. With reference to the table above, this means that:

- The whole allowance can be invested in a cash ISA or a stocks and shares ISA, or an innovative finance ISA or any combination of these.
- Up to £4,000 of the annual subscription limit can be subscribed to a lifetime individual savings account (LISA).
- An investor can invest in any combination of ISAs providing that the total subscriptions are within the limits and the 'one ISA of each type per tax year' rule is met.
- For a JISA the subscription limit is £9,000

5. **Is it possible to transfer ISAs? If so, how?**
   ISAs can be transferred. Individuals can:

- Transfer shares into a stocks and shares ISA
- Transfer an existing ISA from one manager to another
- Transfer savings between stocks and shares ISAs and cash ISAs
- There are restrictions on what you can transfer https://www.gov.uk/individual-savings-accounts/transferring-your-isa

Page 30

1. The primary purpose of an ISA is to provide a guaranteed income for pensioners - False
2. One interest earned on cash ISAs is tax free - False
3. An investment wrapper refers to the protective regulations surrounding ISA investments – False
4. HMRC is responsible for approving firms that offer ISA investment products - True
5. ISAs can be gifted or transferred to another individual - True
6. The annual subscription limit is determined by an individuals income - False

Page 32

1. What is a pension? A pension is an investment fund where contributions are made, usually during the individual's working life, to provide a lump sum on retirement plus an annual pension payable thereafter
2. What are the benefits provided by pensions?
   Pension contributions are tax-effective, as tax relief is given on contributions. Some of the main tax incentives of pensions include:

- Tax relief on contributions made by individuals and employers.
- Pension funds are not subject to income tax and CGT and so the pension fund can grow tax-free.
- The ability to take a pension from age 55 (it is due to increase to 57 from 2028).
- An option to take a tax-free lump sum at retirement.
- The option to include death benefits as part of the scheme.

These tax advantages were put in place by the government to encourage people to provide for their own retirement. Pensions, however, are subject to income tax when they are received.

Answers

Page 35

1. **What are the benefits of being a member of a workplace pension scheme?**

   The advantages of these schemes are:

- Employers must contribute to the fund (some pension schemes do not involve any contributions from the employee – these are called non-contributory schemes).
- Tax relief
- Running costs are often lower than for personal schemes and the costs are often met by the employer.
- The employer must ensure the fund is well run, and for defined benefit schemes must make up any shortfall in funding.

2. **Explain the differences between defined benefit and defined contribution pension schemes. Consider the benefits and implications of each.**

   Defined benefit - https://www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics/defined-benefit-or-final-salary-pensions-schemes-explained

   A defined benefit (DB) pension scheme is one where the amount paid is based on how many years an individual has been a member of the employer's scheme and the salary earned when someone leaves or retires.

   They pay out a secure income for life which increases each year in line with inflation.

   The employer contributes to the scheme and is responsible for ensuring there's enough money at the time you retire to pay your pension income.

   Individuals can contribute to the scheme too, and, depending on the scheme, this may be a requirement.

   Usually continue to pay a pension to your spouse, civil partner or dependants when you die.

   Defined contribution - https://www.moneyhelper.org.uk/en/pensions-and-retirement/pensions-basics/defined-contribution-pension-schemes

   If you're a member of a pension scheme through your workplace, then your employer usually deducts your pension contributions from your salary before it is taxed. If you've set the scheme up for yourself, you arrange the contributions yourself. The money in your pension is put into investments (such as shares) by the pension provider.

   The value of your pension pot can go up or down depending on how the investments perform.

   Some schemes move your money into lower-risk investments as you get close to retirement age.
   You might be able to ask your pension provider for this if it doesn't happen automatically

3. **What is "auto-enrolment"?** https://www.moneysavingexpert.com/savings/auto-enrolment/

   Your employer has to enrol you into a workplace pension scheme, and to make contributions to it, if you:

- work in the UK
- are aged between 22 and State Pension age
- earn more than £10,000 a year
- aren't already in a qualifying pension scheme.

   Even if you're not eligible for automatic enrolment, you still have the right to join a workplace pension scheme, if you ask. And, depending on your earnings, your employer might still have to contribute to it.

   https://www.moneyhelper.org.uk/en/work/employment/automatic-enrolment-what-to-expect-from-your-employer

Page 37-38
1B
2D
3D
4C
Page 44
1B
2A
3C

Answers

Page 45
1C
2A
3B

Test your knowledge
1C
2B
3C
4 – ALL OF THEM
5D
6B
7A
8A
9D
10A
11C
12B
13D
14A, B, D
15B