



Chartered  
Insurance  
Institute

# AF1

## Advanced Diploma in Financial Planning

**Unit AF1 – Personal tax and trust planning**

**February 2025 examination**

### **SPECIAL NOTICES**

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

**It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.**

## 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.**

Julia and Mark are in their mid-40s. They have lived together for the last two years in a property they own as joint tenants. They have no plans to marry.

Mark has a 14-year-old child from his previous marriage. He pays £900 per month to his former wife as maintenance payments for her and their child. Julia has no children.

Julia runs her own business as a sole trader. In the tax year 2024/2025 she will make a net profit of £135,000. Since 2020 she has been making a contribution to a UK registered charity of £150 per month.

Julia has a self-invested personal pension (SIPP) that she has been contributing to for many years; the monthly contribution she makes is £160. She wishes to understand the benefits of making a £28,000 additional lump sum contribution into her SIPP in the tax year 2025/2026.

Julia also has an investment portfolio which provides the following income:

Investment	Income received in 2024/2025 £
UK Share portfolio	2,400
Fixed interest OEIC	1,400
Stocks and shares ISA	2,600

Mark started a consultancy business on 1 October 2024 and operates as a sole trader. He will make up his accounts to 30 September each year. Mark expects to make a net profit in his first year of £80,000 and forecasts that in year two this will increase by £10,000.

Mark made a Will when he was first married and named his former wife as the executor and only beneficiary of his estate. He has not amended his Will since their divorce.

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

### Questions

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

- (a) (i) Calculate, **showing all your workings**, Julia's adjusted net income in the tax year 2024/2025. (5)
- (ii) Calculate, **showing all your workings**, Julia's Income Tax liability in the tax year 2024/2025. (16)
- (b) Explain how Julia receives Income Tax relief on the monthly contribution she makes to a UK registered charity. *No calculations are required.* (6)
- (c) Describe, **using figures where appropriate**, the Income Tax benefits for Julia of making a single contribution to her SIPP of £28,000 in the next tax year 2025/2026. *You should assume that Julia's net profit remains the same.* (10)
- (d) (i) Explain, **using figures where appropriate**, the basis of taxation assessment for Mark in the tax years 2024/2025 and 2025/2026. *You should assume Mark's projected profits are accurate.* (6)
- (ii) Explain Mark's potential liability to pay Class 2 and Class 4 National Insurance contributions in the tax year 2024/2025. *No calculations are required.* (8)
- (e) (i) Explain to Mark the actions he must take regarding VAT if his profits actually reach the projected £90,000 during November 2025. (6)
- (ii) Explain to Mark how the flat rate scheme for VAT operates. (6)
- (f) Describe the implications if Mark died without amending his Will. (7)

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

- (g)** Assume Mark amends his Will and includes an 18 to 25 trust for his child.
- (i)** Explain briefly the purpose of an 18 to 25 trust and how it operates. **(6)**
- (ii)** Calculate, **showing all your workings**, the Inheritance Tax (IHT) payable if Mark dies and his child receives an absolute interest to the 18 to 25 trust on their 25th birthday. *You should assume that the value of the trust assets at the time is £500,000, and the IHT nil rate band is £325,000.* **(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) and (d) which follow.

Declan, aged 64, is single with no children. His partner Gilda, who is Swedish, moved to the UK in May 2024. Gilda holds various investments in Sweden.

In addition to his own home, Declan owns a holiday home which has been let out as a furnished holiday let since he bought it 12 months ago. The couple will shortly move into the holiday home and Declan will let out his own home.

In January 2025, Declan sold the following assets:

Asset	Purchase price £	Sale price £	Costs £
Share portfolio	35,500	85,000	325
Corporate bond	10,000	25,500	0
Antique dresser	4,800	7,990	525
Painting	300	5,260	495

In May 2018, Declan bought ordinary shares in a previously listed trading company for £7,500. The company failed in June 2024, and the shares became worthless.

Declan is the life tenant of an interest in possession trust. The trust assets are invested in a range of equity income unit trusts, expected to yield around £5,000 and corporate bond unit trusts, expected to yield around £1,750 in the current tax year.

Declan expects to receive total earned income of £55,000 in the tax year 2024/2025.

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

### Questions

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

- (a) (i) Explain briefly to Gilda how she is treated for Capital Gains Tax (CGT) purposes in the tax year of her arrival in the UK. (3)
- (ii) Explain the implications of her electing to use the remittance basis for CGT purposes in the current tax year, in relation to her investments held in Sweden. (7)
- (b) Outline the factors Declan should be aware of in respect of Private Residence Relief when he leaves his own home and moves into his furnished holiday let. (6)
- (c) Calculate, **showing all your workings**, the Capital Gains Tax liability for Declan in the tax year 2024/2025. *You should assume he made no other disposals in the current tax year.* (14)
- (d) Explain, in detail, the tax treatment of the income that will be paid to Declan from the interest in possession trust. *You should assume the income is not mandated directly to Declan.* (10)

**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.**

Johan and Mairi are a retired married couple in their early 70s. They have two children and three grandchildren.

