



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

March 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 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.
- 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.

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.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. State **six** reasons why a trust may be created. (6)

2. State how trust law differs from contract law. (6)

3. Annie would like to make a gift of £10,000 to her granddaughter Darcey in her Will. She does not want her other six grandchildren, or their parents, to know about this after her death. The executor of her Will is her lifelong friend Frank.

Describe how Annie may achieve her wishes through the use of a fully secret trust. (8)

4. State **eight** specific purposes that a charitable trust can be set up for according to the Charities Act 2006. (8)

5. Mitesh has an estate with a significant Inheritance Tax (IHT) liability. He is considering making a gift into a bare trust. The beneficiaries of the trust will be his two married adult children.

State **four** advantages and **four** disadvantages of Mitesh making a gift into a bare trust compared to a discretionary trust. (8)

6. Describe **eight** duties of a UK trustee. (8)

7. Meena appointed her sons, Jermaine and Micah, as attorneys under a property and financial affairs Lasting Power of Attorney (LPA) before she lost mental capacity. She appointed Jermaine and Micah on a joint basis. Micah has recently been offered a contract to work overseas for two years.

(a) Explain briefly the impact on Meena's LPA when Micah moves overseas. (2)

(b) Explain briefly how the answer you have given in **part (a)** above would differ if Jermaine and Micah had been appointed to act jointly and severally. (3)

8. Eppie died on 1 February 2023 leaving behind her civil partner, Johannah, and their two children aged 3 and 5. Eppie's estate was valued at £300,000 when she died. She had not made a Will.

Explain how Eppie's estate will be distributed following her death. (8)

9. Briony has recently received an inheritance following her father's death. Briony has significant wealth of her own and would like to re-direct the inheritance to her two children.

(a) Explain the conditions which must apply for a Deed of Variation to be effective for Inheritance Tax purposes. (7)

(b) Explain briefly why a Disclaimer would not be suitable for Briony's needs. (3)

10. Teddy and Jake are married with one child, Charlie, aged 15. Both Teddy and Jake are higher-rate taxpayers.

They would like to invest £25,000 of their own capital for Charlie.

Explain the Income Tax implications if they invest in:

(a) an onshore investment bond written under a bare trust for Charlie where the trustees will withdraw 6% each policy year. *No calculations are required.* (6)

(b) a building society nominee account in Charlie's name which pays £190 a year in interest. *No calculations are required.* (4)

11. June is the settlor of three discretionary trusts set up over the past 15 years for the benefit of her grandchildren.

The trustees of one of the discretionary trusts has made the following disposals during the tax year 2022/2023.

Investment	Acquisition cost (£)	Disposal proceeds (£)
Unit trust	10,000	14,390
Buy-to-let property	189,000	294,000
Directly held gilts	40,000	42,000

- (a) Calculate, **showing all your workings**, the trustees Capital Gains Tax (CGT) liability in the tax year 2022/2023. (11)
- (b) State when the CGT liability on the investments must be paid by. (3)
12. Explain, in detail, who will be liable to pay any Income Tax on a chargeable gain on an investment bond held under a discretionary trust. (10)
13. Uzma aged 78, is a widow receiving a small private pension and a full State Pension. She is concerned about her estate being liable to Inheritance Tax (IHT) on her death and the impact this will have on her three adult children.
- State the factors that Uzma should take into account prior to setting up a Discounted Gift Trust for IHT planning. (10)
14. Jim, a widower, died on 1 December 2022. His wife, Helena, died in 2007 when the Inheritance Tax nil rate band was £300,000. Her children received £120,000 of her estate and the remainder passed to Jim.
- (a) Calculate, **showing all your workings**, the transferable nil rate band available to Jim's estate. (6)
- (b) Explain how the transferable nil rate band would be claimed on Jim's death. (5)
15. Jacob created a discretionary trust 10 years ago with a gift of £325,000. The trust deed stated that the beneficiaries included "any child or grandchild of Jacob, whenever born". Jacob has two adult children and four grandchildren.
- Describe **eight** events that may mean the trust will need to be reviewed. (8)

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%
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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 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
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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%	6%
	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%