



Chartered  
Insurance  
Institute

# AF1

## Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

April 2022 Examination Guide

### SPECIAL NOTICES

Candidates entered for the September 2022 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.

# AF1 – Personal tax and trust planning

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## IMPORTANT GUIDANCE FOR CANDIDATES

### Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the 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 Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma 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 examination. 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 three-hour written paper in two sections. All questions are compulsory:

**Section A** consists of one case study, worth 80 marks. You will be expected to carry out a variety of tasks, after analysing the information provided.

**Section B** consists of two shorter case studies worth a total of 80 marks. Again you will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

### 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.

### On-screen written exam demonstration (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time

<https://uat-cii.psonline.com/phoenix/instant/launch?auth=EH6jtrqPu3J6znVp&username=ILDemo1&test=05a75b4f-1c90-4a74-a22d-ec4aa8d4ca48&autoopen=1&samewindow=1&theme=custom/alternative/CI>

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

- From the AF1 demonstration 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. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.

The screenshot shows the AF1 October 2019 exam interface. On the left, a case study is displayed, detailing the financial situation of Andrew, Lance, and Hayley, and the estate of Peggy. A table lists assets such as House (£700,000), Deposit accounts (£323,000), Cash ISAs (£55,000), FTSE listed shares (£150,000), Collective investment portfolio (£101,000), and Personal Pension (£326,000). The question asks to calculate the Inheritance Tax (IHT) due as a result of Peggy's death on 1 March 2019. The interface includes navigation buttons (Prev, Nav, Next, Clear Highlight), a Tools menu, a Calculator, an End Test button, and a timer showing 174:27. A navigation bar at the bottom shows the current question (1a) and other questions.

- 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 CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.

The screenshot shows the AF1 October 2019 exam interface with tax tables. The case study on the left is partially visible. The right-hand side displays the 'INCOME TAX' tables for 2018/2019 and 2019/2020. The tables include Rates of Tax, Dividend Allowance, Dividend tax rates, Trusts, and Main Personal Allowances and Reliefs. The interface includes navigation buttons, a Tools menu, a Calculator, an End Test button, and a timer showing 164:16. A navigation bar at the bottom shows the current question (1b) and other questions.

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

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. 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.

The screenshot shows the AF1 exam interface. At the top left is the Chartered Insurance Institute logo and navigation buttons (Prev, Nav, Next, Clear Highlight). At the top right are 'Tools', 'Calculator', 'End Test', and a timer showing '158:41'. The question text reads: 'Andrew is entitled to inherit any of the property when tested here please enter the correct rate as 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)'. Below the question is a rich text editor with a toolbar and an 'Answer' button. At the bottom is a navigation bar with question markers for '1a', '1b', '1c', '1d', '1e', 'Inf04', '2a', '2b', '2c', '2d', '2e', 'Inf05', '3a', '3b', '3c', 'Inf06'. On the right, a table titled 'AF1 October 2019 INCOME TAX' is displayed.

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%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
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

4. On the day of the AF1 exam, please click on the AF1 Personal tax and trust planning:

The image shows two buttons with a magnifying glass icon. The top button is labeled 'AF1 Personal tax and trust planning' and the bottom button is labeled 'on-screen written exam demonstration (Demo 1)'. Both buttons are highlighted with a red border.

5. The above screenshot shows the point before the exam has started; you wish to take a moment at this screen to 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: **AF1 Personal tax and trust planning**.

## 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 paper 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, leave some space, 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 leave the examination room confident that they have written 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 putting pen to paper.
- 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 three 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. The model answers indicate what is acceptable for the different types of question.

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

**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 an IHT calculation:
  - Main residence £500k,
  - Onshore Bond £100k.
- Identify all allowances, exemptions, tax bands, tax rates used in £ terms.
- Use subtotals where appropriate. For example:
  - Total assets - £1,500,000
  - Nil rate band (NRB) – (£325,000)
  - Residence nil rate band (RNRB) – (£175,000)
  - Assets after allowances - £1,000,000
- Show all your workings. This could include:
  - grossing up of pension contributions,
  - how you work out the allowances if they are not standard,
- Make notes where appropriate. For example:
  - Bond loss is excluded
  - ISA income ignored
- Double check all of your figures.

