



Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

February 2023 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions

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

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

SECTION A

This question is compulsory and carries 80 marks

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

Question 1

Pedro died on 1 January 2023. He was married to Joy, aged 76, and the couple have two children, James and Pippa, and five grandchildren.

Pedro was employed as an architect until two years ago, when he was aged 70. At that point, he started to receive the retirement benefits from his employer's workplace pension scheme. At the time of his death he had received a total gross pension income of £47,000 in the 2022/2023 tax year, which included his State Pension.

After his employment ended, Pedro continued to work part-time as a self-employed consultant. Prior to his death he had made profits of £7,250 after expenses in the 2022/2023 tax year.

In September 2022, Joy and Pedro donated £11,200 from their cash deposit account to a local charity, making the required Gift Aid declaration.

Income received from Pedro's investments **before** 1 January 2023:

Investment	Account holder	Income received in 2022/2023 tax year (£)
Direct Corporate Bonds	Pedro	840
General Investment Account (GIA) – UK equity fund	Pedro	2,800
Cash ISA	Pedro	120
Stocks & Shares ISA - European fund	Pedro	160
Cash deposit account	Joint	80

Income received from Pedro's investments **after** 1 January 2023:

Investment	Account holder	Income received in 2022/2023 tax year (£)
General Investment Account (GIA) – UK equity fund	Pedro	1,600
Cash ISA	Pedro	80

Whilst he was self-employed, Pedro contributed to a self-invested personal pension (SIPP), on a single premium basis at the end of each tax year. The scheme trustees have confirmed they will use their discretion and pay the death benefits to Joy.

Joy is the executor and sole beneficiary of Pedro's estate, which was valued at £600,000 when he died. She is in the process of administering the estate and has recently obtained a Grant of Probate. Joy is considering investing some of the inherited estate into her Stocks & Shares ISA.

In August 2022, Joy created a discretionary trust for the benefit of her grandchildren, transferring unit trusts valued at £175,000 to the trustees, James and Pippa.

Joy had made a previous gift of £200,000 into an interest in possession trust in August 2021 and cash gifts of £50,000 each to James and Pippa in January 2018. Joy has made no other gifts.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

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

- (a) (i) Calculate, **showing all your workings**, Pedro's Income Tax liability in the 2022/2023 tax year. (16)
- (ii) Explain the Income Tax liability for Pedro's estate in the 2022/2023 tax year. *No calculations are required.* (6)
- (b) Explain Joy's responsibilities as executor in respect of the **reporting and payment** of Income Tax in the 2022/2023 tax year. (7)
- (c) (i) Explain how Joy could contribute to her Stocks & Shares ISA using the inherited estate from Pedro. (5)
- (ii) State the time limits which would apply for Joy to contribute to her ISA in accordance with the answer you have given in **part (c)(i)** above. (3)
- (d) (i) Explain the Income Tax and Inheritance Tax (IHT) treatment of the death benefits from Pedro's SIPP. (5)
- (ii) Explain briefly the Income Tax treatment of the death benefits from the SIPP when Joy dies, assuming James and Pippa benefit from any remaining funds. (3)
- (e) Explain James' and Pippa's responsibilities for registering the discretionary trust with the Trustee Registration Service (TRS) and the penalties for failing to register in time. (5)

- (f) (i) Calculate, **showing all your workings**, the IHT payable when Joy created the discretionary trust in August 2022 assuming it was paid by the trustees. (7)
- (ii) Explain briefly how and why the answer you have given in **part (f)(i)** above would have differed if the IHT had been paid by Joy. *No calculations are required.* (4)
- (iii) Explain briefly the IHT position of Joy's gift into the discretionary trust if she dies before August 2029. *No calculations are required.* (4)
- (g) Explain the Capital Gains Tax (CGT) position when Joy transferred the unit trusts into the discretionary trust in August 2022. *No calculations are required.* (9)
- (h) State the factors the trustees of the discretionary trust should consider when reviewing the investments held in the trust. (6)

Total marks for this question: 80

SECTION B

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

Question 2

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

Carole, a widow, died on 1 November 2022, aged 68. She left her entire estate to her children, Jon and Kay, who are in their 30s and who are also named as executors in her Will. Carole has three grandchildren, aged between 4 and 9.

Carole's husband died several years ago when the Inheritance Tax (IHT) nil rate band was £300,000. In his Will, he left £120,000 each to Jon and Kay. Carole inherited the remainder of his estate.

Carole sold the family home a few years after her husband died and purchased a new home with the proceeds of the sale. Carole's new partner Isaac moved in with her in 2015.

In September 2021, Carole gifted a total of £225,000 split between three bare trusts; one for each of her grandchildren. She had made no other lifetime gifts.

