



Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

September 2024 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2024/2025, 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 AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
- Section A: 80 marks
- Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory**.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the back of the paper.

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

SECTION A

This question is compulsory and carries 80 marks

Question 1

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

Agnete and Matthias are both aged 59 and have been married for 25 years. They have one son, Luka, aged 24.

Agnete has run her business as a limited company since 2012. She is the sole shareholder and director. The business has recently been valued at £250,000. The shares cost her £10,000 in 2012. Agnete wishes to retire at age 60 and is keen for Luka to take over her business.

In the 2024/2025 tax year, Agnete will pay herself a salary of £12,000 and dividends of £28,000.

Matthias is employed by a national company, on a salary of £53,000. As part of his employment package, he has Private Medical Insurance. The premium of £1,500 per year is paid by his employer.

Matthias plans to retire from his job in the next two years. His current employer is keen to continue to employ him on a part-time consultancy basis. Matthias is considering setting himself up as a sole trader for this purpose.

Luka has been living overseas for the last four years. He is returning to the UK on 1 October 2024, to spend several months working in Agnete's business before he decides whether to take it over.

Agnete and Matthias have the following investments:

Investment	Owner	Value at acquisition £	Value at disposal £	Acquisition costs £	Disposal costs £
Investment Trust	Agnete	25,000	42,000	225	180
Directly held FTSE 100 shares	Agnete	30,000	63,000	450	200
General Investment Account	Agnete	30,000	39,000	0	0
Stocks and Shares ISA	Agnete	20,000	47,000	0	0
Buy-to-let property	Jointly held	180,000	260,000	14,000	6,000
Stocks and Shares ISA	Matthias	20,000	45,000	0	0
Cash ISA	Matthias	20,000	24,000	0	0
Offshore investment bond	Matthias	40,000	85,000	0	0

Agnete has made investment losses in the past which she has successfully registered with HM Revenue & Customs. These amount to £10,000.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

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

- (a) (i) Calculate, **showing all your workings**, the Capital Gains Tax (CGT) liability for Agnete, assuming she sells all of her investments in the 2024/2025 tax year, including the buy-to-let property she holds jointly with Matthias. (18)
- (ii) Describe how and when Agnete must pay her CGT liability. (6)
- (b) Explain in detail, using figures where appropriate, the CGT implications of Agnete:
- (i) gifting the shares in her limited company to Luka in the 2024/2025 tax year; (8)
- (ii) selling her business in the 2024/2025 tax year instead of gifting it to Luka. (7)
- (c) Explain, using figures where appropriate, Matthias's weekly National Insurance contributions in the 2024/2025 tax year. (7)
- (d) State the factors that HM Revenue & Customs (HMRC) will consider to establish whether Matthias will be classed as self-employed once he retires and sets up his consultancy business. (8)
- (e) Describe in detail the **two** tests that HMRC will use to determine Luka's residence status for the 2024/2025 tax year. (12)
- (f) Calculate, **showing all your workings**, the Income Tax payable on the offshore investment bond if Matthias fully surrenders it in the 2024/2025 tax year. *Assume he had held the investment for five full policy years and has made no withdrawals.* (14)

Total marks available for this question: 80

SECTION B

Both questions in this section are compulsory and carry an overall total of 80 marks

Question 2

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

Konrad and Kara are a married couple in their 60s. They have two adult children.

Konrad is retired and in the 2024/2025 tax year, he received an annual gross income of £26,000, made up of the State Pension and a pension from his former employer's defined benefit scheme.

He also has income in the 2024/2025 tax year from the following:

Investment	Income £
Cash ISA	3,000
Equity open ended investment company (OEIC)	1,750
Directly held FTSE 100 shares	4,000
Venture Capital Trust (VCT)	2,500

Kara works part-time and earns an annual salary of £9,000. She has no other income. Konrad is concerned that Kara's health is deteriorating and neither of them have arranged powers of attorney.

