



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

March 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2023 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

J02 – Trusts

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you in your preparation for this examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas. However, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge

For the Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Certificate in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements*. While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks*. For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at 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 exam. 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, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

- Assessment is by means of a two-hour online exam.
- All questions are compulsory.
- The online exam is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The exam will carry a total of 130 marks.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

On-screen written exam familiarisation (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here:

<https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/>

You can access the familiarisation test at any time.

<https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/>

Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The familiarisation test is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam. **We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.

The screenshot displays the Chartered Insurance Institute examination interface. On the left, there are navigation buttons: 'Prev', 'Nav', 'Next', and 'Clear Highlight'. On the right, there are 'Tools', 'Calculator', 'End Test', and a timer showing '174:27'. The main content area is split into two panes. The left pane contains a case study about Andrew, his children Lance and Hayley, and his mother Peggy. It includes a table of Peggy's estate assets and a question asking to calculate Inheritance Tax (IHT) due on the 1 March 2019. The right pane shows 'SECTION A' with a compulsory question worth 80 marks. A tooltip indicates that the question has been answered and provides a link to edit the answer. At the bottom, there is a navigation bar with question markers for '1a' through '3c'.

Case Study Text:

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10. Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate. Peggy's estate was comprised of the following on her death:

House	£700,000
Deposit accounts	£323,000
Cash ISAs	£55,000
FTSE listed shares	£150,000
Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

Peggy's husband Frank, died in 2016, leaving his share of their house and his residual estate to Peggy. Frank made only one gift in the seven years before he died. He settled £450,000 into a discretionary trust just under four years earlier. Inheritance Tax (IHT) of £23,800 was paid at outset by the trustees. Following Peggy's death, Andrew is the only remaining trustee. Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs. Andrew intends to make some provision for his children and grandchildren. His income is around £10,000 a year higher than his outgoings. He has a variety of savings accounts and an onshore life assurance bond invested in a managed fund which has performed well over the years.

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

1. (a) Calculate, showing all your workings, the IHT due as a result of Peggy's death on the 1 March 2019. (13)

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.

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10.

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Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs. Andrew intends to make some provision for his children and grandchildren. His income is around £10,000 a year higher than his outgoings. He has a variety of savings accounts and an onshore life assurance bond invested in a managed fund which has performed well over the years.

This question has been answered. Click here to enable you to edit your answer.

Flag Edit

2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CII's multiple choice exams. Please do not bring your own copies into the exam.

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Prev Nav Next Clear Highlight

Tools Calculator End Test 164:16

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10. Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate. Peggy's estate was comprised of the following on her death:

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With regard to the discretionary trust established by Frank:

1. (b)(i) Explain to Andrew why IHT was payable when assets were placed into the trust and how it was calculated. No calculation is required. (6)

1b Describe to Andrew why IHT was payable when his father died and how it was calculated. No calculation is required. (6)

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£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

*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.

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)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

Flag Clear

3. Once you have typed in your answer ensure you click the red 'Answer' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.

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Prev Nav Next Clear Highlight

Tools Calculator End Test 158:41

(i) Explain to Andrew why IHT was payable when assets were placed into the trust and how it was calculated. No calculation is required. (6)

(ii) Describe to Andrew why IHT was payable when his father died and how it was calculated. No calculation is required. (8)

(iii) State Andrew's duties as a trustee under the Trustee Act 2000. (12)

Formats - B I [Text Editor Icons]

Answer

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
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1% of benefit for every £100 of income over	£50,000	£50,000

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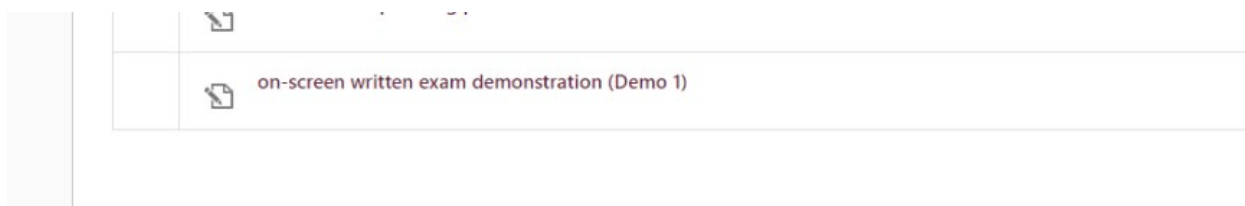
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Rent a Room scheme – tax free income allowance	£7,500	£7,500

Flag Clear

4. On the day of the J02 exam, please click J02 Trusts



The above screenshot is also a space where you can jot down any notes on paper that may assist you during the exam. Please note, the exam timer will not start until you click the exam titled: J02 Trusts.

