Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

February 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 2024 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

AF1 – Personal tax and trust planning

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

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

Before the examination

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

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

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

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

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

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination, 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 three-hour written paper in two sections. All questions are compulsory:

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

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

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

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

Read the Assessment information and Exam policies for candidates
The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. 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.

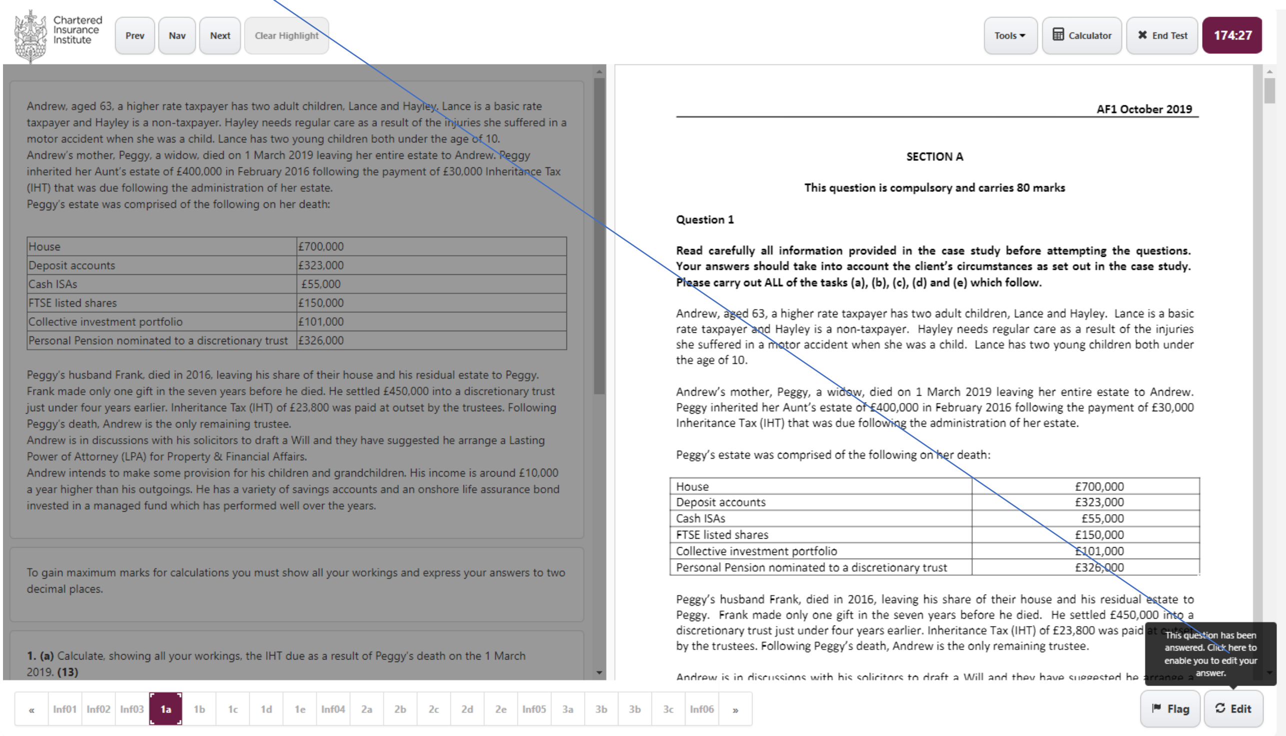
https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

