



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

March 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2024 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

J02 – Trusts

Contents

Important guidance for candidates	3
Examiner comments	9
Question paper	13
Model answers	17
Glossary of terms to use in exams	23
Test specification	24
Tax tables	26

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully

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

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

Note the assumed knowledge

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

Read widely

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

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks*. For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the exam. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

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

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

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

On-screen written exam familiarisation (Demo 1)

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

<https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/>

You can access the familiarisation test at any time.

<https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/>

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

The familiarisation test is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam. **We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

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.

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

The screenshot displays the examination interface for the Chartered Institute of Taxation. It features a navigation bar at the top with buttons for 'Prev', 'Nav', 'Next', and 'Clear Highlight'. On the right, there are buttons for 'Tools', 'Calculator', 'End Test', and a timer showing '174:27'. The main content area is divided into two panes. The left pane contains the case study text, and the right pane contains the question details and a table of assets.

Case Study Text (Left Pane):

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

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

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

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

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

Question 1 (Right Pane):

AF1 October 2019

SECTION A

This question is compulsory and carries 80 marks

Question 1

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

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10.

Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate.

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Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

Peggy's husband Frank, died in 2016, leaving his share of their house and his residual estate to Peggy. Frank made only one gift in the seven years before he died. He settled £450,000 into a discretionary trust just under four years earlier. Inheritance Tax (IHT) of £23,800 was paid by the trustees. Following Peggy's death, Andrew is the only remaining trustee.

Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs.

Navigation Bar (Bottom): « Inf01 Inf02 Inf03 **1a** 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 »

Buttons (Bottom Right): Flag Edit

Notification (Bottom Right): This question has been answered. Click here to enable you to edit your answer.

2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CII's multiple choice exams. Please do not bring your own copies into the exam.

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

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With regard to the discretionary trust established by Frank:

1. (b)(i) Explain to Andrew why IHT was payable when assets were placed into the trust and how it was calculated. No calculation is required. (6)

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:
1% of benefit for every £100 of income over £50,000 £50,000 £50,000

*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

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

1. (b)(i) Explain to Andrew why IHT was payable when assets were placed into the trust and how it was calculated. No calculation is required. (6)

(ii) Describe to Andrew why IHT was payable when his father died and how it was calculated. No calculation is required. (8)

(iii) State Andrew's duties as a trustee under the Trustee Act 2000. (12)

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:
1% of benefit for every £100 of income over £50,000 £50,000 £50,000

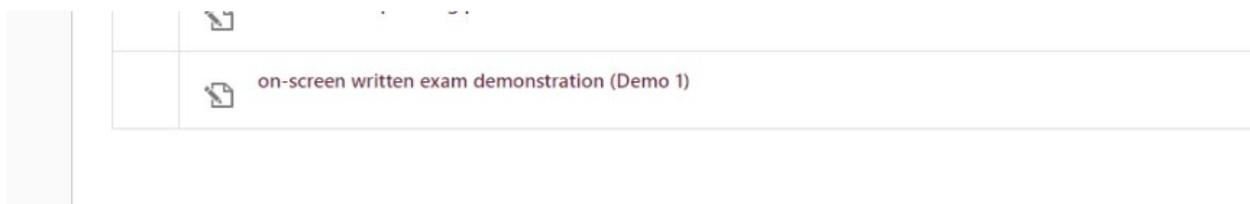
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Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
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Personal Allowance (basic)	£11,850	£12,500
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Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

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



The above screenshot is also a space where you can 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.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the exam is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates finish the exam confident that they have typed a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before typing.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs*, since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

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

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

Calculators

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

Tips for laying out calculations in on-screen written exams

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

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

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the trust calculation:
 - Settlement - £500,000,
 - Annual allowances - £6,000
- Identify all allowances, exemptions, tax rate bands, tax rates used in £ terms.
- Use subtotals, where appropriate: i.e.:
 - Settlement - £500,000
 - Annual allowances – (£6,000)
 - = £494,000

- Show all your workings, for example:
 - grossing up of the 20% lifetime rate

- Double check all of your figures, specifically:
 - That you have calculated each section correctly.
 - That you have added up all of your figures correctly.

