



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

September 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 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.

J02 – Trusts

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

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

Before the examination

Study the syllabus carefully

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

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

Note the assumed knowledge

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

Read widely

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

Make full use of the Examination Guide

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

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

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the exam. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

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

Appreciate the standard of the examination

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

Read the Assessment information and Exam policies for candidates

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

On-screen written exam familiarisation (Demo 1)

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

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

You can access the familiarisation test at any time.

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

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

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

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

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

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

The screenshot displays the Chartered Institute of Taxation examination interface. On the left, there are navigation buttons: 'Prev', 'Nav', 'Next', and 'Clear Highlight'. On the right, there are 'Tools', 'Calculator', 'End Test', and a timer showing '174:27'. The main content area is split into two panes. The left pane contains a case study about Andrew, his children Lance and Hayley, and his mother Peggy. It includes a table of Peggy's estate assets and a question asking to calculate Inheritance Tax (IHT) due on the 1 March 2019. The right pane shows 'SECTION A' with a compulsory question worth 80 marks, which is a duplicate of the case study and question in the left pane. A 'Flag' and 'Edit' button are visible at the bottom right of the right pane. A notification bubble says 'This question has been answered. Click here to enable you to edit your answer.' The bottom navigation bar shows a sequence of question markers from 'Inf01' to 'Inf06', with '1a' highlighted.

Case Study (Left Pane):

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

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

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

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

Question 1 (Right Pane):

SECTION A
This question is compulsory and carries 80 marks

Question 1
Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d) and (e) which follow.

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

Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate.

Peggy's estate was comprised of the following on her death:

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Deposit accounts	£323,000
Cash ISAs	£55,000
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Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

Peggy's husband Frank, died in 2016, leaving his share of their house and his residual estate to Peggy. Frank made only one gift in the seven years before he died. He settled £450,000 into a discretionary trust just under four years earlier. Inheritance Tax (IHT) of £23,800 was paid at outset by the trustees. Following Peggy's death, Andrew is the only remaining trustee.

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

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

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

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Prev Nav Next Clear Highlight

Tools Calculator End Test 164:16

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

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With regard to the discretionary trust established by Frank:

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

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

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

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

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance†	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

Flag Clear

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

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Prev Nav Next Clear Highlight

Tools Calculator End Test 158:41

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

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

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

Formats - B I [Text Editor Icons]

Answer

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

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

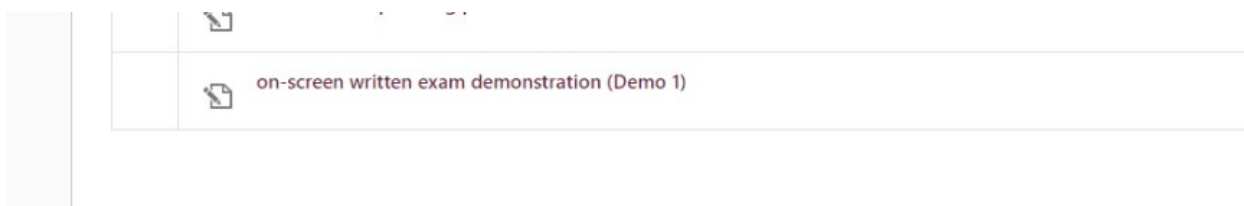
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Income limit for Married Couple's Allowance†	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

Flag Clear

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



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

In the examination

The following will help:

Spending your time in accordance with the allocation of marks:

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

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

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

Tackling questions

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

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

Answer format

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

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

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

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams

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

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

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

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

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

EXAMINERS' COMMENTS

Candidates' overall performance:

Overall candidates in this sitting did well with some good marks being scored particularly on the more standard trust questions. It was clear however which candidates had studied the syllabus in full as they scored well on the more technical areas such as the definitions of different types of trust and relevant life policies.

The J02 Trusts exam tests different areas of the syllabus in each sitting so it is vital that future candidates put in place a study plan which covers all syllabus parts. Candidates should also ensure that they use past exam guides as these provide valuable information as to what can be expected in terms of the style of question but also what the examiner is looking for to award the available marks.

Question 1

Most candidates performed very well with this first question on the advantages and disadvantages of creating a trust with above average marks being scored.

Question 2

In part (a) many candidates could explain how a trust is not made void by the death of all the trustees and went on to explain very well how the administration can be continued as outlined by legislation. In part (b) candidates were asked to describe the circumstances in which a new trustee can be appointed to replace an existing trustee as specified again in legislation and once more candidates did very well offering very thorough and correct answers.

Question 3

This question on the benefits and drawbacks of appointing a corporate trustee rather than a family friend was very well answered with many candidates scoring high marks.