**EXAMINERS' COMMENTS****Candidates' overall performance**

Candidates generally performed well in this sitting of the AF1 exam.

The calculation questions, as is often the case in AF1 exams, were a good source of marks for candidates and it was pleasing to see candidates that had prepared thoroughly for the exam performed consistently across the paper.

However, candidates continue to struggle with questions relating to the taxation of self-employed individuals, which is disappointing, as this is an area of the syllabus which is frequently tested.

Candidates should also make sure they have thoroughly studied both taxation and trusts, as there were clear gaps in level 4 knowledge, particularly in areas that are covered in the J02 (Trusts) syllabus and study text. Questions on Powers of Attorney, trusts for vulnerable beneficiaries and the rules of the intestacy, which are also key parts of the AF1 syllabus, were answered poorly.

**Question 1**

Part (a)(i) asked candidates to calculate Hayden's Income Tax liability in the 2021/2022 tax year. This was a fairly straightforward calculation and many candidates achieved high marks. However, as redundancy payments up to £30,000 are not taxable, it was disappointing to see a common mistake made by candidates was to include Hayden's redundancy payment as non-savings income.

Candidates did not perform so well in part (a)(ii), where the question asked for an explanation of the actions Hayden and Zara could have taken to help mitigate Hayden's liability to Income tax in the 2021/2022 tax year. Many candidates were awarded marks for correctly stating some of Hayden's open-ended investment company (OEIC) holding/Corporate Bonds could be transferred to Zara. Additional marks were given where candidates were able to expand on this by explaining the remaining dividends/interest would then fall within Hayden's dividend allowance/Personal Savings Allowance (PSA).

Part (b)(i) required candidates to state how and when Hayden would register as self-employed for tax purposes. This was poorly answered and it was particularly disappointing that many candidates were unable to provide the date on which Hayden must register by.

In part (b)(ii), candidates had to explain how Hayden would be taxed on his profits in his first two years of self-employment. This question was again poorly answered and instead of explaining how Hayden would be taxed, many candidates gave answers based on when the tax would be payable.

Part (c) asked candidates to explain Hayden's liability to National Insurance Contributions (NICs) in the 2021/2022 tax year. This question was generally well answered.

Part (d) required candidates to explain the maximum tax relievable contributions Hayden and Zara could make into personal pensions in the 2021/2022 tax year. This question was generally well answered and most candidates identified Zara would be limited to a gross pension contribution of £3,600 as she has no relevant UK earnings.

Part (e)(i) asked candidates to explain the impact of Isaac's bankruptcy on Juliet's property and affairs Lasting Power of Attorney (LPA). It was disappointing to see candidates struggle with this question. Whilst some candidates correctly identified Zara would be able to continue to act, as the attorneys were appointed jointly and severally, others got confused and provided answers on the basis the attorneys had been appointed to act jointly, incorrectly stating Zara could not continue to act as an attorney and the LPA would be revoked.

In part (e)(ii), candidates had to explain briefly the process that would need to be followed to make decisions on Juliet's health and welfare. This question was also not well answered and although it was stated in the case study that Juliet had lost mental capacity, some candidates provided answers based on her being able to set up a health and welfare LPA. Few candidates identified that Isaac could apply to be a deputy for health and welfare even though he is bankrupt.

Part (f) tested candidates on the discretionary trust created by Juliet.

In part (f)(i), a calculation of the net income payable to the beneficiaries in the 2021/2022 tax year was required. This question was generally well answered, however, common errors included miscalculating the trusts standard rate band, not taxing income falling in the standard rate band and taxing income in the incorrect order.

Part (f)(ii), in which candidates were asked to describe how the beneficiaries would be taxed on the income received from the discretionary trust in the 2021/2022 tax year, was a fairly straightforward question and candidates generally scored highly. However, candidates should be reminded to ensure they apply their knowledge to the case study, as although the information in the case study was sufficient to enable candidates to state how much tax Josh and Millie could reclaim, general answers were given simply stating that some of the tax could be reclaimed.

