



Chartered  
Insurance  
Institute

# AF1

## Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

October 2020 Examination Guide

### SPECIAL NOTICES

Candidates entered for the February 2021 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.

## AF1 – Personal tax and trust planning

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**Published January 2021**

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## IMPORTANT GUIDANCE FOR CANDIDATES

### Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

### Before the examination

#### Study the syllabus carefully

This is available online at [www.cii.co.uk](http://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 Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma 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](http://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 examination. 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 three-hour written paper in two sections. All questions are compulsory:

**Section A** consists of one case study, worth 80 marks. You will be expected to carry out a variety of tasks, after analysing the information provided.

**Section B** consists of two shorter case studies worth a total of 80 marks. Again you will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

**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/](http://www.cii.co.uk/qualifications/assessment-information/introduction/). This is *essential reading* for all candidates.

## 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 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 three 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 question 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. 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.

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

### **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, even if you have used a calculator.

## EXAMINERS' COMMENTS

### Candidates overall performance

This exam paper covered a variety of subject areas and overall performance was good from those candidates that were well prepared. Some high marks were scored in the calculations with most candidates showing a high level of accuracy in the Income Tax and National Insurance contributions questions.

Knowledge around the taxation of trusts was also well demonstrated although candidates should ensure they relate their answers to the information given in the case study; candidates would do well to remember this point throughout any future advanced level exam they are taking.

Areas where candidates did not appear well prepared were tested in questions 2 and 3, most specifically technical detail around Capital Gains Tax and general powers of attorney.

### Question 1

In parts (a)(i)-(a)(ii) candidates in the main scored high marks on the Income Tax calculation – if a mistake was made it was generally forgetting that the Seed Enterprise Investment Scheme (SEIS) is treated as an income tax reducer and the tax relief should have therefore been deducted at the end of the calculation. Most candidates also did very well on the National Insurance contributions calculation.

Part (a)(iii) was not so well answered. Some candidates did not provide enough detail for the available marks, for example some candidates simply stated that payments would need to be made in January and July instead of stating specifically the day and year i.e. 31 January 2021, 31 July 2021 and 31 January 2022 for the balancing payment.

Part (a)(iv) was also not so well answered. Most were able to identify that the SEIS would have an impact on payments but very few suggested Ralph make a claim to reduce his payments on account to avoid a large overpayment.

In part (b)(i) the main mistake was confusing the SEIS with the Enterprise Investment scheme. In part (b)(ii) a pleasing number of candidates did state that 50% of the gain Ralph made on his portfolio of shares would be completely exempt with others stating incorrectly it would be deferred.

Both parts of (c) and (d) were reasonably well tackled, although candidates should ensure they give enough detail to give themselves the best chance of achieving the marks on offer, particularly in part (c)(i) where examiners were looking for a detailed approach to how Nicky could use carry forward to maximise pension contributions. For part (d) it was specifically stated in the case study that Hugo was not Lucas' father yet some candidates failed to realise this was relevant to the answer.

Knowledge on debt relief orders varied with some candidates receiving high marks, particularly in part (c)(ii).



## Question 2

Part (a) of question 2 was generally poorly answered with very few candidates demonstrating they had prepared well in this area. It was particularly evident in part (a)(i) and (a)(iii) where candidates were firstly asked to explain why they should make one of their properties their main residence and in part (a)(iii) candidates were asked to outline the conditions that must be met for a Private Residence Relief nomination to be successful.

Part (b) was much better with many candidates correctly stating Astrid would be deemed UK domicile and correctly identifying the various impacts of this on her tax affairs.

Some candidates did very well on part (c) of this question and scored high marks. For those that scored badly, it was generally because they had confused offshore funds with offshore bonds and therefore wasted valuable time giving answers regarding the taxation of an offshore investment bond rather than the taxation of an offshore investment fund. Where this happened it was not possible to award any marks.

Candidates should ensure they read very carefully the question before attempting their answer.

## Question 3

Question 3 tested the taxation of discretionary trusts and it was excellent to see some very good answers to part (a)(i) which tested the income tax treatment.

Part (a)(ii) tested how trust expenses are accounted for and this question was not so well answered despite the subject being covered in some detail within the relevant study texts.

