

Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

February 2025 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2025 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

J02 – Trusts

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination 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 in your preparation for this examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas. However, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge

For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements*. While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination 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 Examination Guides can be treated as 'mock' examination papers. Attempting them under examination 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 examination guides free of charge 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 Examination Guide. These tax tables will be provided to candidates as part of the exam. 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 examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

- Assessment is by means of a two-hour online exam.
- All questions are compulsory.
- The online exam is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The exam will carry a total of 130 marks.

Appreciate the standard of the examination

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.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

On-screen written exam familiarisation

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers [here](#).

You can access the familiarisation test at any time which can be found [here](#).

Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

Once you have received your exam login details, we strongly advise that you try the familiarisation test to ensure you are familiar with the navigation for the exam.

1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.

Chartered Insurance Institute

Prev Nav Next Clear Highlight

Tools Calculator End Test 174:27

AF1 October 2019

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) and (e) which follow.

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10. Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate. Peggy's estate was comprised of the following on her death:

House	£700,000
Deposit accounts	£323,000
Cash ISAs	£55,000
FTSE listed shares	£150,000
Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

Peggy's husband Frank, died in 2016, leaving his share of their house and his residual estate to Peggy. Frank made only one gift in the seven years before he died. He settled £450,000 into a discretionary trust just under four years earlier. Inheritance Tax (IHT) of £23,800 was paid at outset by the trustees. Following Peggy's death, Andrew is the only remaining trustee. Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs. Andrew intends to make some provision for his children and grandchildren. His income is around £10,000 a year higher than his outgoings. He has a variety of savings accounts and an onshore life assurance bond invested in a managed fund which has performed well over the years.

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

1. (a) Calculate, showing all your workings, the IHT due as a result of Peggy's death on the 1 March 2019. (13)

« Inf01 Inf02 Inf03 **1a** 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 »

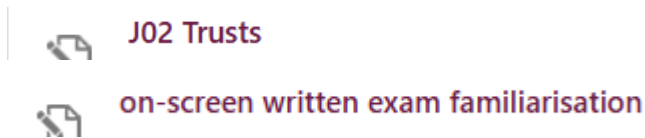
Flag Edit

This question has been answered. Click here to enable you to edit your answer.

3. Once you have typed in your answer ensure you click the red '**Answer**' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.

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4. On the day of the J02 exam, please click **J02 Trusts**



5. The above screenshot shows the point before the exam has started; you wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **J02 Trusts**.

Important information for remote invigilation candidates only

If you are taking the exam through remote invigilation, **we strongly advise that you try the online tutorial test** once you have received your exam login details and well in advance of the actual exam day.

You should have received the below information via email before your examination date.

You must check the equipment you plan to use on the exam day is suitable. The system requirements are [here](#)

EXAM TUTORIAL:

- [Launch Tutorial Test](#)
- Duration: The tutorial will take approximately 30 minutes to complete.
- Attempts: Launch the tutorial test up to three (3) times to familiarize yourself with the environment. We suggest saving one attempt for 2-3 days prior to your exam date.
- Timing: The Launch link will expire 150 minutes (2 hours and 30 minutes) prior to your scheduled exam time.

To access your exam on the exam day click on the "Launch Exam" link beside your scheduled exam within the Bookings and Results area of MyCII [Dashboard](#). If you have any difficulty accessing your MyCII account, you should contact CII customer service at the contact details below.

This Exam tutorial of the invigilation system will help you feel confident on exam day and can prevent technical issues by alerting you to potential issues with your equipment.

Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

It is fundamentally important that if you are sitting an examination via remote invigilation, you read all of the documents on this page; [How to prepare for your on-screen written exam by remote invigilation](#)

If there is anything you are unsure of, or if you have not received the tutorial email, please contact Customer Service (telephone +44 (0)20 8989 8464 Mon to Fri: 9am – 5pm (UK time) email customer.serv@cii.co.uk) as soon as possible, as this may affect your examination sitting.

In the examination

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 exam 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, 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 finish the exam confident that they have typed 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 typing.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination 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 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 examination 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*, since this allows you to communicate your thoughts in the most effective way in the least time. 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.

