



Chartered  
Insurance  
Institute

# J02

## Diploma in Financial Planning

Unit J02 – Trusts

February 2026 Exam Guide

### SPECIAL NOTICES

Candidates entered for the September 2026 exam should study this exam guide carefully in order to prepare themselves for the exam.

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

## J02 – Trusts

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## IMPORTANT GUIDANCE FOR CANDIDATES

### Introduction

The purpose of this Exam 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 demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the exam, it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under exam conditions.

### Before the exam

#### Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at [www.cii.co.uk](http://www.cii.co.uk), on the relevant qualification page. All the questions in the exam are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

#### 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

To get the most out of your learning, it's important to explore beyond just one textbook. Relying solely on a single study text may not give you all the depth or perspectives you need. While the main study materials are designed to cover the syllabus, they might not always explain things in a way that works for you—or offer alternative viewpoints that deepen your understanding.

That's why reading around the subject is so valuable. If a topic feels unclear or you're curious to see how others approach it, looking at different sources can really help. Think of it as building a richer, more rounded picture of what you're learning.

Build confidence in your knowledge and ability to apply it.

#### Make full use of the Exam Guide

This Exam Guide contains a full exam 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 Exam Guides can be treated as 'mock' exam papers. Attempting them under exam 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 exam guides free of charge on the relevant qualification page at [www.cii.co.uk](http://www.cii.co.uk).

**Know the layout of the tax tables**

Familiarise yourself with the tax tables printed at the back of the Exam Guide. 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 use your own tax tables in the exam, these are provided in the portal when you sit the exam.*

**Know the structure of the exam**

- Assessment is by means of a two-hour online written exam.
- All questions are compulsory.
- The 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.

You can also access previous exam papers and test specifications [here](#).

**Assessment Information and Rules and Policies for candidates**

Please review the [assessment information](#) and [rules and policies](#) for candidates. Full details of the administrative arrangements and the regulations governing your exam entry are available online.

## On-screen written exam familiarisation

The familiarisation test allows you to experience using the assessment platform before your exam.

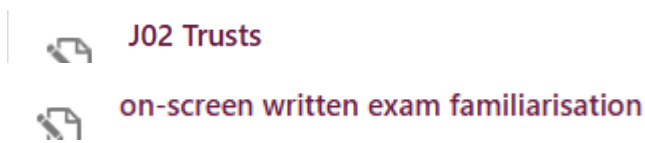
**Please note**, that while there might be slight differences in layout, it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only.

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

**We strongly recommend that you take the familiarisation test to ensure you are familiar with the on-screen assessment platform experience.**

*If you have previously sat any of the CII's multiple-choice exams, please note this familiarisation experience has a different set up.*

On the day of the J02 exam, please click **J02 Trusts** to start the exam:



We would recommend that prior to starting the exam, you may 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. This test is different to the familiarisation test.

You will receive the below information via email before your exam 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 will help you feel confident and prepared for exam day.** It guides you through the system and helps identify any potential issues with your equipment in advance, reducing the risk of technical problems during your exam.

**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.

**The exam platform no longer supports Windows 10 or macOS Ventura for any online testing.**

These operating systems no longer meet the minimum technical requirements. Continuing to use them may introduce compatibility issues, affecting performance during test sessions.

It is fundamentally important that, if you are sitting an exam 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](mailto:customer.serv@cii.co.uk), Webchat service: Mon-Fri: 8am-4pm (GMT)) as soon as possible, as this may affect your exam sitting.

## On the exam day

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 paper 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, flag the question, 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.

- Before you start writing, take a moment to think carefully about what the question is really asking. Understanding the examiner's requirements is key to producing a strong, focused answer.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Exam 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.

### Order of answering questions

Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about*. You are able to flag questions and then go back to them.

### Answering different question parts

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)'.

Always read all parts of a question before starting to answer it, otherwise you may find that after answering part (a), the answer you have given is more appropriate to part (b) and it may be necessary to duplicate some of the answer.

### Answer format

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

Marks are not lost for incorrect 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 non-programmable 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. For example:
  - Settlement - £500,000
  - Annual allowances – (£6,000)
  - = £494,000
- Show all your workings. This could include:
  - 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

### Senior examiner's comments overall:

Candidates generally performed well in this session of the J02 exam.

There were some good answers to questions which tested the main areas of the syllabus, including the main duties of trustees, the benefits and drawbacks of a bare trust compared to a discretionary trust, the rules of intestacy, and the taxation of the income received and distributed by the trustees of an interest in possession trust.

However, there were some mixed answers to less frequently tested areas of the syllabus, including secret trusts and back-to-back arrangements, with the less prepared candidates performing poorly.

There was also a question testing the recent change to the Inheritance Tax (IHT) treatment of excluded property trusts (EPT) created on or after 6 April 2025, which was not well answered by many candidates.

