

# The tax and legal aspects of business

## Purpose

At the end of this unit, candidates should be able to demonstrate an understanding of:

- the main legal forms of business and how they are set up and managed;
- the consequences of bankruptcy or insolvency;
- business accounts and financial controls;
- the taxation of each type of business entity, its owners and employees;
- the main legal responsibilities businesses have to employees;
- the use of insurance and associated trust and legal arrangements in business protection;
- the main uses of pensions for business planning.

## Summary of learning outcomes

1. Understand the main legal forms of business in the UK;
2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business;
3. Understand the main internal and external options for financing a business;
4. Understand the principles and application of the following taxes and allowances in the business context:
  - Income Tax;
  - National Insurance contributions;
  - Corporation Tax;
  - Capital allowances;
  - Value Added Tax;
  - Capital Gains Tax;
  - Inheritance Tax;
5. Understand the impact of employment law on business;
6. Understand the main principles of business protection;
7. Understand the role of pensions in a business environment.

## Important notes

- This syllabus will be examined in the October 2018 and April 2019 sessions.
- Candidates will be examined on the basis of English Law and practice in the tax year 2018/2019 unless otherwise stated.
- The general rule is that exams are based on the English legislative position three months before the date of the exams.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit [www.cii.co.uk/qualifications](http://www.cii.co.uk/qualifications)
  2. Select the appropriate qualification
  3. Select your unit on the right hand side of the page

## **1. Understand the main legal forms of business in the UK**

### **Sole trader**

- 1.1 The business and the business owner;
- 1.2 Personal liability – risks, insurance;
- 1.3 Responsibilities of sole traders – taxation, premises, duty to employees, trading regulations;
- 1.4 Business names;
- 1.5 Bankruptcy – causes of, procedures before and after the bankruptcy order, role of the trustee in bankruptcy, restrictions, effects of bankruptcy, discharge, prior transactions, alternatives to bankruptcy;

### **Partnerships**

- 1.6 The role of the Partnership Act 1890, partnership agreements;
- 1.7 Nature, formation and duration of an ordinary partnership;
- 1.8 Cessation of a partnership – ceasing to be a partner;
- 1.9 The relationship between partners – duty of good faith, statutory rules, treatment of partners' capital and loans, profit and loss sharing, partnership property;
- 1.10 Partners' relations with third parties – agency and authority, holding out, liability;
- 1.11 Changes in the composition of partnerships – expulsion, retirement and novation, death, bankruptcy;
- 1.12 Dissolution of a partnership – when it occurs, the distribution of partnership assets.

### **Limited liability partnerships**

- 1.13 Limited Liability Partnerships Act 2000 – creation, designated members, relations between members, relations with third parties, company related requirements, similarities and differences between limited liability partnerships and limited liability companies.

### **Limited companies**

- 1.14 The Companies Act 2006 – the main provisions;
- 1.15 The main features of a company, responsibilities and duties of directors, shareholders and share capital;
- 1.16 Company formation and documents – pre-incorporation contracts, incorporation, the main contents and functions of a company's memorandum and articles of association, public companies, other incorporate structures, unincorporated associations;
- 1.17 Company management – the relationship between the shareholders and the board, the powers and duties of the directors, the appointment and removal of directors, the role and responsibility of auditors, rights of minority shareholders;

- 1.18 Corporate finance – share and loan capital, benefits to investors and company;
- 1.19 Corporate insolvency – compulsory liquidation and voluntary winding up, distribution of assets, duties of liquidators, wrongful trading and fraudulent trading, transactions defrauding creditors, personal liability of directors, the main alternatives to liquidation, Insolvency Act 1986, Enterprise Act 2002, the Company Directors Disqualification Act 1985.

## **2. Understand the main principles of business accounting and the interpretation of accounts for each of the main legal forms of business**

- 2.1 Basic accounting principles – cash and accruals basis, the netting principle, the going concern basis, consistency and comparability, prudence, substance of transactions and individual determination;
- 2.2 Interpreting accounts – use of key ratios for measuring performance, the importance of the directors' and auditors' reports, the profit and loss and balance sheet;
- 2.3 The Companies Act 2006 and accounts – accounting standards, audits for limited companies, small companies;
- 2.4 The use of budgets and budgetary control in business;
- 2.5 How businesses make investment decisions – payback periods, net present value calculations, measuring internal rates of return, deciding whether to lease or purchase assets.

## **3. Understand the main internal and external options for financing a business**

- 3.1 Capital structures of partnerships – partnership capital, profit and loss sharing, loans by partners, loans by third parties;
- 3.2 Company share structures – ordinary, special classes, voting and non-voting, and preference shares;
- 3.3 Corporate debt – priorities, interest rates, security, debentures, directors loans, difference in the tax position of dividends and interest payments;
- 3.4 The loan of assets to a company or partnership by business owners;
- 3.5 Reinvestment of company profits;
- 3.6 Banking and financing practices – sources of company finance, company security, fixed and floating charges, personal guarantees and personal assets used as security;
- 3.7 Tax relief on qualifying loans to individuals for the purchase of shares and partnership interests, for the purchase or improvement of property used in a business, refinancing partnership capital and directors' loan accounts.

