J02

Diploma in Financial Planning

Unit J02 – Trusts

October 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2018 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

Contents

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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 or from Customer Service. 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 purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge/.

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 paper. 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.*

Know the structure of the examination

- Assessment is by means of a two-hour written paper.
- All questions are compulsory.
- The paper is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper 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. For further information contact Customer Service.

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 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.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

In this session the question paper was a good test of candidate's knowledge from across the syllabus. The paper covered core syllabus areas in several questions but also included questions that were less mainstream. The paper was a reasonable mix of conventional trust questions, those relating to the Power of Attorney, capacity, Wills, post death matters, bankruptcy, taxation issues relating to trusts and pension trusts.

Overall a number of candidates performed well in this sitting with several achieving high marks in questions that tested central syllabus areas. In syllabus areas that candidates were less familiar with they tended to have more difficulty in gaining many marks.

Candidates who are studying to take the J02 Trusts exam are well advised to make use of past papers and previous examiner comments in their preparation, as similar syllabus content consistently shows up areas of weakness. Study of the J02 text for this course is also strongly recommended.

Question 1

This question asked candidates to explain the legal definition of a trust. This is a main area for trusts and candidates generally performed well in this question.

Question 2

This question was based on the main types of trust beneficiary, where many candidates gained full marks, in general it was answered very well with several candidates achieving full marks.

Question 3

Part (a) was not comprehensively answered as many candidates stated that the perpetuity period was 125 years but did not add further detail.

In part (b) candidates generally gained one of the two marks.

Question 4

In part (a) most candidates did not correctly identify all four categories of beneficiary who may benefit as a result of exceptions to the principle that trusts cannot be varied under the Variation of Trusts Act 1958. Candidates typically stated infants and unborn beneficiaries.

Part (b) was reasonably well answered with candidates gaining two or three marks.

Question 5

The majority of candidates were unable to correctly explain the tax implications for any income and capital gains arising from the trust. Offshore trusts are an area where candidates have struggled previously. This may be due to lack of dealing with them on a regular basis, however, there is sufficient coverage of this in the J02 study text to have enabled candidates to have answered the question well.

Question 6

In part (a), candidates who gave generic answers to this question scored les well. Candidates who scored well in this question were able to describe succinctly Dorothy's Powers of Attorney for Thomas.

Candidates generally scored highly in part (b) of this question, which examined the circumstances that will bring Thomas's general Power of Attorney to an end.

Question 7

This question was generally not answered well by many candidates although a few candidates did achieve good marks.

Question 8

In part (a) candidates knew some of an executor's duties, post death, but generally not all of them. For part (b) many candidates correctly identified that Carole's estate would be distributed to her grandparents in equal shares, however a small number of candidates include her aunt Suzy as a beneficiary.

Question 9

This question on deed of variation was reasonably well answered by many candidates with some candidates gaining full marks.

Question 10

Part (a) asked candidates to explain the implications to the trust in the circumstances that Thomas was a trustee of a discretionary trust and had recently been declared bankrupt. This was not answered well by candidates.

Part (b) examined what the trustee in bankruptcy's interest might be in the trust if one of the beneficiaries was made bankrupt. Again, candidates did not perform well in this question part.

Question 11

This question required candidates to describe the duties that the trustees of an existing trust must undertake in dealing with the Income Tax self-assessment obligations, both during and after the end of the tax year 2016/2017. Overall candidates demonstrated a general lack of knowledge in this important syllabus area. Candidates often struggle with areas of tax and trusts and again this may be because of their lack of involvement with this area in their day to day business activities. In the J02 study material there is sufficient content concerning trust taxation, so this question could have been answered well with some relevant study around this topic.

Question 12

In both parts (a) and (b), few candidates performed well, again this is a similar syllabus area to question 11 above and the same comments apply to this question.

Question 13

This question asked candidates to describe briefly the process that the scheme trustees should follow before paying out the death benefit. This question was generally less well answered by candidates. Pensions and trusts are often a syllabus area that candidates find challenging.

Question 14

Well-prepared candidates who correctly identified four advantages and four disadvantages of gifting into an absolute trust compared to a discretionary trust scored highly in this question. Overall candidates performed quite well.

Question 15

This question was generally well answered by candidates who demonstrated a reasonable understanding of factors that are likely to cause a review of the investment policy of a trust with candidates often scoring reasonable marks.

THE CHARTERED INSURANCE INSTITUTE

J02

Diploma in Financial Planning

Unit J02 – Trusts

October 2017 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, 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.

