

Chartered
Insurance
Institute

AF4

Advanced Diploma in Financial Planning

Unit AF4 – Investment Planning

September 2025 Exam Guide

SPECIAL NOTICES

Candidates entered for the March 2026 exam should study this exam guide carefully in order to prepare themselves for the exam.

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

AF4 – Investment planning

Contents

Important guidance for candidates	3
Examiner comments	7
Question paper	12
Model answers	21
Glossary of terms	28
Tax tables	32

This PDF document has been designed to be accessible with screen reader technology. If for accessibility reasons you require this document in an alternative format, please contact us on online.exams@cii.co.uk to discuss your needs.

Published November 2025

Telephone: 020 8989 8464

Email: customer.serv@cii.co.uk

Copyright © 2025 The Chartered Insurance Institute. All rights reserved.

IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Exam Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit.

During your preparation for the exam, it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under exam conditions.

Before the exam

Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk, on the relevant qualification page. All the questions in the exam are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

Read widely

To get the most out of your learning, it's important to explore beyond just one textbook. Relying solely on a single study text may not give you all the depth or perspectives you need. While the main study materials are designed to cover the syllabus, they might not always explain things in a way that works for you—or offer alternative viewpoints that deepen your understanding.

That's why reading around the subject is so valuable. If a topic feels unclear or you're curious to see how others approach it, looking at different sources can really help. Think of it as building a richer, more rounded picture of what you're learning.

Build confidence in your knowledge and ability to apply it.

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.

Make full use of the Exam Guide

This Exam Guide contains a full exam 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 Exam Guides can be treated as 'mock' exam papers. Attempting them under exam 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 exam guides free of charge on the relevant qualification page 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 Exam Guide. These tax tables will be provided to candidates as part of the exam paper. 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 exam.*

Know the structure of the exam

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 exam

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.

Assessment Information and Rules and Policies for candidates

Please review the [assessment information](#) and [rules and policies](#) for candidates. Full details of the administrative arrangements and the regulations governing your exam entry are available online.

In the exam

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 exam 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 Exam 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 exam 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.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the exam room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance

Overall, candidates performed well in this paper.

The composition of the exam, testing 'core' and 'peripheral' content from across the syllabus, allowed well-prepared candidates the opportunity to perform to a pass standard, while offering better-prepared candidates the capability to excel without disadvantaging those less prepared candidates.

It was noted that at times candidates' answers were too superficial. These answers contained too little detail and/or were too vague, which limited the number of marks that could be awarded. It is important to remember that as an RQF Level 6 exam, more specific and detailed levels of understanding, application and knowledge are required in order to attain a pass standard.

In candidates where performance was lower, too many presented answers that were only able to be awarded a small number of the available marks in question-parts, often identifying those marks equivalent to RQF Level 3 or 4 rather than the expected level of knowledge at Level 6. At this Level, it is reasonable to expect candidates to know not just the factor, e.g. 'interest rates' but also the directionality, e.g. 'increasing'. This is particularly relevant – and important – in question-parts testing macro-economics and where the question-part asks the candidate to consider an effect, impact or consequence.

Across the calculation questions, the majority of candidates showed all the relevant workings and – compared to previous, recent sittings – presented answers that were more closely aligned with the model answers in exam guides, thereby allowing them to be awarded a greater proportion of the available marks. Those who did not perform well either used incorrect variables in the correct formula or the incorrect formula.

It was pleasing to see the majority of candidates attempting all the question-parts, with fewer candidates writing expansive, narrative-style answers, in favour of more candidates answering with a succinct, bullet-point focused style. This produces more effective exam technique and in general results in more marks being awarded.

A well-prepared candidate having undertaken robust revision would have been able to achieve the pass standard.

Question 1

In part (a) candidates performed well, with the majority of candidates being awarded over half the available marks. The principles and assumptions of MPT are often used by candidates as a default answer to any question-part testing any investment theory and the level of candidate revision in this area of the syllabus is good. The few candidates who did not perform well either provided multiple, different examples of the same principle or assumption, or their answers contained repetition of the same principle or assumption.

Overall candidates performed well in part (b), with the majority being awarded over half the available marks. Parts (b)(i) and (b)(iii) tested core metrics that candidates expect to see tested and there was a good opportunity for candidates to demonstrate their knowledge. Candidates who did not perform well in parts (b)(i) and (b)(iii) used incorrect variables in their calculations, although several candidates also did not show any output to their workings.

In part (b)(ii) candidates performed well, with most identifying 2-3 of the available marks. Candidates who did not perform well in the main provided vague deductions or those relevant to ROE/ROCE. In part (b)(iv) those candidates who did not perform well mirrored the reasons to part (b)(ii), i.e. vague benefits and/or those relating to ROE/ROCE.

