



Chartered  
Insurance  
Institute

# J02

## Diploma in Financial Planning

Unit J02 – Trusts

April 2021 Examination Guide

### SPECIAL NOTICES

Candidates entered for the September 2021 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

## J02 – Trusts

### Contents

Important guidance for candidates .....	3
Examiner comments .....	7
Question paper .....	12
Model answers .....	15
Test specification .....	21
Tax tables .....	23

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**Published June 2021**

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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](http://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](http://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.*

### **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/](http://www.cii.co.uk/qualifications/assessment-information/introduction/). This is *essential reading* for all candidates.

## In the examination

### The following will help:

#### **Spend your time in accordance with the allocation of marks:**

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the 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, even if you have used a calculator.

## EXAMINERS' COMMENTS

### Candidates' overall performance:

Candidates generally performed well in this examination. It was pleasing to see those candidates who had prepared thoroughly perform consistently across the paper and score well in some of the main syllabus areas.

In particular, candidates did well on question 2, a comparison of bare and discretionary trusts when gifting to minor beneficiaries, question 3 on creating a trust by deed and question 7 on the laws of intestacy.

Candidates found question 5 on the Trustee Delegation Act, question 9 (a) on trusts for vulnerable beneficiaries and question 11 on offshore trusts more difficult, however, these are areas that have been tested previously and are covered in the J02 study text.

Candidates that study for the J02 Trusts examination should not take it lightly and assume that their "working knowledge" will be sufficient to enable them to pass this examination. It is strongly recommended that candidates study past Examination Guides and read the Examiner's Comments in preparation for sitting this examination. It is important to identify areas of the syllabus which require further study. In addition, a thorough reading of the J02 study text for this examination is also strongly recommended. If candidates undertake the above recommendations, they should have a good chance of gaining a pass in this examination.

### Question 1

In part (a), candidates were asked to name the three main parties to a trust. Most candidates answered this correctly.

Candidates performed less well in part (b), which asked for the powers that could be given to the Appointor of a trust, although many were able to state the basic powers of appointing/removing trustees.

### Question 2

This question asked candidates to state the advantages and disadvantages of a gift into a bare trust for minor beneficiaries compared to a discretionary trust. Candidates performed well commonly identifying the potential tax advantages as well as the potential lack of control and flexibility over beneficiaries.

### Question 3

Part (a) was generally answered well in which candidates were asked for six pieces of information that should be included in a deed creating a trust.

Part (b) asked for the requirements to enable a trust deed to be validly executed and candidates were generally able to identify for the need for the deed to be signed in the presence of an independent witness.

**Question 4**

This question was answered reasonably well with candidates recognising that bare trusts, immediate post death interest trusts and trusts for the disabled/bereaved minors, are not treated as relevant property trusts. It was, however, disappointing that although many candidates included interest in possession trusts in their answer, few candidates were able to identify this would only be those trusts created before 22 March 2006.

**Question 5**

Candidates were asked to explain the extent to which Sanjay could delegate his trustee powers under the Trustee Delegation Act 1999. This question was poorly answered and many candidates confused this with a trustee's ability to appoint agents or delegate to an agent under the Trustee Act 2000.

**Question 6**

In part (a), candidates were asked for the main functions of the Office of the Public Guardian (OPG). This was answered quite well with candidates generally able to identify the OPG would maintain a register of LPAs/EPAs/court appointed deputies and deal with any concerns or complaints about attorneys/deputies.

Part (b), which asked for the process if a donor wished to end an existing Lasting Power of Attorney, was also fairly well answered, with candidates generally recognising this would require an application to the OPG if the donor was mentally capable.

**Question 7**

Candidates had to explain in part (a) how Francesco's estate would be distributed if he died without a will. This question was excellently answered and candidates identified that under the rules of intestacy, his partner would receive nothing as they were not married or in a civil partnership, with the estate instead split between the two children.

Part (b) was a question asking how the estate would be distributed if Francesco and Eva had been married. This was generally very well answered, with candidates recognising that Eva would have received the entire estate, as it was valued under £270,000.

**Question 8**

Part (a) of the question asked candidates to explain the effects of the bankruptcy of Clara, one of the trustees, on a trust. This was answered well with many candidates stating the trust property would not pass to the Trustee in Bankruptcy as it did not belong to Clara. They also identified the bankruptcy may bring into question Clara's suitability as a trustee.