In the tax year 2024/2025, Johan will receive £8,000 income from a personal pension that has been in drawdown for a few years. Mairi will receive an income of £30,000 from a defined benefit pension scheme. They have deferred taking their State Pensions as they also have other investment income.

Johan and Mairi have the following assets:

<b>Asset</b>	<b>Owner</b>	<b>Value on 1 February 2025 £</b>	<b>Income received in tax year 2024/2025 £</b>
House	Joint	720,000	-
Current account	Joint	20,000	600
Unit trusts – fixed interest	Johan	90,000	5,400
OEICs – Global equity	Johan	155,000	12,000
Stocks and shares ISA	Johan	65,000	3,500
Cash ISA	Mairi	80,000	4,600

The couple have existing Wills leaving their estates to each other and then to their children on second death.

Johan inherited the estate of a friend following their death just over a year ago. He received £334,000 after the executors of the estate had paid the Inheritance Tax (IHT) liability of £6,000.

The couple have sufficient assets of their own and Johan would like to redirect some of the inheritance to their grandchildren.

Johan and Mairi have existing Enduring Powers of Attorney (EPAs) which are not registered. They appointed each other to act as attorney. Mairi has been in poor health for some time and the couple's children are concerned the EPAs may not be suitable for their needs.



**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) Explain, **using figures where appropriate**, how Johan will be taxed on the income he receives in the tax year 2024/2025. (8)
- (b) Calculate, **showing all your workings**, the IHT liability on Johan's estate if he had died on 1 February 2025. *You should assume Mairi died earlier in the same tax year.* (13)
- (c) (i) Outline the conditions that must be satisfied for a Deed of Variation to be effective for IHT purposes. (6)
- (ii) Explain briefly why a Disclaimer would not have been an appropriate option for Johan. (3)
- (d) (i) Explain briefly the **drawbacks** of Johan and Mairi having EPAs in place. (5)
- (ii) Explain the **benefits** of Johan and Mairi replacing their EPAs with new Lasting Powers of Attorney (LPA). (5)

**Total marks available for this question: 40**

## INCOME TAX

RATES OF TAX	2023/2024	2024/2025
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge:	1% of benefit per £200 of adjusted net income between £60,000 – £80,000	
<i>*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.</i>		
Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£1,000	£500
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

**\*\* Where net income exceeds £500, the full amount is subject to Income Tax.**

### MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,010	£4,280
Married/civil partners at 10% †	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

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

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,000 (£34,600 for 23/24) until minimum reached.

\*\*\* Investment above £1,000,000 must be in knowledge-intensive companies.

## NATIONAL INSURANCE CONTRIBUTIONS

### Class 1 Employee

### Weekly

Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

### Total earnings £ per week

### CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 242.00*	Nil
242.00 – 967.00	8%
Above 967.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

### Total earnings £ per week

### CLASS 1 EMPLOYER CONTRIBUTIONS

Below 175.00**	Nil
Over £175.00	13.8%

*\*\*Secondary threshold.*

### CLASS 2 (self-employed)\*

Flat rate per week £3.45

Small profits threshold per year £6,725

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

### Class 3 (voluntary)

Flat rate per week £17.45.

### Class 4 (self-employed)

6% on profits between £12,570 and up to £50,270.

2% on profits above £50,270.

## PENSIONS

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

\*Lifetime allowance removed from 6 April 2024.

	2023/2024	2024/2025
Lump sum and death benefit allowance (LSDBA)	n/a	£1,073,100
Lump sum allowance (LSA)	n/a	£268,275

LSA and LSDBA may be higher if transitional protections are available.

Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.

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**

\*From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.

\*\*Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.

### ANNUAL ALLOWANCE CHARGE

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

## CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025	
Individuals, estates etc	£6,000	£3,000	
Trusts generally	£3,000	£1,500	
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000	

  

TAX RATES		Pre	Post
		30/10/2024	
Individuals:			
Up to basic rate limit	10%	10%	18%
Above basic rate limit	20%	20%	24%
Surcharge for residential property - Basic Rate	8%	8%	n/a
Higher Rate	8%	4%	n/a
Surcharge for carried interest	8%	8%	4%
Trustees and Personal Representatives:			
Residential property	28%	24%	24%
Other chargeable assets	20%	20%	24%
Business Asset Disposal Relief*	10%	10%	
Lifetime limit	£1,000,000	£1,000,000	

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

## INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2023/2024	2024/2025
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

### MAIN EXEMPTION

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

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

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

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

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

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

50% relief: certain other business assets

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

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

Quick succession relief:

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

## MAIN SOCIAL SECURITY BENEFITS

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimum guarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

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

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

## CORPORATION TAX

2023/2024

2024/2025

Small profit rate - for taxable profits below £50,000

19%

19%

Main rate - for taxable profits above £250,000

25%

25%

Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.

## VALUE ADDED TAX

2023/2024

2024/2025

Standard rate

20%

20%

Annual registration threshold

£85,000

£90,000

Deregistration threshold

£83,000

£88,000

## STAMP DUTY LAND TAX

Residential

Value up to £250,000

0%

£250,001 - £925,000

5%

£925,001 - £1,500,000

10%

£1,500,001 and over

12%

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

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 17% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. 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%