The main problem in (a)(iii) was candidates not appreciating that as Anna was a non-taxpayer this means she could receive a refund of income tax but only up to the amount of her personal allowance. Far too many candidates stated she could reclaim all of the Income Tax paid by the trustees.

Part (b) was a straightforward calculation and most candidates scored well.

Part (c) was answered relatively well with most well-prepared candidates appreciating the action would have been a breach of trust but again candidates must ensure they are giving enough detail to correspond with the available marks.

Finally question (d) tested general Powers of Attorney. This provided mixed answers with very few candidates considering the wider implications and therefore marks were poorly achieved overall.

## Unit AF1 – Personal tax and trust planning

### 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 2020/2021, 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.

- **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.**
- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:  
Section A: 80 marks  
Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory.**
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- 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.
- Tax tables are provided at the right-hand side of the interface.
- 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.**
- Have you shown your ID during the ID check? If not, show it to the camera now please.
- Did you show the edge of your screen with a mirror during the room scan? If not, use a mirror to show it now please.
- If you have blank paper for notes, did you show both sides to the camera? If not, show both sides to the camera now please.

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

## SECTION A

**This question is compulsory and carries 80 marks**

**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.**

Ralph aged 56 is married to Nicky aged 54. They have one daughter, Bethany, aged 24 who has a child of her own, Lucas aged 5.

Ralph is a self-employed architect. In the 2019/2020 tax year Ralph's total tax bill was £16,000. In the 2020/2021 tax year he expects to make a gross profit of £95,000 with total allowable business expenditure of £20,000. Ralph has been making contributions into a personal pension of £300 per month since 2015.

Ralph and Nicky receive income from the following savings and investments:

	<b>Owner</b>	<b>Income (£)</b>
Open ended investment company (OEIC) - UK equity fund	Ralph	4,300 per annum
M & D PLC corporate bond 5.56% 2035	Ralph	1,100 per annum
Seed Enterprise Investment Scheme (SEIS)	Ralph	0
Cash on deposit	Joint	430 per annum
Stocks and shares ISA - UK small companies fund	Nicky	1,900 per annum
Buy-to-let property	Nicky	750 per month

In the 2020/2021 tax year Ralph sold a portfolio of shares making a gain of £30,000. He invested the whole gain into qualifying shares in a SEIS.

Nicky is an accountant and her salary for the 2020/2021 tax year will be £60,000. She owns a buy-to-let property on which she pays £300 per month on her interest-only mortgage. The property is let at £750 per month and the running costs of the property are estimated at £2,000 per year.

Nicky has been making contributions of £800 per month net for the last five years to a self-invested personal pension, the pension is currently worth £105,000.

Bethany lives in rented accommodation with her boyfriend, Hugo. Bethany works part-time as a hairdresser; her earnings are £10,000 per annum. She also receives Child Benefit for Lucas of £1,094.60 a year. Bethany has credit card debt of £19,000 and has been unable to make the monthly repayments for the last six months. She is considering the various options she has other than bankruptcy. Hugo works in marketing and has earnings of £65,000 per annum. He is not Lucas's father.

**Questions**

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

- (a) (i) Calculate, **showing all your workings**, Ralph's total Income Tax liability for the tax year 2020/2021. (13)
- (ii) Calculate, **showing all your workings**, the total National Insurance contributions (NICs) Ralph will pay for the tax year 2020/2021. (5)
- (iii) State when Ralph would need to make payments relating to his Income Tax and NICs for the tax year 2020/2021 and detail what these payments are based on. (7)
- (iv) Explain in detail why Ralph should contact HM Revenue & Customs regarding his Income Tax payments for the tax year 2020/2021. (6)
- (b) (i) Explain briefly the criteria a qualifying company must meet in order to be a suitable investment for a SEIS. (5)
- (ii) Explain, **using figures where appropriate**, how the gain Ralph has made on his portfolio of shares will be treated for Capital Gains Tax purposes. (6)
- (iii) State the **two** methods Ralph could use to report his capital gain. (2)
- (c) (i) Explain, **showing figures where appropriate**, the maximum tax relievable pension contribution Nicky can make in the 2020/2021 tax year. (9)
- (ii) Calculate, **showing all your workings**, the total profit Nicky will receive from her buy-to-let property. (8)
- (d) Describe the impact of Bethany living with Hugo on the Child Benefit payments she receives. (7)
- (e) (i) Outline the factors that must be taken into account before Bethany can apply for a debt relief order (DRO). (7)
- (ii) Explain briefly the advantages to Bethany of her entering into an Individual Voluntary Arrangement as an alternative to bankruptcy. (5)

