



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

April 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2018 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	7
Question paper	10
Model answers	16
Test specification	22
Tax tables	23

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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 or from Customer Service. 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 purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge/.

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 examination paper. 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.*

Know the structure of the examination

- Assessment is by means of a two-hour written paper.
- All questions are compulsory.
- The paper is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper 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. For further information contact Customer Service.

In the examination

The following will help:

Spending your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, 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 leave the examination room confident that they have written 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 putting pen to paper.
- 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.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

Overall a number of candidates performed well in this sitting with several achieving high marks in questions that tested central syllabus areas. In syllabus areas that candidates were less familiar with they tended to have more difficulty in gaining high marks.

Candidates performed well in question 6 on Lasting Power of Attorney, question 7 on Wills, question 9 on creditor ranking and question 11 on trust taxation. Generally, candidates performed less well in question 2 on Protectors, question 8 on Disclaimers and question 10 on Individual Voluntary Arrangements. There was also a variation of performance within individual questions across the spread of ability.

Candidates who are studying to take the J02 Trusts exam are well advised to make use of past papers and previous examiner comments in their preparation, as similar syllabus content consistently shows up areas of weakness. Study of the J02 text for this course is also strongly recommended.

Question 1

In part (a) some candidates gained full marks but many others gave generic answers on the trustee's role for trusts rather than for trust assets which was specifically asked for. For part (b) many candidates' answers were often about a trusts' assets in general rather than for shares and life policies that were requested.

Question 2

The majority of candidates performed poorly in their description of the role of the protector with some stating that they were a type of trustee. Offshore trusts are an area where candidates have struggled previously which may be due to lack of dealing with offshore trusts on a regular basis, however, there is sufficient coverage of this in the J02 study text to have enabled candidates to have answered this question well.

Question 3

In part (a), some candidates incorrectly identified the most common method of creating a settlement but still managed to gain some marks by giving generic answers, whilst some candidates gained full marks.

Generally, candidates who scored highly in part (a) of this question, which examined the most common method of creating a settlement often also performed well in question part (b). Those candidates that did not perform well in part (a) still managed to gain some marks in part (b).

Question 4

This question was well answered by many candidates.

Question 5

In part (a)(i) few candidates gained all three marks. They either missed out the Inheritance Tax relief mark or did not give a detailed enough explanation on Income Tax relief. Part (a)(ii) was generally very well answered with many candidates gaining all three marks. For part (b) generally candidates did not know these specific charitable purposes but by stating some generic charity types still managed to gain one or two marks.

Question 6

In part (a) many candidates performed well in explaining the practical steps that must be taken to set up a Lasting Power of Attorney (LPA), stating several correct points. For part (b) several candidates correctly explained that it covered financial matters and also gave a suitable example of this.

Question 7

This question on disadvantages of not having valid Wills was extremely well answered by many candidates.

Question 8

In part (a) many candidates incorrectly identified the most appropriate method Diana should use to avoid her receiving the inheritance from her mother as a deed of variation when in fact it should have been a disclaimer. However, several candidates that incorrectly gave deed of variation in part (a) still managed to gain some marks in part (b) as there is some overlap in the steps that are required.

Question 9

This question on the types of creditors that will be paid first in bankruptcy was well answered by many candidates with some gaining full marks.

Question 10

In general, many candidates did not perform well on this question. Some confused an Individual Voluntary Arrangement with bankruptcy whilst others did not know the subject area in enough depth.

Question 11

In part (a) candidates generally performed fairly well although many did not state that interest would be received gross and some confused the taxation of interest with that of a discretionary trust saying that there would be a starting rate band. Part (b) a calculation of capital gains tax question was answered excellently with most candidates gaining full marks.

Question 12

Part (a) was reasonably well answered by some candidates but a few confused the exit and periodic charge processes. In part (b) this was quite well answered with more candidates giving correct explanations of the periodic charge.

Question 13

In part (a) many candidates answered this question on advantages of a settlor writing a whole of life policy in trust well. For part (b) many candidates gave the examples of normal expenditure gifts or the £3,000 annual exemption but few expanded beyond this.

Question 14

Overall this question was fairly well answered by many candidates however some candidates, even the better prepared ones, did not attempt it. “Back to back” arrangements are still available and there are a number of clients that have existing products. Also, there is sufficient coverage of this in the J02 study text to have enabled candidates to have answered this question well.

