



Chartered  
Insurance  
Institute

# J02

## Diploma in Financial Planning

Unit J02 – Trusts

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 J02 – Trusts

### Instructions to candidates

#### Read the instructions below before answering any questions

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

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

**Attempt ALL questions****Time: 2 hours**

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

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

1. Describe the main features of a trust that differ from a contract. (7)
  
2. Describe **six** main duties of the trustees of a UK trust. (6)
  
3. Gus and Erin are considering gifting £350,000 into a bare trust for the benefit of their minor grandchildren.  
  
State **six** benefits and **six** drawbacks of making a gift into a bare trust compared to a discretionary trust. (12)
  
4. (a) Describe briefly a fully secret trust. (3)  
  
(b) Describe briefly the conditions which must be satisfied before a court can declare a fully secret trust. (5)
  
5. (a) In order for a vulnerable person's trust to qualify for special tax treatment, a disabled person must meet the criteria for at least one particular state benefit.  
  
List **five** of these state benefits. (5)  
  
(b) Explain briefly how the trustees of a vulnerable person's trust would claim special tax treatment. (5)
  
6. State the factors the trustees of a discretionary trust should consider when selecting an appropriate investment for the trust. (8)

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

7. Explain briefly how an excluded property trust (EPT) created in the 2025/2026 tax year will be treated for Inheritance Tax purposes, if the settlor is a UK long-term resident in that tax year. (5)
8. Habib is planning a six-month secondment to work in Yemen. He is concerned about how his UK financial affairs can be managed during his absence, as he feels communication back to the UK may be difficult.
- (a) Explain briefly the benefits of using a general power of attorney in these circumstances compared to a lasting power of attorney. (3)
- (b) State the circumstances in which a general power of attorney ceases to be effective. (3)
9. Christine has recently been diagnosed with dementia, and her doctor has now advised she lacks mental capacity. As she doesn't have either an enduring or a lasting power of attorney in place, her family have been advised that they need to contact the Court of Protection in order for a deputy to be appointed to administer her financial affairs.
- (a) Explain who can be appointed as a deputy to manage Christine's financial affairs. (6)
- (b) State **three** financial decisions a deputy is unable to make on behalf of a mentally incapable individual. (3)
10. Gunther is not married or in a civil partnership. He lives with his partner Martha and their two children, aged 12 and 15. He doesn't currently have a Will in place and is concerned about what would happen if he were to die.
- (a) Explain how the estate will be distributed if Gunther dies without a valid Will. (6)
- (b) Describe the requirements for Gunther to make a valid Will. (6)

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

11. (a) Describe briefly the tax treatment of income **received by the trustees** of an interest in possession (IIP) trust. (5)
- (b) Describe the tax treatment of the income **distributed by the trustees** of an IIP trust to the beneficiaries. (6)
12. Harriett died on 1 September 2025. She held various investments which produced taxable income in the 2025/2026 tax year. Dividends of £540 were paid in May 2025, £360 in November 2025 and interest of £280 was paid in October 2025.
- (a) Calculate, **showing all your workings**, the Income Tax liability on the income received during the period of the administration of the estate. (5)
- (b) Describe how any capital gains made on the sale of investments during the period of the administration of the estate will be taxed. (7)
13. List **six** of the documents trustees will be required to provide as proof of title when making a claim on a whole of life policy held in trust. (6)
14. Describe how a back-to-back arrangement operates. (10)
15. Describe the main reasons which may prompt the review of a trust. (8)

## 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.

<b>Class 3 (voluntary)</b>	Flat rate per week £17.75.
<b>Class 4 (self-employed)</b>	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

## PENSIONS

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

\*Lifetime allowance abolished from 6 April 2024.

	2024/2025	2025/2026
Lump sum and death benefit allowance (LSDBA)	£1,073,100	£1,073,100
Lump sum allowance (LSA)	£268,275	£268,275

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

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

Money purchase annual allowance	£10,000	£10,000
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ANNUAL ALLOWANCE	
TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£60,000**
2025/2026	£60,000**

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

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

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

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

## CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2024/2025			2025/2026
Individuals, estates etc	£3,000			£3,000
Trusts generally	£1,500			£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000			£6,000
TAX RATES	Pre	Post	2025/2026	
	<b>30/10/2024</b>			
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%