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.**

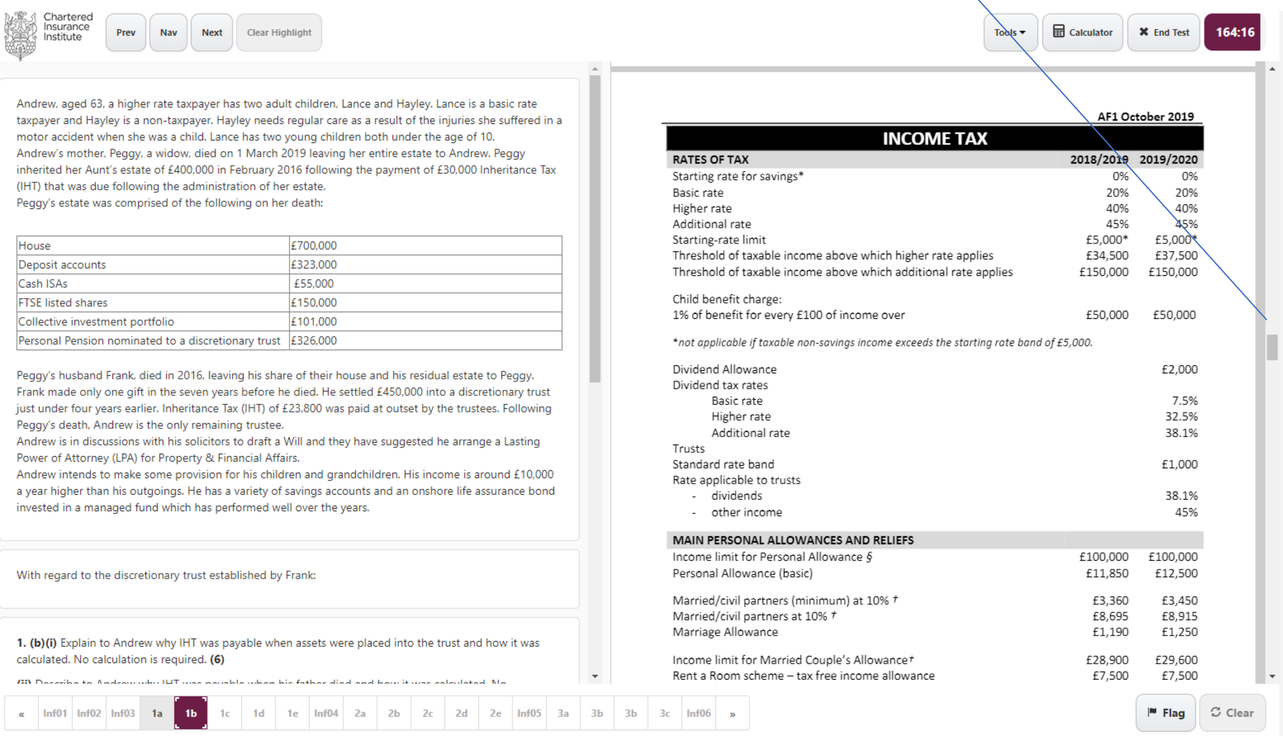
Please note you are strongly advised not to use a laptop provided by your employer.

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.

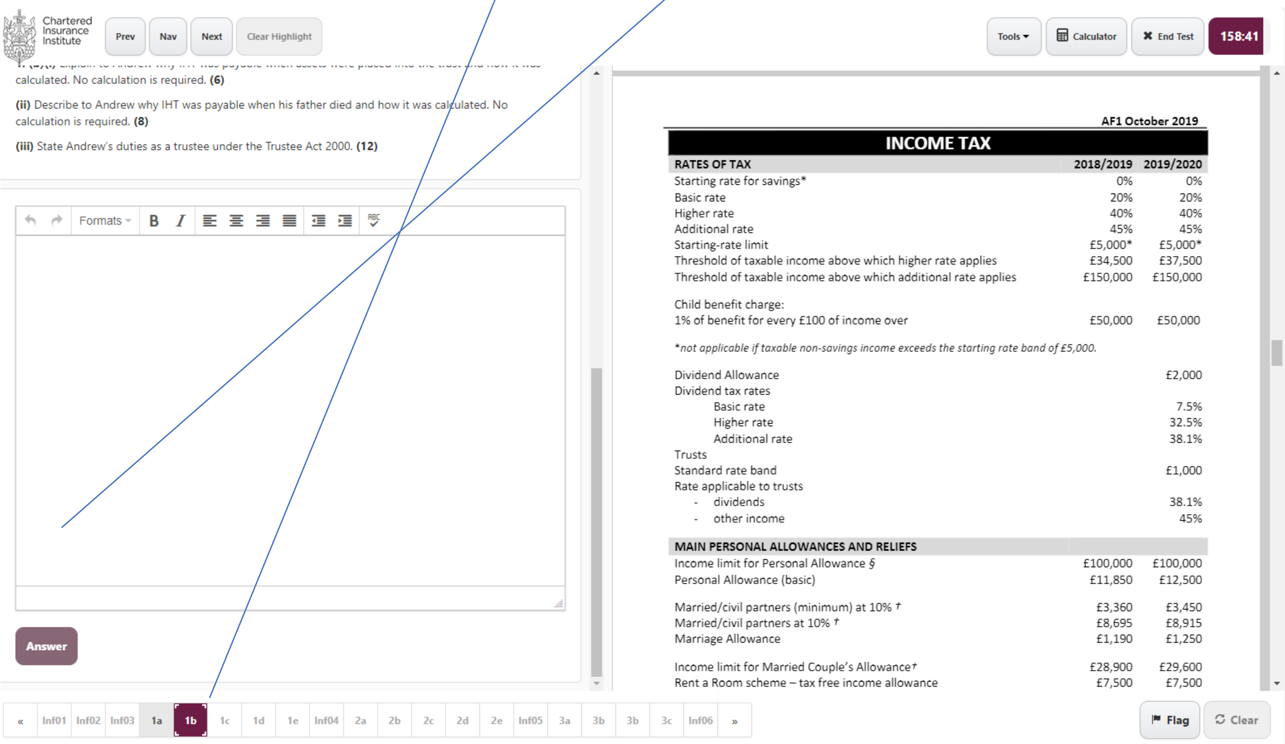
1. From the AF1 familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press ‘Answer’ for the question you are already in otherwise it will not let you select a previous question you have answered to 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 CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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.



