



Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

February 2024 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, 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.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
- Section A: 80 marks
- Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory**.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the back of the paper.

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

SECTION A

This question is compulsory and carries 80 marks

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f) and (g) which follow.

Question 1

Julia and Phil are both aged 55; they have lived together for 20 years and have never married. They have two children together, Maya aged 16 and Oliver aged 18.

In 2021, Julia set up a partnership to run a design business. In order to finance the partnership, she took out a five-year loan. The qualifying interest payment she makes on the loan is currently £1,900 per month. Julia has plans to expand the business and in the next six months she will take out a further short-term loan to invest in the partnership which will run alongside the existing loan.

In the tax year 2023/2024, Julia's share of partnership profits will be £98,000. She has a self-invested personal pension and each month she makes a contribution of £800.

Phil has been a self-employed architect for many years. He runs his business as a sole trader and has an accounting year that ends on 30 September. Phil has brought forward overlap profits of £11,300.

Julia and Phil have the following assets:

| Asset/investment | Owner | Current Value (£) | Income received pa (£) |
|------------------------------|-------------------------|-------------------|---|
| Main residence | Joint tenants in common | 859,000 | n/a |
| Deposit Account | Joint | 44,000 | 2,200 |
| Current Account | Joint | 6,000 | 0 |
| Investment Trust | Julia | 75,000 | 6,400 |
| Real Estate Investment Trust | Julia | 120,000 | 6,000 as a property income distribution |
| Stocks & Shares ISA | Julia | 80,000 | 5,800 |
| Corporate Bond | Phil | 66,000 | 2,640 |
| Cash ISA | Phil | 40,000 | 1,600 |

Oliver is due to start university in the autumn of 2024 and Julia and Phil are considering the implications of him taking out a student loan to fund his tuition fees and living costs.

Phil's mother, aged 88, lives alone. She is beginning to show signs of memory loss and Phil is keen to understand how he can act on her behalf regarding her health and finances should this become necessary in the future.

Neither Phil nor Julia has a valid Will in place.

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

Questions

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

- (a) Calculate, **showing all your workings**, the amount of Income Tax that Julia will pay in the tax year 2023/2024. **(19)**
- (b) Describe, using figures where necessary, any implications if the qualifying interest payments Julia makes, in the tax year 2024/2025, increase to £5,500 per month and her share of the partnership profit increases to £250,000 with her pension contributions staying the same. *You should ignore receipt of any savings and investment income in your answer.* **(8)**
- (c) Explain in detail how Phil will be assessed for Income Tax purposes during the tax years 2023/2024 and 2024/2025. **(8)**
- (d) (i) Describe, in detail, the qualifying conditions for an existing property rental company to qualify as a Real Estate Investment Trust (REIT). **(8)**
- (ii) Describe, in detail, the taxation consequences of a property rental company that has successfully claimed REIT status for both the REIT **and** the investor. **(10)**
- (e) State the rules for repayment of student loans, assuming Oliver starts university in the autumn of 2024. *Assume that Oliver is an English student starting an undergraduate course anywhere in the UK.* **(5)**
- (f) Describe how Phil's assets would be distributed if he were to die before Julia. **(8)**

- (g)** **(i)** Explain, in detail, the process that Phil should follow in order to set up a lasting power of attorney (LPA) for his mother. **(9)**
- (ii)** State the implications of Phil being appointed as the sole attorney of his mother's LPA. **(3)**
- (iii)** Describe briefly the benefit of more than one person being appointed as an attorney who can act jointly and severally. **(2)**

Total marks for this question: 80

SECTION B

Both questions in this section are compulsory and carry an overall total of 80 marks

Question 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c) and (d) which follow.

Sophia, aged 39, is married to Imran, aged 45. Sophia runs a business from home and her net profits from self-employment are £49,000.

Sophia sold the following investments during the tax year 2023/2024:

| Asset | Purchase cost (£) | Disposal value (£) |
|---------------------------|-------------------|--------------------|
| Stocks and Shares ISA | 30,000 | 44,000 |
| Corporate Bond Unit Trust | 60,000 | 55,000 |
| Gilts | 25,000 | 20,000 |
| AIM shares | 25,000 | 40,000 |

On 1 January 2023, Sophia realised a loss of £7,500. The loss was not reported to HM Revenue & Customs at the time.