Question 15

This question was not particularly well answered by many candidates with most identifying Michael’s share of the trust will form part of his estate and his estate may therefore face an Inheritance Tax liability. Some candidates also identified that as Jane was over 18 she could bring the trust to an end and claim her share.



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Diploma in Financial Planning

Unit J02 – Trusts

April 2018 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, 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.

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

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.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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.*

1. A discretionary trust holds a number of different types of property. Newly appointed trustees are reviewing their responsibilities in order to understand and manage the trust assets.
 - (a) Explain briefly to the trustees their main role in dealing specifically with existing trust assets. (4)
 - (b) State **four** examples of specific powers that the trust deed gives the trustees to deal with trust property, when the trust portfolio contains both shares and life policies. (4)

2. Describe the role of the Protector of an offshore trust. (7)

3. Dmitri wishes to create a settlement to hold some of his existing assets which include shares, collective investments and life policies.
 - (a) Explain briefly the most common method of creating a settlement in the circumstances outlined. (4)
 - (b) Describe briefly what the common method identified in **part (a)** above should cover in order to be effective. (5)

4. Explain the actions trustees should take in order to ensure the trust investments will satisfy the standard investment criteria of the Trustee Act 2000. (10)

5. Josie earns £20,000 per annum and has inherited a substantial amount of money which she would like to consider donating to a local charity during her lifetime and on her death.
- (a)(i) Explain briefly the taxation implications for Josie through making an outright gift to the charity during her lifetime. **(3)**
- (a)(ii) Explain briefly how the rate of Inheritance Tax on Josie’s net estate would be calculated, after her death, if she bequeathed 20% of her net estate to the charity in her Will. **(3)**
- (b) The Charities Act 2011 created specific charitable purposes which are ‘directed towards the relief of those in need’.
- State **three** of the purposes detailed in the Act. **(3)**
6. James, who has full mental capacity to effect a property and financial affairs Lasting Power of Attorney (LPA), wishes to appoint his only son Matthew to act on his behalf.
- (a) Explain briefly the practical steps that must be taken by James and other persons to set up a LPA. **(7)**
- (b) Explain briefly, giving examples, the powers the LPA will confer on Matthew. **(3)**
7. Philip and Elizabeth are living together but are unmarried, they have a son Zachary who is 18 months old. They currently have no Will in place.
- State **seven** disadvantages of Philip and Elizabeth not having valid Wills. **(7)**
8. Diana is sole beneficiary of her late mother’s estate. Diana wishes to avoid receiving the inheritance from her mother and has no interest who inherits instead of her. She is single and has no dependants.
- (a) State the most appropriate method Diana should use to avoid her receiving the inheritance from her mother. **(1)**
- (b) Describe, giving reasons, the steps Diana must take to ensure the rejection of her inheritance is valid based on your answer to **part (a)** above. **(8)**

9. Aaron, who is married to Rachel, has been declared bankrupt and a bankruptcy restriction order has been made. All secured creditors have been paid and there are sufficient funds remaining to pay some of the unsecured creditors.
- List **six** types of creditors that will be paid first. **(6)**
10. Describe the process for setting up an Individual Voluntary Arrangement. **(10)**
11. Nigel established an interest in possession trust for his grandchildren on 8 March 2010 containing shares and fixed interest securities. The trustees sold some of the shares from the trust portfolio on 5 April 2018. The shares were acquired for £20,000 net of costs on 8 March 2010 and sale proceeds, after expenses were £42,000. This is the settlors only trust and the share sale was the only disposal from the trust during the 2017/2018 tax year.
- (a) Explain briefly how any interest received by the trustees from the trust is taxed. *No calculation is required.* **(4)**
- (b) Calculate, **showing all your workings**, the Capital Gains Tax liability that the trustees will incur during the 2017/2018 tax year. **(5)**
12. Adam created a single discretionary trust on 30 March 2008. He gifted £200,000 into the trust, when the nil rate band was £300,000 and has made no other lifetime gifts. On 30 March 2013, £25,000 was distributed from the trust to a beneficiary. No other distributions have been made out of the trust since it was created. The value of the trust had risen to £350,000 by 30 March 2018.
- (a) Explain briefly to the trustees why no Inheritance Tax charge would be applicable when the £25,000 distribution was made from the trust, to a beneficiary. *No calculation is required.* **(5)**
- (b) Explain briefly the Inheritance Tax treatment of the trust on its 10th anniversary. *No calculation is required.* **(5)**