Question 4

This question asked for the drawbacks of an individual in poor health transferring his share portfolio into a discretionary trust. Candidates were able to describe the Inheritance Tax (IHT) position but a surprising number did not identify that, should funds be required for any care that might be needed in the future, he would not be able to access the trust.

Question 5

This question asked for the information that should be included in a trust deed and was very well answered with a large number of candidates scoring maximum marks.

Question 6

This question asked for the definition of an implied trust, a successive trust and a constructive trust. Those candidates that had clearly studied in full did very well but other candidates found parts (ii) and (iii) more difficult to articulate.

Question 7

A very pleasing number of candidates knew most of the categories of beneficiary who may benefit from a trust variation in accordance with the Variation of Trusts Act 1958.

Question 8

This question tested general powers of attorney and it was very good to see that in part (a) there were many detailed and thorough answers which scored well. In part (b) the restrictions of this type of attorney were examined and although many candidates knew that gifts could not be made without permission, fewer were aware that the attorney cannot act as a trustee or personal representative.

Question 9

The duties of an executor were tested in this question and it was very good to see so many candidates performing well in part (a). Part (b) tested the process that would apply if a sole executor is unable to act and this was not so well answered.

Question 10

The role of the trustee in bankruptcy was examined in this question and most candidates were able to answer part (a) well and it was also very good to see so many candidates able to state the four types of debt that remain payable even after the bankrupt has been discharged.

Question 11

A short case study was used in this question to describe a discretionary trust settlement with the question asking how the trustee could distribute the trust fund to the grandchildren and any potential tax implications. Many candidates correctly used the annual exempt amount (AEA) and the correct Capital Gains Tax (CGT) rate. The more prepared candidates were also able to identify that an IHT exit charge may be payable as well as describing the correct use of holdover relief.

Question 12

Relevant life policies are part of the J02 syllabus and it was disappointing the number of candidates that understood these to be offered as part of a keyman/business protection package. Interestingly even where part (a) had been answered incorrectly, some candidates then went on to explain well the five conditions that must be met for the policy to provide favourable tax treatment for both employer and employee.

Question 13

This question tested the Trust Registration Service and both parts (a) and (b) were generally answered well.

Question 14

This factors questions saw candidates in the main do very well in stating those relevant that should be considered prior to advising a client to make a large transfer of capital into a discretionary trust.

Question 15

The final question was regarding a first trustee review of a discretionary trust and again candidates in the main did very well.

Unit J02 – TRUSTS

Instructions to candidates

Read the instructions below before answering any questions.

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

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- **Different to Multiple Choice exams, tax tables are provided at the right-hand side of the interface after the question paper.**
- For each answer, please type in the full question number you are answering e.g. 1a
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

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

Attempt ALL questions

Time: 2 hours

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

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

1. State **five** advantages and **five** disadvantages of creating a trust. (10)

2. (a) Explain how the administration of a trust can be continued in the event of the death of one or more trustees, as outlined in section 18 of the Trustee Act 1925. (7)
- (b) Describe the circumstances, excluding death, in which a new trustee can be appointed to replace an existing trustee, as specified in section 36 of the Trustee Act 1925. (6)

3. State **three** benefits and **three** drawbacks of appointing a corporate trustee to administer a trust rather than using a family friend. (6)

4. Imran, who is in poor health, is considering the transfer of his share portfolio into a discretionary trust for the benefit of his nieces and nephews. The share portfolio is valued at £400,000.

State **eight** drawbacks of this course of action. (8)

5. Describe the information that should be included in a trust deed. (5)

6. State the definition of the following types of trust:
 - (i) an implied trust; (2)
 - (ii) a successive trust; (2)
 - (iii) a constructive trust. (2)

7. List the **five** categories of beneficiary who may benefit from a trust being varied in accordance with the provisions of the Variation of Trusts Act 1958. (5)
8. Lizzie will shortly be leaving for a 12 month round the world trip. Whilst she is away, she would like to give her sister the authority to deal with her personal and financial responsibilities.
- (a) Explain the benefits of Lizzie giving her sister a General Power of Attorney to act on her behalf whilst she is out of the country. (7)
- (b) Explain briefly any restrictions that will apply if Lizzie takes this action. (3)
9. Anya died in August 2023. She left a valid Will that named her friend Erin as the sole executor of her estate.
- (a) Outline **eight** duties that Erin will need to perform as executor of Anya's estate. (8)
- (b) Describe briefly the process that will apply if Erin is unable to act. (3)
10. (a) Describe briefly the role of the trustee in bankruptcy. (3)
- (b) State **four** types of debt that remain payable even after the bankrupt has received their discharge from bankruptcy. (4)
11. In June 2015, Darcey settled £240,000 into a discretionary trust for the benefit of her two grandchildren. Darcey's daughter Petra is the trustee. Darcey had already set up three discretionary trusts during her lifetime. Petra is now considering bringing the trust to an end and distributing the funds to the grandchildren. The only trust asset is a portfolio of open ended investment companies.
- Explain how Petra could distribute the trust fund to the grandchildren and any potential tax implications. (12)
12. (a) Describe how a relevant life policy is set up. (4)
- (b) Explain the **five** conditions that must be met for the policy to provide favourable tax treatment for both an employer and an employee. (5)

