



Chartered
Insurance
Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

March 2024 examination

SPECIAL NOTICES

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

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Unit 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.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the end of the question paper.

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.

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

1. Describe the legal definition of a trust. (6)

2. State and describe briefly the **four** types of beneficial interest an individual could be entitled to under a UK trust. (12)

3. (a) Explain briefly how a trustee of a non-charitable trust can delegate their powers under the Trustee Act 2000. (2)
(b) State **five** powers that the trustees of a non-charitable trust **cannot** delegate under the Trustee Act 2000. (5)

4. Explain the benefits of placing a life insurance policy under a discretionary trust for family protection purposes. (9)

5. (a) Explain how a trust is established in a Will. (5)
(b) Describe briefly when a trust established in a Will would need to be registered with the Trust Registration Service (TRS). (3)

6. (a) Explain briefly the Inheritance Tax (IHT) treatment of a pre-22 March 2006 interest in possession (IIP) trust when the beneficiary has a transitional serial interest (TSI). (4)
(b) State when a transfer of value would occur for IHT purposes, when the interest in possession changes on a pre-22 March 2006 IIP trust, which is **not** subject to a TSI. (3)

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7. The trustees of an interest in possession trust receive dividends from a portfolio of equity funds, which they distribute to the beneficiary, Jackson, who is a higher rate taxpayer in the tax year 2023/2024.
- (a) Describe briefly the tax treatment of the income received by the trustees of the interest in possession trust, in the tax year 2023/2024. (4)
- (b) Explain how Jackson must report and pay tax on the income distributed to him by the trustees of an interest in possession trust in the tax year 2023/2024. (7)
8. State the factors the trustees should consider when investing cash held in a bare trust. (8)
9. Garrett, a higher rate taxpayer, set up a discretionary trust three years ago. He is now considering transferring some existing Open Ended Investment Companies (OEICs) into the trust.
- Explain the Capital Gains Tax (CGT) treatment if Garrett transfers his existing OEICs into the discretionary trust. (8)
10. Monisha, aged 82, was diagnosed with Alzheimer's a year ago and she has now lost mental capacity. She does not have an Enduring Power of Attorney (EPA) or Lasting Power of Attorney (LPA) in place.
- (a) State the action required for Monisha's family to be able to manage her affairs. (2)
- (b) Explain the **drawbacks** of the action stated in your answer to **part (a)** above. (7)
11. Jasmine is a widow, as her husband Raphy has recently passed away. The couple had previously written mutual Wills when Raphy was diagnosed with a life limiting illness.
- (a) Describe how a mutual Will operates. (5)
- (b) Explain the implications for Jasmine if Raphy had revoked his Will before he died. (3)

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

12. (a) Describe how an 18 to 25 Trust is created. (5)
- (b) Explain briefly the Inheritance Tax (IHT) position for the beneficiary of an 18 to 25 Trust. (3)
13. Theo is the beneficiary of a discretionary trust set up by his father, who has not created any other trusts. The income received by the trust in the tax year 2023/2024 was interest of £1,150 and dividends of £900, which was distributed to Theo, who is a basic rate taxpayer.
- (a) Calculate, **showing all your workings**, the net income payable to Theo in the tax year 2023/2024. *You should assume there were no trust expenses.* (8)
- (b) Explain how Theo will be taxed on the income received from the discretionary trust. (4)
14. Explain **five** benefits and **five** drawbacks of using a discretionary loan trust for IHT planning. (10)
15. The trustees of a family trust are conducting a review of the trust as one of the trustees, Thea, is losing mental capacity.
- Explain the actions that could be taken to remove Thea as a trustee. (7)

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% / 10%**
Above 967.00	2%

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

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

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

****Secondary threshold.*

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

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

PENSIONS

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

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

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

ANNUAL ALLOWANCE

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

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

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

ANNUAL ALLOWANCE CHARGE

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

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

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS		2022/2023	2023/2024		
Transfers made on death					
- Up to £325,000		Nil	Nil		
- Excess over £325,000		40%	40%		
- Reduced rate (where appropriate charitable contributions are made)		36%	36%		
Transfers					
- Lifetime transfers to and from certain trusts		20%	20%		
MAIN EXEMPTION					
Transfers to					
- UK-domiciled spouse/civil partner		No limit	No limit		
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)		£325,000	£325,000		
- main residence nil rate band*		£175,000	£175,000		
- UK-registered charities		No limit	No limit		
<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%