



Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust 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.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
 - Section A: 80 marks
 - Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory**.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the back of the paper.

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

SECTION A

This question is compulsory and carries 80 marks

Question 1

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

Charlie is a widower aged 61 with two independent adult sons, Stan and Jakub.

When Charlie's wife, Marta, died in 2023 she left her estate to Charlie, with the exception of various investments which were left to Stan and Jakub in her Will. Amongst these investments was a Stocks and Shares ISA. This was valued at £80,000 on her death and at £85,400 when the administration of her estate was completed.

Stan is a keen investor. His portfolio includes Stocks and Shares ISAs and a General Investment Account (GIA) with significant unrealised gains. Stan left the UK to stay with family in France on 12 April 2025. He expects to return to the UK in May 2026.

Jakub's marriage has recently broken down and he moved out of their shared home in August 2025. The couple have started divorce proceedings. Included as part of the assets they will need to separate is a jointly owned investment portfolio, made up of investment trusts and directly held shares.

Charlie's mother, Philippa, died on 30 June 2025. She and Charlie's father had divorced ten years prior to her death. She had lived in her own home until her death, the legal ownership of which she had transferred to Charlie and his sister Rose on 1 June 2019. The value at that time was £400,000. When Philippa died the property was worth £520,000.

In August 2015, Philippa made a transfer into a discretionary trust for her four grandchildren. She transferred cash of £250,000 into the trust and appointed Charlie and Rose as trustees. The nil rate band at the time was £325,000. The trust fund is now valued at £407,000 and is invested in cash, gilts and open-ended investment companies (OEICs). Rose would like to make distributions from the trust to her two children who are both at university.

In September 2020, Philippa made a gift to Charlie and Rose of £150,000 each.

Other than the transfer to the discretionary trust and the two gifts, Philippa had made no other lifetime gifts or transfers.

Charlie and Rose are the legal personal representatives of Philippa's estate.

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, **using figures where appropriate**, whether any Inheritance Tax (IHT) was payable on each of the lifetime transfers made by Philippa **at the time they were made**. *You should exclude the transfer of the property in 2019 from your answer.* (6)
- (ii) Calculate, **showing all your workings**, the IHT payable on the lifetime transfers when Philippa died on 30 June 2025 and state who is primarily liable to pay it. *You should exclude the transfer of the property in 2019 from your answer.* (9)
- (b) Describe the IHT consequences for Phillipa of transferring legal ownership of her home to Charlie and Rose on 1 June 2019 if she had:
- (i) lived in it rent free until her death. (8)
- (ii) paid £2,000 per month in rent from 1 June 2021 until her death. (5)
- (c) Describe Charlie and Rose's responsibilities as legal personal representatives regarding Income Tax and Capital Gains Tax in the 2025/2026 tax year. (10)
- (d) Explain Charlie and Rose's main duties as trustees of the discretionary trust in respect of:
- (i) the investments. (9)
- (ii) distributing capital to two of the beneficiaries. (3)
- (e) (i) Explain how Marta's ISA will be administered following her death. (6)
- (ii) Explain to Charlie the rules regarding the Additional Permitted Subscription which will apply to him following his wife's death. (6)

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

- (f) (i) Describe briefly Stan's residence status for the 2025/2026 tax year. (3)
- (ii) Explain the consequences of Stan moving to France on his Stocks and Shares ISA in the 2025/2026 tax year. (4)
- (iii) Explain the Capital Gains Tax position should Stan decide to sell his GIA in March 2026. (3)
- (g) Describe the Capital Gains Tax implications for Jakub and his former partner if their jointly owned investment portfolio is transferred between them when they:
- (i) separate. (5)
- (ii) divorce. (3)

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.

Rory, aged 48, is divorced and has one daughter, Ciara, aged 19.

Rory is employed and earns an annual salary of £60,000. He will receive a bonus of £8,000 in the 2025/2026 tax year and will pay 50% of this into his pension using his employer's bonus sacrifice scheme.

He will also receive investment income in the 2025/2026 tax year as follows:

Investment	Income (£)
Corporate bond unit trusts	1,650
Deposit account	150
Cash ISA	350
Global equity GIA	2,000
Stocks and Shares ISA	800

Rory also holds an offshore OEIC invested in reporting and non-reporting funds. In the 2025/2026 tax year, the reporting funds will pay dividends of £3,200 and the non-reporting funds will pay dividends of £1,800. The dividends from both will be accumulated.