Overall candidates performed well in part (c), with the majority of candidates being awarded over half of the available marks. The information ratio is core content and tested frequently, along with questions on its interpretation and use. Those candidates who did not perform well in part (c)(i) did not show the difference or used the variables in incorrect parts of the calculation. In part (c)(iii) candidates who did not perform well either provided generic answers on risk-adjusted metrics or explained alpha.

In part (d)(i) candidates performed adequately with the majority of candidates being awarded around half of the available marks. Better-prepared candidates were awarded full marks. Those candidates who did not perform well in part (d)(i) provided answers about the objectives of investment in general or outlined the characteristics of other investment styles.

In part (d)(ii) candidates performed better. Candidates whose answers set out tables or other visual cues to identify 'matched' marks for respective differences between OEIC, and investment trust performed better than those who provided a narrative answer, mixing the two. Candidates who did not perform well in part (d)(ii) set out too few differences, often concentrating on the OEIC rather than investment trust, and in some instances got the differences the wrong way around.

Candidates did not perform well in part (e) with the majority being awarded less than half of the available marks. In part (e)(i) most candidates answered as if 'financial investment' meant investment by an individual with their answers describing portfolio construction, asset allocation and descriptions of the main investment objectives. Also, a reasonable number of candidates described either the current account or the capital account.

In part (e)(ii) candidates performed adequately although knowledge of macro-economics, including inflation, remains low. The majority of candidates demonstrated a rudimentary knowledge but beyond this, too many candidates provided either superficial answers or got the directionality incorrect, e.g. 'a decrease in interest rates' or 'increase in business investment'.

Candidates performed well in part (f) with the majority of candidates awarded over half the available marks. In part (f)(i) candidates analysed the case study content to identify relevant marks. Candidates who did not perform well generally provided vague answers relating to investing in any product or stated benefits rather than drawbacks of an EIS. In part (f)(ii) candidates performed well, with most candidates identifying the correct time periods. Candidates who did not perform well answered based upon disposal relief and/or stated the time periods the wrong way around or referred to tax years.

In part (g) candidates performed very well with almost all candidates being awarded over half the available marks or full marks. It was very pleasing to see candidates limit their answers to just two biases, as per the question, rather than writing a long list of all the biases stated in the AF4 workbook. As with part (f)(i), candidates analysed the case study content for the relevant biases. Candidates who did not perform well stated irrelevant biases and reasons.

In part (h) candidates performed adequately with almost all candidates being awarded over half the available marks. Candidates who did not perform well either did not explain absolute return or stated that it was either a duplication of real return or the real return less investment costs and charges.

Question 2

In part (a) candidates performed adequately to well with the majority of candidates being awarded over half the available marks. Part (a)(i) has been tested previously, and the list-like nature of the model answer was well-known by candidates. Candidates who did not perform well explained the APS process rather than the required information. In part (a)(ii) candidates demonstrated a low level of knowledge. Candidates who performed well showed an understanding of the process, while those who did not perform well either stating that the ISA loses its tax treatment; contributions can continue and/or that there was a 2-year period following death.

Candidates performed adequately in part (b) with the majority of candidates being awarded over half the available marks. In part (b)(i), most candidates identified the correct adult ISA figure for Isabelle but too many candidates identified an incorrect figure for Cheryl's CTF, as well as for the friendly society premium limit. Candidates who did not perform well in part (b)(i) also did not total the individual figures to show the maximum that could be invested.

In part (b)(ii), candidates performed adequately with most candidates knowing that something happened at ages 16 and 18 – despite this being stated in the question – but were unsure as to exactly what: candidates who performed well were awarded 2-3 of the available marks. Candidates who did not perform well generally got the ages at which the options apply the wrong way around.

Candidates performed adequately in part (c) with the majority of candidates being awarded around half the available marks. In part (c)(i) most candidates were awarded 1-2 marks with better candidates being awarded a further 1-2 marks. In part (c)(ii) most candidates were awarded 2-3 marks for stating the various trigger events. In parts (c)(i) and (c)(ii), candidates who did not perform well generally provided vague answers, including explaining the objectives and/or investment strategy of a with-profits fund rather than the key features of the types of bonus.

In part (c)(iii) candidates performed well, providing narrative explanations that could be awarded 1-2 marks. Those candidates who did not perform well generally explained that an MVR existed solely as a mechanism for the life company to recoup the returns that it had previously paid out.

In part (d) candidates performed adequately with the majority of candidates being awarded half the available marks. Candidates who did not perform well tended to state the various index replication strategies and then explain one of more of them, often duplicating their explanations.

Candidates performed well in part (e) with the majority of the candidates being awarded over half the available marks. This syllabus area is core content and candidates have a good level of knowledge of active vs passive in general, although the tighter focus of the question-part to two passives tracking the same index meant that answers regurgitated from previous exam guides, where the question tested active vs passive, were not likely to be awarded marks. Candidates who did not perform well either provided generic answers or multiple, similar reasons all relating to alpha/outperformance.

Question 3

In part (a) candidates performed well with the majority of candidates awarded full marks. Those candidates who did not perform well generally stated the features of a platform or vague answers that did not relate to the consolidation of existing funds onto a platform.