EXAMINERS' COMMENTS

Candidates' overall performance:

Candidates generally performed well in this examination.

There were some good answers to questions testing the main areas of the syllabus and it was pleasing to see many candidates score high marks for their calculation of the net income distributed to the beneficiary of a discretionary trust.

The paper also included questions on areas tested less frequently, i.e. trustee delegation, transitional serial interests and 18-25 trusts. There were some mixed responses to these questions and many candidates lacked the level of knowledge required to achieve high marks.

Question 1

The first question in the exam asked candidates to describe the legal definition of a trust and this was very well answered by most candidates.

Question 2

This question asked candidates to state and describe briefly the four types of beneficial ownership an individual could be entitled to under a UK trust. Many candidates were able to identify the four types of beneficial interest, although few candidates scored maximum marks as they were unable to fully describe each type.

Question 3

In part (a), candidates were asked to explain briefly how a trustee of a non-charitable trust can delegate their powers under the Trustee Act 2000. This question was not well answered by the majority of candidates and some confused the question with the powers granted in the Trustee Delegation Act 1999, which was not relevant.

Part (b) asked for five powers that a trustee of a non-charitable trust cannot delegate under the Trustee Act 2000. This is an area of the syllabus where candidates lack knowledge and did not provide the level of detail required to achieve full marks.

Question 4

In this question, candidates were asked the benefits of placing a life insurance policy under a discretionary trust for family protection purposes. Many candidates correctly identified that the policy is usually outside the policyholder's estate for inheritance tax purposes and the policy proceeds can be paid without having to wait for probate. However, few were then able to further their answer with enough detail to achieve high marks.

Question 5

Part (a) required candidates to explain how a trust is established in a Will. This is an area that has been tested previously, and but was answered poorly by many candidates.

Part (b) asked candidates to describe briefly when a trust established in a Will would need to be registered with the Trust Registration Service (TRS). A few candidates achieved full marks, but the question was generally poorly answered, with many candidates incorrectly stating the trust must be registered within 90 days.

Question 6

In part (a), candidates had to explain the Inheritance Tax treatment of a pre-22 March 2006 interest in possession (IIP) trust when the beneficiary has a transitional serial interest (TSI). Many candidates correctly identified that the trust is not relevant property/the gift into trust was a potentially exempt transfer (PET), with some candidates able to expand on their answer and confirm there would be no periodic or exit charges.

Part (b) asked candidates to state when a transfer of value would occur for IHT purposes when the interest in possession changes on a pre-22 March 2006 IIP trust, which is not subject to a TSI. This was a question in which many candidates lacked the knowledge required to achieve high marks.

Question 7

This question included a mini-case study in which the trustees of an interest in possession trust had received and distributed dividend to income to Jackson, a higher rate taxpayer.

Part (a) asked candidates to describe briefly the tax treatment of the income received by the trustees and this was generally answered well. A common mistake made by candidates was not stating that the dividends were liable to Income tax. Candidates should take care to include all the relevant detail in their answer, as obvious as it may seem, to achieve the highest marks.

Part (b) asked candidates to explain how Jackson must report and pay tax on the income distributed to him by the trustees of an interest in possession trust. Many candidates did not include enough detail to achieve high marks. Some candidates would have achieved a higher mark if they had identified from the mini-case study that Jackson was a higher rate taxpayer.

Question 8

In this question, candidates had to state the factors the trustees should consider when investing cash held in a bare trust. This was generally well answered, with some candidates scoring full marks.

Question 9

This question asked candidates to explain the Capital Gains Tax (CGT) treatment if Garrett transfers some existing OEICs into a discretionary trust he had set up three years ago. Many candidates correctly identified Garrett would be treated as having made a disposal for CGT and would pay tax at 20% on any gain in excess of his available annual exempt amount, unless he claims Holdover Relief. Marks commonly missed by candidates were that the disposal would be at the market value on the date the OEICs were transferred into trust.

Question 10

A mini-case study provided the background to this question in which Monisha had lost mental capacity without an Enduring Power of Attorney or Last Power of Attorney in place.