Candidates will **not** lose marks due to poor spelling or grammar.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams

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

While there are no marks for presentation, laying the calculation out well will make it easier for the examiner to identify all of the marks you have achieved. It does not matter how long the calculation is, if it is well set out. There is no preferred format but following the below guidelines is often helpful:

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the trust calculation:
 - Settlement - £500,000,
 - Annual allowances - £6,000
- Identify all allowances, exemptions, tax rate bands, tax rates used in £ terms.
- Use subtotals, where appropriate: i.e.:
 - Settlement - £500,000
 - Annual allowances – (£6,000)
 - = £494,000
- Show all your workings, for example:
 - grossing up of the 20% lifetime rate
- Double check all of your figures, specifically:
 - That you have calculated each section correctly.
 - That you have added up all of your figures correctly.

EXAMINERS' COMMENTS

Candidates' overall performance

Candidate performance was generally good in this examination.

There were some good answers to questions testing the main areas of the syllabus, including Q1 on the non-tax reasons for creating a trust, Q10 on Wills and Q15 on the factors which may cause the investment policy of a trust to be reviewed.

Q12 tested the taxation of discretionary trusts and included an income tax calculation. This was particularly well answered.

However, performance was mixed when it came to some of more challenging questions, including Q7 on the general power of investment in Section 3 of the Trustee Act 2000 and Q8 on the taxation of UK resident and non-UK resident trusts.

The exam also included some less frequently tested areas such as MWPA trusts in Q6 and the IRC v. Rysaffe Trustee Company (2003) ruling in Q14. Many candidates did not perform well on these questions.

Question 1

The exam started with a question asking candidates to state eight non-tax related reasons for creating a trust. This was well answered by many candidates, although few candidates identified business protection or land ownership in their answers.

Question 2

In part (a), candidates were required to explain whether lay trustees and professional trustees can charge for their services. Many candidates correctly stated lay trustees cannot usually charge for their services, but professional trustees can. However, few candidates were able to explain the reasons for this.

Part (b), in which were asked candidates to identify four examples of expenses incurred in the running of the trust for which lay trustees are entitled to be reimbursed, was answered reasonably well, although few candidates identified insuring trust property as an answer.

Question 3

Part (a) asked candidates to define joint tenancy and describe the legal consequences of the death of a joint owner. Few candidates answered this question in the level of detail required although many candidates correctly stated the property would automatically pass to the survivor on the death of one joint tenant.

Part (b), which required candidates to define tenants in common and describe the legal consequences of the death of a joint owner, was well answered by many candidates.

Question 4

Part (a) required candidates to explain the difference between how a non-statutory trust and a statutory trust are created. There were some mixed answers to this question and some candidates confused the two and incorrectly stated a non-statutory trust is created by law and a statutory trust is an express trust/written.

In part (b), candidates had to explain the benefits of a non-statutory trust compared to a statutory trust. This was answered better than part (a) by the majority of candidates.

Question 5

In part (a), candidates were asked to describe the legal and beneficial ownership of a bare trust. This was well answered by many candidates, although few candidates stated the beneficiaries can demand the trust fund is paid to them after they've reached the age of majority.

Part (b) required candidates to explain how a bare trust operates from tax perspective, and this was well answered by the majority of candidates.

Question 6

This question asked candidates to describe how a Married Women's Property Act 1882 (MWPA) trust can be created with a life insurance policy and who can benefit from the trust. Although MWPA trusts are less frequently used these days, they are extensively covered in the J02 study text, and it was disappointing that this question was not well answered by many candidates.

Question 7

In part (a), candidates were asked to describe the general power of investment in Section 3 of the Trustee Act 2000. This question was not well answered by the majority of candidates, although many candidates were awarded marks for stating UK trustees have the power to invest in the same range of investments as if they were the absolute owner.

Part (b) required candidates to state three types of trusts to which the general power of investment in Section 3 of the Trustee Act 2000 does not apply. There was a tendency for many candidates to simply provide a list of the types of trust in the hope of finding the right answers.

Question 8

Part (a) asked candidates to describe how it is determined that a trust is resident for Income Tax and CGT purposes. Many candidates did not perform well in this question.

Part (b) required candidates to explain when the settlor may be liable to CGT on gains made by a non-UK resident trust. This question was not well answered by the majority of candidates.