**Total marks for this question: 80**

**SECTION B**

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

**Question 2**

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

Astrid, aged 54, married Ian, aged 57 on 6 February 2020. Astrid has always been domiciled in Norway and has been a UK resident since 2005. Ian is UK resident and UK domiciled. Both Ian and Astrid own UK-based businesses. In addition, Astrid has extensive business and property interests in Norway.

Astrid has claimed the remittance basis of taxation since she arrived in the UK.

Astrid owns a flat in Manchester where her and Ian's businesses are based. She purchased the property in her sole name in June 2018.

The couple have lived together since January 2019 and occupy Astrid's property during the week. Ian owns a property in Derbyshire where they spend every weekend.

They both intend to sell their businesses in the next two to three years, at which time they will decide where they will live in their retirement.

Astrid has £200,000 to invest for their retirement and she is considering the use of an offshore fund.

**Questions**

- (a)** Astrid and Ian have been advised that they should contact HM Revenue & Customs and nominate one of their properties as their main residence.
- (i)** Explain briefly why Astrid and Ian must make this nomination. **(2)**
  - (ii)** State the factors they should take into account when selecting which of the properties to nominate. **(6)**
  - (iii)** Outline the conditions that must be met for the nomination to be successful. **(4)**
  - (iv)** In the event that they do not make a nomination, identify **eight** factors HM Revenue & Customs will take into account in determining which property they will regard as the couple's main residence. **(8)**
- (b)** Explain why Astrid will no longer be able to claim the remittance basis of taxation in subsequent years and, outline the impact of this change on her ongoing tax affairs. **(9)**
- (c)** Describe the tax treatment of reporting and non-reporting offshore funds should Astrid choose to use them for her investment. **(11)**

**Total marks available for this question: 40**

**Question 3**

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

Sasha, aged 48, is one of the trustees of a discretionary trust, created for the benefit of her nieces, Anna aged 16, and Becca aged 23. Anna is a non-taxpayer and Becca is a basic rate taxpayer.

The original settlor of the trust stated in a letter of wishes that they would like income from the trust to be used to support Anna and Becca's education, and then the capital to be used to help them get on the property ladder at some point in the future. This was the only trust established by the settlor.

The trust holds the following assets and receives the income detailed below:

	<b>Current value (£)</b>	<b>Income (£)</b>
Rental property	1,000,000	30,000 per annum
Portfolio of equities	300,000	9,000 per annum
Cash	10,000	Nil

Expenses of the trust amount to £5,000 a year.

The rental property was valued at £830,000 when it was gifted into the existing trust in 2015. Becca lived in the property until 2017 and the property has been let ever since. The original purchase price was £500,000. When the property was gifted, the settlor and the trustees elected for hold-over relief.

Becca has finished university and has found a house that she would like to buy. The trustees are considering selling the rental property to release capital to Becca for her to purchase a property.

Anna lives with her mother, Elsa. Elsa has asked for capital from the trust so that she can buy a property. Elsa is not a potential beneficiary of the trust.

Sasha is planning on going travelling for six months, in the near future and would like to give her brother authority to take care of her financial responsibilities while she is out of the country.