Overall candidates performed adequately to well in part (b) with the majority of candidates awarded around half the available marks. In part (b)(i) candidates who performed well analysed the case study content in order to identify drawbacks. It was also pleasing to see good overall awareness of the impact of recent changes in the CGT AEA and rates upon a capital withdrawal strategy. Candidates who did not perform well generally provided generic answers or assumed that the clients' strategy was predicated upon taking dividends from the equity income funds rather than capital withdrawals, as contained in the case study and stated in the question.

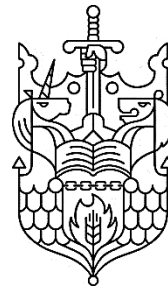
In part (b)(ii) candidates performed very well. Candidates who did not perform well generally provided multiple, similar actions. In part (b)(iii) candidates performed well, with the majority being awarded at least 2 marks. This was a measurable improvement on the previous occasion CfL was tested and suggests it has formed part of candidates' core revision. Candidates who did not perform well either provided superficial answers or repeated their answers to part (b)(ii).

Candidates performed very well in part (c) with the majority of candidates awarded in the first tercile of the available marks. Candidates who did not perform well generally either did not show all their workings – often because they had performed the calculation on a calculator and did not know how to set them out on paper – or did not follow the standard deviation formula, instead applying various stages of the TWR/MWR formulae as stages in the standard deviation formula.

In part (d) candidates performed adequately to not well with the majority awarded less than half the available marks. Despite being core content, candidate knowledge of gilts has always been and remains low. In part (d)(i) most candidates performed well. Those candidates who did not perform well either provided generic answers relating to fixed interest securities or stated that the 'index' in index-linked gilts refers to a stock market index and/or that CPI is the measure of inflation used.

In part (d)(ii) candidates did not perform well. Most candidates' explanations referred to GDP growth and/or the base interest rate being the comparator for gilt yields when calculating any difference. In part (d)(iii) candidates performed adequately, with the scope of the question in respect of the yield curve steepening or flattening allowing greater opportunity for marks to be awarded. Candidates who did not perform well provided answers that related to capital and/or current account deficits as well as multiple, similar examples of interest rate and inflation factors.

In part (e) candidates performed adequately to well, with the majority of candidates being awarded half the available marks. Candidates who did not perform well provided answers that focused on the characteristics of the underlying company paying the dividend, including answers relating to asset allocation and the use of equity income funds, rather than the relying on the dividends themselves.



Chartered
Insurance
Institute

AF4

Advanced Diploma in Financial Planning

Unit AF4 – Investment planning

September 2025 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2025/2026, 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.

Instructions

- Three hours are allowed for this paper.
- Do not begin writing until the invigilator instructs you to.
- Read the instructions on page 3 carefully before answering any questions.
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the exam room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this exam in the future.**

Unit AF4 – Investment 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.
- 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.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the exam room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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

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 client's 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.

Vasileois, aged 65, is the majority shareholder in an electrician business that he founded over thirty years ago. His salary is £50,000 per annum and he also receives an annual dividend from the business of £80,000 per annum. Vasileois intends to retire within the next twelve months and has been in discussion with a third party about the sale of his shareholding in the business. Vasileois has recently accepted an offer to sell for £1,400,000 and the sale is expected to complete in May 2026.

Vasileois has an adventurous attitude to risk, and this is reflected in his investment portfolio which consists of a number of open-ended investment companies (OEICs) and investment trusts. In recent years, he has seen both the dividend income and capital values of some of the trusts fall substantially although Vasileois wants to hold on to them until they 'come good'. However, in the most recent review meeting with his financial adviser, Karolin, she raised concerns over two of the trusts held within the portfolio. Details of these are set out in **Table 1** below:

Table 1

Trust	Share price	NAV	Number of shares in issue	Earnings after taxation	Dividend per share	Dividend cover
Suezmax Tanker Leasing plc	76p	121p	218,000,000	£4,360,000	2.1p	-
Tertiary Retail Units plc	32p	39p	15,200,000	-	16.4p	1.7

Also, within the investment portfolio is an OEIC fund, details of which are set out in **Table 2** below:

Table 2

Fund	Fund return	Benchmark return	Tracking error	Standard deviation
Momentum Opps	20.2%	18.4%	9.7%	3.5%

Karolin has commented in previous meetings that the portfolio could benefit from the application of Modern Portfolio Theory. In response, Vasileois has stated that he prefers to trust in his own belief that increased financial investment in the economy over the coming years, will be the principal source of return for his portfolio. He is also convinced that an inflationary environment always results in greater economic growth and higher investment returns, although Karolin believes he may be confusing real and nominal returns.

If his business sale completes as planned, Vasileois would like to invest the proceeds to reduce his potential personal tax liability and Karolin is researching the tax treatment and potential benefits to Vasileois of an Enterprise Investment Scheme.