In part (f)(iii), candidates had to explain how the trustees would fund the tax credits on the distribution of income from the discretionary trust to the beneficiaries. Candidates found this question challenging and although many correctly recognised the tax paid by the trustees is recorded in a tax pool, answers lacked the level of detail required to achieve high marks.

Part (g) asked candidates to explain how Hayden and Zara could distribute the discretionary trust funds to Millie and Josh and any potential tax implications. Those candidates who had prepared well for the exam were able to correctly state the trustees could either encash the General Investment Account (GIA) or transfer it to Millie and Josh and were also able to explain the associated tax implications of each option.

## Question 2

Part (a) tested trusts for vulnerable beneficiaries and candidates' knowledge of this subject was disappointing overall.

Part (a)(i) asked for a brief explanation of the initial and ongoing Inheritance Tax (IHT) implications for the trust for three marks. This should have been a straightforward question but not many candidates achieved full marks.

In Part (a)(ii), candidates were asked to explain the ongoing income tax treatment of the trust. Candidates that answered on the basis Max would be liable to Income Tax as an individual were given some credit for this, however, to gain high marks, candidates needed to explain the full method of calculation as set out in the model answers.

Part (a)(iii) required candidates to explain how a claim for special tax treatment would be made for the trust and this was not well answered.

Part (b)(i) was a calculation of Poppy's Capital Gains Tax (CGT) liability on the sale of her flat. This question was answered well and it was pleasing to see the majority of candidates identified the exemption for the final period of ownership for Private Residence Relief (PRR) had changed from 18 months to 9 months from 6 April 2020. However, errors made by candidates failing to score full marks, included mistakes when calculating the gain and the PRR.

In part (b)(ii), candidates had to explain briefly when Poppy must report and pay any CGT liability. This was poorly answered with many candidates not identifying the change in rules for sales completing on or after 27 October 2021, that extended the reporting period from 30 days to 60 days from the date of completion.

Part (c)(i) asked candidates to explain briefly the qualification rules for a CGT exemption on gains which are reinvested in shares that qualify under a Seed Enterprise Investment Scheme (SEIS). This was not well answered with most candidates confusing this question with the general qualification rules to invest in an EIS/SEIS.

Part (c)(ii), which asked for four factors that would need to be considered when advising on whether a SEIS would be an appropriate investment for Poppy, was answered much better.

In part (d), candidates were tested on the Residence Nil Rate Band (RNRB) downsizing rules and unfortunately this question was answered poorly, as whilst many candidates stated the full £175,000 RNRB could be used in the year of death, the majority of candidates were unable to explain a downsizing addition would be applied as the flat value was less than the maximum RNRB available.

**Question 3**

Part (a)(i) was an IHT calculation which tested the spousal exemption available on death when Philip's estate was inherited by Sophia, his non-UK domiciled spouse. It was pleasing to see some of the better prepared candidates achieve full marks after correctly deducting the lifetime gift Philip had made to Sophia from the spousal exemption available on death. Unfortunately the less prepared candidates either miscalculated the spousal exemption or did not include it in their calculation at all. Some candidates also deducted the RNRB, which was not available as the estate was not left to direct descendants.

In part (a)(ii), candidates were asked to explain how Sophia could elect to be treated as UK domiciled following Philip's death and the impact this would have on the IHT liability on his estate. Few candidates achieved high marks, however, many were able to identify there would be no IHT liability on Philip's estate as there is no IHT on transfers between UK domiciled spouses and that Philip's NRB/RNRB would be transferrable to Sophia.

Part (b) was a question on the rules of intestacy. This is level 4 knowledge and a subject that has been tested many times previously in J02 and AF1. This was one of the easier questions in the exam and it was disappointing how many candidates demonstrated a lack of knowledge in this area.

In part (c), candidates had to explain the Income Tax and CGT treatment in respect of Sophia's Spanish income and gains. Candidates performed reasonably well but generally lacked the knowledge required to score high marks.

