Chartered Insurance Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

September 2026 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2026/2027, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals have long-term UK residence status unless otherwise stated.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:

- Section A: 80 marks
- Section B: 80 marks

- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory**.

- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

- It is important to show all steps in a calculation, even if you have used a calculator.

- Tax tables are provided at the back of the paper.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

SECTION A

This question is compulsory and carries 80 marks

Question 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f), (g) and (h) which follow.

Zubair, a long-term UK resident, died on 1 September 2026. He had been living with his partner, Ilana, in a property they owned as tenants in common. The couple never married and have two adult children.

Zubair was the sole director and shareholder of two companies. Company A is a profitable retail business established in 2020. Company B was started three years ago for the sole purpose of holding a portfolio of rental properties.

Zubair's estate is comprised of the following assets:

Asset	**Value (£)**
Company A	2,000,000
Company B	200,000
House – 50% share	300,000
AIM shares – invested in 2023	80,000
General Investment Account (GIA) – UK equity fund	75,000
Onshore Investment Bond	65,000
Current Account	15,000

Zubair received dividends of £1,200 from his investments in May 2026 and further dividends are due to be paid in November 2026. The administration of Zubair's estate is not expected to be completed before the end of the current tax year.

In his Will, Zubair leaves a legacy of £50,000 to a UK registered charity and the remainder of his estate is to be split equally between his children. He had made no lifetime gifts.

Ilana is now keen to reduce the potential Inheritance Tax (IHT) liability on her own estate. She is considering making a gift into a trust for the benefit of her children whilst retaining some access to the capital.

Ilana made her only lifetime gift of £100,000 into a discretionary trust on 1 October 2020. She also has an existing whole of life policy which was taken out five years ago to cover the IHT on her estate. The policy is not held under trust.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

To gain maximum marks for calculations you must show all your workings and express your answers to two decimal places.

(a) Describe the extent to which Zubair's assets qualify for Inheritance Tax (IHT) Business Relief following his death on 1 September 2026. **(8)**

(b) **(i)** Calculate, **showing all your workings**, the IHT liability on Zubair's estate following his death on 1 September 2026. **(12)**

(ii) Explain briefly, **using figures where appropriate**, the IHT implications if the value of Company A had been £3,000,000 when Zubair died. **(5)**

(c) Describe how Zubair's dividend income is taxed in the 2026/2027 tax year and state who is responsible for paying the tax. **(10)**

(d) Explain why, for tax reasons, the executors should consider assigning the Onshore Investment Bond to Zubair's children instead of surrendering it and distributing the proceeds to the children. ***You should assume that the children are the lives assured.*** **(8)**

(e) Identify **five** benefits and **five** drawbacks to Ilana of investing in an Onshore Investment Bond and gifting it into a Flexible Reversionary Trust for IHT planning. **(10)**

(f) State the factors Ilana should consider before using a Flexible Reversionary Trust to meet her IHT planning objectives. **(8)**

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

(g) **(i)** Calculate, **showing all your workings**, the IHT payable by the trustees if Ilana invests £300,000 into a Flexible Reversionary Trust on 1 October 2026. **(6)**

(ii) Explain briefly how the IHT payable on creation of the Flexible Reversionary Trust would differ if Ilana paid the tax. **(4)**

(iii) Explain briefly why it would be beneficial for Ilana to defer investing into a Flexible Reversionary Trust until 1 October 2027. **(3)**

(h) Outline the actions Ilana could take to reduce her potential IHT liability without making an immediate gift of capital. **(6)**

Total marks available for this question: 80

SECTION B

Both questions in this section are compulsory and carry an overall total of 80 marks

Question 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e) and (f) which follow.

Danny, aged 43, has been divorced from his former wife Melanie for ten years. He has no children.

Danny met his Spanish partner, Lucia, two years ago. She has always lived in Spain but will be moving to the UK to live with Danny on 1 October 2026. They have no plans to marry.

Lucia will receive income from Spain when she rents out her current home and is concerned about the tax position of this once she arrives in the UK.

Danny is the director of his own limited company. He draws a salary of £12,570 and dividends of £99,000. He will also receive income from the following investments in the 2026/2027 tax year:

Type	Income received in 2026/2027 (£)
Cash ISA	4,800
Stocks and shares ISA	4,300
Savings deposit account	9,000
UK equities	8,200
Venture Capital Trust (VCT)	7,200

Danny invested in his existing VCT in 2023 and is investing £200,000 in a new issue of VCT shares in the current tax year.

He made a Will when he married Melanie. She was named as one of the executors and Danny's brother was named as the other. In his Will, he left £50,000 to his brother with the rest to Melanie.

