

Taxation and trusts

G10

Aim: To develop in the candidate, who has already reached the standard of the FPC, not only a knowledge of the UK tax system and the law and practice of trusts, but also an ability to advise individual clients on the tax treatment of their investments and the use of trusts to meet their current and foreseeable future needs.

Changes to the syllabus printed in the 2002 handbook are highlighted.

Assumed knowledge and application skills

It is assumed that the candidate already has the knowledge and application skills gained from study of the relevant units of Papers 1, 2 and 3 of the FPC.

It is also assumed that the candidate can use basic financial mathematics for tasks such as grossing up, projecting future values of current amounts and discounting future amounts into current values.

Candidates are recommended to take this paper before tackling other papers, as its syllabus contains subject matter which is built on in the other papers.

Method of assessment

See page 5 in the main handbook AFPC: The nuts and bolts.

Notes

- The syllabus will be tested on the basis of English law and practice. Where Scots law and practice differ, this will be explained in the primary text.
- The syllabus printed here will be examined in 2003. Changes may be made to the syllabus to be examined in 2004 and these will be highlighted in the 2004 syllabuses.

Taxation

1. Personal taxes

1.1 Income tax, capital gains tax (CGT), inheritance tax (IHT): schedules, rates, allowances, exemptions, liability, collection

Candidates should know

- how people liable to income tax, CGT and IHT have to settle their liability, and how self assessment works with income tax;
- the due dates and how the taxes are collected.

They should know

- under which schedules the different types of income are taxed;
- the definition of savings, non-savings and dividend income;
- what allowances are available and to whom they are available;
- what types of income are taxable and non-taxable.

They should know

- the types of capital gains which are exempt and non-exempt;
- basic principles of reinvestment holdover and rollover relief;
- application of indexation;
- application of taper relief.

They should know

- the exemptions for IHT, tapering relief, the level of the nil rate band and when it is applied;
- the difference between chargeable lifetime transfers and potentially exempt transfers.

1.2 Residence and domicile

Candidates should know

- the definition of residence, ordinary residence and domicile as it applies in the UK.

They should know

- how the rules relating to these definitions are applied in establishing an individual's residence and domicile status and how that status affects income tax, CGT and IHT.

1.3 National Insurance

Candidates should know

- the different classes of NI contributions and who is liable to pay each class.

They should understand

- calculation of the various NI contributions, and the difference between contracted-out and contracted-in NI contributions.

2. Tax planning aspects

2.1 Employment/self-employment: pensions, social security benefits

Candidates should be aware of

- the differences in taxation procedures for employed and self-employed people;
- how these differences affect the rights and entitlements to State pensions and other State benefits.

Candidates should know

- details of Working Tax Credit and Child Tax Credit.

2.2 Share option schemes, profit sharing schemes, employee share ownership schemes

Candidates should know

- the details of share option schemes, profit sharing schemes and employee share ownership schemes;
- the tax implication of these schemes, why they are implemented, the benefits and drawbacks of each scheme.

2.3 Marriage

Candidates should know

- the tax benefits in the year of marriage, tax advantages and disadvantages of independent taxation, taxation aspects in year of separation and divorce, pension sharing and divorce;
- IHT aspects of divorce.

2.4 Children

Candidates should know

- the taxation treatment of children's investments, including gifts from parents, gifts from other than parents;
- how trusts for children compare with designated accounts.

2.5 Retirement

Candidates should know

- the taxation aspects of investments for people in retirement/senior citizens;
- details and calculation of additional age allowance and the married couple's age allowance.

2.6 Bankruptcy and individual arrangements

Candidates should know

- the basic principles of bankruptcy and individual arrangements as they relate to individuals and the financial planning measures that can be taken to safeguard an individual's financial position.

3. Investments

3.1 Tax planning uses of onshore investments

Candidates should know

- the tax treatment of the following investments: bank accounts; building society accounts; corporate bonds; enterprise zone property; enterprise investment schemes; forestry/woodlands; friendly society plans; gilts; guaranteed growth/income bonds; holiday lettings; Individual Savings Accounts (ISAs); investment trusts; letting rooms; life assurance policies; local authority bonds; membership of Lloyd's; National Savings; Open Ended Investment Companies (OEICs); pensions; PEPs; permanent interest bearing shares; single premium bonds; shares; TESSAs; unit trusts; venture capital trusts.