- 13. (a)** State **five** main advantages of a settlor writing a whole of life policy in trust compared to the settlor owning the policy themselves. **(5)**
- (b)** Explain briefly how the premiums paid on a regular premium whole of life policy, written in a discretionary trust, would be treated for Inheritance Tax. **(5)**
- 14.** Donald is considering investing a lump sum into a 'back-to-back' arrangement which he understands to be effective for Inheritance Tax planning purposes and has requested clear guidance on how it works.
- Describe to Donald how a typical 'back-to-back' arrangement operates. **(10)**
- 15.** Peter and Jennifer are the trustees of a bare trust. Michael and his sister Jane, who are both aged over 18, were the beneficiaries of the trust. Michael has just died.
- State **six** factors that Peter and Jennifer need to consider subsequent to Michael's death. **(6)**

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**(a)**

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

- Act in the best interests of beneficiaries in respect of the trust investments.
- Protect Trust assets.
- Manage assets according to requirements of the trust/Trustee Act 2000.
- Treat the investments as their own for practical purposes.
- Assess/review existing portfolio.

(b)

- A trust containing shares usually gives the trustees the power to buy/sell shares as they see fit;
- in order that they can maximise the beneficiaries' funds to take advantage of market opportunities.
- A trust containing life policies gives the trustees the power to pay premiums;
- make claims/switch funds/exercise options.

Model answer for Question 2

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

- They oversee the administration of the trust/trustees.
- They have the power to veto certain trustee decisions;
- including removing/replacing trustees.
- They ensure that the settlor's intentions are followed.
- They are not usually trustees of the trust;
- They do not usually hold trust property.
- They are often used when corporate trustees are appointed if appropriate with offshore trusts.
- They can adjudicate/resolve disputes between trustees.

Model answer for Question 3**(a)**

- Settlor will execute a deed;
- that transfers/assigns the trust property/shares, collectives, life policies
- to the trustees;
- for the benefit of the beneficiaries.

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

- The deed must specify the trust property/subject matter;
- names of the trustees;
- names of the beneficiaries/objects.
- The powers of the trustees/investment criteria;
- and rights of beneficiaries.
- Intention to create a trust in writing/words.
- Name of settlor.

Model answer for Question 4

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

- Trustees must review a trusts investment portfolio periodically;
- and consider whether they should be varied.
- Ensure all investments are suitable/appropriate for the trust/use upmost diligence to avoid loss/duty of care.
- Ensure the investments of the trust are sufficiently diversified.
- Obtain proper advice from a suitably qualified professional;
- unless the trustees have the expertise;
- before making an investment and when reviewing investments;
- have due regard to the provisions of the Trust Deed/Trustee Act 2000.
- Trustees should invest as though the trust money were their own/avoid conflicts of interest.
- Keep accounts/records.
- Invest cash that is not required for other purposes in a timely manner.

Model answer for Question 5

(a) (i)

- There would be no IHT implications in making a lifetime gift to charity.
- Josie may qualify for income tax relief on her gift.
- Josie may qualify for tax relief at 20%.

(ii)

- If more than 10% of the (net) estate is left to a charity in a Will;
- then the 40% IHT usually due on the net estate;
- will be reduced by 4% to 36%.

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

- Youth.
- Age.
- Ill-health/health.
- Disability.
- Financial.
- Other disadvantage.

Model answer for Question 6

- (a)
- Complete the appropriate Lasting Power of Attorney (LPA) form.
 - Submit it to the Office of the Public Guardian for registration.
 - The LPA form must be signed by James/the donor;
 - Matthew/the attorney;
 - a certificate provider who ensures the donor understands their actions and is acting freely; (i.e. Solicitor, Doctor, close friend);
 - and an independent witness.
 - Matthew/the attorney will have the power to act as attorney once the LPA is registered.
- (b)
- Matthew/the attorney can deal with his father's/James'/the donor's property and financial affairs only.
 - For example, paying bills, receiving income/habitual gifts.
 - Although the donor can stipulate that the power only becomes effective after James has lost capacity.

