Chartered Insurance Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

September 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the February 2025 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF1 – Personal tax and trust planning

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully
This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas, however you should be prepared to **read around the subject**. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge
For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks, *however, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination
Assessment is by means of a three-hour written paper in two sections. All questions are compulsory:

Section A consists of one case study, worth 80 marks. You will be expected to carry out a variety of tasks, after analysing the information provided.

Section B consists of two shorter case studies worth a total of 80 marks. Again you will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

Appreciate the standard of the examination
Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates
The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

On-screen written exam familiarisation

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

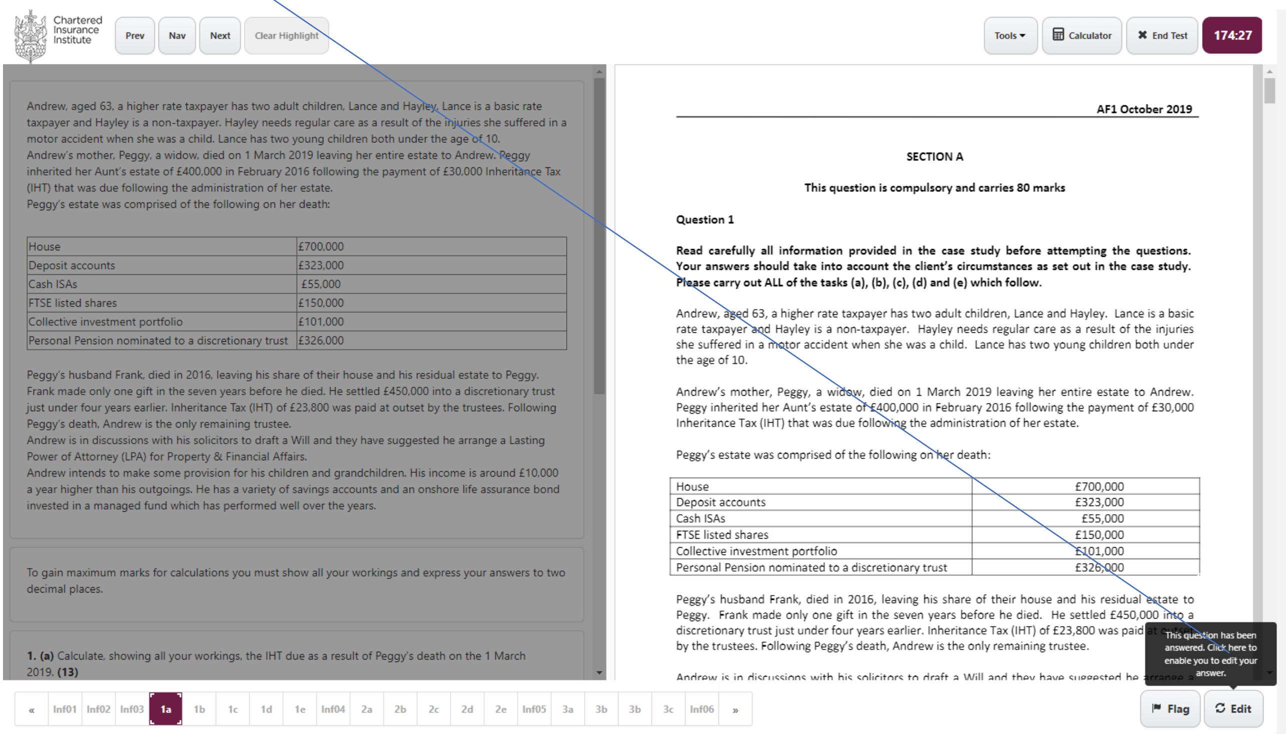
This example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day.