Vasileois also believes that Momentum Opps' performance is influenced heavily by its structure and style. He would like to know more about both these factors.

Questions

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

- (a) Describe the key principles and assumptions of Modern Portfolio Theory. (10)
- (b) (i) Calculate, **showing all your workings**, the dividend cover of Suezmax Tanker Leasing plc. (4)
- (ii) Comment on what can be deduced from the dividend cover figure, based upon your answer to **part (b)(i) above**. (4)
- (iii) Calculate, **showing all your workings**, both the earnings after taxation and earnings per share (EPS) ratio for Tertiary Retail Units plc. (4)
- (iv) Explain briefly the benefits of using EPS as a measure of a company's financial performance. (3)
- (c) (i) Calculate, **showing all your workings**, the information ratio for the Momentum Opps fund. (4)
- (ii) Comment on what can be deduced from the information ratio figure, based upon your answer to **part (c)(i) above**. (3)
- (iii) Explain briefly why Karolin would use the information ratio as a measure of performance. (3)
- (d) (i) Outline the main characteristics of a momentum investment strategy. (4)
- (ii) Identify the main differences in the structure and pricing of an OEIC and an investment trust. (12)
- (e) (i) Describe what is meant by the term 'financial investment' within an economy and explain briefly its objective. (5)
- (ii) Comment on the likely impact upon the UK economy and businesses of a sustained rise in inflation. (6)

- (f) (i) Identify **six** potential drawbacks that Karolin would bring to Vasileois' attention, if he were to want to invest the entire sale proceeds into an Enterprise Investment Scheme (EIS). (6)
- (ii) Describe what is meant by deferral relief in relation to an EIS, including the relevant time limits. (4)
- (g) Identify, from a behavioural finance perspective, **two** investor biases that Vasileois is likely demonstrating and state the reason for each. (4)
- (h) Explain briefly what is meant by the terms 'nominal return', 'real return' and 'absolute return'. (4)

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.

Isabelle, aged 43, is divorced. She has one child, Cheryl, aged 15. Isabelle is employed and a higher-rate taxpayer. Isabelle has been using tax-sheltered products to build up a lump sum over the medium to long term, to help toward the cost of the deposit when Cheryl buys her first property.

The details of her existing investment products and the contributions in the current tax year are set out in **Table 1** below:

Table 1

Holder	Product	Contributions to date in 2025/2026	Contribution Frequency
Isabelle	Stocks and Shares ISA	£16,000.00	Lump sum
Cheryl	Child Trust Fund (CTF)	£3,600.00	Lump sum
Cheryl	Friendly Society policy	£150.00	Annual

Isabelle's Stocks and Shares ISA invests in two exchange-traded funds (ETFs) in equal amounts which each track the FTSE 100 Index. She has noticed that their returns differ from each other, and over the years, the divergence in their valuations has increased. Isabelle would like to understand the reasons for the difference.

Cheryl's CTF invests in a unitised with-profits fund. The plan's literature mentions annual and final bonuses, as well as a market value reduction (MVR) and Isabelle would like to know more about how these terms may affect the plan. She would also like Cheryl to understand what will happen to her CTF in the coming years.

Isabelle's mother, Harriet, is recently widowed following the death of her husband, Bernard. Bernard accumulated £200,000 in Stocks and Shares ISAs during his lifetime. Bernard left most of his estate to Harriet but bequeathed £30,000, earmarked from a separate deposit account to Isabelle, which she would like to invest for Cheryl in a tax efficient manner. Isabelle is the executor of the estate.

Isabelle requested a meeting with her financial adviser to discuss the Additional Permitted Subscription (APS) and the pending inheritance. She would also like to use the opportunity to review and discuss options for the CTF and Friendly Society policy, which have not been reviewed for many years.

Questions

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

- (a) (i) State the information that an ISA administrator would require in order to process an Additional Permitted Subscription (APS) request. (6)
- (ii) Explain briefly what happens to an existing ISA when the plan holder dies. (5)
- (b) (i) Calculate, **showing all your workings**, the total that Isabelle could invest on behalf of herself and Cheryl in the remainder of the current tax year, maximising the allowances of their existing products. (6)
- (ii) Outline the options available to Cheryl regarding her Child Trust Fund at ages 16 and 18. (4)
- (c) (i) Explain briefly the key features of an annual bonus on a with-profits fund. (3)
- (ii) Outline briefly the key features of a final bonus and when it may be applied to a with-profits fund. (4)
- (iii) Explain briefly the objective of a market value reduction (MVR) in respect of a with-profits fund. (3)
- (d) State **four** main reasons why the returns from Isabelle's ETFs return differ from each other and the underlying FTSE 100 Index. *Exclude tracking error from your answer.* (4)
- (e) Compared to a passive fund tracking the FTSE 100 Index, state **five** reasons why Isabelle might consider an actively-managed fund investing across the same Index. (5)

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), (d) and (e) which follow.