**Questions**

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

- (a) With regard to the discretionary trust:
- (i) Explain the Income Tax treatment of the income received by the trustees. (8)
  - (ii) Explain how the trust expenses will be accounted for in the calculation of taxable income. (6)
  - (iii) Describe how Anna and Becca will be treated for Income Tax purposes if the trustees distribute income of £10,000 net to them both. (5)
- (b) Calculate, **showing all your workings**, the Capital Gains Tax liability assuming the rental property is sold in the 2020/2021 tax year. Assume that the costs of selling the property are £7,000. (6)
- (c) Explain the legal implications of Sasha and the other trustees appointing capital to Elsa to purchase a property. (7)
- (d) (i) Explain the benefits of Sasha giving her brother a general Power of Attorney to act on her behalf whilst she is away. (6)
- (ii) Explain briefly the limitations for Sasha of taking this course of action. (2)

**Total marks for this question: 40**



**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)(i)	Non-savings income £	Savings income £	Dividend income £
Gross profit	95,000		
Expenses	(20,000)		
Net profit	75,000		
Interest		215	
Interest from corporate bond		1,100	
Dividend from OEIC			4,300
Personal Allowance	(12,500)	1,315	4,300
	62,500		

Basic rate threshold extended by personal pension contributions  
 $\text{£}300 \text{ per month} \times 12 = \text{£}3,600 / 0.8 = \text{£}4,500$   
 $\text{£}37,500 + \text{£}4,500 = \text{£}42,000$

$\text{£}42,000 \times 20\%$	£8,400
$\text{£}20,500 \times 40\%$	£8,200
£500 PSA $\text{£}815 \times 40\%$	£326
$\text{£}2,000 \times 0\%$	
$\text{£}2,300 \times 32.5\%$	£747.50
	£17,673.50
Less tax reducer on SEIS investment $30,000 \times 50\%$	£15,000
Total Income Tax liability	£2,673.50

- (a) (ii) Class 2 NICs**
- £3.05 per week = £158.60
- Class 4 NICs**
- £9,500 x 0%
  - £40,500 x 9% = £3,645
  - £25,000 x 2% = £500
- Total class 4 NICs = £4,145
- NICs in total = £4,303.60
- (a) (iii)**
- 31<sup>st</sup> January 2021: 1<sup>st</sup> payment on account due of 50% of the previous year's tax liability.
  - 31<sup>st</sup> July 2021: 2<sup>nd</sup> payment on account due of 50% of the previous year's tax liability.
  - 31<sup>st</sup> January 2022: balancing payment due for 2020/2021 as well as Class 2 NICs for 2020/2021 plus the first payment on account for tax year 2021/2022.
- (iv)**
- Ralph should request a reduction in his payments on account to avoid an overpayment of tax.
  - His total tax liability for 2019/2020 was £16,000.
  - His total liability for 2020/2021 will be much lower due to the SEIS investment which is treated as an income tax reducer/£2,673.50.
  - Ralph could reduce his payments on account to 50% of his total liability leaving no tax to be repaid on the 31<sup>st</sup> January 2022.
- (b) (i)** *Candidates would have scored full marks for any five of the following:*
- The company must;
- be unquoted at the time the shares are issued with no plans to become a quoted company
  - employ 25 people or less
  - be trading for no more than 2 years
  - have less than £200,000 in gross assets
  - carry on a qualifying trade
  - be established in the UK
  - not be a member of a partnership
  - not control another company/has not been controlled by another company since the date of incorporation.
- (b) (ii)**
- Ralph qualifies for a 50% Capital Gains Tax (CGT) exemption as he has reinvested the gains into qualifying shares in a SEIS.
  - £15,000 will therefore be exempt (the gain is not deferred).
  - As Ralph has re-invested gains of £30,000, he will only pay CGT on £15,000 as follows:
  - £15,000 - £12,300 annual exempt amount = £2,700 x 20% = £540
- (iii)**
- Report via the real time CGT service or via his annual self-assessment return.