4. On the day of the AF1 exam, please click on the AF1 Personal tax and trust planning:

AF1 Personal tax and trust planning

on-screen written exam demonstration (Demo 1)

5. The above screenshot shows the point before the exam has started; you wish to take a moment at this screen to 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: **AF1 Personal tax and trust planning.**

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

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

It is vital to label all parts of your answer correctly as many 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. The model answers indicate what is acceptable for the different types of question.

Marks are not lost due to poor spelling or grammar.

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

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation 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 an IHT calculation:
  - Main residence £500k,
  - Onshore Bond £100k.
- Identify all allowances, exemptions, tax bands, tax rates used in £ terms.
- Use subtotals where appropriate. For example:
  - Total assets - £1,500,000
  - Nil rate band (NRB) – (£325,000)
  - Residence nil rate band (RNRB) – (£175,000)
  - Assets after allowances - £1,000,000
- Show all your workings. This could include:
  - grossing up of pension contributions,
  - how you work out the allowances if they are not standard,
- Make notes where appropriate. For example:
  - Bond loss is excluded
  - ISA income ignored
- Double check all of your figures.

Please note that it is currently not possible to insert tables for AF1 exams. You are required to type your answers without the requirement for alignment. As guidance, please refer to the model answers provided in any Exam Guides as templates.

There are no special formulas you are required to be aware of included in the system to submit your answers.

EXAMINERS' COMMENTS

Candidates' overall performance

Overall, it felt that candidates were not as prepared for this AF1 sitting as previous sittings.

The paper tested many of the core areas that candidates should expect, such as powers of attorney and the laws of intestacy, but also included recent changes in legislation, for example, the new tax year basis for the self-employed where their accounting year did not already match the tax year.

The tax year basis came into force from 6 April 2023 (with 2023/24 the transitional year) and from 6 April 2024 profits will need to be reported that are earned during the tax year, regardless of accounting year. AF1 candidates should have been aware of these changes.

The CGT rules for divorcing spouses/civil partners were also amended in 2023 and again not enough candidates were aware of this change.

Candidates must ensure that they have studied the supporting textbooks of R03 and J02 to ensure their knowledge of changing legislation is up to date.

The Income Tax, CGT and IHT calculations were generally answered well with high marks being achieved by many.

Question 1

Part (a)
The exam started with an Income Tax calculation and in the main candidates did well scoring high marks. If mistakes were made it was generally by treating the distribution from the REIT as a dividend rather than a Property Income Distribution which would have been paid net of 20% tax. Candidates therefore needed to gross the PID up by 20% to ensure that the higher-rate liability was calculated. The well-prepared candidates knew to deduct the basic rate that had been deducted at source as the final step in their workings.