Douglas and Gwen are a married couple in their late 70s, and both retired around 15 years ago. Their combined gross pension income currently amounts to £27,000 per annum, which falls short of their required gross income of £38,000 per annum. At retirement, they established their own investment portfolio, selecting a range of directly held equity income funds. The aim was to cover their income shortfall through taking regular capital withdrawals from the portfolio, making use of their annual Capital Gains Tax exemption.

The details of their portfolio and its recent performance are set out in **Table 1** below:

Table 1

Portfolio starting value	Portfolio current value	Capital return 2023	Capital return 2024
£200,000	£145,000	-2.6%	13.7%

Having previously managed their investments themselves, Douglas and Gwen now feel they would benefit from on-going financial advice and recently met with Leena, a financial adviser from an authorised advisory firm. Leena has identified that Douglas and Gwen have a cautious attitude to risk and a limited capacity for loss, although she has noted they have always held less than £8,000 in deposit-based accounts.

In recent years, Douglas has suffered from a chronic health condition, which has introduced uncertainty over his life expectancy. Leena has mentioned sequencing risk to them, and they would like to learn more about how it could impact their portfolio and needs.

Having evaluated the portfolio, Leena is considering whether the portfolio's asset allocation should be changed, creating an exposure to gilts. In researching potential gilt funds, Leena firstly has noted that recent fund factsheets talk about both yield curve steepening and yield curve flattening, and secondly that the recent rise in gilt yields has altered the break-even inflation rate. As a consequence, she is analysing which types of gilts may offer better value for any new asset allocation.

In addition, Leena believes that it may be appropriate to move the portfolio onto a platform to facilitate their income needs in the future.

Questions

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

- (a) Identify **four** main benefits to Douglas and Gwen of consolidating their current collective funds onto a platform. (4)
- (b) (i) Comment on the **drawbacks** of Douglas and Gwen's strategy of taking capital as regular withdrawals from their portfolio since its inception. (4)
- (ii) Identify **four** actions that Leena could suggest to mitigate the effects of sequencing risk. (4)
- (iii) State **three** ways in which the impact of capacity for loss can be mitigated. (3)
- (c) Calculate, **showing all your workings**, the standard deviation of the portfolio. (9)
- (d) (i) Describe briefly the **main** differences between conventional gilts and index-linked gilts. (5)
- (ii) Explain what is meant by the term 'break-even inflation rate'. (4)
- (iii) Identify **three** main factors that would contribute to a change in the shape of an existing yield curve, whether steepening or flattening. (3)
- (e) Outline **four** main drawbacks of relying upon dividends from equity income funds as a source of long-term income. (4)

Total marks available 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) *Candidates would have scored full marks for any ten of the following:*

- Investors are rational;
- and risk averse.
- Investors will choose less risky investment;
- from choice offering same return.
- Can be measured on efficient frontier curve.
- Standard deviation is the measure of volatility.
- Investors have access to all information/single holding period.
- Market is efficient/no one investor can influence the market.
- Doesn't account for costs/taxation.
- Non/uncorrelated assets can;
- reduce systematic risk and;
- remove non-systematic risk.
- Sensitivity to market based upon beta.

(b) (i) $(4,360,000 / 218,000,000) = 0.02 \times 100 = 2$
 $2 / 2.1 = 0.9523809 = 0.95x$

Alternative

$(218,000,000 \times 0.021) = 4,578,000$
 $(4,360,000 / 4,578,000) = 0.9523809 = 0.95x$

(ii) *Candidates would have scored full marks for any four of the following:*

- Dividend is uncovered/not covered.
- Paying out more than profits/not retaining profits;
- eating into reserves/may be resorting to borrowing.
- Dividend not sustainable/likely to be cut.
- Company not financially secure.

(iii) $1.7 \times 16.4 = 27.88 / 100 = 0.2788$
 $0.2788 \times 15,200,000 = 4,237,760$
 $(0.164 \times 15,200,000) = 2,492,800$

Alternative

$1.7 \times 2,492,800 = 4,237,760$
 $4,237,760 / 15,200,000 = 0.2788$

- (iv)
- Commonly/widely-used.
 - Easy to compare different companies/sectors.
 - Shows level of profitability/proportion of profits retained/paid-out.

- (c) (i) $20.2 - 18.4 = 1.8$
 $1.8 / 9.7 = 0.185567 = 0.19$
- (ii) *Candidates would have scored full marks for any three of the following:*
- It's a positive figure.
 - Active management/manager has added value.
 - IR is low;
 - similar return could be achieved by passive strategy/active management may not be worth extra cost.
- (iii) *Candidates would have scored full marks for any three of the following:*
- Measures against benchmark.
 - Is a relative measure/can be used to compare funds.
 - Measures consistency;
 - on risk-adjusted basis/given risk taken.
- (d) (i) *Candidates would have scored full marks for any four of the following:*
- Exploit existing;
 - trends/price movements;
 - in belief they will continue/further gains to come.
 - Sell before trend ends/reverses.
 - Ignores fundamental/intrinsic value.
 - Short term.
- (ii) *Candidates would have scored full marks for any twelve of the following:*
- OEIC**
- Unlimited number of shares/can create/cancel shares.
 - Shares issued/redeemed at NAV via fund.
 - Daily pricing.
 - Not traded on stock exchange/part of ICVC.
 - Must have ACD/ACD appoints/oversees fund manager.
 - Assets held by depositary.
 - Can borrow max 10%/temporary basis.
 - No winding up date.