The exam concluded with part (d) which tested candidates on the tax implications for Sophia if she becomes deemed domicile in the UK in future and the benefits to Sophia of using an Excluded Property Trust (EPT).

Part (d)(i) was answered reasonably well, however, whilst many candidates correctly stated Sophia would be liable to UK IHT on her worldwide assets and she would be taxed on her worldwide income and gains, candidates were generally unable to expand on their answers to include that she would not be able to claim the remittance basis and would therefore be taxed on her income and gains as they arise.

EPTs have been tested previously in AF1 and candidates generally made a reasonable attempt at answering part (d)(ii), with many explaining any future UK IHT would be avoided if Sophia transferred her Spanish assets into an EPT, whilst she was non-UK domiciled, even if she later become domiciled in the UK.

## Unit AF1 – Personal tax and trust planning

### 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 2021/2022, 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

- **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.
- 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.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- 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 headset, earphones, smart watch please take them off. No watches are permitted**
- 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.

## SECTION A

This question is compulsory and carries 80 marks

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), (f) and (g) which follow.

## Question 1

Hayden and Zara are married with two children, Millie, aged 28 who is a higher-rate taxpayer and Josh, aged 18 who is a non-taxpayer.

Hayden was employed for fourteen years until he was made redundant in June 2021. His gross earnings prior to being made redundant were £16,500. Hayden also received a redundancy payment of £30,000, of which he invested £20,000 into a new issue of Venture Capital Trust (VCT) shares.

On 1 August 2021, Hayden started his own business as a self-employed IT consultant. His gross profits in the 2021/2022 tax year are expected to be £32,000, with allowable business expenses of £5,000.

Zara is a mortgage adviser although she has not worked for the last two years whilst she has been caring for her mother, Juliet, who suffers from dementia and has lost mental capacity.

Hayden and Zara were members of their previous employer's workplace pension schemes. In the current tax year Hayden has contributed a total of £1,400 gross and his employer has contributed £2,100. Zara has made no pension contributions in the current tax year.

Hayden and Zara's other income in the 2021/2022 tax year is:

Investment Account	Account holder	Income received in 2021/2022 (£)
Open Ended Investment Company (OEIC) – UK Equity fund	Hayden	3,600
Directly held Corporate Bonds	Hayden	1,215
Cash ISA	Hayden	220
Unit Trust – Fixed interest fund	Zara	1,050
Deposit account	Joint	180

Juliet created a property and financial affairs Lasting Power of Attorney (LPA) five years ago and appointed Zara and her brother, Isaac, to act as attorneys jointly and severally. Isaac has recently been declared bankrupt.

In December 2013, Juliet settled £200,000 into a discretionary trust for the benefit of Millie and Josh. Hayden and Zara are the trustees. The trust received interest of £1,660 and dividends of £1,450 in the 2021/2022 tax year which was distributed to Millie and Josh. Juliet has created three other discretionary trusts during her lifetime.

Hayden and Zara are considering bringing the trust to an end and distributing the funds to Millie and Josh. The only trust asset is a General Investment Account (GIA) which contains a portfolio of unit trusts.

**PLEASE ENSURE YOU ANSWER 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**, Hayden's Income Tax liability for the 2021/2022 tax year. (12)
- (ii) Explain the actions Hayden and Zara could have taken in the 2021/2022 tax year to help mitigate Hayden's liability to Income Tax. (6)
- (b) (i) State how and when Hayden would register as self-employed for tax purposes. (3)
- (ii) Explain how Hayden will be taxed on his profits in his first two years of self-employment. (7)
- (c) Explain Hayden's liability to National Insurance contributions (NICs) in the 2021/2022 tax year. *No calculations are required.* (7)
- (d) Explain, **using figures where appropriate**, the maximum tax relieviable contributions Hayden and Zara could make into personal pensions in the 2021/2022 tax year. *No calculations are required.* (8)
- (e) (i) Explain briefly the impact of Isaac's bankruptcy on Juliet's property and financial affairs Lasting Power of Attorney. (4)
- (ii) Explain briefly the process that would need to be followed to make decisions on Juliet's health and welfare. (4)