Part (b)
Candidates were asked to describe any implications if the qualifying interest payments Julia makes increase as well as her share of partnership profits. It was disappointing that so many candidates did not use the information in the case study to identify that the interest payments would be capped at the higher of £50,000 or 25% of Julia's adjusted total income. Most candidates were however able to identify that Julia would lose her personal allowance and personal savings allowance.

Part (c)
This tested the new tax year rules that apply to the self-employed which are covered in full within the R03 textbook. It was therefore surprising that many candidates did not appreciate that the tax year basis now applies with 2023/24 operating as a transitional year. For those that were aware of the changes, some marks were awarded although not all of the detail could be adequately explained to score high marks.

Part (d)
Part (i) tested Real estate investment trusts (REITs); firstly, candidates were asked to describe, in detail, the qualifying conditions for an existing property rental company to qualify as a REIT and in part (ii) a description of the taxation consequences for both the REIT and the investor was required. Answers were mixed with some candidates scoring very few marks whilst others scored the maximum. Different investment products are often tested within the exam and REITs are covered clearly within R03 and the AF1 case study workbook.

Part (e)
Tested the rules for repayment of student loans for Oliver who was starting university in the autumn of 2024. This is a topical subject, responses were mixed with some very good answers from candidates that had studied R03 and some low scoring answers where it was clear the addition to the supporting textbooks had not been appreciated.

Part (f)
This question was on intestacy. Candidates were asked to describe how Phil's assets would be distributed if he were to die before Julia. Many candidates did not appreciate that unmarried couples are not catered for within the laws of intestacy and instead treated them as if they were married due to the length of their relationship. It is crucial at this level that candidates understand the intestacy laws and how they apply to all scenarios, including where a couple is not married. Some candidates appreciated that the house was held as tenants in common and so Phil's share would also form part of his estate.

Part (g)
Part (i) tested powers of attorney. Candidates had to explain the process that Phil should follow in order to set up an LPA for his mother. In part (ii) the implications of Phil being appointed as the sole attorney of his mother's LPA was asked and in part (iii) the benefit of more than one person being appointed as an attorney who can act jointly and severally. Powers of attorney are tested at each exam sitting and this question was in the main answered well including the difference between appointing attorneys jointly and appointing them jointly and severally.

Question 2

Part (a)
Asked candidates to identify the capital losses within Sophia's existing investments and how they could be used to reduce any CGT liability in the tax year. Most candidates appreciated that gilts are exempt from CGT and so any loss made cannot be offset against other gains. Explanations of how the loss on the corporate bond unit trust interacts with the annual exempt amount and how the previous loss made in 2022/23 could be used were not always accurate and at time lacked the detail necessary to score well.

Part (b)
This question was a calculation of CGT for a pooled shareholding; this has been tested before and on the whole candidates did well on working through the calculation. A pleasing number of candidates also correctly identified the losses that could be deducted and worked out the correct remaining basic rate band where the rate of CGT is 10% with the remainder being taxed at 20%.

Part (c)
This question asked for the different tax planning considerations when deciding whether to sell shares and re-invest the proceeds into an EIS. Overall, this question was answered well with some candidates appreciating that a transfer to Imran would enable him to use his CGT exempt amount. Candidates should ensure they read the question carefully; some candidates gave a list of general factors to consider rather than specifically the tax planning considerations so would not have gained marks and also would have lost valuable time.

Part (d)
This question was answered well by the candidates that appreciated the CGT implications of transferring assets to spouses/civil partners when separating and getting divorced were updated and took effect from 6 April 2023. However, a number of candidates did not understand that any changes had happened.

Question 3

Part (a)
This question tested the periodic charge and exit charge on a discretionary trust and here we had mixed responses. Many candidates did not correctly calculate the amount of nil rate band that was left, after taking into account the earlier transfer to a discretionary trust in 2011. Most candidates did appreciate that the maximum periodic charge is 6%, calculated as 30% of the lifetime rate of 20%. Well-prepared candidates were able to correctly calculate the effective rate in part (i) which could then be used to answer part (ii).

Part (b)
This question tested Loan Trust Schemes, which are frequently used in IHT planning where clients want to gradually reduce their liability whilst at the same time retain access to their original capital. Many candidates gave detailed answers that scored high marks, whilst others gave a list of generic reasons rather than specific planning aspects that should have been considered before the creation of such a scheme, whilst others confused the Loan Trust Scheme with a Discounted Gift Trust.