Instructions

- Two hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit J02 – Trusts

Instructions to candidates

Read the instructions below before answering any questions

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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

Attempt ALL questions

Time: 2 hours

*To gain maximum marks in a calculation, you **must** show **all** your workings and express your answers to **two** decimal places.*

1. Explain the legal definition of a trust. **(8)**

2. Identify **four** main types of trust beneficiary and explain briefly their beneficial interest under each trust. **(8)**

3. Edward is a trustee of a trust which was settled on 5 October 2010. There is no perpetuity period specified in the trust deed.

(a) Explain the perpetuity period that would apply to the trust. **(3)**

(b) Explain briefly the provisions of the relevant Trust Act for the accumulation of income within the trust. **(2)**

4. **(a)** State **four** categories of beneficiary who may benefit as a result of exceptions to the principle that trusts cannot be varied under the Variation of Trusts Act 1958. **(4)**

(b) Describe briefly the conditions under which beneficiaries can bring a trust to an end under the rule Saunders v. Vautier (1841). **(5)**

5. Katya, who is non-UK domiciled, moved to the UK on 1 April 2017. On 1 September 2016, Katya transferred her existing investments into an offshore discretionary trust intending that her children benefit. She has appointed non-UK resident trustees.

Explain the tax implications for any income and capital gains arising from the trust. **(9)**

6. Thomas set up a General Power of Attorney in 2003, appointing Dorothy as his attorney.

(a) Describe briefly Dorothy's powers as attorney for Thomas. **(5)**

(b) Describe briefly the circumstances that will bring Thomas's General Power of Attorney to an end. **(5)**

7. Describe the **five** key principles set out in the Mental Capacity Act 2005. **(10)**

8. Carole, who was single, died in September 2017. At the time of her death her estate was valued at £1,200,000. She did not leave a valid Will and her partner Lloyd has agreed to be the administrator of her estate. Lloyd has established that Carole's surviving relatives are her grandmother Lily, grandfather Albert and aunt Suzy.

(a) Explain Lloyd's role as the administrator in dealing with Carole's estate. **(9)**

(b) Explain briefly how Carole's estate will be distributed. **(2)**

9. Dominic died on 1 March 2017. His daughter Davinia is the sole beneficiary of his Will and she has decided she would like her entitlement to be split between her two children.

Explain briefly the conditions that need to be met for Davinia to execute a deed of variation so that it is successful for Inheritance Tax purposes. **(8)**

10. Thomas is a trustee of a discretionary trust and has recently been declared bankrupt.

(a) Explain briefly what the implications for the trust are in those circumstances. **(3)**

(b) Explain briefly what the trustee in bankruptcy's interest might be in the trust if one of the beneficiaries was made bankrupt. **(5)**

11. Describe the duties that the trustees of an existing trust must undertake in dealing with the Income Tax self-assessment obligations, both during and after the end of the 2016/17 tax year. **(10)**

12. Megan, aged 69, died on 5 October 2016 with a valid Will. Between 6 April 2016 and the date of her death, Megan received pension income and savings interest sufficient to make her a basic rate tax payer. The personal representatives of her estate received dividend income on 5 May 2017 of £7,500 from shares that Megan held at the date of her death. Probate was granted on 6 September 2017.

(a) Describe how the savings interest received by Megan during the tax year of her death will be treated and taxed. *No calculations are required.* **(7)**

(b) Calculate, **showing all your workings**, the Income Tax that Megan's personal representatives will be liable for on dividends received during the administration period. **(3)**

13. Clint became a member of a trust based occupational pension scheme in 2008. He completed an expression of wishes form for the death benefit of the scheme nominating his wife Kate as sole beneficiary. On 30 September 2017, Clint died whilst still a current member of the pension scheme.

Describe briefly the process that the scheme trustees should follow before paying out the death benefit. **(7)**

14. Harry, aged 72, has an estate with a significant Inheritance Tax liability and is considering making a gift into an absolute trust. The beneficiaries of the trust are to be his three adult children, Jack, Louise and Robert who are all married.

State **four** advantages and **four** disadvantages of gifting into an absolute trust compared to a discretionary trust. **(8)**

15. State **nine** factors that are likely to cause a review of the investment policy of a trust. **(9)**

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

- An arrangement where the settlor transfers;
- a legal obligation
- to the trustees;
- to deal with the trust property;
- over which the trustees have control
- for the benefit of;
- the beneficiaries;
- who may enforce the obligation.

Model answer for Question 2

<u>Absolute Beneficiary/Interest:</u>
They have full equitable ownership to income and capital
which cannot be taken away.