Part (b), which asked candidates to describe the position if Clara had been the settlor of the trust, was less well answered although candidates had some understanding of the prior transaction provisions.

### **Question 9**

Part (a) was not well answered as candidates misunderstood what the question was asking. This was about how Hamish, a vulnerable beneficiary, and the trustees would make an election for special tax treatment, however, many candidates described how the tax would be calculated.

Part (b) was answered much better and maximum marks were scored by candidates able to identify the inheritance tax treatment of trust for a vulnerable beneficiary.

### **Question 10**

Part (a) was a calculation of the capital gains tax liability on a gain made by the personal representatives during the administration of an estate. This was generally very well answered with many candidates scoring high marks.

Part (b) asked for a brief description of how the dividend income received by Drew in the tax year of death would be calculated. Candidates generally identified Drew's dividend allowance of £2,000 would be available with any excess taxed at higher rate.

### **Question 11**

This question asked candidates to explain the tax treatment of an offshore trust with a UK domiciled settlor and non-UK resident trustees. Candidates found this question difficult, scoring poorly, however candidates should be reminded this is an area that has been tested previously and is covered in the J02 study text.

### **Question 12**

In part (a), candidates were asked to explain how a defined contribution pension scheme operates under a trust. This was not well answered although some candidates were able to state the pension provider would usually be the trustee.

Candidates performed better in part (b) generally describing how the member could make a nomination although any lump sum death benefit would be paid at the discretion of the trustees.

### **Question 13**

Part (a) asked candidates how a Relevant Life policy operates. This was reasonably well answered with candidates generally describing it is a life insurance policy taken out by an employer on the life of an employee.

In part (b), candidates were asked about the tax treatment of the premiums on a Relevant Life policy. This was answered quite well with candidates generally identifying there would be no income tax liability for the employee and the premiums may qualify as a deductible business expense for the employer.

**Question 14**

This question required candidates to identify the benefits and drawbacks of using a whole of life policy, written under a discretionary trust, for inheritance tax planning compared to making an outright gift. This was answered fairly well although not many candidates identified the potential drawback of medical underwriting.

**Question 15**

It was pleasing to see candidates perform well on this question which asked them to state the circumstances that would prompt trustees to conduct a review of the trust. Many candidates were able to provide answers which commonly included the death of a trustee/beneficiary, changes in income and wealth, legislative changes and economic factors.

## 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 2020/2021, 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.
- Tax tables are provided at the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g. 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off.**
- 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 ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

1. (a) State the **three** main parties involved in the creation of a trust. (3)  
(b) Describe the powers that could be given to the Appointor of a trust. (5)
  
2. Rocio would like to gift £500,000 to her minor grandchildren.  
  
State **five** advantages and **five** disadvantages of using a bare trust compared to a discretionary trust. (10)
  
3. (a) List **six** pieces of information that should be included in a deed to create a trust. (6)  
(b) Describe briefly the criteria required to enable a trust deed to be validly executed. (4)
  
4. List the **seven** types of trusts which are not treated as relevant property. (7)
  
5. Sanjay is the trustee of a small family trust. He has recently moved to Europe for six months on a work secondment.  
  
Explain the extent to which Sanjay can delegate his trustee powers under the Trustee Delegation Act 1999. (8)
  
6. (a) List **six** main functions of the Office of the Public Guardian. (6)  
(b) Explain briefly the process if a donor wishes to end an existing Lasting Power of Attorney. (4)

**PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

7. Francesco died on 1 April 2021 leaving an estate valued at £265,000. He was not married or in a civil partnership but lived with his partner Eva and their two children, Aldo, aged 19 and Bella, aged 15.
- (a) Explain how Francesco’s estate would be distributed assuming he had not made a Will. (7)
- (b) State how the distribution of the estate would have varied if Francesco and Eva had been married. (2)
8. Clara is the trustee of a trust and is facing bankruptcy.
- (a) Explain, giving your reasons, the effects of Clara’s bankruptcy on the trust. (5)
- (b) Describe briefly the position if Clara was also the settlor of the trust. (5)
9. A trust has recently been set up for Hamish who suffered brain damage from a car accident and as a result qualifies as a ‘vulnerable beneficiary’.
- (a) Explain how the special treatment for Income Tax and Capital Gains Tax purposes would be achieved for Hamish’s trust. (5)
- (b) State the Inheritance Tax treatment of the trust for Hamish and the trustees. (3)
10. Drew died on 1 December 2020. He earned £60,000 in the tax year of his death and received a dividend payment of £4,000 on 1 November 2020.
- Drew’s estate included a portfolio of shares which were purchased for £120,000 in 2016. The probate value was £150,000. The value of the shares was £165,000, after costs, when they were sold by his personal representatives on 1 April 2021.
- (a) Calculate, **showing all your workings**, the Capital Gains Tax liability on the gain made by the personal representatives during the administration of Drew’s estate. (5)
- (b) Describe briefly how the dividend income received by Drew, during the tax year of his death, is treated and taxed. *No calculations are required.* (4)

