



Chartered  
Insurance  
Institute

# AF1

## Advanced Diploma in Financial Planning

**Unit AF1 – Personal tax and trust planning**

**September 2023 examination**

### **SPECIAL NOTICES**

**All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, 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**

Sally, a widow, died on 1 May 2023. She had one child, Penny, aged 60, and two grandchildren, Robin and Theo.

Sally's husband died ten years ago, leaving his estate valued at £800,000, which included his share of the family home, to Sally.

In her Will, Sally left her entire estate to a life interest trust for the benefit of Penny. When Penny's interest ends, the remaining capital will pass into a discretionary trust for the benefit of her grandchildren.

Penny, Robin and Theo are executors of the Will and trustees of the Trust. The administration of the estate is expected to be completed early in 2024.

Sally's estate is comprised of the following assets:

<b>Asset</b>	<b>Value at date of death (£)</b>
House	1,500,000
Current Account	60,000
Cash ISA	80,000
General Investment Account	375,000
AIM Share Portfolio – purchased 1 April 2021	295,000
Stocks and Shares ISA	125,000

Sally had made no lifetime gifts.

Penny has recently been diagnosed with early-onset dementia. She has no Power of Attorney in place and her family have consulted a solicitor about how they can manage her affairs when she loses mental capacity.

Robin and Theo are concerned about how Penny's condition will affect her ability to act as trustee of their grandmother's Will Trust and how the trust will be taxed on her eventual death.

Theo has been living and working in France since 1 January 2020 in rented accommodation. He is planning to return to the UK on 1 January 2024 to be closer to his family following his grandmother's death. He already owns a home in the UK which he will live in immediately on his return.

When he moved to France, Theo retained his UK investments, including an onshore investment bond. He surrendered the bond on 1 September 2021 for £280,000. Theo had originally invested a single premium of £250,000 and no previous withdrawals had been taken.

**PLEASE ENSURE YOU TYPE YOUR ANSWER TO 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) Describe the extent to which Sally's estate will qualify for the Residence Nil Rate Band. (10)
- (b) (i) Calculate, **showing all your workings**, the Inheritance Tax (IHT) liability on Sally's estate. (12)
- (ii) Explain the impact of Sally making a lifetime gift in the tax year she died and the effect this would have had on her IHT liability. (6)
- (c) (i) Describe briefly the tax treatment of any income received by the trustees of the Will Trust. (4)
- (ii) Describe how Penny will be taxed on any income distributed to her by the trustees of the Will Trust. (7)
- (d) (i) Describe the Capital Gains Tax (CGT) treatment of the assets in the Will Trust following Penny's death. (7)
- (ii) Explain the IHT implications for Penny and the Will Trust when Penny dies. (6)
- (e) Explain how Penny can be removed as a trustee of the Will Trust due to the impact of her recent diagnosis of early-onset dementia. (6)
- (f) Explain the **drawbacks** of Penny losing mental capacity without a valid Power of Attorney in place. (8)
- (g) Describe Theo's residency status in the 2023/2024 tax year if he returns to the UK on 1 January 2024. (7)
- (h) Explain how Theo's return to the UK will affect the taxation of the gain on his onshore investment bond. (7)

**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), (c), (d), (e) and (f) follow.

Jitesh and Sita are married with three children under the age of 10.

Jitesh is the Managing Director of a successful company. His annual salary, paid monthly, will be £265,000 in the 2023/2024 tax year. As part of his employment package the company provides Private Medical Insurance (PMI) and the taxable value of this is £5,000. Jitesh will also pay a gross contribution of £40,000 into his self-invested personal pension (SIPP) in the tax year 2023/2024.

Sita has always claimed Child Benefit for each of their children. In the 2023/2024 tax year she will receive a total amount of £2,901.60.

Jitesh and Sita receive income from the following savings and investments:

Asset	Owner	Income (£)
Deposit Account	Jitesh	1,450
Portfolio of blue chip shares	Jitesh	2,700
Stocks and Shares ISA	Jitesh	1,300
Stocks and Shares ISA	Sita	2,900

Jitesh and Sita both have an adventurous attitude to risk and are keen to invest in products that will help reduce their overall Income Tax liability. They would also like to start investing regularly for their children's futures.