- (f) (i) Calculate, **showing all your workings**, the net income payable to the beneficiaries of the discretionary trust in the 2021/2022 tax year. *You should assume there were no trustee expenses.* (8)
- (ii) Describe how the beneficiaries will be taxed on the income received from the discretionary trust in the 2021/2022 tax year. (5)
- (iii) Explain how the trustees would fund the tax credits on the distribution of income from the discretionary trust to the beneficiaries. (6)
- (g) Explain how Hayden and Zara could distribute the discretionary trust funds to Millie and Josh and any potential tax implications. (10)
- Total marks 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) and (d) which follow.**

Dan and Poppy have been married for 10 years. They are both aged 54 and are higher-rate taxpayers.

The couple have a 9-year-old son, Max, who has severe learning difficulties and is unlikely to be able to live an independent life. To ensure there will be sufficient funds to meet his future needs, Dan and Poppy would like to set up a trust.

Prior to their marriage, Poppy owned a flat that she had lived in before moving in with Dan. She bought the flat on 1 January 2008 for £196,000 with associated purchase costs of £3,000. Poppy lived in the flat until 1 April 2012 and it was then occupied by tenants until it was sold.

Poppy sold the flat for £240,000 on 1 March 2022 incurring sale costs of £4,900. She spent £2,000 on painting and decorating just prior to the sale and £6,000 on updating the bathroom in 2015.

Both Dan and Poppy believe they have adventurous attitudes to risk and are considering an investment into private equity.

Dan's father, Harry, was a divorcee when he died in December 2021. Harry had sold his previous home in July 2019 for £300,000 when the Inheritance Tax (IHT) residence nil rate band was £150,000 and he bought a flat with the proceeds of the sale which, on his death, had a value of £160,000. Harry's entire estate was valued at £525,000, all of which was left to Dan.

**PLEASE ENSURE YOU ANSWER 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) Assuming Dan and Poppy set up a 'trust for vulnerable beneficiaries', explain briefly:
- (i) the initial and ongoing IHT implications; (3)
  - (ii) the ongoing Income Tax treatment; (5)
  - (iii) how a claim for special taxation treatment is made for the trust. (4)
- (b) (i) Calculate, **showing all your workings**, Poppy's Capital Gains Tax (CGT) liability on the sale of her flat. (12)
- (ii) Explain briefly to Poppy when she must report and pay any CGT liability. (3)
- (c) (i) Explain briefly to Poppy the qualification rules for a CGT exemption on gains which are reinvested in shares that qualify under a Seed Enterprise Investment Scheme (SEIS). (4)
- (ii) Outline **four** factors that would need to be considered when advising Poppy on whether a SEIS would be an appropriate investment for her. (4)
- (d) Explain how Harry's estate can benefit from the residence nil rate band downsizing rules. (5)

**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.

Philip, aged 49, is UK domiciled. He is married to Sophia, aged 43, who is domiciled in Spain.

Sophia moved to the UK two years ago when the couple married. They have twin children who are a year old. Their current Wills leave everything to each other on first death and to the children on second death.

Philip owns the following assets:

<b>Asset</b>	<b>Value (£)</b>
House	660,000
Directly held shares	145,000
Stocks and shares ISA	80,000
Investment Bond	75,000
Deposit account	50,000

Philip made a gift of £100,000 to Sophia shortly after their marriage. He has made no other gifts.

Sophia has various investments in Spain, which includes rental property and a portfolio of directly held shares from which she receives dividend income. She is considering selling some of the shares, which would lead to a significant capital gain.