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 exam 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, 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 finish the exam confident that they have typed 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 typing.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs*, since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Candidates will **not** lose marks due to poor spelling or grammar.

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 in your answer, even if you have used a calculator. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams

Where you are asked to perform a calculation, it is important to show **all the steps** in your answer. Most of the marks will be allocated for demonstrating the correct method of calculation.

While there are no marks for presentation, laying the calculation out well will make it easier for the examiner to identify all of the marks you have achieved. It does not matter how long the calculation is, if it is well set out. There is no preferred format but following the below guidelines is often helpful:

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the trust calculation:
 - Settlement - £500,000,
 - Annual allowances - £6,000
- Identify all allowances, exemptions, tax rate bands, tax rates used in £ terms.
- Use subtotals, where appropriate: i.e.:
 - Settlement - £500,000
 - Annual allowances – (£6,000)
 - = £494,000

- Show all your workings, for example:
 - grossing up of the 20% lifetime rate

- Double check all of your figures, specifically:
 - That you have calculated each section correctly.
 - That you have added up all of your figures correctly.

EXAMINERS' COMMENTS

Candidates' overall performance:

This paper tested core syllabus areas in the main with a few less mainstream areas such as the parental settlement rules and the taxation of an investment bond written under a discretionary trust.

Candidates overall did very well on some of the core areas with some very good technical knowledge demonstrated. Responses on the less mainstream areas were mixed with some candidates not demonstrating sufficient knowledge.

Where mini case studies were used in questions many candidates used to good effect the information that was given in their answers. This was very good to see and showed a good application of knowledge.

Question 1

This first question asked for six reasons why a trust may be created. Candidates overall did well in this question.

Question 2

This question tested the differences between trust law and contract law and again most candidates were able to score at least four out of the six marks demonstrating some good knowledge.

Question 3

This question used a mini case study to set the scene where candidates had to describe how a fully secret trust could achieve the desired outcome. Overall candidates were able to use their knowledge and answer the question taking into account the specific desires of the individual.

Question 4

The exam continued with a question that asked for the specific purposes a charitable trust can be set up for according to the Charities Act 2006. It was clear from responses who had carefully revised this section in preparation for the exam and those who had not. Overall however there was some good detailed answers.

Question 5

This question asked for four advantages and four disadvantages of someone making a gift into a bare trust compared to a discretionary trust. It was good to see so many candidates correctly identify the difference in Inheritance Tax (IHT) treatment and those that particularly scored well also identified that the beneficiaries were already adults and the impact this would have on being able to claim their entitlement.

Question 6

This question asked for eight duties of a UK trustee and most candidates scored well.

Question 7

This question tested Lasting Powers of Attorney (LPA) and the impact of someone moving overseas. A disappointing number of candidates assumed that the LPA would be void due to the move when that is not the case. Because the attorneys were appointed on a joint basis decisions have to be made together so the only consequence of one of the attorneys being overseas would be the potential delay this may cause. In part (b) more candidates did correctly identify that the attorneys could make decisions independently of each other.

Question 8

This question tested the laws of intestacy for civil partners and a very pleasing number of candidates scored well.

Question 9

This question tested the conditions that must apply for a deed of variation to be effective for IHT purposes and again a pleasing number scored well.

Question 10

This question caused more difficulty for candidates. It tested the parental settlement rules for an investment firstly in an onshore investment bond written under a bare trust for a minor child and secondly a building society nominee account for a minor child. In the first instance the chargeable gain exceeded the amount of £100 per parent (£200 overall) so is taxed on the parents whereas the nominee account generated £190 in interest (below the £200 limit) and so is therefore taxed on the child.