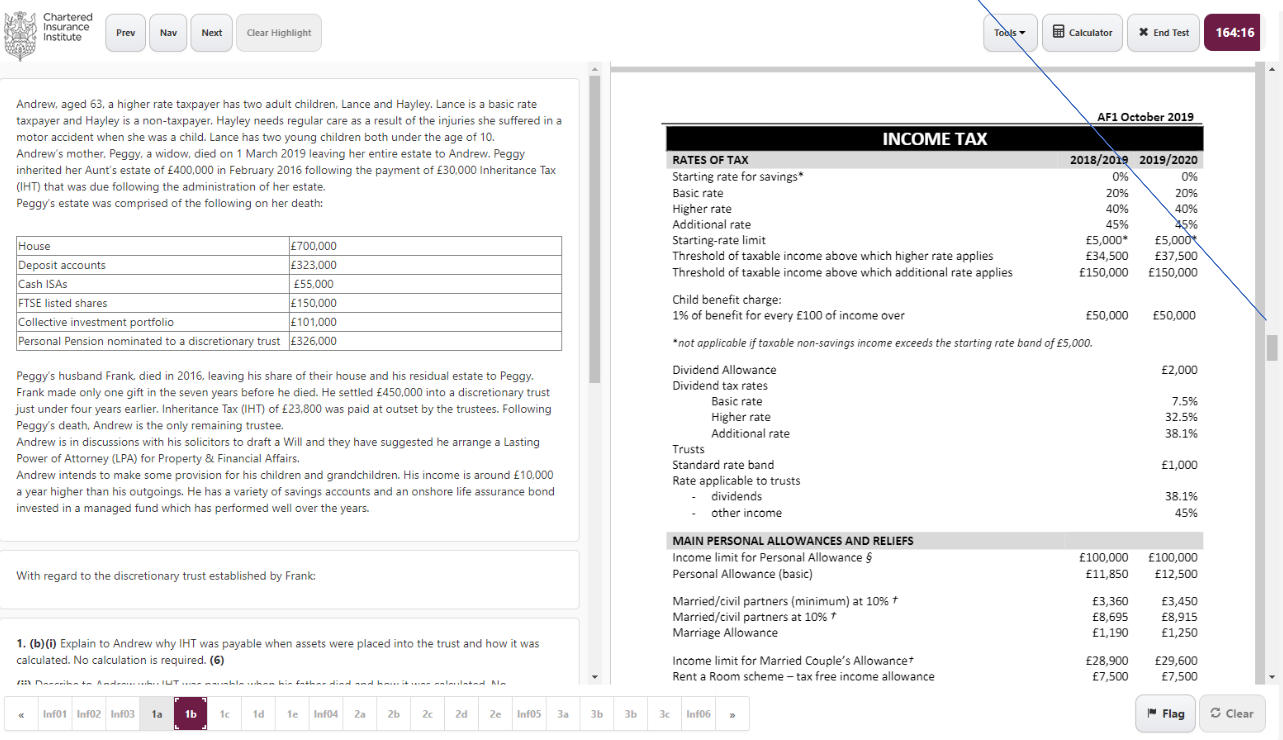
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

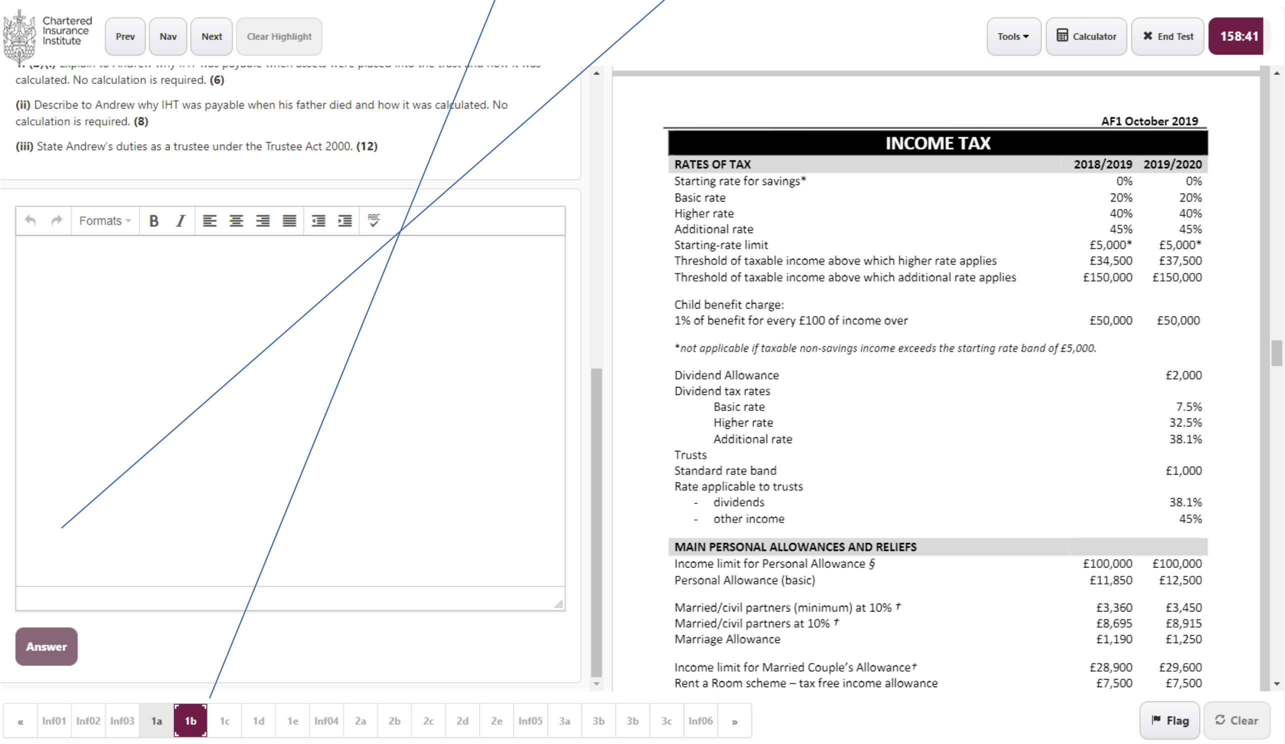
1. From the AF1 familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