- 13.** Luca settled a UK resident trust in September 2023 through a transfer of collective investments.
- (a)** State the purpose of the Trust Registration Service (TRS) and the timescale in which this trust should be registered. **(3)**
- (b)** State **four** examples of trusts excluded from the TRS requirements. **(4)**
- 14.** State the relevant factors that should be considered prior to advising a client to make a large transfer of capital into a discretionary trust for the benefit of grandchildren. **(10)**
- 15.** Jamil and Amir are the trustees of a discretionary trust. They have invested the trust fund in a wide spread of investments and are now conducting their first review.
- Explain the different areas Jamil and Amir should consider when conducting a trust review. **(11)**

NOTE ON MODEL ANSWERS

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

Model answer for Question 1

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

Advantages:

- Reduces liability to Inheritance Tax (IHT)/IHT mitigation.
- To keep some control over gifted assets/as trustee.
- Keep some access to gifted assets (loan trust/discounted gift trust (DGT)).
- Prevent assets falling into the wrong hands at the wrong time/spendthrift/bankruptcy.
- Flexibility/put off decisions regarding ultimate recipient of assets.
- To avoid probate.
- To protect minors and beneficiaries.

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

Disadvantages:

- Access may be restricted depending on the trust.
- May not be able to change trust once established.
- Usually need to survive 7 years to be effective for IHT purposes.
- Potential for immediate and/or ongoing IHT charges.
- Income/Capital Gains Tax (CGT) rates can be higher for trusts.
- Costs/admin.

Model answer for Question 2

- (a)
- A trust is not made void by the death of all the trustees.
 - Their powers can be exercised by the surviving trustee(s).
 - If a sole or last surviving trustee dies, their legal personal representatives can act as trustees until an appointment is made by the appointer/continuing trustees.
 - If no appointer was specified in the trust deed, or if they are now dead, the legal personal representatives can continue to act as trustees or can appoint replacement trustees under section 36 of the Act.
- (b) If the existing trustee:
- remains out of the UK for more than a year
 - desires to be discharged
 - refuses to act
 - is unfit (e.g. has become bankrupt/dishonestly).
 - incapable of acting (e.g. mentally incapacitated)
 - is an infant.

Model answer for Question 3

Benefits:

- They have the knowledge/experience to manage trusts.
- They will not be a beneficiary/no interest in the trust/unbiased.
- Continuity/they cannot die.

Drawbacks:

- Charges may be disproportionate for smaller/simpler trusts.
- They may be less flexible/may result in disputes with beneficiaries.
- Lack of detailed background knowledge of settlor/beneficiaries.

Model answer for Question 4

- Immediate IHT liability at outset/periodic/exit charges may apply.
- Imran must survive 7 years for the Chargeable Lifetime Transfer (CLT) to be outside of his estate/to be free from IHT.
- Loss of control of share portfolio.
- No access to dividend income.
- Imran will not be able to access funds/capital to pay for any care he might need.
- Complexity/additional administration.
- Potential CGT liability at outset.
- Income will be taxed at the trustee's rates/higher rates.

Model answer for Question 5

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

- The trust property/assets.
- The names of the beneficiaries.
- The names of the trustees.
- The rights of the beneficiaries.
- Powers of the trustees.
- The name of settlor.

Model answer for Question 6

- (i) • An implied trust is not created expressly/written, but is implied from actions/intentions.
- (ii) • A successive trust is where property is held in trust for a succession of interests taking effect one after the other.
- (iii) • A constructive trust is one that is imposed by law regardless of the intentions of those involved.

Model answer for Question 7

- Any beneficiaries who cannot consent because they are minors.
- Any beneficiaries who cannot consent because they are mentally incapable.
- Any contingent beneficiaries.
- Any unborn beneficiaries.
- Any people with a discretionary interest under a protective trust.

Model answer for Question 8

- (a)
- It authorises her sister to manage her personal and financial responsibilities whilst she is away.
 - She can act on Lizzie's behalf/sign documents with her own signature.
 - It can be general or specific, depending on Lizzie's needs/flexibility on the powers given.
 - It can be time-limited to cover only whilst she is travelling or written to be open-ended/flexibility.
 - Can be revoked by Lizzie at any time in the interim.
 - No need to register/simpler admin.
 - No fees involved.
- (b)
- Her sister/the attorney cannot act in Lizzie's place as a trustee/or personal representative.
 - She cannot make any gifts without Lizzie's permission in the deed.
 - Should Lizzie become mentally incapable it will be revoked.