**PLEASE ENSURE YOU ANSWER 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 Inheritance Tax (IHT) liability on Philip's estate assuming he died on 1 April 2022. (9)
- (ii) Explain how Sophia **could** elect to be treated as UK domiciled following Philip's death and the impact this would have on the IHT liability on his estate. (6)
- (b) Describe how the estate would be distributed if Philip had died without a valid Will in place. (6)
- (c) Explain the Income Tax and Capital Gains Tax (CGT) treatment in respect of Sophia's Spanish income and gains. (7)
- (d) (i) State the tax implications for Sophia if she becomes deemed domiciled in the UK in the future. (4)
- (ii) Explain the benefits of an Excluded Property Trust (EPT) to Sophia. (8)

**Total marks for this question: 40**

**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)	(i)	Non-savings income (£)	Savings income (£)	Dividend income (£)
	Salary	16,500 <sup>1</sup>		
	Gross self-employed profit	32,000		
	Expenses	(5,000)		
	Net profit	27,000		
	<b>Total</b>	<b>43,500</b>		
	Interest from corporate bonds/deposit account		1,305	
	Dividends from open ended investment companies (OEICs)			3,600

**Non-savings**

£12,570 x 0% = £0

£30,930

x 20% = £6,186

**Savings**

£1,000 PSA x 0% = £0

£305 x 20% = £61

**Dividends**

£2,000 x 0% = £0

£1,600 x 7.5% = £120

**Total = £6,367**

less tax relief on investment into Venture Capital Trust (VCT)

£20,000 x 30% = £6,000

Liability = £367

<sup>1</sup>Candidates were awarded marks where they had apportioned Hayden's salary for the months in the tax year in which he was employed.

(ii) *Candidates would have scored full marks for any six of the following:*

- Zara could have claimed the marriage allowance
- to transfer £1,260 of her personal allowance to Hayden/saving tax of £252.
- Hayden could have transferred some of his OEIC holding/Corporate Bonds to Zara
- or reinvested some of the OEIC holding/Corporate Bonds into an ISA
- assuming he had not fully used his ISA allowance in 2021/2022
- so the remaining dividends fall within his dividend allowance/saving tax of £120
- and the remaining interest falls within his Personal Savings Allowance (PSA)/saving tax of £61.
- If he invested another £1,225 in the VCT he would have no Income Tax liability.

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

- Hayden must register with HM Revenue & Customs for self-assessment
- and Class 2 National Insurance Contributions (NICs)
- by 5 October following the end of the tax year of his first year of self-employment/5 October 2022.
- Consider voluntary registration for VAT.

(ii)

- The opening year rules will apply.
- Hayden will be taxed on 8/12ths (£18,000) for the self-employment for the 2021/2022 tax year.
- He will pay tax based on profits made between 1 August 2021 and 5 April 2022
- and his total tax liability
- by 31 January 2023.
- The tax for the second tax year based on the first 12 months profits.
- Any overlap relief given when business ceases/or change of accounting date.

(c) *Candidates would have scored full marks for any seven of the following:*

- Class 1 NICs on his employed earnings
- @12% on salary exceeding £9,568/£831.84
- Class 2 NICs on his self-employed profits
- at £3.05 a week/weekly
- for each week in the tax year he was self-employed.
- Class 4 NICs on his self-employed profits.
- @9% on profits exceeding £9,568/£1,568.88
- Hayden will not pay NICs on any of his redundancy payment.

- (d)** *Candidates would have scored full marks for any eight of the following:*
- Hayden has relevant UK earnings of £43,500 in the 2021/2022 tax year.
  - Savings income/dividends/Hayden's redundancy payment are not relevant UK earnings.
  
  - He is limited to the annual allowance/£40,000.
  - As the employer
  - and employee contributions to his former employer's workplace scheme count towards the annual allowance
  - Hayden can make a gross personal pension contribution up to £36,500
  - unless he has any unused annual allowance from the last three years/carry forward.
  
  - Zara has no relevant UK earnings/no pensionable income
  - so is limited to a gross pension contribution of £3,600.
- (e)**
- (i)**
- Isaac is unable to act as an attorney as he is bankrupt.
  - The Lasting Power of Attorney (LPA) would remain in place
  - as the attorneys were appointed to act together or independently of one another
  - which means Zara could continue to act as sole attorney for her mother.
- (ii)**
- As there is no health and welfare LPA in place,
  - an application to the Court of Protection is required
  - to appoint a deputy.
  - Isaac can apply even though he is bankrupt.