3. Once you have typed in your answer ensure you click the red '**Answer**' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the AF1 exam, please click on the AF1 Personal tax and trust planning:

AF1 Personal tax and trust planning

on-screen written exam demonstration (Demo 1)

5. The above screenshot shows the point before the exam has started; you wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **AF1 Personal tax and trust planning.**

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the three questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format
Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

Calculators
The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams
Where you are asked to perform a calculation, it is important to show **all the steps** in your answer. Most of the marks will be allocated for demonstrating the correct method of calculation.

While there are no marks for presentation, laying the calculation out well will make it easier for the examiner to identify all of the marks you have achieved. It does not matter how long the calculation is, if it is well set out. There is no preferred format but following the below guidelines is often helpful:

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in an IHT calculation:
  - Main residence £500k;
  - Onshore Bond £100k.
- Identify all allowances, exemptions, tax bands, tax rates used in £ terms.
- Use subtotals where appropriate. For example:
  - Total assets - £1,500,000
  - Nil rate band (NRB) – (£325,000)
  - Residence nil rate band (RNRB) – (£175,000)
  - Assets after allowances - £1,000,000
- Show all your workings. This could include:
  - grossing up of pension contributions,
  - how you work out the allowances if they are not standard,
- Make notes where appropriate. For example:
  - Bond loss is excluded
  - ISA income ignored
- Double check all of your figures.

Please note that it is currently not possible to insert tables for AF1 exams. You are required to type your answers without the requirement for alignment. As guidance, please refer to the model answers provided in any Exam Guides as templates.

There are no special formulas you are required to be aware of included in the system to submit your answers.

EXAMINERS' COMMENTS

Candidates' overall performance

Overall, candidates performed well with many demonstrating sound Level 6 application of knowledge using the information given in the case studies to form detailed and well thought through answers.

Some candidates would have benefited from including more detail and all candidates are reminded that with calculation questions to gain maximum marks all workings must be shown, to 2 decimal places.

Some candidates however did not only answer the question as set but also gave supplementary information that hadn't been asked for. Future candidates are reminded that marks are only available for the correct answer to the question that has been asked.

It was pleasing to see areas that traditionally have not been answered well, such as residence and domicile, were this time tackled well by many candidates.

Question 1

Part (a)
The exam started with a Capital Gains Tax (CGT) calculation and candidates scored high marks. What most candidates failed to explain however was that Agnete's salary of £12,000 fell within her personal allowance leaving an unused amount of £570 to use against her dividends. Her dividends of £28,000 were therefore covered by £570 @ 0%, £500 @ 0% (dividend allowance within the basic rate band) with £26,930 also using up some of the basic rate band. Although many candidates did realise that £10,270 was left of the basic rate band, further marks were available for explaining in more detail how this figure was arrived at. The well-prepared candidates did appreciate that the £10,000 loss and the CGT exempt amount should be set against the property. The investments should have been taxed first at 10% and 20% with the property falling into the 24% higher rate. This led to a lesser CGT liability rather than taxing the property first.

Part (ii) was answered well with most candidates appreciating that CGT on the property must be paid within 60 days and the liability on the other investments paid by 31 January 2026.

Part (b)
In part (i), candidates were asked for an explanation of the CGT implications of Agnete gifting the shares in her limited company to her son. Some candidates confused holdover relief with rollover relief or Business Asset Disposal Relief (BADR). Many candidates also included within their answer the Inheritance Tax (IHT) implications of the gift to her son; this was not asked for in the question and would only have served to lose valuable time. Only the very well-prepared candidates were able to identify that relief is only available if Luka is a UK resident in the tax year and that both Luka and Agnete would have had to jointly claim the relief.