Model answer for Question 7

- Without a valid Will the laws of intestacy will apply to the estate.
- This means that the estate will be distributed in accordance with intestacy legislation;
- and may not implement the wishes of the deceased.
- Any unmarried partner would have no right to the deceased's estate.
- Intestacy rules may not be tax efficient for the deceased's estate.
- Which means the estate distribution may not be efficient for Inheritance Tax (IHT) purposes.
- The care and custody of Zachary cannot be stipulated.

Model answer for Question 8

- (a) Diana should disclaim her inheritance.
- (b)
- The inheritance must be disclaimed in writing;
 - within two years of her mother's death.
 - This ensures there are no IHT implications.
 - There must be no consideration for money or money's worth.
 - The disclaimer must state it is effective for IHT purposes as though the disclaimed inheritance had never been made.
 - The disclaimer will not be treated as a transfer of value.
 - The property remains in her mother's estate;
 - and will pass to anyone else entitled under her mother's Will, any trust established, or the laws of intestacy.

Model answer for Question 9

- Trustee in Bankruptcy/Official Receiver Fees/costs/expenses of bankruptcy.
- Preferential debts/employee remuneration/pension contributions.
- Floating charge creditor/debenture.
- Unsecured creditor/Tax/HMRC/NI/VAT.
- Interest due on debts since bankruptcy restriction order.
- Debts due to Rachel/bankrupt's spouse.

Model answer for Question 10

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

- The Debtor makes a formal proposal to creditors to pay all or part of debt.
- The Debtor needs apply to the court to obtain approval.
- If accepted, an authorised Insolvency Practitioner/Supervisor is appointed.
- The Debtor/Insolvency Practitioner formulate proposals for part-payment of all creditors.
- The Debtor and Insolvency Practitioner agree how much the Debtor will pay.
- This also includes the Debtors assets that can be drawn upon.
- The Creditors vote on the scheme and the creditors holding 75% of the debt must accept it.
- All creditors are legally bound by an approved Individual Voluntary Arrangement (IVA).
- The Debtor can apply to court for grant of an interim order preventing the processing of a bankruptcy order if creditors are pressing for payment.
- The Insolvency Practitioner makes payments in accordance with the agreed terms.
- IVA usually lasts 5 years and will end when successfully concluded.

Model answer for Question 11

- (a)
- Interest is received gross.
 - Trustees will be unable to claim a personal savings allowance or personal allowance.
 - 20% income tax is paid by the Trustees on the interest.
 - It is usually paid via the self-assessment system.

(b)

Sale proceeds	£42,000
Less Acquisition costs	(£20,000)
Less 17/18 Annual Allowance	<u>(£5,650)</u>
Amount subject to CGT	£16,350
£16,350 x 20%	= £3,270

Model answer for Question 12

- (a) *Candidates would have gained full marks for any five of the following:*
- During first 10 years an exit charge, tax may be payable on each distribution.
 - As the initial gift was below the nil rate band in the 2007/2008 tax year.
 - No chargeable lifetime transfer tax would have been payable on entry.
 - In order to calculate the exit charge the period from inception until the 10th anniversary the 10 year period is broken down into 40ths/quarters/3 month periods.
 - As the distribution was made exactly 5 years after the gift was made;
 - 20/40ths of the effective rate multiplied by the distribution would give the tax charge.
 - As the effective rate at inception was 0% when the 20/40ths are applied to this figure the result will be 0% exit charge/no exit charge will apply.
- (b) *Candidates would have gained full marks for any five of the following:*
- A potential periodic charge is made on the 10th anniversary of the trust.
 - If the value of the trust is greater than the nil rate band at the date of the 10th anniversary.
 - As in this case the trust value of £350,000;
 - is greater than the current nil rate band of £325,000.
 - A periodic charge will be incurred.
 - This would be at a maximum of 6% (30% x 20%);
 - payable on the excess value of the trust over the nil rate band.

Model answer for Question 13

- (a) *Candidates would have gained full marks for any five of the following:*
- Ensures that policy proceeds are paid to intended beneficiaries via trustees.
 - The policy proceeds will usually be outside the policyholder's estate for IHT purposes.
 - The sum assured will be paid out more quickly;
 - providing trustees are in existence.
 - It avoids the need to wait for probate on the estate of deceased life insured/policyholder.
- (b) *Candidates would have gained full marks for any five of the following:*
- The premiums can be claimed as normal expenditure gifts;
 - providing they are regular, paid net of income tax and do not reduce settlor's standard of living;
 - or the £3,000 annual exemption can be used if available;
 - if neither of these exemptions are available the settlor's nil rate band could be used;
 - and if the settlor had used their nil rate band the premiums would be considered Chargeable Lifetime Transfers, charged at the lifetime rate of 20%.