Question 9

Part (a) asked candidates to describe the main powers of the Court of Protection. This is a question which has been tested previously and there were some mixed answers, with few candidates achieving high marks.

In part (b), candidates were required to describe four considerations when assessing whether an individual has the capacity to make decisions themselves. Many candidates did not perform well in this question; however, full marks were achieved by those who had prepared well for the exam.

Question 10

In part (a), candidates had to explain the consequences of divorce on an existing Will and in part (b) candidates were required to describe how an existing Will can be revoked.

Both parts of this question were reasonably well answered by the majority of candidates.

Question 11

In part (a), candidates were asked to describe briefly the action executors must take before they can administer an estate. The answers to this question were mixed. Many candidates stated that a grant of probate would need to be obtained, but fewer candidates identified the executors would need to apply to the Probate Registry to do this.

Part (b), which asked candidates to describe the duties of the executors of an estate in respect of the reporting and payment of IHT, was reasonably well answered by the majority of candidates.

Question 12

This question included a mini-case study in which Emiliano had created two discretionary trusts for his children and candidates were given details of the income received by each trust in the 2024/2025 tax year.

Part (a) was a calculation of the Income Tax payable by the trustees of Trust A and it was pleasing that many candidates calculated the correct answer and clearly set out their workings.

Part (b) was also well answered with many candidates correctly stating no income tax is payable as the total income received is less than the de minimis amount (£500 / 2 = £250) for the trust.

Question 13

This question included a mini-case study in which the trustees of a discretionary trust had surrendered an investment bond in the 2024/2025 tax year and the settlor had died in a previous tax year.

Part (a) asked candidates to describe how any gain will be assessed for Income Tax purposes in the 2024/2025 tax year. There were varied answers to this question and some candidates incorrectly provided answers on the basis the gain would be assessed as income of the settlor.

In part (b), candidates had to explain how the tax treatment of the gain would have differed if the trustees had assigned the bond to the beneficiaries prior to surrender. Many candidates correctly identified that the beneficiaries would be potentially liable to Income Tax, although few provided the level of detail required to achieve high marks.

Question 14

In part (a), candidates were asked to describe how a series of life insurance policies can be set up under trust following the IRC v. Rysaffe Trustee Company (2003) ruling and part (b) required candidates to explain the IHT benefits of setting up a series of life insurance as described in part (a). These were challenging questions, and few candidates gained maximum marks.

Question 15

In the final question of the exam, candidates were asked to state seven factors which may cause the investment policy of a trust to be reviewed. Well-prepared candidates historically perform well on this type of question and the question asked in this paper was no exception.

Unit J02 – TRUSTS

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination 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.

If you are sitting via remote invigilation please

- Write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- **Different to Multiple Choice exams, tax tables are provided at the right-hand side of the interface after the question paper.**
- For each answer, please type in the full question number you are answering e.g. 1a
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

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

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. State **eight** non-tax related reasons for creating a trust. (8)

2. Igor is establishing a discretionary trust for the benefit of his adult children and grandchildren. He is considering who he should appoint as trustees and likes the idea of including a mix of lay and professional trustees to give some personal knowledge with impartiality.
 - (a) Explain, giving your reasons, whether the trustees of the discretionary trust can charge for their services. (6)
 - (b) Identify **four** examples of expenses incurred in the running of the trust for which lay trustees are entitled to be reimbursed. (4)

3. In relation to property ownership:
 - (a) define joint tenancy and describe the legal consequences of the death of a joint owner. (5)
 - (b) define tenants in common and describe the legal consequences of the death of a joint owner. (3)

4.
 - (a) Explain the differences between how a non-statutory trust and a statutory trust are created. (4)
 - (b) Explain the benefits of a non-statutory trust compared to a statutory trust. (4)

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

5. Gerard recently gifted assets into a bare trust for the benefit of his grandchildren, Mia and Sebastien, aged 8 and 10.
 - (a) Describe the legal and beneficial ownership of the bare trust. (3)
 - (b) Explain how the bare trust operates from a tax perspective. (6)

6. Describe how a Married Women's Property Act 1882 (MWPA) trust can be created with a life insurance policy and who can benefit from the trust. (8)

7. (a) Describe the general power of investment in **Section 3** of the Trustee Act 2000. (6)
- (b) State **three** types of trusts to which the general power of investment in **Section 3** of the Trustee Act 2000 does **not** apply. (3)