11. Explain the tax treatment of an offshore discretionary trust with a UK domiciled settlor and non-UK resident trustees. (7)
12. (a) Explain how a defined contribution pension scheme operates under a trust. (3)
- (b) Describe how a lump sum death benefit from a defined contribution pension scheme could be distributed. (5)
13. (a) Describe how a Relevant Life policy operates. (5)
- (b) Describe briefly the tax treatment of the premiums, on a Relevant Life policy, that are paid by the employer. (3)
14. Identify **five** benefits and **five** drawbacks of using a whole of life policy, written under a discretionary trust for Inheritance Tax planning, compared to an outright gift. (10)
15. State **eight** circumstances that would prompt trustees to conduct a review of a trust. (8)

**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**

- (a)
- Settlor.
  - Trustees.
  - Beneficiaries.
- (b) *Candidates would have gained full marks for any five of the following:*
- The power to appoint new trustees.
  - The power to remove/replace a trustee,
  - as long as the minimum number of trustees remain after any removal/cannot take the number of trustees over 4 if the trust contains land.
  - An appointor can become a trustee in place of a trustee that retires or is removed.
  - There is no statutory power enabling an appointor to become an additional trustee.
  - Power of veto of trustee decisions/block trustee decisions.

**Model answer for Question 2**

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

**Advantages**

- Certainty the named beneficiaries/grandchildren will benefit.
- No Inheritance Tax (IHT) liability at outset.
- No periodic
- or exit charges would apply.
- The tax reporting of the trust would be much simpler.
- Gains would be taxed at the beneficiaries rates instead of Rocio/the trustees which could be potentially higher.
- Income would be taxed at beneficiaries rates instead of Rocio/the trustees which could be potentially higher.
- Lower cost/less administration.

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

**Disadvantages**

- Beneficiaries will become entitled to their share when they reach age 18.
- Rocio/the trustees will have no control when the beneficiaries receive their share.
- Unborn grandchildren unable to benefit.
- No flexibility to change beneficiaries.
- No flexibility to change percentage or share.
- Trust fund would form part of estate for IHT purposes.
- No protection if beneficiaries become bankrupt in future/divorce/spendthrift.

**Model answer for Question 3**

- (a)
- The trust property.
  - Name of settlor.
  - Names of trustees
  - and beneficiaries/appointee.
  - The powers of the trustees.
  - The rights of the beneficiaries.
- (b)
- Signed
  - and delivered as a deed
  - by all parties/the settlor and trustees
  - in the presence of independent witnesses.

**Model answer for Question 4**

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

- Bare/absolute trust.
- Transitional serial interests created prior to 5 October 2008.
- Interest in possession created before 22 March 2006/qualifying interest in possession.
- Immediate post death interest.
- Trusts for the disabled.
- Trusts for a bereaved minor/relevant minor.
- 18-25 trust.
- Excluded property trust.

**Model answer for Question 5**

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

- Sanjay can delegate some or all of his powers as trustee
- to an attorney
- under a General Power of Attorney.
- Delegation is for periods of no longer than 12 months/1 year.
- Written notice
- must be given to the other trustees
- and appointor if one exists
- with reason(s)
- within 7 days of it being put in place.
- Sanjay is liable for acts and defaults of the attorney as if they were his own.