(f) (i) **Trustees SRB**

£1,000/4  
= £250

**Tax paid by trustees**

£250 x 20% = £50  
£1,410 x 45% = £634.50  
£1,450 x 38.1% = £552.45  
Total tax payable £50 + £634.50 + £552.45 = £1,236.95

**Net income payable to beneficiaries**

£3,110 – £1,236.95  
= £1,873.05

- (ii)
- Josh and Millie are deemed to have received trust income/the income ceases to be savings income and dividend income
  - and are unable to use the PSA/dividend allowance.
  - The income is received with a 45% tax credit
  - Josh can reclaim the full amount/45%
  - Millie can reclaim 5%
- (iii)
- The tax paid by the trustees is recorded in the tax pool
  - The trustees must have paid enough Income Tax to cover the 45% tax credit in the current year
  - or in previous years,
  - or they must pay the difference if the tax pool is insufficient to cover the 45% tax credit.
  - If the tax pool is in credit, this is reduced by the tax credits claimed by the beneficiaries
  - and any remainder in the tax pool rolls over to the following year.

(g) *Candidates would have scored full marks for any ten of the following:*

- They could encash the General Investment Account (GIA)/investments.
- As trustees they would be liable to Capital Gains Tax (CGT)
- on any gain in excess of the annual exempt amount for the trust;
- £6,150/4 = £1,537.50
- at the rate applicable to trustees/20%
  
- Or they could transfer the GIA to Millie and Josh
- and claim holdover relief
- Zara and Hayden, as trustees, would not be liable to CGT on transfer
- and Millie and Josh would acquire the GIA at the original acquisition cost to the trustees.
- Josh and Millie would be liable to CGT when they dispose of the GIA.
  
- An exit charge may be payable.

**Model answer for Question 2**

- (a) (i) • Initial transfer is a Potentially Exempt Transfer (PET).  
 • No periodic or exit charges.  
 • On Max's death the assets in trust are treated as part of his estate and Inheritance Tax (IHT) may be charged.
- (ii) • Trustees liable to Income Tax.  
 • A calculation is made on the normal basis for Trusts  
 • and Max's liability will be calculated as if income had been paid to him as an individual with the benefit of all his allowances.  
 • The trustees claim the difference between these two figures  
 • as a deduction from their Income Tax liability.
- (iii) • Trustees complete a Vulnerable Person election (VPE1)  
 • and send to HM Revenue & Customs.  
 • Trustees and Vulnerable Person/both,  
 • must sign the form/make the election

- (b) (i) Disposal proceeds - £240,000  
 Less disposal costs - £4,900  
 Purchase price - £196,000 + costs of purchase £3,000  
 Enhancement costs - £6,000  
 Gain - £30,100

Total period of ownership = 170 months  
 Principle private residence relief = 51 months  
 plus last 9 months = 60 months

$£30,100 \times 60/170 = 35.29\%$  exempt/ - £10,623.53 - exempt

£19,476.47 - £12,300  
 = £7,176.47  
 x 28%  
 = £2,009.41

- (ii) • CGT on UK property account  
 • must be made within 60 days  
 • of completion/60 days from 1 March 2022.

- (c) (i) *Candidates would have scored full marks for any four of the following:*
- Reinvestment must take place in same tax year the gain arises or
  - in the following tax year.
  - Relief can be carried back to the year of the gain.
  - 50% CGT exemption on gains that are reinvested in Seed Enterprise Investment Scheme (SEIS) qualifying shares.
  - Relief is restricted to a limit of £100,000 of gains re-invested in each tax year.
- (ii) *Candidates would have scored full marks for any four of the following:*
- Confirmation of risk profile/attitude to risk (ATR) to match SEIS.
  - Tax status.
  - Existing investments/asset allocation/diversification.
  - Timeframe.
  - IHT position/Business Relief (BR) after 2 years.
- (d)
- Harry's former home was sold for more than the Residence nil rate band (RNRB) £150,000 in 2019.
  - Flat value is less than the maximum RNRB available to the estate on death.
  - A downsizing addition is available to top up the RNRB
  - to the full £175,000 in the year of death.
  - Harry's taxable estate after the nil rate band (NRB), RNRB and downsizing addition is £25,000.