8. (a) Describe how it is determined that a trust is UK resident for Income Tax and Capital Gains Tax (CGT) purposes. (4)
- (b) Explain when the settlor may be liable to CGT on gains made by a non-UK resident trust. (3)

9. (a) Describe the main powers of the Court of Protection. (6)
- (b) Describe **four** considerations when assessing whether an individual has the capacity to make decisions themselves. (4)

10. Zoltan is divorced. He made a Will whilst he was still married in which he left legacies to his two brothers and the remainder of the estate to his former spouse, who was also named as the executor.
 - (a) Explain the consequences of divorce on Zoltan's existing Will. (4)
 - (b) Describe how Zoltan can revoke his existing Will. (4)

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

11. Aisha, a widow with two adult children, has recently passed away. She left a Will bequeathing her estate to various family members and friends. She had appointed her two children as executors under her Will.
- (a) Describe briefly the action the executors must take before they can administer the estate. (4)
- (b) Describe the duties of the executors of an estate in respect of the reporting and payment of Inheritance Tax (IHT). (6)
12. Emiliano created two discretionary trusts for the benefit of his children. He has created no other trusts. In the 2024/2025 tax year, Trust A received interest of £1,200 and dividends of £400. Trust B received interest of £200 in the same tax year.
- (a) Calculate, **showing all your workings**, the Income Tax payable by the trustees of Trust A in the 2024/2025 tax year. (5)
- (b) Explain, using figures where appropriate, the tax treatment of the income received by the trustees of Trust B in the 2024/2025 tax year. (5)
13. Janin died on 30 January 2024. She set up an onshore investment bond under a discretionary trust six years ago. The trustees surrendered the bond on 1 February 2025 so they could distribute the money to the beneficiaries, who are both basic rate taxpayers.
- (a) Describe how any gain will be assessed for Income Tax purposes in the 2024/2025 tax year. (6)
- (b) Explain how the tax treatment of the gain would have differed if the trustees had assigned the bond to the beneficiaries prior to surrender. (6)
14. (a) Describe how a series of life insurance policies can be set up under trust following the IRC v. Rysaffe Trustee Company (2003) ruling. (3)
- (b) Explain briefly the Inheritance Tax (IHT) benefits of setting up a series of life insurance policies under trust as described in **part (a) above**. (3)

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

15. State **seven** factors which may cause the investment policy of a trust to be reviewed. (7)

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

- Distribution of an estate by Will or intestacy/to avoid probate.
- Provide for families/minor beneficiaries/school fees/unborn beneficiaries.
- To assist a charity.
- Provide for disabled/vulnerable persons/bereaved minors.
- Provide a pension.
- Protection from creditors/divorce/spendthrifts.
- Business Protection.
- Land ownership.

Model answer for Question 2

(a) *Candidates would have gained full marks for any six of the following:*

- Lay trustees cannot usually charge for their services;
- as they are not allowed to benefit from their position;
- however professional trustees can usually charge;
- under a clause in trust deed or;
- if no such clause exists;
- since 1 February 2001;
- professional trustees can usually charge under Trustee Act 2000 s.29.

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

- Insuring trust property.
- Paying taxes on trust property/accountants fees.
- Cost of legal advice.
- Cost of suitable investment advice.
- Reasonable out of pocket expenses.

Model answer for Question 3

- (a)
- All joint tenants have an identical;
 - and equal interest in the property.
 - When one joint tenant dies the property passes automatically to the surviving joint tenant;
 - because of the right of survivorship.
 - The deceased person's share of the property cannot be disposed of by Will or intestacy.
- (b)
- Each tenant owns a share of the property.
 - On death their share passes as part of their estate;
 - as directed by Will or the law of intestacy.

Model answer for Question 4

- (a)
- Statutory trusts are created by law/court/intestacy.
 - A non-statutory trust is an express trust/written;
 - where the owner of an asset declares they hold the asset on trust;
 - for specified beneficiaries.
- (b)
- There can be a wider class of beneficiaries.
 - The flexibility to decide who will benefit from the trust fund;
 - when they will benefit;
 - and how much.