Question 11

This question tested Capital Gains Tax (CGT) on gilts, unit trusts and a property. It was very good to see that the majority of candidates did well on the calculation. The only general mistake was where the annual exempt amount was not set off against the asset that is charged the highest rate of CGT which was the property. However overall the answers were very good.

In part (b) the timeframes on paying CGT were tested. Most candidates correctly stated that CGT on the unit trust must be paid by 31st January 2024 and a good number also identified that CGT is not paid on gilts. The timeframe for reporting and paying CGT on property is now 60 days from the date of completion.

Question 12

This question caused some difficulty for most candidates. This tested who would be liable to income tax on a chargeable gain on an investment bond held under a discretionary trust. Many candidates incorrectly assumed it would be the trustees initially whereas the settlor would be taxed if they are alive and UK resident immediately before the chargeable event and only if the chargeable event occurs in the tax year after their death would a UK trustee be taxed.

Question 13

This question tested the factors to be considered before investing in a discounted gift trust and most candidates gave very full and correct answers.

Question 14

This question involved a calculation of the transferable nil rate as well as an explanation of how it would be claimed. Some detail was missing in part (b) but the calculation was generally well tackled.

Question 15

The last question asked for a description of events that may mean a trust will need to be reviewed and it was good to see some very comprehensive and correct answers.

Unit J02 – TRUSTS

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 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.

If you are sitting via remote invigilation 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.
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **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.
- 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.
- **Different to Multiple Choice exams, tax tables are provided at the right-hand side of the interface after the question paper.**
- 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**
- **If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

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

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 TYPE EACH ANSWER PER 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)**

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

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

- Assets in trust are not part of the estate/saves Inheritance Tax (IHT)/tax planning.
- In a Will/laws of intestacy for a spouse/civil partner/children.
- To take care of minors/to provide for families/protect against divorce.
- To help a charity.
- To look after property for the mentally incapable/vulnerable/disabled.
- To gain protection from creditors/bankruptcy.
- Business protection.
- To provide a pension.
- To avoid Probate.

Model answer for Question 2**Trusts**

No offer and acceptance needed.
 No consideration needed.
 Beneficiary may not know about the trust.
 Minors can be beneficiaries.
 Trustees are the legal owners.
 Beneficiaries have equitable ownership.

Contract

Offer and acceptance needed.
 Consideration needed.
 Parties must be aware in a contract.
 Contracts with minors - generally voidable.
 Both parties generally have equal legal rights.
 Both parties have equitable rights.

Model answer for Question 3

- Annie can leave £10,000 to any named adult/Frank that she trusts to carry out her wishes.
- Frank (the legatee) must agree that he will hold it on trust for Darcey.
- The terms of the trust will not appear in the Will.
- Annie must communicate with Frank that £10,000 is subject to a fully secret trust.
- The terms of the trust must be clearly communicated/can be in a sealed letter
- before or after the date of the Will.
- This is legally binding on both Annie and Frank.
- It will fail if Annie does not communicate to Frank during her lifetime.

Model answer for Question 4

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

- Prevention or relief of poverty.
- Advancement of education,
- religion,
- health or the saving of lives,
- citizenship or community development,
- arts, culture, heritage or science,
- amateur sport,
- human rights, conflict resolution or reconciliation,
- environmental protection or improvement,
- animal welfare.
- The promotion of the efficiency of the armed forces of the Crown or of the efficiency of the police, fire and rescue or ambulance services;
- The promotion of religious or racial harmony, equality or diversity.

- The relief of those in need because of youth, age, ill health, disability, financial hardship or other disadvantage.

- Or any other purpose currently recognised as charitable and any new charitable purposes that are similar to another recognised charitable purpose.

Model answer for Question 5

Candidates would have gained four marks for any four of the following advantages and disadvantages:

Advantages

- Certainty that Mitesh's chosen beneficiaries will receive a distribution.
- Certainty they will receive their allocated share.
- Mitesh could make gifts in excess of the nil rate band with no immediate liability/no entry charge/treated as Potential Exempt Transfers (PETs)/not relevant property charges.
- No periodic charges.
- No exit charges.
- There are fewer reporting/administration requirements.
- Potential protection from bankruptcy.