In part (ii) most candidates did appreciate that the sale would enable her to claim BADR and scored well as a result.

Part (c)
This was a straightforward National Insurance contributions (NICs) calculation where the only test of knowledge was in not including the P11D Private Medical Insurance (PMI) cost which although is subject to Income Tax is not subject to NICs. Some candidates did not use the tax table provided in the exam to correctly state that £242 is the primary contribution threshold which lost easily accessible marks. Also, some candidates calculated the employer's liability which was not asked for in the question and so scored no additional marks.

Part (d)
This question asked for the factors that HM Revenue & Customs (HMRC) will consider when deciding whether Matthias will be classed as self-employed or employed when setting up a consultancy business. It was very clear those candidates who had studied in detail around this and those that hadn't. Many candidates gave both the answer of 'a contract of service and a contract for services' and did not make clear that it is a 'contract for services' that indicates self-employment. At this level it is imperative that candidates are clearly demonstrating understanding of the syllabus.

Part (e)
Some candidates were very well prepared for this question and scored maximum marks. Others were not so prepared and scored very low marks as a result. Residence and domicile is a key part of the syllabus and future candidates should ensure that the basic residency rules are understood in full.

Part (f)
This question tested the Income Tax payable on a full surrender of an investment bond. Answers varied greatly; some candidates had clearly spent time understanding the process and how the personal savings allowance (PSA) can be applied. The main error was not appreciating that although it was an offshore investment bond it was still necessary to consider a basic rate tax deduction in step 2 and step 4 although within step 5 there is no reduction to the liability.

Question 2

Part (a)
This question tested knowledge around the marriage allowance and most candidates did well in both parts of the question. The well-prepared candidates recognised that Kara had to claim as she was the one making the transfer of her unused personal allowance.

Part (b)
Candidates then had to calculate Konrad's Income Tax liability assuming a successful claim of the Marriage Allowance and most candidates scored high marks. The main error made was not recognising that Venture Capital Trust (VCT) dividends are not taxable.

Part (c)
Next was a test of knowledge around lasting powers of attorney and the disadvantages of Kara losing mental capacity without one in place. Most candidates scored well with only those demonstrating clear Level 6 knowledge that picked up the marks around the extra supervision requirements of a deputy and the associated fees that go with that.

Part (d)
Next was a test of knowledge of a Discounted Gift Trust (DGT) and it was good to see many candidates relating their answer back to the information in the case study to refer to the fact that Konrad and Kara wanting to mitigate their IHT liability but at the same time retain an income for themselves.

Part (e)
Similarly in this question it was the candidates that related their answer to the information given that scored well on identifying the factors that they should consider prior to setting up the DGT.

Question 3

Part (a)
This question started with an IHT calculation where candidates were required to calculate the transferable nil rate band as well as to understand how a £15,000 donation to charity would be treated. Many candidates correctly worked through the transferable Nil rate band (NRB) as well as the fact that the donation was not large enough to change the IHT rate from 40% to 36%. A surprising number of candidates however did not deduct the £15,000 as an IHT exempt charitable gift.

Part (b)
This question asked for the benefits of the discretionary trust that was created in Aroha's Will rather than each grandchild benefiting outright at age 21. Many candidates correctly described the characteristics of a discretionary trust and how the trust assets can be protected from Saul's gambling problem. Only a few candidates identified that the expression in her Will was not legally binding.

Part (c)
It was good to see that most candidates recognised the new £500 rule for discretionary trust income. The case study clearly stated that only fixed interest securities were within the trust which meant only the 45% income tax rate would apply. Some candidates, as well as describing the Income Tax position, also described the CGT position for the trust which was not required and would have lost valuable time.

Part (ii) asked how trustee expenses are accounted for. Some candidates explained the type of expenses, which was not asked for and despite any accuracies would not have gained any extra marks.

Part (d)
The final question in the exam asked for a description of the investment powers and duties of trustees under the Trustee Act 2000. Many candidates answered this correctly but many more gave the general duties of a trustee rather than making them specific to investment.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

If you are sitting via remote invigilation please

- **Write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem, please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- For each answer, please type in the full question number you are answering e.g. **1a**
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are permitted**
- Please familiarise yourself with **all** questions before starting the exam.

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) and (f) which follow.

Agnete and Matthias are both aged 59 and have been married for 25 years. They have one son, Luka, aged 24.

Agnete has run her business as a limited company since 2012. She is the sole shareholder and director. The business has recently been valued at £250,000. The shares cost her £10,000 in 2012. Agnete wishes to retire at age 60 and is keen for Luka to take over her business.