Model answer for Question 5

- (a) *Candidates would have gained full marks for any three of the following:*
- Gerard transferred legal ownership of the asset to the trustees/nominees.
 - Mia and Sebastien have beneficial/equitable ownership absolutely.
 - The trustees hold the trust fund until they reach the age of the majority;
 - when they can demand it is paid to them.
- (b) *Candidates would have gained full marks for any six of the following:*
- Income will be taxed as the income of Mia and Sebastien.
 - The parental settlement rules will not apply as the gift was from a grandparent.
 - Gains will be taxed as Mia and Sebastien's.
 - The transfer into trust was a PET/non relevant property.
 - There will be no periodic;
 - or exit charges.
 - The trust fund will be included in Mia and Sebastien's estate for IHT purposes.

Model answer for Question 6

- A person must take out a life policy on their own life/single life only;
- and issued under MWPA trust from the commencement of the policy;
- for the benefit of their spouse or civil partner and/or children;
- including illegitimate or adopted children/not stepchildren.
- New spouses/civil partners following divorce or dissolution of a civil partnership and future children can benefit;
- if the spouse and/or children are not named.
- The Trust can be bare or flexible.
- If the policyholder isn't in a marriage or civil partnership at outset they must have children.

Model answer for Question 7

- (a) *Candidates would have gained full marks for any six of the following:*
- Even where a trust does not give specific investment powers to the trustees;
 - UK trustees have the power to invest in the same range of investments;
 - as the absolute owner.
 - It is usually available to trusts whenever they were created;
 - is available in addition to any limited express power of investment;
 - vested in trustees;
 - but subject to any limitation imposed by the trust deed/legislation.
- (b)
- Pension trusts.
 - Authorised unit trusts.
 - Certain charitable trusts.

Model answer for Question 8

- (a)
- The trustees are all resident in the UK.
 - Or where one of the trustees is resident in the UK;
 - and the settlor was resident/domiciled in the UK;
 - when the trust was made or at any time when funds were added to the trust.
- (b) *Candidates would have gained full marks for any three of the following:*
- A UK Domiciled/UK resident settlor may be liable to CGT;
 - if they have an interest in the trust;
 - in the tax year in which the gain arises.
 - Although they can recover the tax from the trustees.

Model answer for Question 9

(a) *Candidates would have gained full marks for any six of the following:*

- Decide whether a person has the capacity to make a particular decision for themselves.
- Make orders on financial;
- or welfare matters affecting people who lack capacity to make such decisions/deprivation of liberty.
- Appoint deputies where there is no power of attorney in place for individuals that lack capacity.
- Decide whether an LPA or EPA is valid.
- Remove deputies or attorneys who fail to carry out their duties.
- Hear cases concerning objections to the registration of an LPA or EPA.
- Emergency intervention.

- (b)**
- Can the individual understand what decision they need to make and why they need to make it?
 - Can the individual understand what might happen if they do or do not make this decision?
 - Can the individual use the information to make a choice/can they understand and weigh up the information relevant to the decision?
 - Can the individual communicate their decision/by talking, using sign language or any other means?

Model answer for Question 10

- (a)**
- The divorce will not invalidate Zoltan's Will;
 - but will cancel the benefit to his former spouse.
 - The legacies Zoltan left to his brothers are not affected.
 - A new executor would need to be appointed/his former spouse cannot act as executor.
- (b)**
- Deliberately destroying it.
 - Making a new Will;
 - which specifically revokes the previous Will.
 - Marriage/civil partnership.

Model answer for Question 11

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

- The executors will apply to the Probate Registry.
- In order to obtain grant of probate;
- the executors are required to submit the original Will;
- and death certificate;
- and providing information on assets/liabilities of Aisha/deceased.

(b) *Candidates would have gained full marks for any six of the following:*

- The executors must complete an inheritance tax account for HMRC/IHT400;
- showing assets/liabilities of the deceased;
- plus any gifts made by them in the previous 7 years/IHT100;
- and any gifts from which the deceased retained a benefit/GWR.
- Any IHT due must be paid before a grant of probate can be issued to the executors;
- and paid by the end of the sixth month after Aisha's/deceased's death.
- Claim TNRB/RNRB where appropriate.

