Chartered Insurance Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

September 2025 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 how a trust is created in a Will when an asset is left to a minor. **(8)**

2. **(a)** List **three** ways a trustee can be initially appointed when a trust is created. **(3)**

(b) Describe briefly the powers of the Appointor of a trust. **(4)**

3. Describe the tax benefits of an immediate post death interest trust (IPDI) compared to a discretionary will trust, for a couple who are married or in a civil partnership. **(6)**

4. List and describe briefly the requirements for a trust to be valid according to the *Knight v Knight* (1840) ruling. **(6)**

5. **(a)** Describe briefly an express trust. **(4)**

(b) Explain briefly who is required to register a non-taxable express trust with the Trust Registration Service (TRS) and when this must be registered by. **(4)**

6. Explain how a trust may be varied under section 57 of the Trustee Act 1925. **(6)**

7. **(a)** Describe the main duties of an attorney appointed under a Lasting Power of Attorney (LPA). **(8)**

(b) Explain briefly the implications if an attorney is in breach of their duties. **(4)**

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

8. Pablo is a beneficiary of his deceased father's Will. He would like to leave his inheritance to his two children, as he doesn't need the money and receiving it would cause an Inheritance Tax (IHT) liability on his own estate.

(a) Describe the conditions for a disclaimer to be effective for IHT purposes. **(6)**

(b) Outline to Pablo the drawbacks of disclaiming his inheritance compared to using a deed of variation. **(4)**

9. **(a)** Explain how the Will of a deceased person can be challenged under the Inheritance (Provision for Family and Dependants) Act 1975. **(5)**

(b) Explain briefly the potential drawbacks to a person challenging a Will. **(3)**

10. Julian has recently been declared bankrupt. He has a whole of life insurance policy with a surrender value of £10,000. The policy is not held under trust.

(a) Explain briefly the effect of Julian's bankruptcy on his policy. **(3)**

(b) Explain the effect of Julian's bankruptcy if the policy had been held under a Married Women's Property Act (MWPA) 1882 trust. **(5)**

11. Cerys is the settlor of a discretionary trust. In the 2025/2026 tax year, the trustees disposed of some unit trusts and received proceeds of £16,000. The original acquisition cost was £8,500.

Cerys and the beneficiaries are both basic rate taxpayers. Cerys has created one other discretionary trust.

(a) Calculate, **showing all your workings**, the Capital Gains Tax (CGT) payable when the trustees disposed of the unit trusts. **(6)**

(b) Explain the benefits if the trustees had transferred the trust assets to the beneficiaries prior to the disposal. **(6)**

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

12. Jackson created a discretionary trust for his grandchildren five years ago with a cash sum of £350,000. The trustees are now considering making a capital distribution to one of his grandchildren to pay university fees.

(a) Explain, in detail, how the exit charge will be calculated if a capital distribution is made to one of the grandchildren. *No calculation is required.* **(7)**

(b) Explain briefly who is responsible for paying the exit charge and when this must be paid. **(3)**

13. **(a)** Describe how a trust operates in conjunction with a defined benefit pension scheme. **(6)**

(b) Describe briefly the current Inheritance Tax (IHT) treatment of the lump sum death benefit payable from a defined benefit pension scheme. **(4)**

14. Explain the **benefits** and **drawbacks** of using a discounted gift trust for Inheritance Tax (IHT) planning. **(12)**

15. The Rossi family bare trust was settled by Franco Rossi 20 years ago for the sole benefit of his 3 children Andrea, Leonardo and Ginevra. Franco passed away five years ago and since his death the performance of the trust has significantly underperformed its benchmark. The children are now considering their options as the trust performance has not improved.

Explain how Andrea, Leonardo and Ginevra can bring the Rossi family bare trust to an end. **(7)**

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
Dividend allowance	£500	£500
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
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

*** Where net income exceeds £500, the full amount is subject to Income Tax. Further, the £500 may need to be divided between other trusts in existence.*

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,280	£4,360
Married/civil partners at 10% †	£11,080	£11,270
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£37,000	£37,700
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£3,070	£3,130
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

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

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,700 (£37,000 for 24/25) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£125
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	8%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £125 per week. This £125 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below £96.00**	Nil***
Over £96.00	15%

***Secondary threshold.*

****No employer NICs on the first £967 pw for employees generally under 21 years, apprentices under 25 years and veterans in first 12 months of civilian employment. No employer NICs on the first £481 pw for employees at freeports and investment zones in Great Britain in the first 36 months of employment*

Employment allowance £10,500 Per business – not available if sole employee is a director

CLASS 2 (self-employed) *	
Flat rate per week	£3,50
Small profits threshold per year	£6,845

Class 2 contributions are credited automatically where profits equal or exceed £6,845 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,845 per annum.

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

PENSIONS

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

**Lifetime allowance abolished from 6 April 2024.*

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

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

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 30/10/2024**	**Post**	**2025/2026**
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 £ (per week)	2025/2026 £ (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 Age 16 - 24	Up to 71.70	Up to 72.90
	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 mainresidence. 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. Therates 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%