- (c) (i)
- Nicky has an annual allowance of £40,000.
  - She is making contributions of  $\text{£}800/0.8 \times 12 = \text{£}12,000$ .
  - She therefore has £28,000 remaining for the current tax year.
  - She needs to use this year's annual allowance first before utilising carry forward from up to the previous 3 tax years.
- 
- Nicky has earnings in 2020/2021 of £60,000 - she cannot exceed this and get full tax relief.
  - Rental income is not relevant earnings for pension contributions.
  - She can carry forward unused allowance from the earliest year i.e. 2017/2018.
  - She can utilise £20,000 of the £28,000 allowance left in 2017/2018.
  - The £8,000 of unused allowance in 2017/2018 is lost and cannot be carried forward into the next tax year.
- 
- (ii)
- Nicky receives £9,000 gross rental income.
  - She can deduct costs of £2,000 leaving a balance of £7,000.
  - This is taxable at her marginal rates -  $\text{£}2,000 \times 20\% = \text{£}400$ .
  - $\text{£}5,000 \times 40\% = \text{£}2,000$ .
  - The total income tax is £2,400.
  - Tax relief on mortgage interest is restricted to a basic rate deduction.
  - $\text{£}3,600$  (mortgage interest)  $\times 20\% = \text{£}720$ .
- 
- Tax liability is £1,680 (i.e.,  $\text{£}2,400 - \text{£}720$ ).
  - Overall profit is therefore £1,720 ( $\text{£}9,000 - \text{£}2,000 - \text{£}3,600 - \text{£}1,680 = \text{£}1,720$ ).
- 
- (d)
- Even though they are unmarried, and Hugo is not Lucas' father, they are living together.
  - Hugo will therefore be responsible for paying the high-income Child Benefit charge;
  - this is because his income is over £50,000 and higher than Bethany's.
  - Child benefit reduces by 1% for every £100 over £50,000.
  - The charge will be 100% of Child Benefit Bethany receives, i.e., £1,094.60 as Hugo's income is in excess of £60,000.

- (e) (i)
- The fact she cannot pay her debts.
  - She owes less than £20,000.
  - She does not appear to have assets with a total value of more than £1,000.
  - Her disposable income must be no more than £50 a month after tax, NICs and normal household expenses.
  - That she has lived or worked in England or Wales (within the last 3 years).
  - Whether she has been subject to another debt relief order (DRO) within the last 6 years (if so, she cannot apply for a DRO).
  - That she is not involved in another formal bankruptcy/insolvency procedure at the time she applies (if she is, she cannot apply for a DRO).
- (ii) *Candidates would have scored full marks for any five of the following:*
- She will be closely involved with the process.
  - She avoids the restrictions of bankruptcy.
  - She avoids the stigma of bankruptcy.
  - Overall costs are usually less than a formal bankruptcy.
  - An individual voluntary arrangement may not affect her rental tenancy agreement.
  - Bankruptcy could result in her being evicted if she had rental arrears at the time of being declared bankrupt.

**Model answer for Question 2**

- (a)**
- (i)**
- Spouses who live together can only have one main residence for the purposes of Private Residence Relief.
- (ii)**
- Where they are going to live at retirement?
  - Whether domicile will change?
  - The gain or loss each property is likely to make between the date of their marriage and the point at which a property might be sold.
  - Their willingness to place property into joint names for sale.
  - Any CGT exempt amounts available/any registered losses available to bring forward.
  - Their respective tax positions.
- (iii)**
- A joint written nomination must be made, signed by them both.
  - It must be made within two years of their marriage/by 6 February 2022.
- (iv)**
- Where do they spend the majority of their time?
  - Where are they registered to vote?
  - Where are their places of work?
  - How is each residence furnished?
  - Which address is used for correspondence with banks/credit cards etc?
  - Where are they registered with a doctor/dentist?
  - Where are their cars registered/insured?
  - Which address is the main residence for Council Tax?
- (b)**
- She has now been resident in the UK for at least 15 out of the last 20 tax years.
  - She will now be deemed domiciled in the UK.
  - As a result she will be taxed on worldwide income and gains on the arising basis.
  - Her worldwide assets will be subject to UK IHT in the event of her death.
  - The full spouse exemption for IHT will be available.
  - Double taxation agreement may provide credit to ensure tax is not paid twice.

(c)

**Reporting funds**

- Reporting funds must report details of all income (both distributed and accumulated) to HM Revenue & Customs.
- Astrid must include all types of income on her tax return.
- Dividends are taxed at dividend rates - 7.5%, 32.5%, 38.1%.
- The £2,000 dividend allowance can be used.
- Interest distributions are taxed at 0% starting rate, 20%, 40% and 45%.
- The Personal Savings Allowance/Personal Allowance can be used.
- When Astrid disposes of the fund, growth is subject to CGT in the normal way at 10% or 20%.