Model answer for Question 12

(a) £1,200

x 45%

= £540

£400 x 39.35% = £157.40

£540 + £157.40 = £697.40

(b)

- The de minimis for the trust is £500
- / 2
- = £250
- As the total income received by the trust is less than the de minimis/£250
- no income tax is payable

Model answer for Question 13

(a) *Candidates would have gained full marks for any six of the following:*

- The trustees;
- will be liable to Income Tax;
- as the settlor died in a previous tax year.
- If the gain exceeds the de minimis amount/£500;
- the whole gain;
- will be taxed at 45%;
- less a basic rate tax credit.
- There is no top slicing relief.

- (b)
- The trustees would not be liable to tax on the gain;
 - as an assignment is not a chargeable event.
 - The beneficiaries would be potentially liable to Income Tax;
 - on any gain made since the commencement of the bond.
 - They would benefit from top slicing relief as they are basic rate taxpayers;
 - which may reduce/eliminate any liability to higher rate tax.

Model answer for Question 14

- (a)
- A settlor can set up a series of life insurance policies under relevant property/discretionary trusts;
 - created on different/consecutive days;
 - each with a sum assured less than the nil rate band.
- (b)
- This would reduce the potential periodic;
 - and exit charges;
 - as each trust would have its own nil rate band.

Model answer for Question 15

Candidates would have gained full marks for any seven of the following:

- Changes in the objectives of the trust.
- Death of a beneficiary.
- Changes in circumstances of the beneficiaries.
- Changes in the trustees/beneficiaries' attitude to risk.
- Changes in the tax position of the beneficiaries.
- Investments not performing as expected.
- Legislation/tax changes.
- Changes in economic/market conditions.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

- ATR – Attitude to risk
- AEA – Annual Exempt Amount
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- CLT – Chargeable lifetime transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- ESG – Environmental, Social and Governance
- EPT – Excluded property trust
- EPA – Enduring power of attorney
- ERC – Early repayment charges
- FAD – Flexi-access drawdown
- FSCS – Financial Services Compensation Scheme
- FOS – Financial Ombudsman Service
- GAR – Guaranteed annuity rate
- GWR – Gift with reservation
- HRT – Higher-rate taxpayer
- IHT – Inheritance Tax
- IT – Income Tax
- LPA – Lasting power of attorney
- LTA – Lifetime allowance
- MVR – Market value reduction
- MPAA – Money purchase annual allowance
- NICs – National Insurance contributions
- NPA – Normal pension age
- NRA – Normal retirement age
- NRB – Nil rate band
- OPG – Office of the Public Guardian
- OEIC – Open ended investment company
- PAYE – Pay As you Earn
- PPP – Personal pension plan
- PCLS – Pension commencement lump sum
- PA – Personal allowance
- PSA – Personal savings allowance
- POAT – Pre-owned asset tax
- PET – Potentially Exempt Transfer
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- SRB – Standard rate band
- TIB – Trustee in Bankruptcy
- UFPLS – Uncrystallised funds pension lump sum
- VCT – Venture capital trust

February 2025 Examination - J02 Trusts		
Question Number	Syllabus learning outcomes being examined	
1.	1.1	Explain the legal structure of a trust.
2.	1.2	Describe the role and legal standing of the main parties of a trust.
3.	1.3	Explain why trusts are used including their benefits and drawbacks.
4.	2.1	Explain the different methods and rules of creating a trust.
5.	2.2	Describe the various types of trusts.
6.	2.3	Describe the main types of trust property.
7.	3.1	Describe the rules covered in the Trustee Act 2000 and other relevant legislation.
8.	3.4 7.6	Explain the rules covering the creation and maintenance of offshore trusts. The relevance of residence and domicile on the parties to a trust.
9.	4.2 4.4	Describe the role of the Court of Protection. Describe the rules covered in the Mental Capacity Act 2005 and other relevant legislation.
10.	5.1	Explain the requirements for and benefits of making a valid Will.
11.	5.5	Describe the role of the executor and administrator of an estate.
12.	7.2	Analyse the implications of Income Tax in relation to the various types of trusts.
13.	8.4	Explain the tax implications on life, pension and other investments in trust.
14.	9.1	Apply trust and related tax planning solutions to meet client objectives and minimise tax liabilities.
15.	9.2	Describe events which may give rise to the need for a review of trust arrangements.

All questions in the September 2025 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 to the September 2024 and February 2025 examinations.

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%