**Model answer for Question 6**

- (a) *Candidates would have gained full marks for any six of the following:*
- To maintain a register of Lasting Power of Attorneys (LPA)/Enduring Power of Attorneys.
  - To maintain a register of court orders that appoint deputies.
  - To supervise deputies.
  - To deal with concerns/complaints about attorneys.
  - Deal with concerns/complaints about deputies.
  - Working with other organisations such as social services/safeguarding.
  - Providing reports to the court of protection as requested.
- (b) *Candidates would have gained full marks for any four of the following:*
- The Donor must have mental capacity to revoke a LPA.
  - The original LPA must be sent to the
  - Office of the Public Guardian
  - Along with a written statement/deed of revocation.
  - Deed must be signed by the donor,
  - and witnessed.
  - Attorneys must be informed if their power is revoked.

**Model answer for Question 7**

- (a) *Candidates would have gained full marks for any seven of the following:*
- Francesco's estate will be distributed under the rules of intestacy
  - for the benefit of his children
  - in equal shares
  - Aldo will receive his share immediately as he is over 18
  - Bella's share will be held under a statutory trust
  - until she reaches the age of 18
  - or marries under that age.
  - Eva will receive nothing as the couple were not married;
  - or in a civil partnership.
- (b)
- Eva would have received Francesco's entire estate
  - as it was valued under £270,000

**Model answer for Question 8**

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

- Clara's bankruptcy has no effect on the trust.
- The trust property does not belong to her
- so cannot pass to the Trustee in Bankruptcy (TIB).
- She can still act as trustee
- unless the Settlor/trustees
- wish to remove her as a trustee
- if they consider she is no longer suitable.

(b) *Candidates would have gained full marks for any five of the following:*

- The bankruptcy does not affect the trust
- unless it can be attacked under the prior transaction provisions
- within 2 years of the transfer into the settlement
- the TIB can obtain a court order setting aside the settlement
- without having to prove insolvency at the time
- or up to 5 years of the transfer
- if the beneficiaries were spouse, relative or business partner
- without proving that it was done deliberately to defraud creditors.

**Model answer for Question 9**

- (a)
- The trustees and vulnerable person/Hamish
  - must make a joint election.
  - No more than 12 months
  - after 31 January
  - following the end of the tax year in which election falls.

(b) *Candidates would have gained full marks for any three of the following:*

- The creation of the trust is a potentially exempt transfer (PET)/not relevant property.
- There are no periodic charges
- and there are no exit charges.
- The trust fund would be included in the beneficiary's estate for IHT purposes upon the beneficiary's death.
- Settlor interest is permitted without an IHT charge.

**Model answer for Question 10**

- (a)
- Sale proceeds £165,000 - £150,000 (probate value).
  - = £15,000 - £12,300 (annual exempt amount).
  - = Taxable gain £2,700
  - £2,700 x 20% (personal representatives CGT rate)
  - = £540.00

- (b)
- The dividend is taxable as Drew's income in the tax year he died (2020/21).
  - The first £2,000/dividend allowance is not taxable.
  - and the remaining £2,000 is taxed at higher rate/32.5%.
  - The executors/personal representatives are responsible for paying the tax.

**Model answer for Question 11**

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

- The trust is not subject to Income Tax
- or Capital Gains Tax
- income/gains could be attributed to the settlor
- where the settlor
- or connected parties can benefit/anti-avoidance legislation
  
- beneficiaries can be taxed where capital is distributed from a trust where income has been accumulated
- trustees may be liable for Capital Gains Tax on stockpiled gains where capital is distributed to UK beneficiaries
- transfers of property into the trust would be transfers of value for IHT purposes.

**Model answer for Question 12**

- (a)
- If the scheme is under trust the pension provider is usually the trustee.
  - The trustee/pension provider holds and manages the underlying investments.
  - The individual is given a membership document setting out their contractual rights.
- (b) *Candidates would have gained full marks for any five of the following:*
- The way death benefits are dealt with will be governed by the scheme rules.
  - The member could make a nomination/expression of wish.
  - In favour of individuals/spouse/children
  - or set up a personal discretionary trust
  - or a bypass/pilot trust.
  - The administrator/trustees have ultimate discretion/power to decide to whom/where the death benefits are payable.

**Model answer for Question 13**

- (a) *Candidates would have gained full marks for any five of the following:*
- A term assurance/life insurance.
  - taken out by an employer/employer funded
  - on the life of an employee
  - issued under a discretionary trust
  - for the benefit of the employees chosen beneficiaries/individual or charity
  - members can make a non-binding nomination.
  - Lump sum death benefit must be payable before employee reaches age 75.
  - Can include ill health benefits
  - it can provide favourable tax treatment
  - if certain legislative conditions are met.
  - No surrender value.