Disadvantages

- Gift will form part of beneficiaries estate/this may cause an IHT liability for the beneficiary should they subsequently die.
- Mitesh cannot vary his beneficiaries.
- Adult beneficiaries/can claim their entitlement to trust assets at any time.
- No protection if beneficiary divorces/are spendthrifts.

Model answer for Question 6

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

- Adhere to trust deed.
- Protect trust property/utmost diligence to avoid loss.
- Ensure they are registered as legal owners.
- Ensure everything they do is for the benefit of the beneficiaries.
- Act impartially amongst beneficiaries/avoid conflicts of interests.
- Statutory duty of care under the Trustee Act 2000/standard investment criteria/suitability of investments/diversification.
- Invest new cash wisely and appropriately;
- unless required for distribution.
- Effective trust administration/accounts/communication.
- Distribute/appoint trust income/capital within their powers.

Model answer for Question 7

- (a)
- Decisions may be delayed whilst Micah is overseas.
 - Because Jermaine and Micah/the Attorneys must make decisions together.
- (b)
- Jermaine could make decisions whilst Micah is overseas
 - Jermaine and Micah can act together or independently of each other.

Model answer for Question 8

- Eppie's estate would be distributed using the rules of intestacy.
- Johannah will receive £270,000.
- She will also receive all the chattels/personal items.
- She will also receive half of the remainder absolutely/£15,000.
- The other half/£15,000 will be held in a Statutory Trust for the benefit of the children in equal shares until they reach age 18 or marry under the age of 18.

Model answer for Question 9

- (a)
- The deed must refer to the Will/intestacy being varied.
 - It should be signed by Briony/all affected beneficiaries.
 - It must be executed within 2 years of the death of Briony's father.
 - It must contain a statement that it is to be effective for IHT purposes as if the deceased had made it.
 - The deed must be signed by the personal representatives
 - if the variation increases the IHT payable on the estate.
 - There must be no consideration for money or money's worth.
- (b)
- A Disclaimer cannot be used as Briony has already accepted/received the inheritance.
 - Briony cannot control who benefits from the disclaimed legacy
 - there is no guarantee Briony's children will benefit.

Model answer for Question 10

- (a) *Candidates would have gained full marks for any six of the following:*

- A chargeable event will be incurred by trustees
 - The withdrawal exceeds the 5% tax deferred allowance
 - These will be taxed on Teddy and Jake/as settlors
 - This is because Charlie is a minor
 - And the chargeable gain will exceed £100/£200 each year.
 - As higher-rate taxpayers they will be liable for an extra 20%
 - 20% is deemed to be paid in the fund.
-
- £200 can be generated (£100 each)
 - from capital from the parents/without them having Income Tax liability.
 - The interest of £190 will be based on Charlie's tax position
 - This is likely to fall within his personal allowance/PSA/not taxable.

Model answer for Question 11

(a) Directly held gilts are not subject to Capital Gains Tax (CGT)

Unit trust = £14,390 - £10,000 = £4,390 gain

£4,390 x 20% = £878.

Property = £294,000 - £189,000 = £105,000 gain

The annual exempt amount of £6,150 is split between 3 trusts created by June = £2,050

Property £105,000 – £2,050 = £102,950

£102,950 x 28% = £28,826

Total CGT £878 + £28,826 = £29,704

- (b)
- CGT on the unit trust must be paid by 31st January 2024.
 - CGT on the property must be paid within 60 days of the transaction/completion.
 - Directly held gilts are not subject to CGT.

Model answer for Question 12

- The gain is assessed as income of the settlor
- If the settlor is alive/UK resident immediately before the chargeable event
- Or where the chargeable event happens in the tax year of the settlor's death.

- The gain will be taxed on the trustees if the chargeable event happens in a tax year after the settlor's death and at least one of the trustees is UK resident.

- If the trustees are non-UK resident.
- Any UK resident beneficiary will be taxed on the gain if they receive a benefit.