In the 2024/2025 tax year, Agnete will pay herself a salary of £12,000 and dividends of £28,000.

Matthias is employed by a national company, on a salary of £53,000. As part of his employment package, he has Private Medical Insurance. The premium of £1,500 per year is paid by his employer.

Matthias plans to retire from his job in the next two years. His current employer is keen to continue to employ him on a part-time consultancy basis. Matthias is considering setting himself up as a sole trader for this purpose.

Luka has been living overseas for the last four years. He is returning to the UK on 1 October 2024, to spend several months working in Agnete's business before he decides whether to take it over.

Agnete and Matthias have the following investments:

Investment	**Owner**	**Value at acquisition £**	**Value at disposal £**	**Acquisition costs £**	**Disposal costs £**
Investment Trust	Agnete	25,000	42,000	225	180
Directly held FTSE 100 shares	Agnete	30,000	63,000	450	200
General Investment Account	Agnete	30,000	39,000	0	0
Stocks and Shares ISA	Agnete	20,000	47,000	0	0
Buy-to-let property	Jointly held	180,000	260,000	14,000	6,000
Stocks and Shares ISA	Matthias	20,000	45,000	0	0
Cash ISA	Matthias	20,000	24,000	0	0
Offshore investment bond	Matthias	40,000	85,000	0	0

Agnete has made investment losses in the past which she has successfully registered with HM Revenue & Customs. These amount to £10,000.

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) **(i)** Calculate, **showing all your workings**, the Capital Gains Tax (CGT) liability for Agnete, assuming she sells all of her investments in the 2024/2025 tax year, including the buy-to-let property she holds jointly with Matthias. **(18)**

(ii) Describe how and when Agnete must pay her CGT liability. **(6)**

(b) Explain in detail, using figures where appropriate, the CGT implications of Agnete:

(i) gifting the shares in her limited company to Luka in the 2024/2025 tax year; **(8)**

(ii) selling her business in the 2024/2025 tax year instead of gifting it to Luka. **(7)**

(c) Explain, using figures where appropriate, Matthias's weekly National Insurance contributions in the 2024/2025 tax year. **(7)**

(d) State the factors that HM Revenue & Customs (HMRC) will consider to establish whether Matthias will be classed as self-employed once he retires and sets up his consultancy business. **(8)**

(e) Describe in detail the **two** tests that HMRC will use to determine Luka's residence status for the 2024/2025 tax year. **(12)**

(f) Calculate, **showing all your workings**, the Income Tax payable on the offshore investment bond if Matthias fully surrenders it in the 2024/2025 tax year. *Assume he had held the investment for five full policy years and has made no withdrawals.* **(14)**

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) and (e) which follow.

Konrad and Kara are a married couple in their 60s. They have two adult children.

Konrad is retired and in the 2024/2025 tax year, he received an annual gross income of £26,000, made up of the State Pension and a pension from his former employer's defined benefit scheme.

He also has income in the 2024/2025 tax year from the following:

Investment	**Income £**
Cash ISA	3,000
Equity open ended investment company (OEIC)	1,750
Directly held FTSE 100 shares	4,000
Venture Capital Trust (VCT)	2,500

Kara works part-time and earns an annual salary of £9,000. She has no other income. Konrad is concerned that Kara's health is deteriorating and neither of them have arranged powers of attorney.

Konrad and Kara are likely to have a significant Inheritance Tax (IHT) liability on second death. They are considering their options to mitigate this but need to retain an income.

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) **(i)** Explain briefly why Konrad and Kara are eligible to claim the Marriage Allowance. **(4)**

(ii) Describe briefly the process they would need to follow to claim the Marriage Allowance. **(5)**

(b) Calculate, **showing all your workings**, Konrad's Income Tax liability for the 2024/2025 tax year. *Assume the Marriage Allowance has been successfully claimed.* **(9)**

(c) State the **disadvantages** of Kara losing mental capacity without a Lasting Power of Attorney in place. **(8)**

(d) Explain the advantages of Konrad and Kara using a Discounted Gift Trust to mitigate their potential IHT liability. **(6)**

(e) Identify the factors Konrad and Kara should consider prior to setting up a Discounted Gift Trust. **(8)**

Total marks available for this question: 40

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) and (d) which follow.

Jerry died on 1 June 2024. His wife, Aroha, died five years ago and the couple left two children, Timoti and Kiri, and five grandchildren aged between 4 and 20.