**Non reporting funds**

- Non reporting funds do not report any income to HM Revenue & Customs.
- On disposal of the non-reporting fund the gain (plus any accumulated income) is treated as an offshore income gain/subject to Income Tax.
- The gain is calculated on CGT principles, but the annual CGT exempt amount is not available.

**Model answer for Question 3**

- (a) (i)
- Rental income and dividends are subject to Income Tax.
  - Payable via self-assessment.
  - The dividend allowance is not available/trustees have no personal allowance.
  - Trustees are subject to 38.1% on dividends.
  - Trustees are subject to 45% on net rental income.
  - Except the first £1,000 (standard rate band) which is taxable at basic rate (7.5% or 20%).
  - The trustees may have to pay additional tax (to cover the 45% tax credit).
- (ii)
- Expenses are allowable.
  - The relieved income remains chargeable at basic rate - 7.5% for dividends or 20% for all other income.
  - Expenses are grossed up.
  - Expenses are set off in an order with dividends first and then savings income.
  - In this scenario, the expenses are set wholly against dividends.
- (iii)
- Income paid to a beneficiary carries a 45% tax credit.
  - The beneficiaries can reclaim all or part of this tax depending on their individual tax positions.
  - Anna can reclaim tax up to her personal allowance.
  - Becca can reclaim 25% as she is a basic rate taxpayer.
  - The starting rate on savings income/the dividend allowance do not apply to trust income.

(b) Disposal proceeds £1,000,000

Less costs of disposal (£7,000)

Less purchase price (£500,000)

Gain £493,000

*Private Residence Relief does not apply as holdover relief was claimed*

- Less annual exempt amount (£6,150)
- £486,850 x 28% = £136,318

- (c)
- As Elsa is not a potential beneficiary/in the class of beneficiaries, this would be a breach of trust.
  - The beneficiaries (Anna and Becca) can take legal action against Sasha/the trustees.
  - The Court could order the trustees to compensate the beneficiaries for the appropriate amount plus interest or they could order the return of the money given to Elsa.
  - The trustees are personally liable.
  - Sasha could be removed as a trustee.
  - Anna is under 18 so does not have capacity to decide or contract/cannot buy the property with her mother.
- (d) (i)
- This will authorise her brother to manage Sasha's personal arrangements while she is travelling.
  - He can act on Sasha's behalf/sign documents with his own signature.
  - It can be general or specific, depending on her needs.
  - It can be time-limited to cover only whilst she is travelling or written to be open-ended or revoked by Sasha at any time in the interim.
- (ii)
- The attorney cannot act in Sasha's place as a trustee of the discretionary trust.
  - The attorney cannot make any gifts without Sasha's specific permission in the deed.



**All questions in the February 2021 paper will be based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are applicable to the October 2020 and February 2021 examinations.**

## INCOME TAX

RATES OF TAX	2019/2020	2020/2021
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	£37,500	£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
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
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%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance †	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 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>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 183.00*	Nil
183.00 – 962.00	12%
Above 962.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 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 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £3.05 where profits exceed £6,475 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £15.30.
<b>Class 4 (self-employed)</b>	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

## 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
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021	£1,073,100

### 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.

### ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£40,000*
2020/2021	£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 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.

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£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	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
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%
	10%	10%

#### Business Asset Disposal Relief\* – Gains taxed at:

Lifetime limit	£10,000,000	£1,000,000
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*\*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

	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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*	£150,000	£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
- 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%

## PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 Rates
<b>Cars</b>		
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
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	2019/2020	2020/2021
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
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	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%
<b>Motor cars:</b> Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)		
CO <sub>2</sub> emissions of g/km:	50 or less*	51-110
		111 or more
Capital allowance:	100%	18%
	first year	reducing balance
		6%
		reducing balance

\*If new

## MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	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	57.90	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20



**CORPORATION TAX**

	2019/2020	2020/2021
Standard rate	19%	19%

**VALUE ADDED TAX**

	2019/2020	2020/2021
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%

**Important note: For residential properties purchased between 8<sup>th</sup> July 2020 and 31<sup>st</sup> March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.**

*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 may be 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.*

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