Investment Trust

- Has finite/limited number of shares.
- Shares issued/redeemed independent of NAV/may trade at premium or discount.
- Real time pricing.
- Structured as companies/plcs/traded on stock exchange.
- Board of directors appoints/oversees fund manager.
- Unlimited borrowing/ may borrow on permanent basis.
- May have fixed life/winding up date.

- (e) (i) *Candidates would have scored full marks for any five of the following:*
- Spending on/provides funding for;
 - capital assets;
 - that stimulates spending;
 - by increasing aggregate demand;
 - Increasing productivity;
 - economic growth;
 - and business investment.
- (ii) *Candidates would have scored full marks for any six of the following:*
- Higher business costs leading to;
 - higher consumer prices.
 - Reduction in purchasing power/erosion of monetary value.
 - Lower business investment/consumer spending.
 - Higher discount rates.
 - Likely fall in value of Sterling.
 - Increase in interest rates/monetary policy tightening.
 - Increasing cost of servicing government debt/index-linked gilts.
- (f) (i) *Candidates would have scored full marks for any six of the following:*
- Above normal EIS limit/would have to be knowledge intensive.
 - Income Tax relief not available on whole investment/limited by his earnings.
 - Business Relief limited from April 2026/tax position may change.
 - Dividends still taxable/may not receive dividends.
 - High level of capital risk/risk of losing entire investment.
 - High level of liquidity risk.
 - High level of accessibility risk.
 - No diversification/high concentration risk.
 - No FSCS protection on individual EIS/limited protection of EIS fund.
- (ii) *Candidates would have scored full marks for any four of the following:*
- Original gain/CGT liability;
 - not exempt/still has to be paid.
 - Underlying investments made/new shares issued;
 - one year before or;
 - three years after.
- (g) • **Loss Aversion**
- Unwilling to realise capital losses/believes investments will recover.
- **Overconfidence**
- Too much belief in his own view of economy/markets.

(h) *Candidates would have scored full marks for any four of the following:*

Nominal return

- Actual return;
- ignoring inflation.

Real return

- Nominal return adjusted for/less inflation.

Absolute return

- The gain or loss;
- ignoring any relative/independent value.

Model answer for Question 2

- (a) (i)
- Bernard's full name;
 - Address;
 - National Insurance number;
 - date of birth/birth certificate;
 - date of death/death certificate;
 - date of marriage/marriage certificate.
- (ii) *Candidates would have scored full marks for any five of the following:*
- Plan becomes a Continuing ISA.
 - No further contributions permitted.
 - Remains free of CGT and;
 - Income Tax.
 - Remains open until closed by executor or
 - administration of estate is complete;
 - Otherwise closed by ISA provider;
 - after three years and one day.

(b) (i) Cheryl

CTF £9,000 - £3,600 = £5,400

FS £270 - £150 = £120

Isabelle

ISA £20,000 - £16,000 = £4,000

Total: £5,400 + £120 + £4,000 = £9,520**(ii) At Age 16:**

- Cheryl can become registered contact/take over management/transfer to JISA.

At age 18:

- Cheryl can withdraw the funds.
- Becomes Matured CTF/no further contributions allowed/maintains tax status.
- Can transfer to an adult ISA.

(c) (i) Candidates would have scored full marks for any three of the following:

- Variable amount;
- declared in advance.
- Added as extra units or;
- as increase in unit price.
- Once applied, cannot be removed.

(ii) Candidates would have scored full marks for any four of the following:

- One-off amount;
- not guaranteed/subject to investment returns.
- Added on maturity;
- death;
- surrender/withdrawal.

- (iii)**
- Protect existing investors;
 - in times of market downturn/volatility;
 - by preventing the value leaving the fund exceeding the underlying assets.

(d) Candidates would have scored full marks for any four of the following:

- Costs/expense ratio.
- Method of index replication.
- Liquidity/spreads.
- Diversification/individual stock/sector limits.
- Treatment of dividends.
- Interest from stock lending.
- Cash drag.

(e) *Candidates would have scored full marks for any five of the following:*

- Opportunity to outperform market.
- Manager track record/expertise.
- Can hold cash/doesn't have to be fully invested.
- Exploit market inefficiency/mispricing.
- Can manage sector/non-specific risk.
- Specific investment style/mandate.