Model answer for Question 13

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

- The IHT liability/size of her estate.
- Type of trust/flexibility of beneficiaries.
- Her age - she needs to be under age 90 to qualify for a discount.
- Her health.
- Happy to be underwritten?
- Does she need more 'income'?
- If so, fixed or flexible 'income' required?
- Her tax position/status.
- Does she require access to her capital/beneficiary access.
- The amount of the investment.
- Other gifts made.

Model answer for Question 14**(a) Percentage nil rate band (NRB) used on first death**

£120,000/£300,000 = 40%

Transferable NRB available on second death

£325,000 x 60% = £195,000

- (b)** The personal representatives of Jim's estate must make a claim to HM Revenue & Customs within 2 years after the end of the month in which Jim died.

Model answer for Question 15

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

- Birth of a new grandchild/child.
- Death of a trustee or beneficiary.
- Serious illness of a trustee or beneficiary.
- Loss of mental capacity of a beneficiary/trustee.
- Bankruptcy of a settlor, trustee or beneficiary.
- Divorce/marriage of a beneficiary.
- Disputes between the settlor, trustees and beneficiaries.
- Economic/legislative changes.
- Needs of beneficiary.
- Trustee retiring/resign.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

1. ATR – Attitude to risk
2. AEA – Annual Exempt Amount
3. BRT – Basic rate taxpayer
4. BIK – Benefit in kind
5. CLT – Chargeable lifetime transfer
6. CFL – Capacity for loss
7. CGT – Capital Gains Tax
8. DOV – Deed of variation
9. DIS – Death-in-Service
10. DFM – Discretionary Fund Manager
11. ESG – Environmental, Social and Governance
12. EPT – Excluded property trust
13. EPA – Enduring power of attorney
14. ERC – Early repayment charges
15. FAD – Flexi-access drawdown
16. FSCS – Financial Services Compensation Scheme
17. FOS – Financial Ombudsman Service
18. GAR – Guaranteed annuity rate
19. GWR – Gift with reservation
20. HRT – Higher-rate taxpayer
21. IHT – Inheritance Tax
22. IT – Income Tax
23. IVA – Individual Voluntary Arrangement
24. LPA – Lasting power of attorney
25. LTA – Lifetime allowance
26. MVR – Market value reduction
27. MPAA – Money purchase annual allowance
28. NICs – National Insurance contributions
29. NPA – Normal pension age
30. NRA – Normal retirement age
31. NRB – Nil rate band
32. OPG – Office of the Public Guardian
33. OEIC – Open ended investment company
34. PAYE – Pay As you Earn
35. PPP – Personal pension plan
36. PCLS – Pension commencement lump sum
37. PA – Personal allowance
38. PSA – Personal savings allowance
39. POAT – Pre-owned asset tax
40. PET – Potentially Exempt Transfer
41. RAC – Retirement annuity contract
42. RNRB – Residence nil rate band
43. SIPP – Self-invested personal pension plan
44. SEIS – Seed Enterprise Investment Scheme
45. SRB – Standard rate band
46. TIB – Trustee in Bankruptcy
47. UFPLS – Uncrystallised funds pension lump sum
48. VCT – Venture capital trust

March 2023 Examination - J02 Trusts	
Question Number	Syllabus learning outcomes being examined
1.	1. Explain the structure of a trust and the roles of the main parties.
2.	1. Explain the structure of a trust and the roles of the main parties.
3.	2. Explain how trusts are created.
4.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
5.	2. Explain how trusts are created.
6.	1. Explain the structure of a trust and the roles of the main parties.
7.	4. Explain substituted decision making, to include all types of Power of Attorney and other options.
8.	5. Explain the use of Wills and the consequences of dying intestate.
9.	5. Explain the use of Wills and the consequences of dying intestate.
10.	7. Analyse how trusts are subject to tax.
11.	7. Analyse how trusts are subject to tax.
12.	8. Explain how life, pension and other investments can be placed in trust, and the tax implications.
13.	9. Apply effective trust and related tax planning solutions.
14.	9. Apply effective trust and related tax planning solutions.
15.	9. Apply effective trust and related tax planning solutions.

All questions in the September 2023 paper will be based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2022 and March 2023 examinations.

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%		
<i>A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.</i>					
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		
<i>*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.</i>					
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%	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%