Jerry made regular gifts to charity during his lifetime and he donated £15,000 in his Will to a local charity. The rest of his estate was left to Timoti and Kiri.

His estate comprised of the following assets:

Asset	**Value at date of death £**
House	620,000
Open ended investment company (OEIC)	85,000
Onshore investment bond	55,000
Stocks and Shares ISA	40,000
Current Account	25,000

In her Will, Aroha left £260,000 to a discretionary trust, with the remaining assets of her estate passing to Jerry.

Timoti and Kiri are the trustees of the trust. The assets in the trust comprise of cash and fixed interest investments and the trust has not been reviewed since its inception.

Aroha expressed a wish in her Will for each of her grandchildren to receive their share of the trust upon reaching age 21.

Saul, the eldest grandchild, will be 21 later this year and the trustees are considering whether to distribute his share of the trust. They are concerned he is not responsible enough to receive monies yet due to a gambling habit.

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 Inheritance Tax (IHT) payable following Jerry's death. **(13)**

(b) Explain the benefits of the discretionary trust that was created in Aroha's Will on her death rather than each grandchild benefiting outright at age 21. **(7)**

(c) **(i)** Describe how any income received by the trustees of the discretionary trust in the 2024/2025 tax year will be taxed. **(6)**

(ii) Explain briefly how trustee expenses are accounted for when calculating the taxable income for the discretionary trust. **(4)**

(d) Describe Timoti and Kiri's investment powers and duties under the Trustee Act 2000. **(10)**

Total marks for this question: 40

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a) (i)

Investment	Gain
Investment Trust	
Disposal proceeds	£42,000
Acquisition value	£25,000
Acquisition/disposal costs	(£405)
Gain	**£16,595**
FTSE 100 shares	
Disposal proceeds	£63,000
Acquisition value	£30,000
Acquisition/disposal costs	(£650)
Gain	**£32,350**
GIA	
Disposal proceeds	£39,000
Acquisition value	£30,000
Gain	**£9,000**
BTL property	
Disposal proceeds	£260,000
Acquisition value	£180,000
Acquisition and disposal costs	£20,000
Gain of 50%	£30,000
Losses against property	(£10,000)
CGT exempt amount against property	(£3,000)
Net gain	**£17,000**
Total Gains = £74,945	

Salary £12,000 - within £12,570 personal allowance leaving £570 remaining

Dividends - £28,000

Unused personal allowance = £570 @ 0%
£500 Dividend allowance @ 0%
£26,930 of basic rate band used

£37,700 - £500 - £26,930 = £10,270 of basic rate band left to offset against gains

£10,270 @ 10% = £1,027
£47,675 @ 20% = £9,535
Property £17,000 @ 24% = £4,080
Total = £14,642

(ii) **Property**

- Payment on account of CGT must be made within 60 days from completion using an online property report.

Other investments

- CGT due by 31 January 2026 using HMRC's real time CGT service or self-assessment.

(b) **(i)**

- Holdover relief can be claimed as gift of business assets/private company shares.
- No CGT is paid at the time.
- Market value is £250,000 less £10,000 cost = Chargeable gain of £240,000.
- Acquisition cost to Luka is reduced by £240,000.
- Luka will receive the shares with a base cost of £10,000 increasing the amount of any gain made by Luka on a future disposal.
- Luka and Agnete have to jointly claim holdover relief.
- Relief is only available if Luka is a UK resident in the tax year.

(ii)

- She will be liable for CGT.
- She can claim business asset disposal relief.
- This covers the first £1m of lifetime qualifying gains that she makes.
- She will pay 10% on the gain in excess of her available annual exempt amount.
- Gains are set against any unused basic rate band before non-qualifying gains.

(c)

- The first £242 is charged at 0%.
- The difference between £967 and £242 (£725) is charged at 8% = £58.
- £1,019.23 - £967 = £52.23 charged at 2% = £1.04.
- Total = £58 + £1.04 = £59.04.

Candidates would have gained full marks for any eight of the following:

(d)

- A contract for services indicates self-employment.
- He is not controlled by his ex-employer/not supervised.
- He won't get holiday pay/overtime.
- He will be paid a fee (not a regular salary).
- He will have freedom to accept work or refuse work.
- He will be able to subcontract the work to someone else.
- He will be risking his own money.
- He will have to provide his own equipment.
- He will have to rectify mistakes.

(e)

- Luka will be treated as **automatically not UK resident** if:
- he is in the UK for less than 16 days in the tax year;
- he was not resident for any of the previous three tax years and is in the UK for fewer than 46 days in the current tax year;
- he works full-time overseas provided he is the UK for less than 91 days in the tax year and he spends less than 31 days in the tax year working in the UK.