Model answer for Question 3

(a) *Candidates would have scored full marks for any four of the following:*

- Account history in one place/single point of access.
- Reduced administration.
- Multiple products wrappers available.
- Income flexibility.
- Access to planning tools.
- Migration to cheaper share classes/lower fund charges.

(b) (i) *Candidates would have scored full marks for any four of the following:*

- Portfolio's value has decreased significantly/capital value has been eroded.
- Had to withdraw capital even in years when no/low gains made.
- Smaller number of units left/effect of sequencing risk magnified.
- Less capital available for Douglas' current/future health needs.
- CGT AEA has decreased/now much lower.
- CGT rate has increased/now much higher.

(ii) *Candidates would have scored full marks for any four of the following:*

- Reduce the level of withdrawals.
- Stop taking capital as withdrawals/take only natural income/dividends.
- Consider switch into higher yielding assets.
- Secure proportion of income/purchase lifetime annuity or;
enhanced annuity.
- Reduce portfolio's volatility risk/switch into lower volatility assets.
- Hold more cash/increase the level of cash.

(iii) *Candidates would have scored full marks for any three of the following:*

- Reduce portfolio risk/AtR.
- Hold sufficient cash to cover potential loss/event.
- Only invest what the client can afford to lose.
- Establish the actual risk the client is willing to take/not focus on the outcome.
- Avoid overreliance on tools/simplified questions/inappropriate assessment of information.

(c) $(-2.6 + 13.7) / 2 = 5.55$
 $(-2.6 - 5.55) + (13.7 - 5.55)$
 $(-8.15)^2 + (8.15)^2$
 $(66.42 + 66.42)$
 $132.85 / 2 = \sqrt{66.425} = 8.15$

(d) (i) *Candidates would have scored full marks for any five of the following:*

Conventional

- Coupon fixed.
- Capital repayment/redemption at par.

Index-linked

- Coupon variable;
- linked to inflation;
- based upon RPI;
- three/eight months before payment.
- Capital repayment/redemption linked to inflation.

(ii) *Candidates would have scored full marks for any four of the following:*

- Difference/gap between;
- nominal yield;
- on conventional gilts;
- and real yield;
- on index-linked gilts.

(iii) *Candidates would have scored full marks for any three of the following:*

- Change in issuance/supply and demand.
- Monetary policy/interest rate/inflation expectations.
- State of economy.
- Change in money supply.
- Fiscal policy/budget deficit.
- Market shock.

(e) *Candidates would have scored full marks for any four of the following:*

- Dividend may be less than income need.
- Dividend not guaranteed.
- Can be reduced.
- Limited dividend allowance/dividend allowance has reduced.
- Rates of dividend tax could increase.
- Doesn't account for capital/total return.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

1. AA – Annual allowance
2. ACD – Authorised capital director
3. AEA – Annual exempt amount
4. AER – Annual equivalent rate
5. AMC – Annual management charge
6. APR – Annual percentage rate
7. APS – Additional permitted subscription
8. ART – Additional-rate tax
9. AtR – Attitude to risk
10. BoE – Bank of England
11. BRT – Basic-rate tax
12. CAPM – Capital Asset Pricing Model
13. CDS – Credit default swap
14. CfL – Capacity for loss
15. CGT – Capital Gains Tax
16. CPI – Consumer Prices Index
17. CTF – Child trust fund
18. DA – Dividend allowance
19. DB – Defined benefit
20. DC – Defined contribution
21. DCF – Discounted cash flow
22. D/E – Debt-to-equity
23. DJIA – Dow Jones Industrial Average
24. DIM – Discretionary investment management
25. DFM – Discretionary fund manager
26. EBIT/EBITDA – Earnings before interest and tax/depreciation and amortisation
27. EIS – Enterprise investment scheme
28. EMH – Efficient market hypothesis
29. ESG – Environmental, social and governance
30. ETC – Exchange traded commodity
31. ETF – Exchange traded fund
32. ETN – Exchange traded note
33. ETP – Exchange traded product
34. EPS – Earnings per share
35. FAD – Flexi-access drawdown
36. FCA – Financial Conduct Authority
37. FoF – Fund of funds
38. FOS – Financial Ombudsman Service
39. FSCS – Financial Services Compensation Scheme
40. FTSE – Financial Times Stock Exchange
41. GAARP – Growth at a reasonable price
42. GDP – Gross domestic product
43. GIA – General investment account
44. HRT – Higher-rate tax
45. HTBISA – Help to Buy individual savings account
46. IA – Investment Association
47. ICVC – Investment company with variable capital