Carole's estate comprised the following assets:

Asset	Value at date of death (£)
Main residence	350,000
Current account	20,000
Premium Bonds	50,000
Cash ISA	75,000
Onshore Investment Bond	90,000

Kay would like to re-direct her share of her mother's estate to her own children. She is considering using a Deed of Variation to create a discretionary trust as she would like to access the funds herself should her financial circumstances change.

A few years ago, Isaac executed a property and financial affairs Lasting Power of Attorney (LPA), appointing Carole and his son Samuel as his attorneys to act jointly and severally. Jon and Kay have concerns regarding Isaac's mental capacity and are worried about Samuel's suitability as an attorney. Samuel has financial difficulties and has recently mentioned gifting some of Isaac's own funds to himself. He views this as an advancement on his future inheritance.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

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

- (a) Calculate, **showing all your workings**, the Inheritance Tax (IHT) liability on Carole's estate. (11)
- (b) (i) Explain briefly the Income Tax implications for Kay of establishing a discretionary trust using a Deed of Variation. (4)
- (ii) Explain the IHT implications **for Kay and for Carole's estate** if a discretionary trust is established using a Deed of Variation. (5)
- (iii) Describe the conditions which must be met for a Deed of Variation to be effective for IHT purposes. (8)
- (c) (i) State Samuel's duties as Isaac's attorney. (6)
- (ii) Explain briefly the limitations to Samuel's ability to make gifts under Isaac's LPA. (3)
- (iii) Explain briefly the consequences for Samuel if he gifts Isaac's money to himself. (3)

Total marks available for this question: 40

Question 3

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

Brendan, a divorcee, is aged 64. He has two children, Archie aged 21 and Layla aged 23. Archie is moving to America in September 2023 to live with his mother. Layla is in a long-term relationship and is planning to get married in September 2028.

Brendan was the sole shareholder and director of a successful market research company. He bought the company in 2002 when he paid £460,000 for 100% of the shares. He sold 50% of the shares in August 2022 when the company was valued at £1.8m. Brendan had always worked full time in the company and had never owned a business before 2002.

He is planning on gifting the remainder of the company shares to his children in May 2023 when he retires. Brendan is concerned about any Capital Gains Tax (CGT) he may be liable for on both the sale of the shares in August 2022 and the planned gift to Archie and Layla in May 2023.

Brendan has also sold a buy-to-let flat he had owned for over 10 years. He had never lived in the property. The purchase price was £150,000 and he sold it on 1 February 2023 for £319,000. Purchase costs were £5,300 and the costs on sale were £4,000.

In the 2022/2023 tax year Brendan will be a higher-rate taxpayer.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

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

- (a) Explain how Business Asset Disposal Relief may apply to Brendan on the sale of 50% of the shares in August 2022. *No calculations are required.* (8)
- (b) Calculate, **showing all your workings**, the CGT Brendan will pay on the disposals he has made in the tax year 2022/2023. (12)
- (c) Explain how the remaining shares in Brendan's company can be gifted to his children in May 2023 without any immediate liability to CGT. (8)
- (d) Explain the CGT impact on the gift of shares when Archie leaves the UK in September 2023. (8)
- (e) Describe how the automatic overseas residence test might apply to Archie when he leaves the UK in September 2023 and returns for the first time in September 2028 for Layla's wedding. *You should assume Archie spends two weeks in the UK.* (4)

Total marks for this question: 40

INCOME TAX

RATES OF TAX	2021/2022	2022/2023
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:

1% of benefit per £100 of adjusted net income between £50,000 – £60,000

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance*

Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
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%

§ 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.

** Investment above £1,000,000 must be in knowledge-intensive companies.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee

Weekly

Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week

CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 242.00*	Nil
242.00* – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242* band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week

CLASS 1 EMPLOYER CONTRIBUTIONS

Below 175.00**	Nil
175.00 – 967.00	13.8%
Excess over 967.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)

Flat rate per week £3.15 where profits exceed £6,725 per annum.

Class 3 (voluntary)

Flat rate per week £15.85.

Class 4 (self-employed)

9.73% on profits between £11,908 and up to £50,270.

2.73% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2022/2023	£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
2014/2015 – 2022/2023	£40,000*

**Reducing 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	2021/2022	2022/2023
	£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	2021/2022	2022/2023
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£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%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

2021/2022 2022/2023

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 EXEMPTION

Transfers to

- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers

- Annual exemption per donor	£3,000	£3,000
- 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%

PRIVATE VEHICLES USED FOR WORK

	2021/2022 Rates	2022/2023 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
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2021/2022	2022/2023
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction		130%
Special rate		50%
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%
Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)		
CO ₂ emissions of g/km:	0*	1-50
		Over 50
Capital allowance:	100%	18%
	first year	reducing balance
		reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	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	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

Additional Stamp Duty Land Tax (SDLT) rules apply as below:

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

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