Part (c)
Few candidates appreciated the rules that applied in this case where there was a gifted property that had dropped in value since the date of the gift and the date of death. For those that did, good scores were achieved.

Part (d)
This question covered the deemed domicile rules and excluded property trusts. Part (i) was answered well with most candidates appreciating that Sylvain will become deemed domicile due to him being resident in the UK for 15 out of the last 20 tax years and the consequences of that. Knowledge of excluded property trusts in part (ii) was mixed with most not able to describe them, despite these being tested in previous exam sessions.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 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.

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

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
  Section A: 80 marks
  Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory.**
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- 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 headset, earphones, smart watch please take them off. No watches are permitted**
- 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.

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) and (g) which follow.

Question 1

Julia and Phil are both aged 55; they have lived together for 20 years and have never married. They have two children together, Maya aged 16 and Oliver aged 18.

In 2021, Julia set up a partnership to run a design business. In order to finance the partnership, she took out a five-year loan. The qualifying interest payment she makes on the loan is currently £1,900 per month. Julia has plans to expand the business and in the next six months she will take out a further short-term loan to invest in the partnership which will run alongside the existing loan.

In the tax year 2023/2024, Julia's share of partnership profits will be £98,000. She has a self-invested personal pension and each month she makes a contribution of £800.

Phil has been a self-employed architect for many years. He runs his business as a sole trader and has an accounting year that ends on 30 September. Phil has brought forward overlap profits of £11,300.

Julia and Phil have the following assets:

Asset/investment	Owner	Current Value (£)	Income received pa (£)
Main residence	Joint tenants in common	859,000	n/a
Deposit Account	Joint	44,000	2,200
Current Account	Joint	6,000	0
Investment Trust	Julia	75,000	6,400
Real Estate Investment Trust	Julia	120,000	6,000 as a property income distribution
Stocks & Shares ISA	Julia	80,000	5,800
Corporate Bond	Phil	66,000	2,640
Cash ISA	Phil	40,000	1,600

Oliver is due to start university in the autumn of 2024 and Julia and Phil are considering the implications of him taking out a student loan to fund his tuition fees and living costs.

Phil's mother, aged 88, lives alone. She is beginning to show signs of memory loss and Phil is keen to understand how he can act on her behalf regarding her health and finances should this become necessary in the future.

Neither Phil nor Julia has a valid Will in place.

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 amount of Income Tax that Julia will pay in the tax year 2023/2024. **(19)**

(b) Describe, using figures where necessary, any implications if the qualifying interest payments Julia makes, in the tax year 2024/2025, increase to £5,500 per month and her share of the partnership profit increases to £250,000 with her pension contributions staying the same. *You should ignore receipt of any savings and investment income in your answer.* **(8)**

(c) Explain in detail how Phil will be assessed for Income Tax purposes during the tax years 2023/2024 and 2024/2025. **(8)**

(d) **(i)** Describe, in detail, the qualifying conditions for an existing property rental company to qualify as a Real Estate Investment Trust (REIT). **(8)**

(ii) Describe, in detail, the taxation consequences of a property rental company that has successfully claimed REIT status for both the REIT **and** the investor. **(10)**

(e) State the rules for repayment of student loans, assuming Oliver starts university in the autumn of 2024. *Assume that Oliver is an English student starting an undergraduate course anywhere in the UK.* **(5)**

(f) Describe how Phil's assets would be distributed if he were to die before Julia. **(8)**

(g) **(i)** Explain, in detail, the process that Phil should follow in order to set up a lasting power of attorney (LPA) for his mother. **(9)**

(ii) State the implications of Phil being appointed as the sole attorney of his mother's LPA. **(3)**

(iii) Describe briefly the benefit of more than one person being appointed as an attorney who can act jointly and severally. **(2)**

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) and (d) which follow.

Sophia, aged 39, is married to Imran, aged 45. Sophia runs a business from home and her net profits from self-employment are £49,000.

Sophia sold the following investments during the tax year 2023/2024:

Asset	Purchase cost (£)	Disposal value (£)
Stocks and Shares ISA	30,000	44,000
Corporate Bond Unit Trust	60,000	55,000
Gilts	25,000	20,000
AIM shares	25,000	40,000

On 1 January 2023, Sophia realised a loss of £7,500. The loss was not reported to HM Revenue & Customs at the time.