In part (a), candidates had to state the action required for Monisha's family to be able to manage her affairs. This question was very well answered, and many candidates achieved full marks.

Part (b) was not so well answered, as few candidates were able to explain all the drawbacks of making an application to the Court of Protection for a deputy to be appointed.

Question 11

Part (a) required candidates to describe how a mutual Will operates. This is a question that has been tested previously and candidates generally answered this reasonably well.

Part (b), which asked candidates to explain the implications for Jasmine if Raphy had revoked his Will before he died, was not so well answered. Many candidates correctly identified that Jasmine would be released from the obligation not to revoke her Will, although few candidates were able to explain that she would have the right to sue for damages for breach of contract, even though the amount is likely to be negligible in most cases.

Question 12

In part (a), candidates were asked to describe how an 18 to 25 Trust is created. This question was not well answered by the majority of candidates.

Part (b) required candidates to explain briefly the Inheritance Tax (IHT) position for the beneficiary of an 18 to 25 Trust. Like part (a), this was not well answered. Some candidates made a good attempt at explaining that an exit charge is levied when the absolute entitlement is given based on the period since the beneficiary's 18th birthday.

Question 13

The mini-case study for this question set the scene of a discretionary trust which had received interest and dividends which were then distributed to the beneficiary, Theo.

In part (a), candidates had to calculate the net income payable to Theo in the 2023/24 tax year. This was generally very well answered, with many candidates achieving full marks. The most common error made by candidates was to tax the interest and dividends in the wrong order. Also, some candidates calculated the total tax payable by the trustees without going on to calculate the net income payable to Theo.

Part (b) asked candidates to explain how Theo will be taxed on the income received from the discretionary trust. This was less well answered, although many candidates were awarded marks for identifying the income is received with a 45% tax credit and Theo can reclaim tax as he is a basic rate taxpayer.

Question 14

This question asked candidates to explain five benefits and five drawbacks of using a discretionary loan trust for IHT planning. This question was not well answered by the majority of candidates, demonstrating a lack of knowledge of loan trusts.

Question 15

The final question in the exam commenced with a mini case-study stating the trustees of a family trust were conducting a review of the trust as one of the trustees, Thea, is losing mental capacity.

The question asked candidates to explain the actions that could be taken to remove Thea as a trustee. This was not well answered, with many candidates appearing to be unfamiliar with the power in s36 Trustee Act 1925 to replace a trustee who has lost mental capacity. Marks commonly awarded to candidates were for stating Thea could retire as a trustee and a replacement trustee could be appointed by the Court.

Unit J02 – TRUSTS

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 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.

If you are sitting via remote invigilation please

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

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

For candidates sitting via remote invigilation or at a test centre

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- **Different to Multiple Choice exams, tax tables are provided at the right-hand side of the interface after the question paper.**
- For each answer, please type in the full question number you are answering e.g. 1a
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

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

Attempt ALL questions

Time: 2 hours

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

1. Describe the legal definition of a trust. (6)

2. State and describe briefly the **four** types of beneficial interest an individual could be entitled to under a UK trust. (12)

3. (a) Explain briefly how a trustee of a non-charitable trust can delegate their powers under the Trustee Act 2000. (2)
(b) State **five** powers that the trustees of a non-charitable trust **cannot** delegate under the Trustee Act 2000. (5)

4. Explain the benefits of placing a life insurance policy under a discretionary trust for family protection purposes. (9)

5. (a) Explain how a trust is established in a Will. (5)
(b) Describe briefly when a trust established in a Will would need to be registered with the Trust Registration Service (TRS). (3)

6. (a) Explain briefly the Inheritance Tax (IHT) treatment of a pre-22 March 2006 interest in possession (IIP) trust when the beneficiary has a transitional serial interest (TSI). (4)
(b) State when a transfer of value would occur for IHT purposes, when the interest in possession changes on a pre-22 March 2006 IIP trust, which is **not** subject to a TSI. (3)

