



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

April 2019 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2018/2019, 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. Identify the main differences between contract law compared to a trust. **(10)**

2.
 - (a) State **six** circumstances under which a new trustee can be appointed to replace a trustee as defined under Section 36 of the Trustee Act 1925. **(6)**
 - (b) Identify who can appoint a new trustee if there is no appointor or surviving trustees. **(2)**

3. Outline **seven** benefits of using an immediate post-death interest trust. **(7)**

4. Gregor is in the process of making a Will and would like to make provisions for his minor children to benefit from his estate via a suitable trust.
 - (a) Explain briefly how a trust can be created by a Will and who the trustees would be. **(6)**
 - (b) Describe briefly how Gregor's Will would transition into a trust following his death. **(5)**

5. Describe briefly;
 - (a) an implied trust; **(3)**
 - (b) an express trust. **(5)**

6.
 - (a) State **five** advantages of holding single premium investment bonds in a relevant property trust. **(5)**
 - (b) Explain briefly what trustees should consider when managing cash in a trust. **(3)**

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7. (a) (i) State which Act gives the court a power to vary the beneficial interest under a trust. (1)
- (ii) List the categories of beneficiary who may benefit from a trust varied in **part (a)(i)** above. (4)
- (b) (i) State the case which would allow the beneficiaries to bring a trust to an end. (1)
- (ii) Explain briefly the circumstances when an application to the court would be required to bring a trust to an end. (2)
8. Compare an Enduring Power of Attorney to a property and financial affairs Lasting Power of Attorney with regards to the following:
- (a) Registering the power of attorney. (5)
- (b) Scope and extent of the donor's and attorney's powers. (6)
9. (a) Explain how a discretionary Will trust operates. (6)
- (b) Identify **four** potential beneficiaries' circumstances where the use of a discretionary Will trust would be preferable rather than a bare trust. (4)
10. Christina owes £4,500 to two creditors who have each obtained a county court judgement against her.
- (a) Identify a solution for Christina to address her debts other than bankruptcy. (1)
- (b) Describe briefly the conditions that are required to be met in order for your answer in **part (a)** above to be successful. (7)

QUESTIONS CONTINUE OVER THE PAGE

11. (a) Describe how Capital Gains Tax is calculated in a trust for vulnerable beneficiaries. (3)
- (b) List the types of eligible trusts for 'relevant' minors. (3)
12. Ian died on 6 July 2018. On 10 June 2018 he encashed shares which realised £25,000 after expenses having acquired them for £10,000 net of costs, which meant that he remained a basic-rate taxpayer.
- Ian's personal representatives received savings interest of £17,500 on 5 October 2018 from corporate bonds that Ian purchased just before the date of his death. Probate was granted on 6 December 2018.
- (a) Describe how the capital gain made by Ian during the tax year of his death will be treated and taxed. *No calculations are required.* (6)
- (b) Calculate, **showing all your workings**, the Income Tax that Ian's personal representatives will be liable for on the savings interest received during the administration period. (3)
13. (a) Explain briefly the factors that the trustees of a self-invested personal pension (SIPP) would need to consider, in order to decide how to distribute a lump sum death benefit payable on the death of a member who died prior to taking any benefits from their plan. (5)
- (b) Describe briefly the Inheritance Tax implications of your answer to **part (a)** above. (2)
14. Mitesh is a UK resident and the settlor of a discretionary trust that holds an onshore investment bond.
- (a) State how a chargeable gain incurred in the 2018/2019 tax year will be treated for tax purposes. (6)
- (b) List **four** types of chargeable events which may arise. (4)
15. List the principal factors to consider when selecting an investment for a trust. (9)

The tax tables can be found on pages 8 – 16

INCOME TAX

| RATES OF TAX | 2017/2018 | 2018/2019 |
|---|-----------|-----------|
| 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 | £33,500 | £34,500 |
| 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 |
| <i>*not applicable if taxable non-savings income exceeds the starting rate band.</i> | | |
| 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) | £11,500 | £11,850 |
| Married/civil partners (minimum) at 10% † | £3,260 | £3,360 |
| Married/civil partners at 10% † | £8,445 | £8,695 |
| Transferable tax allowance for married couples/civil partners | £1,150 | £1,190 |
| Income limit for Married couple's allowance † | £28,000 | £28,900 |
| Rent a Room relief | £7,500 | £7,500 |
| Blind Person's Allowance | £2,320 | £2,390 |
| 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% |
| <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>** maximum for 'standard' investment but for 'knowledge intensive' investment, the limit is £2,000,000.</i> | | |
| 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) | £116 |
| Primary threshold | £162 |
| Upper Earnings Limit (UEL) | £892 |

| Total earnings £ per week | CLASS 1 EMPLOYEE CONTRIBUTIONS |
|---------------------------|--------------------------------|
| Up to 162.00* | Nil |
| 162.01 – 892.00 | 12% |
| Above 892.00 | 2% |