Sophia has also purchased the following ordinary shares in LLG plc as follows:

Date of purchase	Purchase price (£)	Number of shares
September 2016	3.35	5,000
October 2018	4.16	6,000
November 2020	2.85	6,500

These shares are currently trading at £5.09 per share.

Sophia has an adventurous attitude to risk and is considering selling some of her LLG plc shares to invest into private equity.

Imran has a more cautious approach to investment. This difference is causing friction between the couple and a separation is being considered.

Questions

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

(a) Identify any capital losses within Sophia's existing investments and explain the extent to which they could be used to reduce any Capital Gains Tax (CGT) liability in the tax year 2023/2024. **(11)**

(b) Calculate, **showing all your workings**, Sophia's Capital Gains Tax (CGT) liability for the tax year 2023/2024 assuming she disposes of 10,000 LLG plc shares. **(14)**

(c) State **seven** different tax planning considerations for Sophia when deciding whether to sell her shares and re-invest the proceeds into an Enterprise Investment Scheme (EIS). **(7)**

(d) Explain the CGT implications of Sophia transferring her remaining LLG plc shares to Imran upon:

(i) separation; **(4)**

(ii) divorce. **(4)**

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.

Larry, aged 80, is widowed and has two children and five grandchildren aged between 13 and 28.

He has made the following gifts into trust for the benefit of his grandchildren:

Type of trust	**Date trust was created**	**Amount gifted into trust after any available annual exemptions (£)**
Bare	June 2010	200,000
Discretionary	July 2011	150,000
Discretionary	April 2013	175,000

The Inheritance Tax (IHT) nil rate band on the date each trust was created was £325,000.

The trustees of the 2013 discretionary trust plan to make their first distribution of £30,000 when Larry's youngest grandchild reaches age 18 on 30 April 2028. The value of the trust on the 10th anniversary was £230,000.

Larry has made no other lifetime gifts, although he is keen to reduce his IHT liability. He is considering establishing another trust but would like to be able to access his original capital should he require it.

Larry's wife, Gwen, died last year, after gifting her rental property to the couple's children in 2021. The property was worth £400,000 at the time of the gift and she had already used her annual exemption for that year and the previous year. The property was valued at £375,000 when she died.

Sylvain, Larry's eldest grandchild, was born and is domiciled in France. He has been resident in the UK since April 2009 and he has no plans to return to France, although he retains some investments there which he inherited from his late father.

Questions

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

(a) **(i)** Calculate, **showing all your workings**, the periodic charge on the 10th anniversary of the 2013 discretionary trust. **(9)**

(ii) Calculate, **showing all your workings**, the exit charge assuming the planned distribution of £30,000 is made on 30th April 2028. **(3)**

(iii) Explain briefly who will be responsible for the reporting and payment of any exit charge and when this must be completed to avoid any penalty. **(3)**

(b) Describe the planning aspects Larry should consider before creating a Loan Trust. **(8)**

(c) Explain, using figures where necessary, how the value of the rental property on the date Gwen died would have affected the IHT payable on her death. **(7)**

(d) **(i)** Explain Sylvain's domicile status in the tax year 2024/2025 and the effect this will have on his UK IHT position. **(4)**

(ii) Explain the IHT benefits if Sylvain transfers his French investments into an Excluded Property Trust **before** the tax year 2024/2025. **(6)**

Total marks for this question: 40

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a)

	Non-savings	**Property Income**	**Savings**	**Dividends**
Partnership profits	£98,000			
Investment trust				£6,400
Real Estate Investment Trust		£6,000/.80 = £7,500		
Deposit account – 50%			£1,100	
Deduct interest payment	(£22,800)			
Adjusted net income/no loss of personal allowance	£75,200	£7,500	£1,100	£6,400
Deduct personal allowance	(£12,570)			
	£62,630			
Basic rate band extended by PP contribution £800/.80 = £1,000 pm £37,700 + £12,000 = £49,700	£49,700 @ 20% = £9,940 £12,930 @ 40% = £5,172	£7,500 @ 40% = £3,000	£500 @ 0% £600 @ 40% =£240	£1,000 @ 0% £5,400 @ 33.75% = £1,822.50
	£15,112	£3,000	£240	£1,822.50
Income Tax = £20,174.50 (£1,500)				
Less tax paid at source from REIT Total = £18,674.50				