<u>Life Tenant /Life Interest:</u>
Entitled to trust income for life but no entitlement to trust capital.

<u>Remaindermen/Reversionary Interest:</u>
Entitled to trust property on death of life tenant.

<u>Contingent Beneficiary/Interest:</u>
Their interest is dependent on a particular event occurring,
which may never occur.

Model answer for Question 3

(a)
- This trust is governed by the Perpetuities and Accumulations Act 2009.
- The perpetuity period will be 125 years;
- from the date the trust was created.

(b)
- There will be no restriction on the accumulation of income.
- Income can be accumulated for the whole of the trust period.

Model answer for Question 4

(a)
- Beneficiaries that are incapable of assenting due to infancy or capacity.
- Contingent beneficiaries.
- Unborn beneficiaries.
- Beneficiaries with a discretionary interest under a protective trust.

(b)
- All beneficiaries must be aged 18 or over.
- They must be of sound mind;
- and in agreement.
- All beneficiaries are ascertained.
- If a beneficiary is under 18 or does not agree an application can be made to the court.

Model answer for Question 5

- This trust is an offshore trust;
- because the trust does not have any UK trustees
- and is not itself subject to Income Tax;
- or Capital Gains Tax.
- However, if the intended beneficiaries are ‘connected parties’;
- and anti-avoidance rules mean;
- trust income could be attributed to the settlor.
- The beneficiaries could be taxed on any capital payments from the trust if the trust accumulates income;
- and trustees could be taxed on stockpiled gains when capital is distributed to the children/any UK beneficiaries.

Model answer for Question 6

(a)
- Dorothy/the Attorney can make financial decisions for Thomas/the donor;
- including dealing with legal issues that relate to Thomas.
- It does not permit Dorothy/the Attorney to make decisions about health or welfare.
- Dorothy/the Attorney can continue to make habitual gifts.
- Dorothy/the Attorney cannot benefit herself.

(b)
- A General Power of Attorney is generally valid for a set period of time;
- Thomas/the donor can revoke it at any time;
- Thomas/the donor or Dorothy/the attorney become mentally incapable;
- Thomas/the donor or Dorothy/the attorney become bankrupt;
- Thomas/the donor or Dorothy/the attorney die.

Model answer for Question 7

Principle 1
- Every adult has the right to make their own decisions;
- it must be assumed they have the capacity to do so unless proved otherwise.

Principle 2
- An individual must be supported and given all reasonable help to make their own decisions;
- before anyone treats them as though they are unable to make their own decisions.

Principle 3
- An individual is not to be treated as lacking capacity because they make unwise decisions;
- an individual has the right to make irrational or eccentric decisions.

Principle 4
- Everything done for an individual who lacks capacity;
- must be done in their best interest.

Principle 5
- Where a decision is made for another individual the least restrictive option should be chosen.
- The decision maker should consider whether it is possible to act or make decisions in a way that would least interfere with the rights and freedoms of the incapacitated individual.

Model answer for Question 8

(a)
- Lloyd/the administrator has to determine the assets and liabilities of Carole's estate.
- Lloyd/the administrator has to apply to the Probate Office for a Grant of Letters of Administration.
- Settle any Inheritance Tax due.
- Once the Grant of Letters of Administration is received;
- Lloyd/the administrator should collect the estates assets.
- Pay any debts/funeral expenses Carole may have.
- Settle any outstanding Income Tax/Capital Gains Tax.
- Complete the necessary accounts.
- Distribute the estate according to the laws of intestacy.

(b)
- Lily & Albert/Carole's grandparents;
- would inherit £600,000 each/in equal shares.

Model answer for Question 9

- Davinia must be aged 18 or over.
- She must be of sound mind.
- The deed must refer to the Will being varied;
- and must be signed by Davinia/all beneficiaries.
- It must be executed within two years of death.
- It must contain a statement that the variation is to have effect for Inheritance Tax as if the deceased had made it;
- where the variation increases Inheritance Tax payable the deed must also be signed by the personal representatives.
- There must be no consideration in money or money's worth.

Model answer for Question 10

(a) *Candidates would have gained full marks for any three of the following:*
- Settlor and/or other trustees might wish to exercise powers they have to remove Thomas/the bankrupt trustee.
- The circumstances of the bankruptcy might call into question the suitability of Thomas/the trustee to continue to act as a trustee.
- Thomas/the trustee has no beneficial interest in the trust property.
- Therefore, the trust property cannot be passed to the Trustee in Bankruptcy.