### Senior examiner comments per question:

#### Question 1

The first question in the exam asked candidates to describe the main features of a trust that differ from a contract. This was answered reasonably well although few candidates achieved full marks.

#### Question 2

This question required candidates to describe six main duties of the trustees of a UK trust and was generally well answered.

#### Question 3

This question asked candidates to state six benefits and six drawbacks of making a gift into a bare trust compared to a discretionary trust. This question was answered well with many candidates relating their answers to the information provided in the mini-case study.

#### Question 4

In part (a) candidates had to describe a fully secret trust. This question was answered reasonably well with many candidates stating the trust is not mentioned in the Will to preserve the identity of the actual beneficiary the testator wishes to benefit.

Part (b) required candidates to describe briefly the conditions which must be satisfied before a court can declare a fully secret trust. This was a more challenging question although there were some good answers from candidates who had prepared well for the exam.

#### Question 5

In part (a) candidates were asked to list the state benefits a disabled person must meet the criteria for in order for a vulnerable person's trust to qualify for special tax treatment. The common answers given were Attendance Allowance, Disability Living Allowance (DLA) and Personal Independence Payment (PIP), although few candidates achieved full marks.

Part (b) asked candidates to explain briefly how the trustees of a vulnerable person's trust would claim special tax treatment. This was generally not well answered. Some candidates identified the need for the trustees to make a Vulnerable Person Election and send this to HMRC. Few candidates stated the date by which the claim must be made.

### **Question 6**

In this question, candidates had to state the factors the trustees of a discretionary trust should consider when selecting an appropriate investment for the trust. This was very well answered by many candidates.

### **Question 7**

This question asked candidates to explain briefly how an EPT created in the 2025/2026 tax year will be treated for inheritance tax purposes, if the settlor is a long-term UK resident in that tax year. This required candidates to identify the change in the rules for an EPT created from 6 April 2025 and was generally not well answered.

### **Question 8**

This question opened with a mini-case study in which Habib was planning a six-month secondment to work in Yemen.

Part (a) required candidates to explain briefly the benefits of using a general power of attorney compared to a lasting power of attorney. Many candidates correctly identified Habib can appoint an attorney to manage his financial and property affairs for a limited period whilst he is working in Yemen. Fewer candidates stated a general power of attorney doesn't need to be registered with the Office of the Public Guardian (OPG) and would therefore avoid registration fees.

In part (b), candidates were asked to state the circumstances in which a general power of attorney ceases to be effective and was generally well answered.

### **Question 9**

This question included a mini-case study in which Christine had recently been diagnosed with dementia and didn't have an enduring or lasting power of attorney in place.

Part (a) asked candidates to explain who can be appointed as a deputy to manage Christine's financial affairs. This was reasonably well answered.

In part (b) candidates were asked to state three financial decisions a deputy is unable to make on behalf of a mentally incapable individual. This was also reasonably well answered with many candidates correctly stating a deputy is unable to make a Will or any addition to a Will or make large gifts out of the person's money.

### **Question 10**

Part (a) asked candidates to explain how an estate will be distributed if an individual dies without a valid Will. The rules of intestacy have been tested many times previously in J02 and this question was answered very well by many candidates.

Part (b) asked candidates to describe the requirements for an individual to make a valid Will. This is another frequently tested question and was generally well answered.

### **Question 11**

In part (a) candidates had to describe briefly the tax treatment of income received by the trustees of an interest in possession (IIP) trust. This was generally well answered although some candidates incorrectly provided answers based on the taxation of a discretionary trust.

Part (b) asked candidates to describe the tax treatment of the income distributed by the trustees of an IIP trust to the beneficiaries. This was also well answered.

**Question 12**

This question included a mini-case study in which Harriett had died. Her investments had paid dividends and interest in the 2025/2026 tax year before and after her death.

Part (a) required candidates to calculate the Income Tax liability on the income received during the period of the administration of the estate. Many candidates did not perform well in this question, with many incorrectly including the dividend of £540 paid before Harriet had died. There were also some mistakes made with the tax rates and some candidates incorrectly applied the dividend allowance and personal savings allowance.

Part (b) asked candidates to describe how any capital gains made on the sale of investments during the period of the administration of the estate will be taxed. This was answered better although a lack of detail prevented many candidates from achieving full marks.

**Question 13**

In this question, candidates were asked to list six documents' trustees will be required to provide as proof of title when making a claim on a whole of life policy held in trust. Many candidates answered this question well although few included deeds of appointment of trustees and retirement of trustees in their answers.

**Question 14**

This question required candidates to describe how a back-to-back arrangement operates and there were some mixed answers. Candidates who had prepared thoroughly for the exam correctly identified what a back-to-back arrangement was and answered the question well. However, other candidates did not perform well, with a surprising number of candidates confusing this with setting up multiple life insurance policies under the Rysaffe principle.