Sophia has also purchased the following ordinary shares in LLG plc as follows:

| Date of purchase | Purchase price (£) | Number of shares |
|------------------|--------------------|------------------|
| September 2016 | 3.35 | 5,000 |
| October 2018 | 4.16 | 6,000 |
| November 2020 | 2.85 | 6,500 |

These shares are currently trading at £5.09 per share.

Sophia has an adventurous attitude to risk and is considering selling some of her LLG plc shares to invest into private equity.

Imran has a more cautious approach to investment. This difference is causing friction between the couple and a separation is being considered.

Questions

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

- (a) Identify any capital losses within Sophia's existing investments and explain the extent to which they could be used to reduce any Capital Gains Tax (CGT) liability in the tax year 2023/2024. (11)
- (b) Calculate, **showing all your workings**, Sophia's Capital Gains Tax (CGT) liability for the tax year 2023/2024 assuming she disposes of 10,000 LLG plc shares. (14)
- (c) State **seven** different tax planning considerations for Sophia when deciding whether to sell her shares and re-invest the proceeds into an Enterprise Investment Scheme (EIS). (7)
- (d) Explain the CGT implications of Sophia transferring her remaining LLG plc shares to Imran upon:
- (i) separation; (4)
 - (ii) divorce. (4)

Total marks available for this question: 40

Question 3

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c) and (d) which follow.

Larry, aged 80, is widowed and has two children and five grandchildren aged between 13 and 28.

He has made the following gifts into trust for the benefit of his grandchildren:

| Type of trust | Date trust was created | Amount gifted into trust after any available annual exemptions (£) |
|---------------|------------------------|--|
| Bare | June 2010 | 200,000 |
| Discretionary | July 2011 | 150,000 |
| Discretionary | April 2013 | 175,000 |

The Inheritance Tax (IHT) nil rate band on the date each trust was created was £325,000.

The trustees of the 2013 discretionary trust plan to make their first distribution of £30,000 when Larry's youngest grandchild reaches age 18 on 30 April 2028. The value of the trust on the 10th anniversary was £230,000.

Larry has made no other lifetime gifts, although he is keen to reduce his IHT liability. He is considering establishing another trust but would like to be able to access his original capital should he require it.

Larry's wife, Gwen, died last year, after gifting her rental property to the couple's children in 2021. The property was worth £400,000 at the time of the gift and she had already used her annual exemption for that year and the previous year. The property was valued at £375,000 when she died.

Sylvain, Larry's eldest grandchild, was born and is domiciled in France. He has been resident in the UK since April 2009 and he has no plans to return to France, although he retains some investments there which he inherited from his late father.

Questions

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

- (a) (i) Calculate, **showing all your workings**, the periodic charge on the 10th anniversary of the 2013 discretionary trust. (9)
- (ii) Calculate, **showing all your workings**, the exit charge assuming the planned distribution of £30,000 is made on 30th April 2028. (3)
- (iii) Explain briefly who will be responsible for the reporting and payment of any exit charge and when this must be completed to avoid any penalty. (3)
- (b) Describe the planning aspects Larry should consider before creating a Loan Trust. (8)
- (c) Explain, using figures where necessary, how the value of the rental property on the date Gwen died would have affected the IHT payable on her death. (7)
- (d) (i) Explain Sylvain's domicile status in the tax year 2024/2025 and the effect this will have on his UK IHT position. (4)
- (ii) Explain the IHT benefits if Sylvain transfers his French investments into an Excluded Property Trust **before** the tax year 2024/2025. (6)

Total marks for this question: 40

INCOME TAX

| RATES OF TAX | 2022/2023 | 2023/2024 |
|---|--|-----------|
| 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 | £150,000 | £125,140 |
| High income child benefit charge: | 1% of benefit per £100 of adjusted net income between £50,000 – £60,000 | |
| <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 | £2,000 | £1,000 |
| 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 | £1,000 |
| Rate applicable to trusts | | |
| - dividends | 39.35% | 39.35% |
| - other income | 45% | 45% |
| 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% † | £3,640 | £4,010 |
| Married/civil partners at 10% † | £9,415 | £10,375 |
| Marriage Allowance | £1,260 | £1,260 |
| Income limit for Married Couple's Allowance † | £31,400 | £34,600 |
| Rent a Room scheme – tax free income allowance | £7,500 | £7,500 |
| Blind Person's Allowance | £2,600 | £2,870 |
| 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% |
| <i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i> | | |
| <i>† where at least one spouse/civil partner was born before 6 April 1935.</i> | | |
| <i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i> | | |
| Child Tax Credit (CTC) | | |
| - Child element per child (maximum) | £2,935 | £3,235 |
| - family element | £545 | £545 |
| Threshold for tapered withdrawal of CTC | £17,005 | £18,725 |

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 | 12% |
| 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 |
| Lower profits limit per year | £12,570 |

Class 3 (voluntary)

Flat rate per week £17.45.