**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**, Jitesh's Income Tax liability for the tax year 2023/2024. (15)
- (b) Calculate, **showing all your workings**, Jitesh's National Insurance contributions (NICs) liability for the tax year 2023/2024. *You should calculate this on a weekly basis.* (6)
- (c) Explain when Jitesh's employer will need to pay the Income Tax and NICs liability to HM Revenue & Customs. (4)
- (d) Explain in detail, **using figures where appropriate**, how Jitesh's annual allowance will be calculated in the tax year 2023/2024. (5)
- (e) State **five** of the qualifying conditions for a company to raise funds under a Seed Enterprise Investment Scheme. (5)
- (f) State **five** factors that should be considered before advising Jitesh and Sita on appropriate investments for their children. (5)

**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) and (d) which follow.**

Marc, aged 41, and Caitlin, aged 40, married in August 2023. They live in a two-bedroom flat in London owned by Caitlin. She works part-time earning £16,000 a year.

Since Caitlin bought the flat, she has made her second bedroom available to let during the summer months. The bedroom is furnished and represents an area equivalent to 20% of the flat.

Caitlin expects to receive £10,000 gross in rental income in the 2023/2024 tax year. She pays £1,200 a year for a regular cleaning service.

Marc is employed earning £62,000 a year. He sold his own property and moved in with Caitlin on 31 July 2023.

Caitlin is considering selling her flat so that she and Marc can purchase a larger home together. She bought the property for £300,000 on 1 January 2012 paying Stamp Duty Land Tax of £1,500 and legal costs of £3,000. She expects to achieve a sale price of £550,000 and would incur sale costs of £10,000.

Caitlin does not have a Will and is aware that she should make one as soon as possible. Marc is less concerned because he already has a Will that he made prior to their marriage.

**Questions**

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

- (a) (i) Describe why Caitlin is eligible to use HM Revenue & Customs's Rent a Room Scheme. (4)
- (ii) Explain briefly the Income Tax benefits if Caitlin uses HM Revenue & Customs's Rent a Room Scheme. (4)
- (iii) Explain briefly the impact on the Income Tax payable on the rental income if Caitlin and Marc had owned the flat as joint tenants. *No calculations are required.* (3)
- (b) Calculate, **showing all your workings**, the Capital Gains Tax (CGT) payable if Caitlin sells the flat on 30 September 2023 for the expected sale price and costs. (13)
- (c) Explain the CGT implications if Caitlin and Marc owned the flat as joint tenants prior to the sale. *No calculations are required.* (7)
- (d) (i) Explain briefly the impact of Marc and Caitlin's marriage on Marc's existing Will. (3)
- (ii) Explain the requirements for a Will to be legally valid. (6)

**Total marks for this question: 40**



## INCOME TAX

RATES OF TAX	2022/2023	2023/2024
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	£125,140
High income 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.*

Personal savings allowance (for savings income):

Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	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% †	£3,640	£4,010
Married/civil partners at 10% †	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 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)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

## 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
Over £175.00	13.8%

*\*\* Secondary threshold.*

### CLASS 2 (self-employed)

Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

### Class 3 (voluntary)

Flat rate per week £17.45.

### Class 4 (self-employed)

9% on profits between £12,570 and up to £50,270.  
2% 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 – 2023/2024*	£1,073,100

*\*Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE	
TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

*\*From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced 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.*

*\*\*Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

### 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.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

## CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
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:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	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

2022/2023    2023/2024

Transfers made on death

- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%

Transfers

- Lifetime transfers to and from certain trusts	20%	20%
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### 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
- Annual small gifts exemption per donor	£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%

## MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimum guarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	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	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

*\*If a claim has begun before 3<sup>rd</sup> April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

**CORPORATION TAX**

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

**VALUE ADDED TAX**

	2022/2023	2023/2024
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 follows:**

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 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%