**Question 15**

The final question of the exam asked candidates to describe the main reasons which may prompt the review of a trust. This was well answered by many candidates.

## Unit J02 – Trusts

### Instructions to candidates

Read the instructions below before answering any questions.

All questions in this exam 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.

### If you are sitting via remote invigilation please

- Write down the following number +44 (0)80 8273 9244. This is the number to call if you experience any technical 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.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- 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. 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. (6)
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)

**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**

- There is no offer;
- or acceptance required with a trust.
- There is no consideration.
- The beneficiaries may not know about the trust.
- Minors can be beneficiaries.
- Trustees are the legal owners of the trust property.
- The beneficiaries can enforce the terms of the trust if there is a breach.

**Model answer for Question 2**

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

- Act in the best interest of beneficiaries/everything the trustees do with the trust property must be done for the benefit of the beneficiaries;
- as directed by the trust deed;
- or trust law.
- Trustees must protect the trust property;
- and register it as legal owners/they should hold the title documents to any trust property.
- The trustees must act impartially among beneficiaries.
- Avoid conflicts of interest.
- Keep proper accounts/pay taxes.
- Register trust on the Trust Registration Service (TRS).

### Model answer for Question 3

#### Benefits

- There is certainty the grandchildren will benefit.
- There will be no Inheritance Tax (IHT) payable when the trust is created.
- There will be no periodic;
- or exit charges.
- Income and gains will be taxed against the beneficiaries/potentially less tax payable.
- Lower costs/simpler administration and tax reporting.

#### Drawbacks

- The grandchildren will be absolutely entitled to benefit at age 18.
- Any future/unborn grandchildren will be unable to benefit.
- There is no flexibility to change the beneficiaries;
- or the percentage share they will receive.
- The trust fund will be included in the beneficiaries' estate for IHT purposes.
- There is no protection from bankruptcy/divorce/spendthrifts.

### Model answer for Question 4

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

- The trust is not mentioned in the Will.
- The identity of the actual beneficiary the testator wishes to benefit is preserved;
- by naming a legatee;
- in the Will.
- The legatee agrees to hold the legacy in trust for the intended beneficiaries.

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

- The testator must communicate the fact the property is to be subject to a fully secret trust;
- under their will to the legatee;
- The communication can be made at any time during the testator's lifetime.
- The terms of the trust must be clearly communicated.
- The communication can be a sealed letter.
- The testator must communicate a legally binding obligation on the legatee.
- The legatee must accept the fully secret trust.

**Model answer for Question 5**

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

- Attendance allowance.
- Disability Living Allowance (DLA).
- Personal Independence Payment (PIP).
- Constant Attendance Allowance.
- Armed Forces Independence Payment (AFIP).
- Industrial Injuries Disablement Benefit.
- Adult/Child/Pension Age Disability Payment.

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

- The trustees must make a Vulnerable Person Election/VPE1;
- and send this to HMRC.
- The trustees;
- and the vulnerable beneficiary (or someone on their behalf) will need to sign the form;
- no later than 12 months;
- after the 31 January following the end of the tax year in which the election falls.

**Model answer for Question 6**

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

- Trust powers/provisions/objectives.
- Timescale/age of beneficiaries.
- Income/capital requirements of the beneficiaries.
- Tax position of the trust/beneficiaries.
- Attitude to risk/capacity for loss.
- Trustee Act 2000/trust law.
- Economic conditions/market conditions.
- Legislation/tax changes.
- Ethical preferences.
- Charges.
- Advice.

**Model answer for Question 7**

- The trust will fall within the relevant property regime.
- There may be an IHT charge when the trust is created.
- Periodic;
- and exit charges may apply.
- There will be a gift with reservation (GWR) if the settlor can benefit.

**Model answer for Question 8**

- (a)
- Habib can appoint an attorney to manage his financial and property affairs for a limited period he is working in Yemen.
  - A General Power of Attorney doesn't need to be registered with the Office of the Public Guardian (OPG)/the attorney can act immediately.
  - There are no registration fees.
- (b) *Candidates would have gained full marks for any three of the following:*
- If revoked by the donor.
  - On the death of the donor/attorney.
  - If the donor/attorney become mentally incapacitated.
  - At the end of the agreed period.
  - Bankruptcy of donor/attorney.

**Model answer for Question 9**

- (a)
- The deputy will usually be a close friend;
  - or family member of Christine;
  - but they can also be a professional like a solicitor;
  - or anyone aged 18 or over;
  - of sound mind;
  - and not bankrupt.
- (b) *Candidates would have gained full marks for any three of the following:*
- Making a will or any addition to a will (i.e. a codicil) on behalf of the person.
  - Making large gifts out of the person's money.
  - Holding any money or property personally on behalf of the mentally incapable person.
  - Selling property without the Court's permission.
  - Raising loans.