7. The trustees of an interest in possession trust receive dividends from a portfolio of equity funds, which they distribute to the beneficiary, Jackson, who is a higher rate taxpayer in the tax year 2023/2024.
- (a) Describe briefly the tax treatment of the income received by the trustees of the interest in possession trust, in the tax year 2023/2024. (4)
- (b) Explain how Jackson must report and pay tax on the income distributed to him by the trustees of an interest in possession trust in the tax year 2023/2024. (7)
8. State the factors the trustees should consider when investing cash held in a bare trust. (8)
9. Garrett, a higher rate taxpayer, set up a discretionary trust three years ago. He is now considering transferring some existing Open Ended Investment Companies (OEICs) into the trust.
- Explain the Capital Gains Tax (CGT) treatment if Garrett transfers his existing OEICs into the discretionary trust. (8)
10. Monisha, aged 82, was diagnosed with Alzheimer’s a year ago and she has now lost mental capacity. She does not have an Enduring Power of Attorney (EPA) or Lasting Power of Attorney (LPA) in place.
- (a) State the action required for Monisha’s family to be able to manage her affairs. (2)
- (b) Explain the **drawbacks** of the action stated in your answer to **part (a)** above. (7)
11. Jasmine is a widow, as her husband Raphy has recently passed away. The couple had previously written mutual Wills when Raphy was diagnosed with a life limiting illness.
- (a) Describe how a mutual Will operates. (5)
- (b) Explain the implications for Jasmine if Raphy had revoked his Will before he died. (3)

12. (a) Describe how an 18 to 25 Trust is created. (5)
- (b) Explain briefly the Inheritance Tax (IHT) position for the beneficiary of an 18 to 25 Trust. (3)
13. Theo is the beneficiary of a discretionary trust set up by his father, who has not created any other trusts. The income received by the trust in the tax year 2023/2024 was interest of £1,150 and dividends of £900, which was distributed to Theo, who is a basic rate taxpayer.
- (a) Calculate, **showing all your workings**, the net income payable to Theo in the tax year 2023/2024. *You should assume there were no trust expenses.* (8)
- (b) Explain how Theo will be taxed on the income received from the discretionary trust. (4)
14. Explain **five** benefits and **five** drawbacks of using a discretionary loan trust for IHT planning. (10)
15. The trustees of a family trust are conducting a review of the trust as one of the trustees, Thea, is losing mental capacity.
- Explain the actions that could be taken to remove Thea as a trustee. (7)

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

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

- It is an arrangement where the settlor(s);
- create a legal obligation;
- over property;
- that requires the trustee(s);
- to deal with property over which they have control;
- for the benefit of the beneficiaries;
- any one of the beneficiaries may enforce the obligation.

Model answer for Question 2

- Absolute interest.
- The beneficiary has full equitable ownership to income and capital;
- that cannot be taken away.

- Life interest/interest in possession.
- The beneficiary is entitled to income/enjoyment from the trust for life;
- but has no entitlement to capital.

- Remaindermen/reversionary interest.
- The beneficiary is entitled to income and capital from the trust;
- after the death of the life tenant/once life interest comes to an end.

- Contingent interest.
- The beneficiary's interest depends on the occurrence of a particular event;
- which may never come to fruition.

Model answer for Question 3

- (a)
- Trustees may delegate any or all of their “functions”;
 - to an agent.
- (b)
- a function relating to the distribution of the trust assets;
 - a power to allocate fees or other payments to capital or income;
 - a power to appoint a trustee and
 - a power conferred by the trust instrument or any other enactment which permits a delegation of trustee functions;
 - or to appoint a nominee or custodian.

Model answer for Question 4

- The policy is usually outside the policyholder’s estate for inheritance tax purposes.
- The policy proceeds can be paid without having to wait for probate;
- providing there is at least one surviving trustee.
- The settlor does not have to decide at outset who will benefit/there is a class of potential beneficiaries/unborn/minors.
- Retain flexibility over who benefits;
- how much they receive;
- and when they receive it.
- The settlor can be a trustee and retain some control during their lifetime.
- Protection from divorce/bankruptcy/spendthrifts.