- Luka will be treated as **automatically UK resident** if:
- he is in the UK for 183 days or more in the tax year;
- he has a home in the UK - for at least 91 consecutive days of which at least 30 days are within the tax year;
- he also has an overseas home during those 91 days, he must be present in that home for fewer than 30 days in the tax year;
- he carries out full-time work in the UK.

(f) The gain on the investment bond is £45,000 and Matthias is a higher-rate taxpayer.

Step 1
£500 PSA x 0%
£44,500 x 40% = £17,800

Step 2
BR tax treated as paid is £45,000 x 20% = £9,000
Additional tax on the gain is £17,800 - £9,000 = £8,800

Step 3
The annual equivalent = £45,000/5 = £9,000

Step 4 – tax on the annual equivalent gain =
£500 x 0%
£8,500 x 40% =£3,400
BR tax treated as paid is £9,000 x 20% = £1,800
The relieved liability on the gain = £3,400 - £1,800 = £1,600 x 5 = £8,000

Step 5
Top slicing relief =
£8,800 - £8,000 = £800

Overall liability after top slicing relief =
£17,800 - £800 = **£17,000**

Model answer for Question 2

(a) **(i)**

- Kara's income is below the personal allowance.
- Konrad is a basic-rate taxpayer.
- They are married.
- Kara can transfer 10%/£1,260 of her personal allowance to Konrad.

(ii)

- Kara must make the claim to HMRC.
- The whole 10%/£1,260 must be transferred.
- An election made in the current tax year remains in force for future tax years.
- It can be backdated 4 tax years if they were eligible.

(b)

	Non-savings	**Dividend**
Pension Dividends from OEIC Dividends from shares Personal allowance Income Tax = £3,145.38 Less marriage allowance: £1,260 x 20% = £252 Total = **£2,893.38**	£26,000 (£12,570) £13,430 £13,430 @ 20% = £2,686	 £1,750 £4,000 £500 @ 0% £5,250 @ 8.75% = £459.38

(c)

- An application for deputyship would have to be made to the Court of Protection (COP).
- This would be a costly and time-consuming process.
- Kara would have no say in who would look after her affairs/make decisions on her behalf.
- Her assets would be inaccessible until the deputyship is in place.
- Deputies are subject to more stringent supervision than attorneys and there is an annual fee to reflect this.

(d)

- The discount is immediately outside of their estate.
- The couple retain a regular income stream/can take 5% of the initial investment without the GWR/POAT provisions applying.
- Investment growth is immediately outside the couple's estate.
- The investment amount could exceed their Nil Rate Bands (NRB) without incurring an immediate charge to IHT/the potential discount can bring the gift below the NRB.
- The gift drops out of the estate after seven years.

Candidates would have gained full marks for any eight of the following:

(e)

- Their age and health/are they likely to survive seven years?
- It will be medically underwritten.
- Affordability/do they need access to the capital being gifted?
- Their attitude to risk/capacity for loss.
- The fixed amount of income/income would be eroded by inflation over time.
- Do they need the income for life?
- Have they made any other gifts in the previous seven years?
- Potential IHT liability on the estate on second death.
- Should the bond be in single or joint names, given Kara's state of health.
- Type of trust being used/onshore vs offshore.

Model answer for Question 3

(a)

Transferable NRB from Aroha £260,000/£325,000 = 80% £325,000 x 20% = £65,000	
Jerry's estate	
House	£620,000
OEICs	£85,000
Investment Bond	£55,000
Stocks and shares ISA	£40,000
Current Account	£25,000
Total	**£825,000**
Less charitable gift	£15,000
Total estate	**£810,000**
Less NRB	£325,000
Less transferable NRB	£65,000
Less RNRB	£350,000
Taxable estate	£70,000
Charitable gift = less than 10% of net estate £15,000/£420,000 + £15,000 = 3.45% £70,000 x 40%	
Inheritance Tax payable =	**£28,000**

(b)

- Saul/grandchildren are not entitled to receive a share of the trust at age 21.
- The expression of wishes Aroha left in her Will is not legally binding.
- Timoti and Kiri as trustees can decide who will benefit, when they will benefit and how much they will receive.
- The trust assets will be protected from Saul's gambling/potential bankruptcy.
- The youngest grandchild will be a potential beneficiary even though they were not born when Aroha died.

