Chartered Insurance Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

September 2026 examination

SPECIAL NOTICES

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

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

Unit J02 – Trusts

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the end of the question paper.

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.

Attempt ALL questions

Time: 2 hours

To gain maximum marks in a calculation, you must show all your workings and express your answers to two decimal places.

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

1. Outline the legal definition of a trust. **(6)**

2. **(a)** Explain briefly the statutory duty of care imposed on trustees in the Trustee Act 2000. **(3)**

(b) Describe briefly what trustee functions the statutory duty of care applies to. **(3)**

3. Describe the benefits of writing a life insurance policy under a discretionary trust, for the purposes of family protection. **(10)**

4. Edward has settled two non-charitable trusts during his lifetime, one on 1 September 2005 and the other on 1 March 2012.

(a) Explain the perpetuity periods that would apply to **each** of Edward's two trusts. **(6)**

(b) Explain briefly the accumulation period for the trust that was settled on 1 March 2012. **(3)**

5. Gordon created an accumulation and maintenance (A&M) trust on 1 March 2004. The trust is still in force and was not changed before 6 April 2008 to give the beneficiaries an absolute entitlement.

(a) Describe briefly the non-tax features of Gordon's A&M trust. **(4)**

(b) Explain briefly the Inheritance Tax (IHT) treatment of Gordon's A&M trust since 6 April 2008. **(5)**

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

6. **(a)** State how a charitable trust is taxed on income and gains. **(2)**

(b) Explain the tax benefits to an individual donor of making a gift into a charitable trust during their lifetime or on death. **(6)**

7. **(a)** Explain the main functions of the Office of the Public Guardian. **(7)**

(b) Explain briefly the role of the individual holding the position of the Public Guardian. **(3)**

8. Pavel and Dina wrote mutual Wills five years ago. Pavel died on 1 September 2026 and Dina has recently discovered he revoked his Will two years ago without her consent.

(a) Describe briefly the effect of Pavel revoking his Will on Dina. **(3)**

(b) Describe briefly the conditions that must be met for a person to voluntarily revoke their Will in writing. **(3)**

9. Jackson is the settlor of a trust created with a cash sum of £50,000 on 1 January 2026. He was declared bankrupt on 1 September 2026.

Explain the impact of Jackson's bankruptcy on the trust. **(6)**

10. Explain the trustees' responsibility for the reporting and payment of a trust's Income Tax liability. **(10)**

11. A discretionary trust was created with a gift of £350,000 on 1 April 2013. The value of the trust on 1 April 2023 was £430,000. On 1 April 2026, the trustees distributed the whole trust fund valued at £460,000 to the beneficiaries. The settlor has created no other trusts.

(a) Calculate, **showing all your workings**, the periodic charge payable on the 10-year anniversary. **(9)**

(b) Calculate, **showing all your workings**, the exit charge payable when the trust fund was distributed to the beneficiaries. **(4)**

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

12. Rita has applied for a regular premium life insurance policy. She would like to appoint her sister as trustee under a bare trust for the benefit of Rita's minor children.

(a) Describe how Rita can create the bare trust with her new life insurance policy. **(5)**

(b) Describe briefly the IHT treatment of the life insurance policy premiums. **(3)**

13. The trustees of a discretionary trust disposed of the investments in a General Investment Account (GIA) on 1 August 2026, making a gain of £10,000. The settlor had created no other trusts.

The sale proceeds were distributed to the beneficiary, Sara, who will have total income of £30,000 in the 2026/2027 tax year.

(a) Explain the tax treatment of the gain when the trustees disposed of the investments in the GIA. **(5)**

(b) Explain how the gain would have been taxed if the investments in the GIA had been transferred to Sara prior to disposal. **(6)**

14. Describe how a loan trust operates. **(12)**

15. Arthur is the settlor of a discretionary trust created three years ago for the benefit of his four grandchildren. The only trust asset is an investment bond. Arthur's eldest grandchild, Kian, is buying his first home and has asked the trustees for some help with a deposit.

State **six** main factors the trustees should consider before making a capital distribution to Kian. **(6)**

Total marks: 130

INCOME TAX

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

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

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

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

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

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

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

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

NATIONAL INSURANCE CONTRIBUTIONS

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

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

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

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

***Secondary threshold.*

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

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

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

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

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

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

PENSIONS

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

**Lifetime allowance abolished from 6 April 2024.*

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

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

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

ANNUAL ALLOWANCE

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

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

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

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

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

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

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

*** For 25/26, rate for carried interest for all tax bands is 32%*
For 26/27, rate for carried interest for all tax bands is 34.075%

INHERITANCE TAX

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

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

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

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

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

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

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

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

50% relief on qualifying assets exceeding £2.5m

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

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

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

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

Quick succession relief:

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

MAIN SOCIAL SECURITY BENEFITS

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

CORPORATION TAX

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

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

VALUE ADDED TAX

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

STAMP DUTY LAND TAX

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

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

- *First-time buyers benefit from SDLT relief on first £300,000 for properties up to £500,000 when purchasing their mainresidence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional residential and all corporate residential properties £40,000 or more – add 5% to SDLT rates, 8% to LBTT. LTT has separate higher rate bands.*
- *Additional SDLT of 2% may apply to purchases by non-UK residents over £40,000.*
- *SDLT may be charged at 17% on interests in residential properties costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

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