#### **4. Understand the principles and application of the following taxes and allowances in the business context**

##### **Income Tax – self-employed and partners**

- 4.1 Taxable profits – registering a business with HMRC, determining whether a trade is being carried on, capital allowances, allowable expenses, the treatment of losses, private assets used in a business, employment of spouse or civil partner;
- 4.2 The basis of assessment – the current year basis, opening and closing years of a business and overlap profits, choosing an accounting date, the self-assessment tax return, tax payment dates, HMRC checks and penalties, IR35 impact on partnerships.

##### **Income Tax – employees and directors**

- 4.3 Employee taxation – employed or self-employed, the PAYE system of collecting tax, taxable payments, termination payments, tax treatment of expenses, IR35 impact on shareholder directors;
- 4.4 Share option and incentive schemes – savings related schemes, share option schemes, enterprise management incentives, profit sharing schemes, share incentive schemes, employee share ownership trusts;
- 4.5 Taxation of employee benefits – exempt and taxable benefits.

##### **National Insurance (NI) contributions**

- 4.6 NI contributions for the self-employed, link of NI contribution records to benefit entitlements, collection of NI contributions;
- 4.7 NI contributions for employees and directors – earnings and benefits subject to NI contributions, class 1 NI contributions, class 1A NI contributions on benefits, special position of directors, associated employments, collection of NI contributions, NI contributions planning.

##### **Corporation Tax**

- 4.8 The basic principles of Corporation Tax – rates of tax, accounting periods, treatment of capital gains and losses, associated companies;
- 4.9 Taxation of corporate profits – computation of profit and loss, research and development expenditure, purchase of goodwill and other intangible assets, disposal of substantial shareholdings;
- 4.10 Self-assessment for companies – payment of Corporation Tax, self-assessment tax return, penalties, managed and personal service companies and IR35 rules;
- 4.11 Dividends – the position of the company and the shareholder, company year end tax planning and choosing between dividends and bonuses for owner directors;

- 4.12 Aspects of Corporation Tax – groups of companies, close companies and close investment companies, company residence, companies buying their own shares.

##### **Capital allowances**

- 4.13 General principles – allowable expenditure, who can claim, date of expenditure, first year allowance, annual investment allowance, writing down allowances, qualifying expenditure, how allowances are calculated.

##### **Value Added Tax (VAT)**

- 4.14 Basic outline of VAT – registration, VAT system, taxable, exempt and partially exempt supplies, zero rated supplies, collection of VAT, penalties.

##### **Capital Taxes (Capital Gains Tax (CGT) and Inheritance Tax (IHT))**

- 4.15 Basic principles of CGT – disposals, exemptions, valuation, calculating gains, losses, identification rules, calculating the tax liability, holdover, rollover, reinvestment and entrepreneurs' reliefs, investors' relief;
- 4.16 Basic principles of IHT – exempt, potentially exempt, chargeable lifetime and death transfers, business and agricultural reliefs, gifts with reservation and pre-owned assets tax, valuation of transfers.

#### **5. Understand the impact of employment law on business**

- 5.1 Contract of employment – the main provisions, rights and duties of employers and employees;
- 5.2 Employers' duties – statutory sick pay, parental rights, allowances and leave;
- 5.3 Employer's liability for injuries to employees, health and safety at work;
- 5.4 Equality Act 2010 – protected characteristics, direct and indirect discrimination, consequences of breaching the Act;
- 5.5 Terminating a contract of employment – unfair dismissal, grounds for dismissal, redundancy, other methods of terminating an employment, TUPE main provisions relating to contracts of employment.

## 6. Understand the main principles of business protection

- 6.1 Key person insurance – identifying key people, interpreting business accounts, calculating amounts of life and health cover, the tax rules, the main types of suitable insurance policies;
  - 6.2 Share purchase protection insurance – the provisions in companies’ articles of association, shareholders’ agreements, share purchase agreement, main types of life cover used, how policies are written, calculating the level of cover needed, tax and legal implications, business trusts, retirement, ill-health, share purchase by the company, use of Wills and business Lasting Powers of Attorney;
  - 6.3 Partnership protection insurance – the Partnership Act 1890, partnership agreements and succession planning, capital accounts, main types of life cover used, how policies are written, calculating the level of cover needed, tax and legal implications, retirement and ill-health, limited liability partnerships, automatic accrual.
- ## 7. Understand the role of pensions in a business environment
- 7.1 Ownership of business assets and financing of businesses by pension schemes – self-invested personal pension (SIPP), small self-administered schemes (SSAS), property purchase, loan backs and share purchase;
  - 7.2 Use of pensions for remuneration and tax planning – employer and employee contributions, benefit limits, tax treatment of contributions and benefits, salary sacrifice;
  - 7.3 Employers’ obligation to provide pensions and other duties, including auto-enrolment into qualifying workplace pension schemes; National Employment Savings Trust (NEST) and other providers.

## Reading list

The following list provides details of additional resources which may assist you with your studies.

**Note: The examination will test the syllabus alone.**

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII/PFS members can access most of the additional study materials below via the Knowledge Services webpage at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge).