(b) *Candidates would have gained full marks for any five of the following:*
- Trustee in Bankruptcy (TIB) can claim any beneficial interest of the bankrupt in the trust property.
- Where the beneficiary has a right to income or capital the TIB can claim this;
- or if trustees decide to appoint income or capital.
- However as this is a discretionary trust;
- the trustees have discretion as to which beneficiary they appoint.
- It is unlikely that a trustee would appoint in favour of a bankrupt beneficiary;
- because any such appointment would go to the TIB/creditors;
- as the trustees would be likely to be criticised for doing so.

Model answer for Question 11

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

- They must complete an annual tax return;
- by 31 October 2017, if it is a paper return.
- Or by 31 January 2018, if it is electronic.
- They must assess the income of the trust like an individual.
- They must have made the first payment on account by 31 January 2017;
- based on the 2015/2016/previous tax year’s Income Tax liability;
- and the second payment on account by 31 July 2017.
- The final balancing charge must be paid by 31 January 2018.
- They should agree with Her Majesty's Revenue and Customs which trustee will usually deal with the trust tax returns and pay any tax due;
- on behalf of the other trustee(s).
- However, all the trustees are still jointly and severally responsible.

Model answer for Question 12

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

- Megan’s estate is treated as a single entity for tax purposes/the personal representatives are treated as a single body.
- Megan will have received her interest gross.
- The personal representatives can claim Megan’s Personal Allowance
- and Personal Savings Allowance for the tax year of death;
- for all interest received up to the date of death.
- The tax is calculated as if Megan was still alive and payable at 20%.
- The personal representatives are responsible for paying the tax;
- and any interest due at the date of death.

(b)

- £7,500
- x 7.5%
- = £562.50

Model answer for Question 13

- The trustees must have absolute discretion as to who receives any death benefit;
- as Clint’s expression of wishes form is not legally binding on them.
- They should take Clint’s wishes into account;
- and would usually comply with them.
- The death benefit is not treated as part of Clint’s estate.
- They have a duty of care to consider all potential beneficiaries;
- this could also include a trust.

Model answer for Question 14

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

Advantages

- Certainty that Harry's chosen beneficiaries will receive the funds.
- No periodic charges or exit charges.
- There are fewer reporting and administration requirements.
- Harry could make gifts in excess of his nil rate band with no immediate tax liability.
- It will not create a chargeable lifetime transfer tax charge.

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

Disadvantages

- The gift will form part of Jack, Louise and Robert's/beneficiaries estate.
- This may cause an Inheritance Tax liability for the beneficiary should they subsequently die.
- Harry cannot vary his beneficiaries.
- Adult beneficiaries can claim their entitlement to trust assets at any time.
- No protection if the beneficiary divorces, becomes bankrupt or lacks judgement.

Model answer for Question 15

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

- Changes to taxation or legislation.
- Changes to economic conditions.
- Changes to investment market conditions.
- Changes to the term of investment.
- Changes affecting the beneficiaries.
- Changes to the objectives for the trust.
- Changes to the performance benchmark.
- Changes to performance of existing investments.
- Changes to the beneficiaries' circumstances.
- Changes to the beneficiaries' attitude to risk.

October 2017 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.	1. Explain the structure of a trust and the roles of the main parties. 3. Explain the rules covering the investment of trust assets and the administration of trusts.
5.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
6.	4. Explain the consequences of giving a Power of Attorney or an Enduring Power of Attorney.
7.	4. Explain the consequences of giving a Power of Attorney or an Enduring Power of Attorney.
8.	5. Explain the consequences of making a Will or of dying intestate.
9.	5. Explain the consequences of making a Will or of dying intestate.
10.	6. Explain the bankruptcy rules, the role of the trustee in bankruptcy and alternatives to bankruptcy.
11.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
12.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
13.	8. Explain how life assurance policies, pension benefits and other investments can be placed in trust, and the tax and other implications
14.	9. Apply effective trust and related tax planning solutions.
15.	9. Apply effective trust and related tax planning solutions.

All questions in April 2018 papers will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the April 2018 examinations.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
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.*

Dividend Allowance		£5,000
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)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances†	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 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.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 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 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.85 where profits exceed £6,025 per annum.
Class 3 (voluntary)	Flat rate per week £14.25.
Class 4 (self-employed)	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

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	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

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, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£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	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
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%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2016/2017	2017/2018
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS		
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*	£100,000	£100,000
- UK-registered charities	No limit	No limit

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

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2017/2018:

- The percentage charge is 9% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates	2017/2018 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
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2016/2017	2017/2018
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
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	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98

*Only applicable where spouse or civil partner died on or after 6 April 2007**

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

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