**Model answer for Question 10**

- (a) *Candidates would have gained full marks for any six of the following:*
- Gunther's estate will be distributed under the rules of intestacy;
  - for the benefit of his children;
  - in equal shares.
  - The assets of the estate will be held under a Statutory Trust;
  - until the children reach age 18;
  - Martha will not benefit from the estate as they are not married or in a civil partnership.
  - Any joint assets will pass to Martha under the right of survivorship.
- (b)
- He must be over 18 and of sound mind.
  - He must be under no pressure to make a Will.
  - It must be in writing.
  - It must be signed by Gunther;
  - in the presence of two;
  - independent witnesses.

**Model answer for Question 11**

- (a)
- The trustees are liable to Income Tax;
  - at 8.75% for dividends;
  - and 20% for other income;
  - if the income exceeds £500.
  - Trustees do not get a personal allowance/ dividend allowance/personal savings allowance.
- (b)
- The beneficiaries receive the income with a credit for tax paid by the trustees/the trustees complete form R185.
  - The beneficiaries will pay further tax;
  - if they are higher (40%/33.75%)/additional rate (45%/39.35%) taxpayers;
  - and the income exceeds any available allowances;
  - The beneficiaries will be able to reclaim tax;
  - if they are non-tax payers.

**Model answer for Question 12**

- (a)
- Dividends £360
  - X 8.75% = £31.50
  - Interest £280
  - X 20% = £56
  - Total £31.50 + £56 = £87.50
- (b) *Candidates would have gained full marks for any seven of the following:*
- The personal representatives;
  - are liable to capital gains tax (CGT);
  - at 24%;
  - on any post death gains;
  - as the personal representatives are deemed to acquire the investments at their market value on the date of death.
  - The estate is entitled to Harriett's annual exemption/£3,000;
  - in the tax year of death;
  - and the two following tax years.

**Model answer for Question 13**

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

- The trust deed;
- the policy/policies document;
- the deed of appointment of trustees (unless the policy is under the Married Women's Property Act (MWPA));
- any deeds of appointment of new trustees/additional;
- any deeds of retirement of trustees;
- and the death certificate of any trustee who has died.
- TRS registration/Anti-Money Laundering (AML) documents.

**Model answer for Question 14**

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

- The individual uses a cash lump sum to usually purchase a purchase life annuity;
- and effect a whole of life policy, generally on their own life;
- The arrangement can be on a single or joint life second death basis for married couples or civil partners.
- usually under a discretionary trust.
- The life policy will be underwritten/will need to be in good health.
- The annuity payment is used to fund the payment of the life policy premiums;
- The capital content part of the annuity is tax free;
- but the interest content is taxable on the individual;
- with any potential remainder being available for the individual to spend as their income.
- When the individual dies, the annuity will cease;
- but will have no value for IHT purposes;
- as the life policy is under trust it will pay the sum assured to the trustees;
- who can then distribute it to the beneficiaries of the trust.
- There should be no income tax charge on the life policy proceeds because the life policy should be a qualifying policy.
- The life policy under trust will not form part of the individual's estate for IHT purposes;
- The individual is not a beneficiary of the trust, so there should be no GWR or pre-owned asset tax (POAT) issues.
- The life policy and annuity must not be associated/they should be taken out with different life offices that are not part of the same group.

**Model answer for Question 15**

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

- Death of a trustee/beneficiary.
- Serious illness/loss of capacity of a trustee/beneficiary.
- Changes in income;
- or capital needs of the settlor/beneficiaries.
- Bankruptcy of the settlor/trustee/beneficiaries.
- Marriage/divorce of a beneficiary.
- Legislative changes/tax.
- Economic/market conditions/poor investment performance.
- Disputes between the parties to the trust.
- Change in risk profile.

## Glossary of terms

*Some abbreviations candidates can use in online written 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 2026 Exam - 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.	3.1	Describe the rules covered in the Trustee Act 2000 and other relevant legislation;
7.	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.
8.	4.1	Explain the rules covering the various types of Powers of Attorney;
9.	4.2	Describe the role of the Court of Protection;
10.	5.1/ 5.2	Explain the requirements for and benefits of making a valid Will; Explain the rules of intestacy;
11.	7.2	Analyse the implications of Income Tax in relation to the various types of trusts;
12.	7.5	Explain the main Income Tax and Capital Gains Tax provisions for estates of deceased persons;
13.	8.3	Describe trustees' responsibilities for 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 2026 paper will be based on English law and practice applicable in the tax year 2026/2027, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are applicable to the September 2025 and February 2026 exams.**

## 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
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
	<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%