Model answer for Question 5

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

- (a)
- A trust may be expressly stated in the Will;
 - or arise because the Will leaves a gift to a minor.
 - The executors of the Will are the trustees;
 - unless other trustees are specifically named in the Will.
 - The trust will come into force after the testator has died;
 - assuming the Will has not been revoked by the testator before death.

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

- (b)
- The trust will need to be registered 2 years;
 - after the death of the testator;
 - if the trust still exists/has not been wound up;
 - or earlier if the trust accepts additional assets;
 - or it becomes a taxable trust.

Model answer for Question 6

- (a)
- The trust is not relevant property.
 - No periodic;
 - or exit charges.
 - The trust fund is included in the estate of the beneficiary for IHT purposes.
- (b)
- Death of an absolute beneficiary.
 - Death of a life tenant.
 - An appointment under a flexible trust.

Model answer for Question 7

- (a)
- The trustees;
 - are liable to Income Tax;
 - at 8.75%;
 - with no personal allowance/dividend allowance.

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

- (b)
- The income is payable to Jackson with a credit for tax paid by the trustees.
 - The trustees will send form R185 to Jackson with details of the net income and tax deducted.
 - Jackson must then report the income on his own tax return;
 - by 31 January following the end of the tax year/31 January 2025.
 - As Jackson is a higher rate taxpayer;
 - he will pay further tax;
 - on any income in excess;
 - of any available dividend allowance.

Model answer for Question 8

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

- Trust provisions.
- Age of beneficiaries/timescale.
- Income/capital requirements.
- Tax position of beneficiaries.
- Parental Settlement Rules may apply if beneficiaries are minors.
- Attitude to risk/capacity for loss.
- Trustee Act 2000/standard investment criteria.
- Ethical preferences.
- Economic conditions.
- Consider obtaining advice.
- Investment charges.

Model answer for Question 9

- Garrett will be treated as having made a disposal for CGT;
- at the market value;
- on the date the OEICs were transferred into the Trust.
- He will be liable to tax at 20%;
- on any gain in excess of his available Annual Exempt Amount/£6,000;
- unless he claims Holdover Relief;
- which will defer the gain;
- until the trustees sell the OEICs.

Model answer for Question 10

- (a)
- An application to the Court of Protection (COP) would be required;
 - for a deputy to be appointed.
- (b)
- This is a time consuming;
 - and costly process.
 - Monisha's assets cannot be accessed until a deputyship order is granted.
 - Monisha will have no say in who will be responsible for managing her affairs.
 - The deputy will have limited powers based on Monisha's needs.
 - Deputies are subject to more stringent supervision;
 - and an annual fee is payable.

Model answer for Question 11

- (a)
- Mutual wills are wills which are made by two people;
 - typically on the same terms;
 - with the agreement that neither party will alter or revoke their Will;
 - during lifetime without the other's consent;
 - or after the first death.
- (b)
- Jasmine is released from the obligation not to revoke/Jasmine can change her Will;
 - she also has the right to sue for damages for breach of contract;
 - although the amount is likely to be negligible in most cases.

Model answer for Question 12

- (a)
- An 18 to 25 trust can be created for minors;
 - after 22 March 2006;
 - on the death of a parent;
 - by their will or intestacy;
 - or under the Criminal Injuries Compensation Scheme.
- (b)
- The beneficiary is only treated as owning the trust assets for IHT purposes until age 18.
 - An exit charge is levied when the absolute entitlement is given;
 - based on the period since the beneficiary's 18th birthday.

Model answer for Question 13

(a) **Tax paid by the trustees**

Standard rate band £1,000

x 20% = £200

Interest £1,150 - £1,000 = £150

x 45% = £67.50

Dividends £900

x 39.35% = £354.15

Total tax payable £200 + £67.50 + £354.15 = £621.65

Net income paid to Theo

Total income £1,150 + £900 = £2,050

less tax payable £621.65

= £1,428.35

- (b)
- The income is received with a 45% tax credit.
 - Theo is unable to use the personal savings allowance/dividend allowance;
 - as the income is treated as trust income and ceases to be savings and dividend income.
 - Theo can reclaim tax as he is a basic rate taxpayer.