Model answer for Question 14

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

- Donald/Donor invests a lump sum into a purchased life annuity on his own life.
- Donald/Donor takes out a whole of life policy on his own life written under trust.
- Donald/Donor will need to be medically underwritten;
- to avoid associated operations preferably using two separate life offices.
- Donald/Donor will need to be medically acceptable to make the scheme effective.
- The purchased life annuity (PLA) pays an income.
- Part or all of the income will be used to pay premiums on the whole of life policy;
- any surplus income is paid to Donald/Donor to spend.
- Part of the PLA income is deemed to be original capital and is not taxable.
- When Donald/donor dies the annuity will cease and have no value for IHT purposes.
- As the life policy is in trust the proceeds will be paid to the trustees;
- who can utilise this to pay any inheritance tax due and/or distribute to beneficiaries.
- There may be no income tax liability on Donald's/Donor's death if the whole of life is a qualifying policy;
- or any IHT liability as the whole of life policy was written in trust;
- and will not be paid into the donor's estate.

Model answer for Question 15

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

- The Trust Deed should be reviewed.
- Michael's share of the trust will form part of his estate.
- Michael's estate may therefore face an IHT liability/increased liability.
- Michael's share will pass under his Will/intestacy.
- The trust could continue for the sole benefit of his sister/Jane or distributed to his sister/Jane
- as she is over 18 and entitled to the trust property.
- The trust assets held for the benefit of Michael would need to be liquidated.

April 2018 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.	2. Explain how trusts are created
4.	1. Explain the structure of a trust and the roles of the main parties. 3. Explain the rules covering the investment of trust assets and the administration of trusts.
5.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
6.	4. Explain the consequences of giving a Power of Attorney or an Enduring Power of Attorney.
7.	5. Explain the consequences of making a Will or of dying intestate.
8.	5. Explain the consequences of making a Will or of dying intestate.
9.	6. Explain the bankruptcy rules, the role of the trustee in bankruptcy and alternatives to bankruptcy.
10.	6. Explain the bankruptcy rules, the role of the trustee in bankruptcy and alternatives to bankruptcy.
11.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
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 assurance policies, pension benefits and other investments can be placed in trust, and the tax and other 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 April 2018 paper will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are those that were used in April 2018 examinations. The October 2018 will use the published 2018/2019 Tax Tables which can be found online on the CII website:
www.cii.co.uk.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

**not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£5,000
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)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances †	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 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.

Child Tax Credit (CTC)

- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee

Weekly

Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week

CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 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 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)

Class 3 (voluntary)

Class 4 (self-employed)

Flat rate per week £2.85 where profits exceed £6,025 per annum.

Flat rate per week £14.25.

9% on profits between £8,164 - £45,000.

2% on profits above £45,000.

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	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

*tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.

MONEY PURCHASE ANNUAL ALLOWANCE

2016/2017	2017/2018
£10,000	£4,000

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

EXEMPTIONS	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
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	20%	20%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.*

INHERITANCE TAX**RATES OF TAX ON TRANSFERS** **2016/2017** **2017/2018**

Transfers made on death after 5 April 2015

- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%

Transfers made after 5 April 2015

- Lifetime transfers to and from certain trusts	20%	20%
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*A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.***MAIN EXEMPTIONS**

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*	£100,000	£100,000
- 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
- Small gifts exemption	£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%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO₂) emissions. There is no reduction for high business mileage users.

For 2017/2018:

- The percentage charge is 9% of the car's list price for CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO₂ emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO₂ emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates	2017/2018 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

2016/2017 2017/2018

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000		£200,000
Plant & machinery (reducing balance) per annum	18%		18%
Patent rights & know-how (reducing balance) per annum	25%		25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%		8%
Energy & water-efficient equipment	100%		100%
Zero emission goods vehicles (new)	100%		100%
Qualifying flat conversions, business premises & renovations	100%		100%
Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)			
CO ₂ emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98
<i>Only applicable where spouse or civil partner died on or after 6 April 2007*</i>			

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%