(b)

- The amount of interest that can be deducted is capped at the higher rate
- of £50,000;
- or 25% of Julia's;
- adjusted total income.
- Her total adjusted income will be £250,000 - £12,000 = £238,000
- The cap is £238,000 x 25% = £59,500 or £50,000
- £59,500 of the loan interest can be deducted with no relief for the excess £6,500.
- She will lose her personal allowance.
- She will lose her personal savings allowance.

(c)

- The tax system is changing with 2023/2024 a transitional year.
- Phil will be assessed in 2023/2024 from 1 October 2022 to 5 April 2024.
- This will be time apportioned (profits from the end of 2022/2023 to 5/4/2024).
- His brought forward overlap profits of £11,300 can be deducted.
- If Phil has higher profits in 2023/2024 compared to those that would have been assessed on the current year basis these can be spread over 5 years;
- or taxed all in 2023/24.
- From 2024/2025 Phil will be taxed on a tax year basis;
- on profits from 6 April 2024 to 5 April 2025.

(d) **(i)**

- Must be UK resident for tax purposes.
- Structured as a closed-ended company (not an OEIC).
- Listed on a recognised stock exchange (including AIM).
- Property rental business must represent;
- at least 75% of the REIT's total profits.
- Interest on borrowing has to be at least 125% covered by rental profits.
- 90% of rental profits must be distributed each year;
- within 12 months of the end of the accounting period.

(ii)

- The REIT is exempt from Corporation Tax on rental income and gains.
- Distributions from the exempt element are classed as property income;
- and paid net of 20% tax.
- Non-taxpayers can reclaim.
- Higher-rate and additional-rate must pay additional tax.
- Distributions out of other income or gains (outside the REIT ringfence);
- paid as a gross dividend.
- The dividend allowance can be used;
- above this the usual Income Tax rates apply.
- Gains are subject to CGT.

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

(e)

- Oliver will need to repay tuition fee loans/maintenance loans.
- Repayments start once his income exceeds £25,000.
- Repayments are calculated as 9% of income over £25,000.
- Repaid/written off after 40 years.
- Interest rate charged is set at the RPI.
- Repayments usually start from the April after Oliver graduates (9 months grace).

(f)

- Phil does not have a valid Will so the laws of intestacy will apply
- Phil is not married to Julia
- Assets in his own name will be distributed to the two children;
- in equal shares.
- If Maya is still a minor this will be held on statutory trust for her
- All jointly held assets will pass to Julia
- As the house is held as tenants in common, Phil's share will form part of his estate;
- and also be distributed to his children through the intestacy rules

(g)

(i)

- Complete the prescribed LPA form.
- Form must be signed by the donor/Phil's mother.
- Signed by the attorney/Phil.
- Signed by a certificate provider.
- It must be witnessed by an independent person.
- Submit to the OPG for registration.
- Pay the fee/£82.
- There is a 3-week window where objections can be made to the LPA.
- It is then registered and can be used when and if it is needed.

(ii)

- If Phil were to die or become disqualified;
- mentally incapacitated/bankrupt;
- the LPA will lapse.

(iii)

- The LPA can continue even if one dies;
- or becomes disqualified;
- unable to act.

Model answer for Question 2

(a) **Gilts**

- The loss in 2023/2024 of £5,000 cannot be claimed.
- Gilts are exempt from CGT.

Corporate Bond Unit trust

- The loss in 2023/2024 of £5,000;
- must be set against gains of the same tax year;
- before the deduction of the annual exempt amount (AEA);
- even if this reduces the total gains to below the AEA.

Previous loss

- The loss in 2022/2023 of £7,500 can be reported/claimed;
- as this is within 4 years;
- of the end of the tax year in which it was made.
- It can be brought forward to set against any gain remaining in 2023/2024;
- after the current year's loss has been applied.