Model answer for Question 9

- (a)
- Determining the assets of the estate.
 - Determining the liabilities of the estate/any tax liabilities.
 - Paying any debts Anya had.
 - Collecting in the assets of the estate.
 - Completing the necessary accounts.
 - Paying any IHT.
 - Obtaining probate.
 - Distributing the estate in accordance with her Will.
- (b)
- Administrators will be appointed by the Probate Registry.
 - They will carry out the duties in Erin's place.

Model answer for Question 10

- (a)
- Sell as much of the bankrupt's property as is needed to pay the creditors.
 - They will repay in a strict order of priority.
- (b)
- Money payable under maintenance/matrimonial orders.
 - Fines/debts incurred by fraud.
 - Outstanding student loans.
 - Damages for personal injury caused by negligence.

Model answer for Question 11

- Petra could encash the open ended investment companies (OEICs).
- As trustee she would be liable to CGT on any gain in excess of the CGT annual exempt amount of £3,000.
- This will be divided by 4 = £750 each.
- CGT is charged at 20%.

- Or Petra could transfer the OEICs to the grandchildren and claim holdover relief.
- Petra would not be liable to CGT on the transfer.
- The grandchildren acquire the OEICs at the original acquisition cost to Petra.
- The grandchildren would be liable to CGT when they dispose of the assets.

- An IHT exit charge may be/may not be payable.

Model answer for Question 12

- (a)
- Taken out by the employer/proposed by employer.
 - The policy is written on the life of the employee.
 - A discretionary trust is usually set up at the same time to receive the death benefits.
 - The member can make a non-binding nomination of their preferred beneficiary to guide the trustees.
- (b)
- The policy must not have a surrender value.
 - Any ill health benefit can only apply during employment.
 - The sum assured must be a lump sum designed to pay out on death of the member before age 75.
 - The benefits must be paid to an individual directly or via trustees/or to a charity.
 - The main purpose of the relevant life policy must not be tax avoidance.

Model answer for Question 13

- (a)
- The Trust Registration Service (TRS) provides a single point of access for trustees/agents to record information.
 - The trust is taxable.
 - The trust must be registered within 90 days of the date the trust was settled/became taxable.
- (b) *Candidates would have gained full marks for any four of the following:*
- Personal injury trusts.
 - Statutory trusts/intestacy.
 - Bereaved minor trusts.
 - 18 – 25 trusts.
 - Vulnerable persons trusts/disability.
 - Will trusts created on death that only receive assets from the estate.
 - Pension scheme trusts.
 - Charitable trusts.
 - Life policies in trust (if paid out within 2 years of death).
 - Pilot trusts set up before 6/10/2020 and hold no more than £100
 - Co-ownership trusts (set up to hold property jointly as tenants in common).

Model answer for Question 14

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

- Affordability/can they afford to make the transfer.
- Access/will they need income in the future access/will they need capital in the future.
- Timescale/when should beneficiaries benefit.
- Health/will they live 7 years for the gift to be outside of their estate.
- Do they have an IHT/CGT liability.
- Amount of transfer/if over the nil rate band (NRB) this is a CLT.
- Previous gifts.
- Who the trustees will be.
- How the capital will be invested/risk.
- Tax implications of a discretionary trust.
- Use of gifting allowances.

Model answer for Question 15

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

- Are the trust investments vested in the name of Jamil and Amir?
- Is the trust deed being adhered to/change of trustees circumstances?
- Are the investments still suitable/diversified.
- Investment performance/benchmarking.
- Specialist investment advice required?
- Economic changes.
- Legislation changes/tax changes.
- Any beneficiaries changed since the last review/death?
- Any changes to beneficiaries' capacity for loss (CFL)/attitude to risk (ATR)?
- Any need to pay income/capital to beneficiaries?
- Any tax liabilities/how will the trust pay the tax?
- Charges.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

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

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

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

The Tax Tables which follow are applicable to the September 2023 and March 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	
<i>*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.</i>		
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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00**	Nil
Over £175.00	13.8%

*** Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

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

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

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

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*

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

ANNUAL ALLOWANCE CHARGE	
20% – 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.	

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

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*		
Lifetime limit	10%	10%
	£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		
<i>*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.</i>					
Lifetime transfers					
- Annual exemption per donor		£3,000	£3,000		
- Annual small gifts exemption per donor		£250	£250		
Wedding/civil partnership gifts by					
- parent		£5,000	£5,000		
- grandparent/bride and/or groom		£2,500	£2,500		
- other person		£1,000	£1,000		
100% relief: businesses, unlisted/AIM companies, certain farmland/building					
50% relief: certain other business assets					
Reduced tax charge on gifts within 7 years of death:					
- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%
Quick succession relief:					
- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimum guarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 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 main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

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