(c) **(i)**
- The trust receives interest from cash and fixed interest investments which will be subject to Income Tax.
- There is no standard rate band in the 2024/25 tax year.
- No tax will be payable if trust income is less than £500.
- If trust income exceeds £500, the whole of the income will be taxed at 45%.

(ii)
- Expenses are allowable and paid out of net income.
- Expenses are grossed up (by 20%).
- The income is still charged at basic rate.

(d)
- Trustees have a statutory duty of care.
- They can invest as if it were their own money.
- Any cash should be invested wisely if not paid out to beneficiaries.
- Ensure suitability of the investments to the trust.
- Ensure investments are suitably diversified.
- Keep investments under review.
- Vary investment if appropriate.
- Consider obtaining advice unless the trustees conclude it is unnecessary or inappropriate.
- Keep proper accounts.

Glossary of terms

Some abbreviations candidates can use in on-screen written exams:

1. ART – Additional-rate taxpayer
2. ATR – Attitude to risk
3. AA – Annual allowance
4. AEA – Annual exempt amount
5. BRT – Basic-rate taxpayer
6. BIK – Benefit in kind
7. CLT – Chargeable lifetime transfer
8. CFL – Capacity for loss
9. CGT – Capital Gains Tax
10. COP – Court of Protection
11. DOV – Deed of Variation
12. DIS – Death-in-Service
13. DFM – Discretionary Fund Manager
14. EIS – Enterprise Investment Scheme
15. ESG – Environmental, Social and Governance
16. EPT – Excluded property trust
17. EPA – Enduring power of attorney
18. ERC – Early repayment charges
19. FAD – Flexi-access drawdown
20. FSCS – Financial Services Compensation Scheme
21. FOS – Financial Ombudsman Service
22. GAR – Guaranteed annuity rate
23. HRT – Higher-rate taxpayer
24. IHT – Inheritance Tax
25. HMRC – HM Revenue & Customs
26. IT – Income Tax
27. IVA – Individual Voluntary Arrangement
28. IPDI – Immediate Post Death Interest Trust
29. LPA – Lasting Power of Attorney
30. MVR – Market value reduction
31. MPAA – Money purchase annual allowance
32. NICs – National Insurance contributions
33. NPA – Normal pension age
34. NRA – Normal retirement age
35. NRB – Nil rate band
36. OPG – Office of the Public Guardian
37. OEIC – Open ended investment company
38. PAYE – Pay As you Earn
39. PPP – Personal pension plan
40. PCLS – Pension commencement lump sum
41. PA – Personal allowance
42. PSA – Personal savings allowance
43. PRR – Private Residence Relief
44. RAC – Retirement annuity contract
45. RNRB – Residence nil rate band
46. SIPP – Self-invested personal pension
47. SEIS – Seed Enterprise Investment Scheme
48. UFPLS – Uncrystallised funds pension lump sum
49. VCT – Venture capital trust

All questions in the February 2025 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2024 and February 2025 examinations.

INCOME TAX

RATES OF TAX	2023/2024	2024/2025
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.*

	2023/2024	2024/2025
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	£1,000	£500
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	n/a
Income exemption up to**	n/a	£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.*

MAIN PERSONAL ALLOWANCES AND RELIEFS	2023/2024	2024/2025
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,010	£4,280
Married/civil partners at 10% †	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
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%	30%

§ 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 £37,000 (£34,600 for 23/24) 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)	£123
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 £123 per week. This £123 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.*

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Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00**	Nil
Over £175.00	13.8%

***Secondary threshold.*

CLASS 2 (self-employed)*

Flat rate per week	£3.45
Small profits threshold per year	£6,725

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.
Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

Class 3 (voluntary)	Flat rate per week £17.45.
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 removed from 6 April 2024.*

	2023/2024	2024/2025
Lump sum and death benefit allowance (LSDBA)	n/a	£1,073,100
Lump sum allowance (LSA)	n/a	£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.

	2023/2024	2024/2025
Money purchase annual allowance	£10,000	£10,000

ANNUAL ALLOWANCE

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

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be 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.*

***Reducing 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	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
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.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2023/2024	2024/2025
Transfers made on death		
- Up to £325,000	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		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

**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
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

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimum guarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	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	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

***If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2024/2025 is £35.95, so total awarded for these individuals may be up to £126.45.*

CORPORATION TAX

	2023/2024	2024/2025
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 main rate, reduced by a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2023/2024	2024/2025
Standard rate	20%	20%
Annual registration threshold	£85,000	£90,000
Deregistration threshold	£83,000	£88,000

STAMP DUTY LAND TAX

	Residential
Value up to £250,000	0%
£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 £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings 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%