3.2 Tax planning uses of offshore investments

Candidates should know

- the tax treatment of the following investments: investment funds investing in equities, foreign currency and foreign government stocks;
- tax implications for investor of 'roll-up' funds, distributor funds and insurance company bonds;
- the tax reasons for investing offshore.

4. Inheritance tax

4.1 Tax planning aspects with particular regard to transfers, exemptions, reliefs, gifts

Candidates should know

- the definition of exempt transfers, chargeable lifetime transfers and excluded property and the IHT implications in different circumstances;
- the definition, suitability, advantages and disadvantages of potentially exempt transfers, gifts with reservation, business property relief, agricultural property relief.

They should understand

- the use of different types of life assurance products to cover IHT liabilities.

4.2 Wills

Candidates should know

- the rules governing wills and intestacy;
- the tax implications of the rules of succession/intestacy;
- the tax treatment of owning a property either as tenants in common or as joint tenants;
- the use of discretionary trusts set up under wills; post-death deeds of variation and disclaimers.

They should understand

- the difference between mutual wills and mirror/reciprocal wills.

5. Calculation of tax liabilities

5.1 Liabilities of individuals to income tax, CGT and IHT; tax planning measures to reduce liability

Candidates should be able to

- calculate a tax liability from data given; taking into account appropriate allowances, reliefs and exemptions.

Candidates should be able to

- demonstrate practical ways of reducing the liability.

Trusts

6. The essentials of a trust

6.1 What a trust is; the use of trusts in financial planning

Candidates should know

- the definition of a trust, relationship between trustees and beneficiaries: equitable interest;
- modern use of trusts including use of offshore trusts;
- the three certainties of a trust;
- how trusts are created.

7. Statutory trusts

7.1 Married Women's Property Act 1882; other statutory trust legislation

Candidates should know

- details of statutory trusts.

They should understand

- these trusts with respect to provisions for MWPA 1882;
- other Acts concerning statutory trusts: Law of Property Act 1925, Administration of Estates Act 1925 and Perpetuities and Accumulation Act 1964.

8. Non-statutory trusts

8.1 Bare, interest in possession, discretionary, business protection, pensions, wills

Candidates should know

- the advantages, disadvantages, suitability of life interest trusts, accumulation and maintenance trusts, discretionary trusts, overseas trusts, will trusts, absolute trusts, bare trusts, express trusts, implied trusts, constructive trusts.

9. Trustees

9.1 Powers and duties

Candidates should know

- in connection with trustees: appointment, discharge, duties, honesty, breach of trust, powers of delegation;
- trustees' duties under the Trustee Act 2000.

10. Trust assets

10.1 Investment; conversion; apportionment; distribution

Candidates should know

- provisions for investment under Trustee Act 2000;
- principle of apportionment between capital and income and the calculation of apportionment; principle of duty to convert;
- how trust assets are affected by bankruptcy.

11. Suitable trusts for different circumstances

11.1 Planning and tax saving aspects

Candidates should be able to recognise

- which type of trust is suitable from a given set of circumstances.

They should know

- the tax planning aspects of accumulation and maintenance trusts, discretionary trusts, life interest trusts.

They should be able to

- select which is the most tax efficient trust in a case study scenario.

12. Tax implications of trusts

- 12.1 How trusts are taxed; tax implications for the settlor, the trustees and the beneficiaries, covering income tax, CGT and IHT

Candidates should know

- the tax aspects of income tax, CGT and IHT in respect of accumulation and maintenance trusts, discretionary trusts, life interest trusts and overseas trusts;
- how these aspects should be related to the settlor, the trustees and the beneficiary of each type of trust.

13. Tax calculations for trusts

- 13.1 Tax liability for different types of trust

From information given, candidates should be able to

- calculate the liability for income tax, CGT and IHT, for different types of trust.

14. Insurance policies under trust

- 14.1 When policies should be written under trust, with particular reference to IHT; MWPA and other trust wordings

Candidates should know

- the consequences, including those relating to IHT, of writing a life assurance policy under a discretionary trust, an interest in possession trust, accumulation and maintenance trust, life interest trust.