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 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 162.00** | Nil |
| 162.01 – 892 | 13.8% |
| Excess over 892.00 | 13.8% |

*** Secondary earnings threshold.*

| | |
|--------------------------------|---|
| Class 2 (self-employed) | Flat rate per week £2.95 where profits exceed £6,205 per annum. |
| Class 3 (voluntary) | Flat rate per week £14.65. |
| Class 4 (self-employed) | 9% on profits between £8,424 - £46,350. 2% on profits above £46,350. |

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 |
| 2018/2019 | £1,030,000 |

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* |
| 2018/2019 | £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 | 2017/2018 | 2018/2019 |
|---------------------------------|-----------|-----------|
| | £4,000 | £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 | 2017/2018 | 2018/2019 |
|---|-------------|-------------|
| Individuals, estates etc | £11,300 | £11,700 |
| Trusts generally | £5,650 | £5,850 |
| 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

| | 2017/2018 | 2018/2019 |
|---|-----------|-----------|
| 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% |

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 | £125,000 |
| - 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:

| | | | | | |
|---------------------------|------|-----|-----|-----|-----|
| | 0-3 | 3-4 | 4-5 | 5-6 | 6-7 |
| - Inheritance Tax payable | 100% | 80% | 60% | 40% | 20% |

Quick succession relief:

| | | | | | |
|--------------------------|------|-----|-----|-----|-----|
| | 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 2018/2019:

- The percentage charge is 13% 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 16%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 19%.
- Cars with CO₂ emissions of 95g/km have a percentage charge of 20% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 190g/km and above).

There is an additional 4% 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 (£23,400 for 2018/2019) e.g. car emission 90g/km = 19% on car benefit scale. 19% of £23,400 = £4,446.

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

| | 2017/2018 Rates | 2018/2019 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

2017/2018 2018/2019

| | | | | |
|--|-------------|------------------|----------|------------------|
| 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: | 50 or less* | 51-110 | | 111 or more |
| Capital allowance: | 100% | 18% | | 8% |
| | first year | reducing balance | | reducing balance |

**If new*

MAIN SOCIAL SECURITY BENEFITS

| | | 2017/2018 | 2018/2019 |
|---|---|--------------|--------------|
| | | £ | £ |
| Child Benefit | First child | 20.70 | 20.70 |
| | Subsequent children | 13.70 | 13.70 |
| | Guardian's allowance | 16.70 | 17.20 |
| 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 109.65 | Up to 110.75 |
| Attendance Allowance | Lower rate | 55.65 | 57.30 |
| | Higher rate | 83.10 | 85.60 |
| basic State Pension | Single | 122.30 | 125.95 |
| | Married | 195.60 | 201.45 |
| new State Pension | Single | 159.55 | 164.35 |
| Pension Credit | Single person standard minimum guarantee | 159.35 | 163.00 |
| | Married couple standard minimum guarantee | 243.25 | 248.80 |
| | Maximum savings ignored in calculating income | 10,000.00 | 10,000.00 |
| Bereavement Payment* | | 2,000.00 | 2,000.00 |
| 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 |
| Jobseekers Allowance | Age 18 - 24 | 57.90 | 57.90 |
| | Age 25 or over | 73.10 | 73.10 |
| Statutory Maternity, Paternity and Adoption Pay | | 140.98 | 145.18 |

*Only applicable where spouse or civil partner died before 6 April 2017.

** Only applicable where spouse or civil partner died on or after 6 April 2017.

CORPORATION TAX

| | 2017/2018 | 2018/2019 |
|---------------|-----------|-----------|
| Standard rate | 19% | 19% |

VALUE ADDED TAX

| | 2017/2018 | 2018/2019 |
|-------------------------------|-----------|-----------|
| 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 £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 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.

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.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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