Class 4 (self-employed)

9% on profits between £12,570 and up to £50,270.
2% on profits above £50,270.

PENSIONS

| TAX YEAR | LIFETIME ALLOWANCE |
|------------------------|--------------------|
| 2006/2007 | £1,500,000 |
| 2007/2008 | £1,600,000 |
| 2008/2009 | £1,650,000 |
| 2009/2010 | £1,750,000 |
| 2010/2011 | £1,800,000 |
| 2011/2012 | £1,800,000 |
| 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 charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

| TAX YEAR | ANNUAL ALLOWANCE |
|-----------------------|------------------|
| 2014/2015 – 2022/2023 | £40,000* |
| 2023/2024 | £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.

| MONEY PURCHASE ANNUAL ALLOWANCE | 2022/2023 | 2023/2024 |
|---------------------------------|-----------|-----------|
| | £4,000 | £10,000 |

CAPITAL GAINS TAX

| ANNUAL EXEMPTIONS | 2022/2023 | 2023/2024 |
|---|------------|------------|
| Individuals, estates etc | £12,300 | £6,000 |
| Trusts generally | £6,150 | £3,000 |
| Chattels proceeds (restricted to five thirds of proceeds exceeding limit) | £6,000 | £6,000 |
| TAX RATES | | |
| Individuals: | | |
| Up to basic rate limit | 10% | 10% |
| Above basic rate limit | 20% | 20% |
| Surcharge for residential property and carried interest | 8% | 8% |
| Trustees and Personal Representatives: | | |
| Residential property | 28% | 28% |
| Other chargeable assets | 20% | 20% |
| Business Asset Disposal Relief* | | |
| Lifetime limit | 10% | 10% |
| | £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 | | 2022/2023 | 2023/2024 | | |
|--|------|-----------|-----------|-----|-----|
| 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 | | |
| <i>*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.</i> | | | | | |
| Lifetime transfers | | | | | |
| - Annual exemption per donor | | £3,000 | £3,000 | | |
| - Annual small gifts exemption per donor | | £250 | £250 | | |
| 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 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

| | | 2022/2023 | 2023/2024 |
|---|---|--------------|--------------|
| | | £ | £ |
| Child Benefit | First child | 21.80 | 24.00 |
| | Subsequent children | 14.45 | 15.90 |
| | Guardian's allowance | 18.55 | 20.40 |
| Employment and Support Allowance | Assessment Phase | | |
| | Age 16 - 24 | Up to 61.05 | Up to 67.20 |
| | Aged 25 or over | Up to 77.00 | Up to 84.80 |
| | Main Phase | | |
| | Work Related Activity Group | Up to 107.60 | Up to 84.80* |
| | Support Group | Up to 117.60 | Up to 129.50 |
| Attendance Allowance | Lower rate | 61.85 | 68.10 |
| | Higher rate | 92.40 | 101.75 |
| Basic State Pension | Category A full rate | 141.85 | 156.20 |
| | Category B full rate | 85.00 | 93.60 |
| New State Pension | Full rate | 185.15 | 203.85 |
| Pension Credit | Standard minimum guarantee - single | 182.60 | 201.05 |
| | Standard minimum guarantee - couple | 278.70 | 306.85 |
| | 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 | 61.05 | 67.20 |
| | Age 25 or over | 77.00 | 84.80 |
| Statutory Maternity, Paternity and Adoption Pay | | 156.66 | 172.48 |

**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.*

CORPORATION TAX

| | 2022/2023 | 2023/2024 |
|--|-----------|-----------|
| Small profit rate - for taxable profits below £50,000 | N/A | 19% |
| Marginal rate – for taxable profits between £50,001 - £250,000 | N/A | 26.5% |
| Standard rate - for taxable profits above £250,000 | 19% | 25% |

VALUE ADDED TAX

| | 2022/2023 | 2023/2024 |
|-------------------------------|-----------|-----------|
| Standard rate | 20% | 20% |
| Annual registration threshold | £85,000 | £85,000 |
| Deregistration threshold | £83,000 | £83,000 |

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 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% 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% |