15. Power of attorney

- 15.1 What a power of attorney is

Candidates should know

- how an enduring and general power of attorney are set up and the implications of doing this.

16. Pensions

- 16.1 When pensions should be written under trust, with particular reference to occupational/personal pensions

Candidates should know

- why a pension is written under trust and how the trust is set up: formal deed, declaration, board resolution, employer trust.

They should know

- about flexible trusts for death benefits, and the IHT implications.

They should understand

- how existing pension policies may be put under trust: discretionary, interest in possession, and the implications of doing this.

17. Unit trusts

- 17.1 Establishment; authorised or unauthorised; offshore; taxation aspects for unit holders and trust managers

Candidates should know

- the mechanics of how onshore and offshore unit trusts are established with reference to the trust deed, trust objectives, winding-up procedure, income equalisation, issue and redemption of units, expenses, taxation of unit holders, taxation of funds, trustees' remuneration, trusts valuation.

Reading list

Note: The examination will test the syllabus alone. The reading list is provided for guidance only and is not in itself the subject of the examination.

All of the CII publications can be ordered using the study options brochure or purchased from the bookshop at Aldermanbury. All of the additional reading, reference material and periodicals can be seen in the CII library. Most can be borrowed by members anywhere in Europe or purchased via CII Library Online at www.ciilo.org.

Primary text

Coursebook *G10: Taxation and trusts*, CII/SOFA/LIA Taxbriefs, latest edition.

Case studies

G10 Taxation and trusts: CII/Taxbriefs.

Reference works and Additional reading

Allied Dunbar tax handbook. A. Foreman. Financial Times Management, Latest edition.

Easy steps to understanding inheritance tax. LIA, 2000.

Easy steps to understanding the taxation of trusts and the implications: a step by step practical approach. LIA, 2000.

Easy steps to understanding income tax calculations: a step by step practical approach. LIA, 2000.

Equity and trusts. L. Curzon. Cavendish, 1996.

Equity and trusts. M. Halliwell. Old Bailey Press, 1997.

Essential law for the tax practitioner. The Chartered Institute of Taxation, 1997.

St James's Place tax guide. W. Sinclair. Macmillan, 2001–2002.

Lamont's glossary (money and investment dictionary).

B. Lamont. Advanced Media Group plc, latest edition.

Law of trusts. P. McLoughlin & C. Rendell. Macmillan, 1992.

The law of trusts. J. Riddall. Butterworths, 2002.

Modern equity. Hanbury & Martin. Sweet & Maxwell, 1997.

The modern law of trusts. A. Oakley. Sweet & Maxwell, 1998.

Money matters: retirement & beyond. V. J. Smart in association with the Institute of Chartered Accountants in Scotland. W. Green & Son Ltd, 1999.

A step-by-step guide to wills and probate. A. Biggs & K. Donnelly. Callow Publishing, 2000.

Tolley's tax guide. A. Homer & R. Burrows. Latest edition.

The financial adviser's handbook of trustee investment. I. Muirhead. SIFA, Latest edition.

Trusts: a practical guide. T. O'Halloran. Witherby, 1997.

Nutshells: equity & trusts. A. Sydenham. Sweet & Maxwell, 2000.

Trusts law—text and materials. G. Moffatt. Butterworths, 2000.

Wills, administration and taxation. J. Barlow, L. King & A. King. Sweet & Maxwell, 1997.

Examiners' reports

You are strongly advised to study these before the examination. Please contact customer service or the website www.cii.co.uk for further information.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. An example is *The exam secret—how to make the grade*, B. Brown, Elliott Right Way Books, 2000.

For a more interactive approach, you should consider *Winning the brain game* CD-Rom, CII/Neil Taylor, 1996, available from the CII.

Periodicals

Financial Adviser. Weekly.

Financial Times. Daily.

The Journal. CII, bimonthly (sent to CII/SOFA members and available on subscription to non-members).

Money Management. Monthly.

Money Marketing. Weekly.

Pensions Management. Monthly.

Pensions World. Monthly.

Planned Savings. Monthly.

Prospect. LIA, Monthly.

Technical Adviser. SOFA, quarterly.

Which? Consumers' Association, monthly.