Model answer for Question 14

Benefits

- The growth is outside the settlor's estate for IHT purposes.
- The value of the capital used to fund the trust is effectively frozen in the estate.
- Settlor has flexible access to repayment of the loan on demand.
- Settlor can take regular tax deferred withdrawals if invested in a bond/collective investment using annual exempt amount.
- Flexibility as to who will benefit after the loan has been repaid.

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

Drawbacks

- There is no immediate gift for IHT purposes.
- Any outstanding loan remains in the settlor's estate for IHT purposes.
- Any outstanding loan at the time of the settlor's death will pass under the settlor's Will or intestacy.
- The IHT benefits are reliant on future investment growth;
- the loan being largely/fully repaid to the settlor;
- and the settlor spending the loan repayments.
- The settlor's withdrawals will cease after the loan has been repaid.

Model answer for Question 15

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

- Thea could retire as a Trustee if she is mentally capable.
- It may be possible to dismiss Thea as a trustee;
- using express powers in the trust.
- Thea could be replaced as a trustee;
- by the other trustees;
- once she has lost mental capacity;
- under s36 Trustee Act 1925.
- Or a replacement trustee could be appointed by the court.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

1. ATR – Attitude to risk
2. AEA – Annual Exempt Amount
3. BRT – Basic rate taxpayer
4. BIK – Benefit in kind
5. CLT – Chargeable lifetime transfer
6. CFL – Capacity for loss
7. CGT – Capital Gains Tax
8. DOV – Deed of variation
9. DIS – Death-in-Service
10. DFM – Discretionary Fund Manager
11. ESG – Environmental, Social and Governance
12. EPT – Excluded property trust
13. EPA – Enduring power of attorney
14. ERC – Early repayment charges
15. FAD – Flexi-access drawdown
16. FSCS – Financial Services Compensation Scheme
17. FOS – Financial Ombudsman Service
18. GAR – Guaranteed annuity rate
19. GWR – Gift with reservation
20. HRT – Higher-rate taxpayer
21. IHT – Inheritance Tax
22. IT – Income Tax
23. LPA – Lasting power of attorney
24. LTA – Lifetime allowance
25. MVR – Market value reduction
26. MPAA – Money purchase annual allowance
27. NICs – National Insurance contributions
28. NPA – Normal pension age
29. NRA – Normal retirement age
30. NRB – Nil rate band
31. OPG – Office of the Public Guardian
32. OEIC – Open ended investment company
33. PAYE – Pay As you Earn
34. PPP – Personal pension plan
35. PCLS – Pension commencement lump sum
36. PA – Personal allowance
37. PSA – Personal savings allowance
38. POAT – Pre-owned asset tax
39. PET – Potentially Exempt Transfer
40. RAC – Retirement annuity contract
41. RNRB – Residence nil rate band
42. SIPP – Self-invested personal pension plan
43. SEIS – Seed Enterprise Investment Scheme
44. SRB – Standard rate band
45. TIB – Trustee in Bankruptcy
46. UFPLS – Uncrystallised funds pension lump sum
47. VCT – Venture capital trust

March 2024 Examination - J02 Trusts	
Question Number	Syllabus learning outcomes being examined
1.	1. Explain the structure of a trust and the roles of the main parties.
2.	1. Explain the structure of a trust and the roles of the main parties.
3.	1. Explain the structure of a trust and the roles of the main parties.
4.	1. Explain the structure of a trust and the roles of the main parties.
5.	2. Explain how trusts are created.
6.	2. Explain how trusts are created.
7.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
8.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
9.	2. Explain how trusts are created.
10.	4. Explain substituted decision making, to include all types of Power of Attorney and other options.
11.	5. Explain the use of Wills and the consequences of dying intestate.
12.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
13.	8. Explain how life, pension and other investments can be placed in trust, and the tax implications.
14.	9. Apply effective trust and related tax planning solutions.
15.	9. Apply effective trust and related tax planning solutions.

All questions in the September 2024 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2023 and March 2024 examinations.

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

**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

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%