Danny's parents have recently suffered hardship, and he has been supporting them financially each month. He expects this to continue for the foreseeable future.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

To gain maximum marks for calculations you must show all your workings and express your answers to two decimal places.

(a) Calculate, **showing all your workings**, Danny's liability to Income Tax in the 2026/2027 tax year. **(12)**

(b) Outline the relevant tax considerations when advising Danny on whether a further investment in a Venture Capital Trust (VCT) would be appropriate for him. **(5)**

(c) With regard to Danny's Will, explain briefly the implications if he:

(i) dies without making a new Will; **(5)**

(ii) revokes his existing Will and dies before making a new one. **(4)**

(d) State the requirements to make a valid Will. **(7)**

(e) Describe how Lucia's overseas rental income will be treated for UK tax purposes under the foreign income and gains (FIG) regime when she arrives in the UK as a qualifying new resident. **(5)**

(f) Describe how Lucia can make a claim for tax relief under the FIG regime and the deadline for doing this for the 2026/2027 tax year. **(3)**

Total marks available for this question: 41

Question 3

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e) and (f) which follow.

Penelope and Andrew are both aged 57. They have been married for 25 years and have two financially independent adult children.

Andrew works as a marketing manager for a large company and Penelope is a dentist. Both are higher-rate taxpayers.

They bought their first property on a joint tenancy basis on 1 September 2001. They lived in the property for 18 years at which point it was rented until the sale was completed on 31 August 2026. The disposal has resulted in a gain of £250,000.

Andrew has been saving each month into his employer's Save As You Earn (SAYE) scheme. He can exercise the option to buy the shares in October 2026 for 240p each. At that point his savings will total £18,720. Andrew intends to exercise the option to buy the shares and immediately sell them.

Penelope is planning on taking November and December 2026 off work to travel. She will fund this from her flexible cash ISA. She has paid £6,000 into this ISA in the 2026/2027 tax year. Penelope plans to withdraw £8,000 in November 2026 and deposit £16,000 back into the same flexible cash ISA on her return in January 2027. She has not subscribed to any other ISA in the current tax year.

Andrew's mother, Joyce, aged 82, is increasingly becoming dependent on him. Joyce has a large estate, and Andrew has concerns around a future Inheritance Tax liability. They are in the process of appointing Andrew as the sole attorney on a financial decisions lasting power of attorney.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

To gain maximum marks for calculations you must show all your workings and express your answers to two decimal places.

(a) Calculate, **showing all your workings**, the amount of the gain that will be chargeable to Capital Gains Tax (CGT) on the sale of Andrew and Penelope's rental property. **(6)**

(b) Explain, **using figures**, how CGT is calculated on the sale of the shares from Andrew's SAYE scheme. *Assume the shares are trading at 503p on the date of disposal in October 2026.* **(7)**

(c) Explain the benefits to Andrew of transferring the shares into a stocks and shares ISA instead of selling them. *Assume he has not subscribed to any ISA in the current tax year.* **(6)**

(d) Explain the impact of Penelope's planned ISA withdrawal of £8,000 and subsequent deposit of £16,000 on her annual subscription limit for the 2026/2027 tax year. **(6)**

(e) Describe Andrew's main duties as Joyce's attorney under a financial decisions lasting power of attorney (LPA). **(8)**

(f) Explain the circumstances where the financial decisions LPA would come to an end. **(6)**

Total marks available for this question: 39

INCOME TAX

RATES OF TAX	2025/2026	2026/2027
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge:	1% of benefit per £200 of adjusted net income between £60,000 – £80,000	

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.*

Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend allowance	£500	£500
Dividend tax rates		
Basic rate	8.75%	10.75%
Higher rate	33.75%	35.75%
Additional rate	39.35%	39.35%
Trusts		
Income exemption up to**	£500	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

*** Where net income exceeds £500, the full amount is subject to Income Tax. Further, the £500 may need to be divided between other trusts in existence.*

From 6 April 2026, carried interest is taxed as Income Tax, not Capital Gains Tax.
Qualifying carried interest is subject to a 72.5% multiplier before applying Income Tax rates.
Class 4 NICs may also apply.

