



Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

February 2026 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), (g) and (h) which follow.

Jasper and Matilda are married. They have two children aged 8 and 11.

Jasper is employed as a graphic designer. In the 2025/2026 tax year, he will receive a gross salary of £85,000 and a bonus of 8% of his gross salary. He is paid monthly.

Matilda works part-time as a healthcare assistant and will be a basic-rate taxpayer in the 2025/2026 tax year.

Jasper is a member of his employer's workplace pension scheme. He will make total contributions of £5,400 and his employer will contribute £9,600 in this tax year. His contributions are deducted under the net pay arrangement. Jasper also has a self-invested personal pension scheme (SIPP), into which he is considering making a personal contribution before the end of this tax year.

The couple jointly own a holiday cottage and will receive a total rental income of £28,000 after expenses in the 2025/2026 tax year. There is a joint interest only mortgage on the property and the annual interest is £6,000.

Jasper and Matilda's other investment income in the 2025/2026 tax year is:

Account	Account holder	Income (£)
Current account	Joint	240
General Investment Account (GIA) – Equity funds	Jasper	780
Stocks & Shares ISA	Jasper	1,200
Corporate bond	Jasper	2,400
Cash ISA	Matilda	300

Matilda's mother, Celia, is the life tenant of a trust created in the Will of her late husband, Derek. The grandchildren are the remaindermen.

Derek left his entire estate to the trust when he died six months ago. The trust assets include his share of the couple's home, which they owned as tenants in common. The couple were both long-term UK residents in the 2025/2026 tax year.

Matilda's sister, Nancy, is one of the trustees. She was recently declared bankrupt.

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**, Jasper's Income Tax liability in the 2025/2026 tax year. (14)
- (b) (i) Calculate, **showing all your workings**, Jasper's **weekly** National Insurance contributions (NICs) in the 2025/2026 tax year. (7)
- (ii) Explain briefly the **weekly** NICs payable by Jasper's employer in the 2025/2026 tax year. (3)
- (c) (i) Explain how the Income Tax and NICs on Jasper's employed income are collected and when they must be paid to avoid penalties. (6)
- (ii) State the penalties for the late payment of Income Tax and NICs on Jasper's employed income. (5)
- (d) Explain, **using figures where appropriate**, the maximum tax-relievable pension contribution Jasper can make into his SIPP in the 2025/2026 tax year, without incurring a tax charge. (9)
- (e) Explain, **using figures**, the benefits to Jasper of sacrificing his bonus for an additional contribution to his workplace pension scheme. (7)
- (f) Describe briefly the Inheritance Tax (IHT) position on Derek's death. (5)

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

- (g) (i)** Describe the IHT and Capital Gains Tax (CGT) consequences for Celia **and** for the Will Trust when she dies. **(10)**
- (ii)** Outline the factors the trustees of the Will Trust should consider when reviewing the trust following Celia's death. **(6)**
- (h)** Explain the impact of Nancy's bankruptcy on the Will Trust and her role as a trustee. **(8)**

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.

Andrea died on 1 November 2025. She had never married but on her death was living with her partner, Stefanie.

Andrea and Stefanie have a son, Marius, aged 20 and Andrea also had a daughter from a previous relationship, Jasmine, aged 24.

In her Will, Andrea left her half of the main residence to Marius, with the remainder of her estate being left to Stefanie. No other provision was made for Marius or Jasmine. Marius and Jasmine are both at university and Andrea had been paying both their accommodation costs and general expenses. Stefanie is named as sole executor of Andrea's Will.

Andrea's estate is comprised of the following assets:

Asset	Value at date of death (£)
50% of main residence	850,000
Current account	25,000
Cash ISAs	80,000
General Investment Account (GIA)	345,000
Stocks & Shares ISAs	189,000
Buy-to-let portfolio	675,000

Andrea also held a life insurance policy that paid out on her death to Stefanie as her executor. The sum assured was £100,000.

Stefanie was born in Sweden and has lived in the UK for the past 21 years.

When she moved to the UK, she set up an excluded property trust (EPT) and transferred her non-UK assets into it. Andrea and Stefanie are the only named beneficiaries of the EPT.

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

Questions

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

- (a) Calculate, **showing all your workings**, the Inheritance Tax (IHT) liability on Andrea's estate. (12)
- (b) Explain the impact of Andrea making a substantial lifetime gift in the tax year she died, and the effect this would have had on her IHT liability. *No calculations are required. You should ignore any available exemptions.* (6)
- (c) Explain how, and on what grounds, Jasmine could make a claim for reasonable financial provision under Andrea's Will. (6)
- (d) Describe Stefanie's role and responsibilities as executor when administering Andrea's estate. (10)
- (e) Explain the IHT treatment of Stefanie's excluded property trust since 6 April 2025. (6)

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 client's 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.

Julianna, aged 64, has never married. She has two financially independent adult children, Ralph and Toby. In the 2025/2026 tax year she will be an additional-rate taxpayer.

Julianna currently runs two businesses, company A which was set up six years ago and company B that was set up 18 months ago. Both are run as limited companies. She has recently received an offer from a competitor to purchase both businesses.

The sale of company A would result in the following chargeable gains:

Goodwill	£390,000
Factory unit	£250,000
Stock and machinery	£190,000

Julianna runs company B from her home. A sale of company B would result in a chargeable gain of £85,000.

She also owns a warehouse that was intended to be used by company B but so far it has not been used in either business. The sale of this would result in a chargeable gain of £75,000.

Julianna is concerned about the implications of selling her businesses and is interested in any investments that will help mitigate any tax liability. She has always considered herself to have a high attitude to risk but more recently, with increasing concerns around memory loss, she wonders if she should take less investment risk in the future.

Julianna has made no other disposals in the 2025/2026 tax year and has registered losses of £5,000 to carry forward from previous tax years.

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 briefly the conditions that must be satisfied for business asset disposal relief to apply on the sale of Julianna's businesses. (4)
- (b) Calculate, **showing all your workings**, Julianna's Capital Gains Tax (CGT) liability on the sale of both businesses. (10)
- (c) Explain briefly the CGT consequences if Julianna reinvested the chargeable gain from company B into a Seed Enterprise Investment Scheme (SEIS). (3)
- (d) Outline the relevant factors that would need to be considered when advising Julianna on whether a SEIS would be an appropriate investment for her. (6)
- (e) Identify the conditions for a successful claim for reinvestment relief should Julianna decide to use an Enterprise Investment Scheme instead of a SEIS. (4)
- (f) Explain the benefits of Julianna creating a lasting power of attorney whilst she has mental capacity. (8)
- (g) Explain briefly the differences if Ralph and Toby are appointed to act as attorneys jointly or jointly and severally on Julianna's lasting power of attorney. (5)

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
Money purchase annual allowance	£10,000	£10,000

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.

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	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
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%