-
48. IHT – Inheritance Tax
 49. ISA – Individual savings account
 50. IPO – initial public offering
 51. IFISA – Innovative finance individual savings account
 52. IT – Income Tax
 53. JISA – Junior individual savings account
 54. LCF – Lifetime cash flow
 55. LISA – Lifetime individual savings account
 56. LTA – Lifetime allowance
 57. MoM – Manager of managers
 58. MPC – Monetary Policy Committee
 59. MPT – Modern portfolio theory
 60. MSCI – Morgan Stanley Capital International
 61. MVR – market value reduction
 62. MPS – Model portfolio service
 63. MSCI – Morgan Stanley Capital International
 64. MVR – Market value reduction
 65. MWR – Money-weighted rate of return
 66. NASDAQ – National Association of Securities Dealers Automated Quotations
 67. NAV – Net asset value
 68. NICs – National Insurance contributions
 69. NPA – Normal pension age
 70. NRA – Normal retirement age
 71. NRB – Nil rate band
 72. NS&I – National Savings and Investments
 73. OCF – Ongoing charges figure
 74. OEIC – Open-ended investment company
 75. OPA – Ordinary power of attorney
 76. OEIC – open ended investment company
 77. P/B – Price-to-book
 78. P/E – Price-earnings/price-to-earnings
 79. PAIF – Property authorised investment fund
 80. PAYE – Pay As you Earn
 81. PET – Potentially exempt transfer
 82. PIA – Property Income Allowance
 83. PID – Property income distribution
 84. PPP – Personal pension plan
 85. PCLS – Pension commencement lump sum
 86. PRA – Prudential Regulation Authority
 87. PA – Personal Allowance
 88. PSA – Personal Savings Allowance
 89. PTM – Panel of Takeovers and Mergers
 90. QE – Quantitative easing
 91. QT – Quantitative tightening
 92. REIT – Real estate investment trust
 93. ROCE – Return on capital employed
 94. ROE – Return on equity
 95. RPI – Retail Prices Index
 96. S&P – Standard and Poor's
 97. SICAV - Société d'investissement à capital variable
 98. SD – Stamp Duty

- 99.** SDLT – Stamp Duty Land Tax
- 100.** SDRT – Stamp Duty Reserve Tax
- 101.** SIPP – Self-invested personal pension plan
- 102.** SEIS – Seed enterprise investment scheme
- 103.** SRI – Socially responsible investing
- 104.** TER – Total expense ratio
- 105.** TWR – Time-weighted rate of return
- 106.** UCITS – Undertakings for collective investment in transferable securities
- 107.** UCIS – Unregulated collective investment scheme
- 108.** UFPLS – Uncrystallised fund pension lump sum
- 109.** VCT – Venture capital trust

All questions in the March 2026 paper will be based on English law and practice applicable in the tax year 2025/2026, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable for exams from 1 September 2025 until 31 August 2026.

INCOME TAX

RATES OF TAX	2024/2025	2025/2026
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%	8.75%
Higher rate	33.75%	33.75%
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.

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% †	£4,280	£4,360
Married/civil partners at 10% †	£11,080	£11,270
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£37,000	£37,700
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£3,070	£3,130
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 £37,700 (£37,000 for 24/25) 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)	£125
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 £125 per week. This £125 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	£3,50
Small profits threshold per year	£6,845
Class 2 contributions are credited automatically where profits equal or exceed £6,845 per annum.	
Class 2 contributions can be made voluntarily where profits are below £6,845 per annum.	

Class 3 (voluntary)	Flat rate per week £17.75.
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.

	2024/2025	2025/2026
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	£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**

*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	2024/2025		2025/2026
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	Pre	Post	2025/2026
	30/10/2024		
Individuals:			
Up to basic rate limit	10%	18%	18%
Above basic rate limit	20%	24%	24%
Surcharge for residential property - Basic Rate	8%	n/a	0%
Higher Rate	4%	n/a	n/a
Surcharge for carried interest**	8%	4%	**32%
Trustees and Personal Representatives:			
Residential property	24%	24%	24%
Other chargeable assets	20%	24%	24%
Business Asset Disposal Relief*	10%		14%
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%

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2024/2025	2025/2026
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

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			
		2024/2025	2025/2026
		£ (per week)	£ (per week)
Child Benefit	First child	25.60	26.05
	Subsequent children	16.95	17.25
	Guardian's allowance	21.75	22.10
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 71.70	Up to 72.90
	Aged 25 or over	Up to 90.50	Up to 92.05
	Main Phase		
	Work-related Activity Group	Up to 126.45	Up to 128.60
Attendance Allowance	Support Group	Up to 138.20	Up to 140.55
	Lower rate	72.65	73.90
	Higher rate	108.55	110.40
Basic State Pension	Category A full rate	169.50	176.45
	Category B (lower) full rate	101.55	105.70
New State Pension	Full rate	221.20	230.25
Pension Credit	Standard minimum guarantee - single	218.15	227.10
	Standard minimum guarantee - couple	332.95	346.60
	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	71.70	72.90
	Age 25 or over	90.50	92.05
Statutory Maternity, Paternity and Adoption Pay		184.03	187.18

CORPORATION TAX

	2024/2025	2025/2026
--	-----------	-----------

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

	2024/2025	2025/2026
--	-----------	-----------

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 main residence. 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 SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *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. The rates 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%