Konrad and Kara are likely to have a significant Inheritance Tax (IHT) liability on second death. They are considering their options to mitigate this but need to retain an income.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

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

- (a) (i) Explain briefly why Konrad and Kara are eligible to claim the Marriage Allowance. (4)
- (ii) Describe briefly the process they would need to follow to claim the Marriage Allowance. (5)
- (b) Calculate, **showing all your workings**, Konrad's Income Tax liability for the 2024/2025 tax year. *Assume the Marriage Allowance has been successfully claimed.* (9)
- (c) State the **disadvantages** of Kara losing mental capacity without a Lasting Power of Attorney in place. (8)
- (d) Explain the advantages of Konrad and Kara using a Discounted Gift Trust to mitigate their potential IHT liability. (6)
- (e) Identify the factors Konrad and Kara should consider prior to setting up a Discounted Gift Trust. (8)

Total marks available for this question: 40

Question 3

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

Jerry died on 1 June 2024. His wife, Aroha, died five years ago and the couple left two children, Timoti and Kiri, and five grandchildren aged between 4 and 20.

Jerry made regular gifts to charity during his lifetime and he donated £15,000 in his Will to a local charity. The rest of his estate was left to Timoti and Kiri.

His estate comprised of the following assets:

Asset	Value at date of death £
House	620,000
Open ended investment company (OEIC)	85,000
Onshore investment bond	55,000
Stocks and Shares ISA	40,000
Current Account	25,000

In her Will, Aroha left £260,000 to a discretionary trust, with the remaining assets of her estate passing to Jerry.

Timoti and Kiri are the trustees of the trust. The assets in the trust comprise of cash and fixed interest investments and the trust has not been reviewed since its inception.

Aroha expressed a wish in her Will for each of her grandchildren to receive their share of the trust upon reaching age 21.

Saul, the eldest grandchild, will be 21 later this year and the trustees are considering whether to distribute his share of the trust. They are concerned he is not responsible enough to receive monies yet due to a gambling habit.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

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

- (a) Calculate, **showing all your workings**, the Inheritance Tax (IHT) payable following Jerry's death. (13)
- (b) Explain the benefits of the discretionary trust that was created in Aroha's Will on her death rather than each grandchild benefiting outright at age 21. (7)
- (c) (i) Describe how any income received by the trustees of the discretionary trust in the 2024/2025 tax year will be taxed. (6)
- (ii) Explain briefly how trustee expenses are accounted for when calculating the taxable income for the discretionary trust. (4)
- (d) Describe Timoti and Kiri's investment powers and duties under the Trustee Act 2000. (10)

Total marks available for this question: 40

INCOME TAX

RATES OF TAX	2023/2024	2024/2025
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	£125,140	£125,140
High income child benefit charge:	1% of benefit per £200 of adjusted net income between £60,000 – £80,000	
<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	£1,000	£500
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	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

** Where net income exceeds £500, the full amount is subject to Income Tax.

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% †	£4,010	£4,280
Married/civil partners at 10% †	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ The Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,000 (£34,600 for 23/24) until minimum reached.

*** Investment above £1,000,000 must be in knowledge-intensive companies.

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	8%
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

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.
Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

Class 3 (voluntary)

Flat rate per week £17.45.

Class 4 (self-employed)

6% on profits between £12,570 and up to £50,270.
2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
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 removed from 6 April 2024.

	2023/2024	2024/2025
Lump sum and death benefit allowance (LSDBA)	n/a	£1,073,100
Lump sum allowance (LSA)	n/a	£268,275
LSA and LSDBA may be higher if transitional protections are available. Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.		
Money purchase annual allowance	£10,000	£10,000

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£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.

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
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 - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
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	2023/2024	2024/2025
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

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

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250

Gifts from surplus income are immediately exempt, as long as they are made from income, are made regularly and do not impact donor's standard of living.

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 made in excess of the nil rate band 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

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimum guarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	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	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

**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.*

***If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2024/2025 is £35.95, so total awarded for these individuals may be up to £126.45.*

CORPORATION TAX

	2023/2024	2024/2025
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%
Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.		

VALUE ADDED TAX

	2023/2024	2024/2025
Standard rate	20%	20%
Annual registration threshold	£85,000	£90,000
Deregistration threshold	£83,000	£88,000

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%