(b) **Gain on LLG shares**:

£3.35 x 5,000 = £16,750
£4.16 x 6,000 = £24,960
£2.85 x 6,500 = £18,525

£16,750 + £24,960 + £18,525 = £60,235 /17,500 = £3.44
Gain per share = £5.09 - £3.44 = £1.65 x 10,000 = £16,500

Plus
Gain on AIM shares £40,000 - £25,000 = £15,000

Less
Loss on Unit Trust (current tax year) £55,000 - £60,000 = £5,000
Loss on company sale (previous tax year) = £7,500
Overall Gain £19,000
Less AEA = £6,000
Net Gain = £13,000
£49,000 - £12,570 = £36,430
£37,700 - £36,430 = £1,270
£1,270 @ 10% = £127
£13,000 - £1,270 = £11,730 @ 20% = £2,346
Toal CGT due **£2,473**

(c)
- Income Tax relief of 30%.
- Timeframe/need to hold 3 years to keep Income Tax relief.
- CGT deferral relief.
- Availability of CGT annual exempt amount.
- Transfer to Imran to use his AEA.
- Losses to carry forward/losses to offset.
- Business Relief for IHT after 2 years.

Candidates would have gained full marks for any four of the following ((i) only):

(d) **(i)** separation;
- Separating couples have up to 3 years.
- after the end of the tax year.
- when they stop living together.
- in which to make no gain, no loss transfers.
- meaning no CGT liability would arise on the transfer.

(ii) divorce;
- Earlier divorce/within 3 years of separation;
- will bring the no gain, no loss period to an end therefore CGT.
- However, for any assets transferred as part of a formal divorce agreement;
- there is no time limit.

Model answer for Question 3

(a) **(i)** **NRB available to the 2013 discretionary trust**
£325,000 - £150,000 *(transfer into discretionary trust in 2011)*
= £175,000

Periodic charge on 10th anniversary
£230,000 - £175,000 = £55,000
x 30% = £16,500 x 20% = £3,300
£3,300 / £230,000 = 1.43% effective rate
£230,000 x 1.43% = **£3,289**

(ii) **Exit charge**
£30,000
x 20/40 *(number of quarters since 10th anniversary)* = £15,000
x 1.43% *(effective rate of tax)*
= **£214.50**

(iii)
- The trustees must pay the tax due and;
- report the event to HMRC using form IHT100;
- by the end of the 6th month after the exit event.

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

(b)

- There is no immediate gift for IHT purposes.
- He can take regular, or ad-hoc payments and the loan is repayable on demand.
- He will not have access to capital after the loan has been repaid/any regular withdrawals must stop once the loan has been repaid.
- Any outstanding loan will remain in his estate for IHT purposes.
- Any outstanding loan will be distributed in accordance with his Will/rules of intestacy.
- Unless he makes provisions to gift this to the beneficiaries of the trust (on death).
- He must spend any loan repayments, or these will accumulate in his estate.
- He could waive/gift any outstanding loan if it is no longer required.
- Any growth is outside the estate for IHT.

(c)

- The market value of the property on the date of death is less than the value when the property was gifted.
- Therefore, Fall in Value Relief/Drop in Value will apply.
- When calculating the IHT payable on the rental property;
- the IHT payable on the gift is reduced.
- £25,000 x 40% = £10,000
- The value of the property when it was gifted is still used for the purposes of calculating any tax due on the estate.

(d) **(i)**

- Sylvain will become deemed UK domiciled;
- as he will have been resident in the UK for 15 out of 20 tax years.
- he will be subject to UK IHT;
- on his worldwide assets.

(ii)

- If Sylvain transfers his French assets into an EPT before he becomes deemed UK domiciled.
- The trust assets will not be liable to UK IHT on Sylvain's death;
- even after he becomes deemed UK domiciled.
- The transfer of assets into the EPT will not be a transfer of value for IHT purposes.
- There will be no periodic or exit charges.
- Sylvain can be included as a beneficiary without gift with reservation implications.

Glossary of terms

Some abbreviations candidates can use in on-screen written exams:

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

All questions in the September 2024 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2023 and February 2024 examinations.

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.*

	2022/2023	2023/2024
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.*

	2022/2023	2023/2024
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% / 10%**
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.*

***From 6 April 2023 to 5 January 2024 12% rate applies, from 6 January 2024 to 5 April 2024, 10% rate applies.*

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%

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 minimumguarantee - 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 3rd 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 mainresidence. 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. Therates 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%