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% *†*	£4,360	£4,530
Married/civil partners at 10% *†*	£11,270	£11,700
Marriage/civil partners' Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£37,700	£39,200
Rent a Room scheme	£7,500	£7,500
Blind Person's Allowance	£3,130	£3,250
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	20%

§ The Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £39,200 (£37,700 for 25/26) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£129
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*****	Nil
242.00 – 967.00	8%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £129 per week. This £129 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below £96.00**	Nil***
Over £96.00	15%

***Secondary threshold.*

****No employer NICs on the first £967 pw for employees generally under 21 years, apprentices under 25 years and veterans in first 12 months of civilian employment. No employer NICs on the first £481 pw for employees at freeports and investment zones in Great Britain in the first 36 months of employment*

Employment allowance £10,500 Per business – not available if sole employee is a director

CLASS 2 (self-employed) *	
Flat rate per week	£3.65
Small profits threshold per year	£7,105

Class 2 contributions are credited automatically where profits equal or exceed £7,105 per annum.

Class 2 contributions can be made voluntarily where profits are below £7,105 per annum.

Class 3 (voluntary)	Flat rate per week £18.40.
Class 4 (self-employed)	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance abolished from 6 April 2024.*

	2025/2026	2026/2027
Lump sum and death benefit allowance (LSDBA)	£1,073,100	£1,073,100
Lump sum allowance (LSA)	£268,275	£268,275

LSA and LSDBA may be higher if transitional protections are available.
Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.

Money purchase annual allowance (MPAA)	£10,000	£10,000

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£60,000**
2025/2026	£60,000**
2026/2027	£60,000**

**Between 2016/17 and 2019/20 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 where 'threshold income' is over £110,000.*

**Between 2020/21 and 2022/23 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*

***From 2023/24 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

ANNUAL ALLOWANCE CHARGE

20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2025/2026	2026/2027
Individuals, estates etc	£3,000	£3,000
Trusts generally	£1,500	£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES	**2025/2026**	**2026/2027**
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	24%	24%
Higher Rate	n/a	n/a
Trustees and Personal Representatives:		
Residential property	24%	24%
Other chargeable assets	24%	24%
Business Asset Disposal Relief*	14%	18%
Lifetime limit	£1,000,000	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

*** For 25/26, rate for carried interest for all tax bands is 32%*

For 26/27, rate for carried interest for all tax bands is 34.075%

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2025/2026	2026/2027
Transfers made on death		
- Up to £325,000 (nil-rate band)	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- Long-term UK resident spouse/civil partner	No limit	No limit
- Spouse/civil partner who is not a long-term UK resident (from long-term UK resident spouse/ civil partner)	£325,000	£325,000
- UK-registered charities	No limit	No limit
- Residence nil rate band*	£175,000	£175,000

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250

Gifts from surplus income are immediately exempt, as long as they are made from income, are made regularly and do not impact donor's standard of living.

Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

100% relief on first £2.5m* of combined qualifying agricultural property relief and business property relief assets.

50% relief on qualifying assets exceeding £2.5m

AIM listed shares generally restricted to 50% relief regardless of value

* The £2.5m allowance is frozen until April 2031.
50% relief: certain other business assets

Reduced tax charge on gifts made in excess of the nil rate band within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

MAIN SOCIAL SECURITY BENEFITS

		2025/2026	2026/2027
		£ (per week)	£ (per week)
Child Benefit	First child	26.05	27.05
	Subsequent children	17.25	17.90
	Guardian's allowance	22.10	22.95
Employment and Support Allowance	Assessment Phase Age 16 - 24	Up to 72.90	75.65
	Aged 25 or over	Up to 92.05	95.55
	Main Phase Work-related Activity Group	Up to 128.60	Up to 133.50
	Support Group	Up to 140.55	Up to 145.90
Attendance Allowance	Lower rate	73.90	76.70
	Higher rate	110.40	114.60
Basic State Pension	Category A full rate	176.45	184.90
	Category B (lower) full rate	105.70	110.75
New State Pension	Full rate	230.25	241.30
Pension Credit	Standard minimum guarantee - single	227.10	238.00
	Standard minimum guarantee - couple	346.60	363.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	72.90	75.65
	Age 25 or over	92.05	95.55
Statutory Maternity, Paternity, Adoption, Neonatal Care, Shared Parental and Parental Bereavement Pay		187.18	194.32

CORPORATION TAX

	2025/2026	2026/2027
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%

Companies with profits between £50,000 and £250,000 will pay tax at the effective rate of 26.5%. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2025/2026	2026/2027
Standard rate	20%	20%
Annual registration threshold	£90,000	£90,000
Deregistration threshold	£88,000	£88,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £300,000 for properties up to £500,000 when purchasing their mainresidence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional residential and all corporate residential properties*
  £40,000 or more – add 5% to SDLT rates, 8% to LBTT. LTT has separate higher rate bands.
- *Additional SDLT of 2% may apply to purchases by non-UK residents over £40,000.*

- *SDLT may be charged at 17% on interests in residential properties costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%