A discretionary trust was created by Rory for the benefit of Ciara three years ago. The trust holds various investments including an offshore investment bond, which the trustees are considering surrendering to pay Ciara's university fees.

Rory's brother, Simon, is one of the trustees. He will shortly be moving abroad for two months on a sabbatical and Rory is concerned that the remaining trustees may not be able to surrender the investment bond whilst Simon is away.

Rory has a Will leaving his entire estate to Ciara. His assets include his home, which is currently valued at £400,000 with an outstanding mortgage of £250,000.

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) Calculate, **showing all your workings**, Rory's Income Tax liability in the 2025/2026 tax year. (11)
- (b) Describe how the chargeable gain on the offshore investment bond will be assessed for tax purposes if the trustees surrender it in October 2025. (8)
- (c) State the factors the trustees should consider when reviewing the investments held in trust. (8)
- (d) Describe how Simon can appoint an attorney to delegate his powers whilst he is away. (8)
- (e) Explain, **using figures where appropriate**, how Rory's home will be treated for Inheritance Tax purposes should he die in this tax year. (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) and (d) which follow.

John and Isabella are a married couple in their early 70s. They have two children, Olivia and Mateo, and three grandchildren, Sofia, Diego and Alma. They own their own home, mortgage-free.

In the 2025/2026 tax year, both John and Isabella will be higher-rate taxpayers.

John has been investing in shares of Scott Start Limited over the past 10 years, purchasing them at different times and prices as follows:

Date of Purchase	Purchase Price (£)	Number of Shares
January 2015	8.35	2,000
July 2019	7.86	7,000
December 2022	6.90	3,500

John plans to sell 10,000 of these shares to help fund a joint investment property purchase with Isabella. He has been informed that the disposal will incur costs of £500. The shares are currently trading at £9.19 each. The company is shortly to announce a bonus issue and a rights issue.

On 1 June 2025, John realised two losses. The first loss was £6,000 from the disposal of a holding of gilts. The second loss was £5,000 from the disposal of a holding of equity unit trusts.

John and Isabella have a significant liability to Inheritance Tax (IHT) on their estate and consequently they are both considering making the following cash gifts to their grandchildren in the 2025/2026 tax year:

- £3,250 from each of them to Sofia, a present for her 16th birthday;
- £147,500 from each of them to Diego, on the occasion of his marriage;
- £200,000 from each of them to Alma, to help her purchase her first home.

The couple want to understand how these gifts would be treated for IHT purposes and the type of protection they could put in place to cover any potential IHT liability that might arise in the future.

John and Isabella each gave £3,000 to Olivia and Mateo in the previous tax year. These are their only previous lifetime gifts.

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 Capital Gains Tax liability assuming John makes the planned disposal of Scott Start Limited's shares in the 2025/2026 tax year. (11)
- (b) (i) Explain to John what a bonus issue is and the impact on the share pool. (3)
- (ii) Explain what a rights issue is and the impact on the share pool. (3)
- (c) (i) Calculate, **showing all your workings**, the Stamp Duty Land Tax (SDLT) on the proposed purchase of the investment property including when this should be paid. *Assume a purchase price of £400,000 and that the purchase is completed in the 2025/2026 tax year.* (5)
- (ii) Explain briefly how any future rental income will be taxed on John and Isabella. (4)
- (d) (i) Explain, **using figures where appropriate**, the IHT implications if John **or** Isabella were to die within seven years of making their proposed gifts. (6)
- (ii) Describe in detail an appropriate protection strategy for John and Isabella to cover any future IHT liability following the gifts. (8)

Total marks available for this question: 40

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
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Dividend allowance	£500	£500
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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
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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
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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 30/10/2024	Post 2025/2026
Individuals:		
Up to basic rate limit	10%	18%
Above basic rate limit	20%	24%
Surcharge for residential property - Basic Rate	8%	n/a
Higher Rate	4%	n/a
Surcharge for carried interest**	8%	4%
Trustees and Personal Representatives:		
Residential property	24%	24%
Other chargeable assets	20%	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	Up to 71.70	Up to 72.90
	Age 16 - 24		
	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
	Support Group	Up to 138.20	Up to 140.55
Attendance Allowance	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
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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
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Standard rate	20%	20%
Annual registration threshold	£90,000	£90,000
Deregistration threshold	£88,000	£88,000

STAMP DUTY LAND TAX

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