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources, please go to [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) or email [knowledge@cii.co.uk](mailto:knowledge@cii.co.uk).

### CII study texts

The tax and legal aspects of business. London: CII. Study text J03.

### Books/eBooks\*

Accounting for non-accountants. 11th ed. David Horner. London: Kogan Page, 2017.\*

Accounting for non-accounting students. J R Dyson. 8th ed. Harlow, Essex: Pearson Education, 2010.

Business performance measurement. 2nd ed. Andy Neely. Cambridge: Cambridge University Press, 2011.

Business protection simplified. Tony Granger. Kemble, Gloucestershire: Management Books, 2015/2016.

Collaborative leadership in financial services. Philip Ullah. Gower, 2011.\*

Essential law for your business: a practical guide to all legal and financial requirements. Patricia Clayton. 13th ed. London: Kogan Page, 2009.

Financial management for the small business. Colin Barrow. 6th rev ed. London: Kogan Page, 2006.

Freshfields on corporate pensions law: 2015. David Pollard, et al. Bloomsbury Professional, 2015.

International financial reporting standards: a practical guide. Hennie Van Greuning, Darrel Scott and Simonet Terblanche. World Bank Publications, 2011.\*

The Financial Times guide to using and interpreting company accounts. Wendy McKenzie. 4th ed. Harlow, Essex: Pearson Education, 2010.

The Financial Times guide to using the financial pages. 6th ed. Romesh Vaitilingam. Prentice Hall/Financial Times, 2011.

Frank Wood's business accounting. Frank Wood and Alan Sangster. 12th ed. Harlow, Essex: Pearson Education, 2012.

Palmer's limited liability partnership law. 2nd ed. Geoffrey Morse (ed). London: Sweet and Maxwell, 2011.

Pensions law handbook. 13th ed. Haywards Heath, West Sussex: Bloomsbury Professional Ltd., 2017.

### eBooks

The following ebooks are available through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only):

Accounting and finance for non-specialists. 10th ed. Peter Atrill, E.J. McLaney. Harlow: Pearson, 2017.

Basic financial accounting. 4th ed. Willen Bosua, Madri Schute. Claremont: Juta and Company Ltd., 2015.

Business law. David Kelly, Ruby Hammer, John Hendy. Taylor and Francis, 2014.

Company law. Ann Ridley, Chris Shepherd. London: Routledge, 2015.

Critical company law. 2nd ed. Lorraine Talbot. London: Routledge, 2016.

Financial accounting: a concepts-based introduction. David L. Koltz. Abingdon, Oxon: Routledge, 2017.

Financial accounting: an introduction. 7th ed. Pauline Weetman. Harlow: Pearson, 2016.

### Journals and magazines

Financial adviser. London: FT Business. Weekly. Available online at [www.ftadviser.com](http://www.ftadviser.com).

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at [www.thepfs.org/financial-solutions-archive](http://www.thepfs.org/financial-solutions-archive) (CII/PFS members only).

Financial times. London: Financial Times. Daily. Available online at [www.ft.com](http://www.ft.com).

Money management. London: FT Business. Monthly. Available online [www.ftadviser.com/brand/money-management](http://www.ftadviser.com/brand/money-management).

Money marketing. London: Centaur Communications. Weekly. Available online at [www.moneymarketing.co.uk](http://www.moneymarketing.co.uk).

Further articles and technical bulletins are available at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge) (CII/PFS members only).

### Reference materials

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2005.\*

Core tax annuals, 6v (Capital gains tax; Corporation Tax; Income tax; Inheritance tax; Trusts and estates; Value-added tax). Various authors. Haywards Heath, West Sussex: Bloomsbury Professional. Annual.

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.\*

Lamont's financial glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009.

Manual of accounting. 2v. PriceWaterhouseCoopers. Haywards Heath: Bloomsbury Professional, 2015.

Tolley's tax guide. Claire Hayes, Ruth Newman, Chris Jones. London: LexisNexis Tolley. Annual.

Tolley's tax planning. Rebecca Forster. London: LexisNexis. Annual.

### Websites

HM Revenue and Customs - [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

Companies House - [www.companieshouse.gov.uk](http://www.companieshouse.gov.uk).

The Insolvency Service - <https://www.gov.uk/government/organisations/insolvency-service>.

\* Also available as an ebook through Discovery via [www.cii.co.uk/discovery](http://www.cii.co.uk/discovery) (CII/PFS members only).

### Examination guides

Guides are produced for each sitting of written answer examinations. These include the exam questions, examiners' comments on candidates' performance and key points for inclusion in answers.

You are strongly advised to study guides from the last two sittings. Please visit [www.cii.co.uk](http://www.cii.co.uk) to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Alternatively, if you have a current study text enrolment, the latest exam guides are available via [www.revisionmate.com](http://www.revisionmate.com).

Older guides are available via [www.cii.co.uk/past-exam-guides](http://www.cii.co.uk/past-exam-guides) (CII/PFS members only).

### Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at [www.cii.co.uk/iilrevision](http://www.cii.co.uk/iilrevision) (CII/PFS members only).