(b) *Candidates would have gained full marks for any three of the following:*

- No Income Tax liability on the employee.
- No National Insurance liability for the employer or the employee.
- The premiums may qualify as a deductible business expense for the employer.

**Model answer for Question 14**

(a) **Benefits:**

- Donor not able to/cannot afford to make a large capital gift/small outlay/Donor would not lose access to capital.
- No 7-year gifting rule.
- as the premiums are usually exempt gifts under the annual exemption/gifts out of normal expenditure.
- Provides a lump sum to pay IHT liability when it arises.
- Flexibility of beneficiaries and shares.

(b) *Candidates would have gained five marks for any five of the following:*

**Drawbacks:**

- The level of cover may be insufficient if the estate increases in value.
- Premiums may become difficult to maintain/Premium reviews.
- Could be expensive if donor lives a long time after taking policy out.
- May be subject to periodic and exit charges.
- Medical underwriting may be required.

**Model answer for Question 15**

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

- Death of a trustee/beneficiary.
- Serious illness of a trustee/beneficiary.
- Changes in income and expenditure of the settlor/trustees/beneficiaries.
- Changes in wealth/capital needs of the settlor/trustees/beneficiaries.
- Bankruptcy of the settlor/trustees/beneficiaries.
- Marriage/separation/divorce of a beneficiary.
- Disputes between the settlor/trustees/beneficiaries.
- Legislative changes that could potentially affect all parties/tax.
- Economic factors.

April 2021 Examination - J02 Trusts	
Question Number	Syllabus learning outcomes being examined
1.	1. Explain the structure of a trust and the roles of the main parties.
2.	1. Explain the structure of a trust and the roles of the main parties.
3.	2. Explain how trusts are created.
4.	2. Explain how trusts are created.
5.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
6.	4. Explain substituted decision making, to include all types of Power of Attorney and other options.
7.	5. Explain the use of Wills and the consequences of dying intestate.
8.	6. Explain the bankruptcy rules, the role of the trustee in bankruptcy and alternatives to bankruptcy.
9.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
10.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
11.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
12.	8. Explain how life, pension and other investments can be placed in trust, and the tax implications.
13.	8. Explain how life, pension and other investments can be placed in trust, and the tax implications.
14.	9. Apply effective trust and related tax planning solutions.
15.	9. Apply effective trust and related tax planning solutions.

**All questions in the September 2021 paper will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are applicable to the February and April 2021 examination.**

## INCOME TAX

RATES OF TAX	2019/2020	2020/2021
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	£37,500	£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
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
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%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance †	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%
<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)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

## NATIONAL INSURANCE CONTRIBUTIONS

### Class 1 Employee Weekly

Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

### Total earnings £ per week CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 183.00*	Nil
183.00 – 962.00	12%
Above 962.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 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 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £3.05 where profits exceed £6,475 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £15.30.
<b>Class 4 (self-employed)</b>	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

## PENSIONS

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

### LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income.

### ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£40,000*
2020/2021	£40,000*

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

\*tapered 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.

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£4,000	£4,000

### ANNUAL ALLOWANCE CHARGE

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

## CAPITAL GAINS TAX

EXEMPTIONS	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

### TAX RATES

Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives		
	20%	20%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£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

	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%

Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

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

### MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£150,000	£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
- Small gifts exemption	£250	£250

Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

## PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 Rates
<b>Cars</b>		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	2019/2020	2020/2021	
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000	
Plant & machinery (reducing balance) per annum	18%	18%	
Patent rights & know-how (reducing balance) per annum	25%	25%	
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%	
Energy & water-efficient equipment	100%	100%	
Zero emission goods vehicles (new)	100%	100%	
Electric charging points	100%	100%	
Qualifying flat conversions, business premises & renovations	100%	100%	
<b>Motor cars:</b> Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)			
CO <sub>2</sub> emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	6%
	first year	reducing balance	reducing balance

\*If new

## MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	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	57.90	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20

**CORPORATION TAX**

	2019/2020	2020/2021
Standard rate	19%	19%

**VALUE ADDED TAX**

	2019/2020	2020/2021
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 £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

**Important note: For residential properties purchased between 8<sup>th</sup> July 2020 and 31<sup>st</sup> March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.**

*Stamp Duty Land Tax (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.*

*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.*

*First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*

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