**Model answer for Question 3****(a) (i) Spousal exemption available on Philip's death**

Spousal exemption £325,000  
 less lifetime gift to spouse £100,000  
 = £225,000

**Assets**

Philip's estate	
House	£660,000
Shares	£145,000
Stocks & Shares ISA	£80,000
Investment Bond	£75,000
Savings account	£50,000

Total £1,010,000  
 less nil rate band (NRB) £325,000  
 less spousal exemption £225,000  
 Taxable estate = £460,000

£460,000 x 40%  
 = £184,000

- (ii)**
- Sophia could make an election to HM Revenue & Customs
  - within two years of Philip's death
  - backdated to the date of their marriage.
  - There would be no IHT liability on Philip's estate
  - as there is no IHT on transfers between UK domiciled spouses on death
  - Philip's NRB/RNRB would be transferable to Sophia.

**(b)** *Candidates would have scored full marks for any six of the following:*

- Rules of intestacy would apply.
- Sophia gets £270,000 outright
- plus half of the remainder absolutely.
- The other half held on statutory trust
- for the minor children
- until age 18
- or marry between 16 to 18.

(c) *Candidates would have scored full marks for any seven of the following:*

- As Sophia is non-UK domiciled but UK resident
- her Spanish income would be taxable in the UK on an arising basis
- unless she opts for the remittance basis of taxation,
- where her income/gains are more than £2,000.
- Only income/gains remitted to the UK will be taxable.
- She would lose the personal allowance/annual exempt amount.
  
- She will not have to pay the annual charge
- as she has only been resident for 2 years
- she could get relief via the double taxation agreement with Spain.

(d) (i) • Sophia's Spanish shares/worldwide assets would be liable to UK IHT on death.  
 • She would be unable to claim the remittance basis  
 • and would be taxed on her worldwide income and gains  
 • as they arise.

(ii) *Candidates would have scored full marks for any eight of the following:*

- As she is currently non-UK domiciled
- she can transfer her Spanish assets to an Excluded property trust (EPT)
- to avoid future UK IHT
- even if she is later deemed domiciled/actually domiciled in the UK.
  
- Not a Chargeable lifetime transfer (CLT)/there is no initial charge to IHT on settlement into the trust
- and no periodic/exit charges.
  
- The trustees are not subject to UK CGT on a future sale of these assets
- or Income Tax on non-UK income
- providing trustees are not UK resident
- until a benefit is taken from the trust.
  
- Settlor/Sophia could be a potential beneficiary of the trust without a gift with reservation for IHT purposes.
- Trust can be revocable without losing its efficiency.

## Glossary of terms

*Some abbreviations candidates can use in on-screen written exams:*

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

**All questions in the September 2022 paper will be based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are applicable to the February 2022 and April 2022 examinations.**

## INCOME TAX

RATES OF TAX	2020/2021	2021/2022
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	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit per £100 of adjusted net income between £50,000 – £60,000		
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	7.5%
Higher rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	38.1%
- other income	45%	45%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance †	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
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)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480



## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 184.00*	Nil
184.00 – 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 £120 per week. This £120 to £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £3.05 where profits exceed £6,515 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £15.40.
<b>Class 4 (self-employed)</b>	9% on profits between £9,568 - £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 & 2021/2022	£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 – 2021/2022	£40,000*

~ increased to £80,000 for pension input between 6 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.

\*reducing 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	2020/2021	2021/2022
	£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	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£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%
Business Asset Disposal Relief* – Gains taxed at:	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	2020/2021	2021/2022
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*	£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
- 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:

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

Quick succession relief:

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

## PRIVATE VEHICLES USED FOR WORK

	2020/2021 Rates	2021/2022 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>Motorcycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
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%

**Motor cars:** Expenditure on or after 1 April 2016 (Corporation Tax) or 6 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

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Age 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	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	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

**CORPORATION TAX**

	2020/2021	2021/2022
Standard rate	19%	19%

**VALUE ADDED TAX**

	2020/2021	2021/2022
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 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

**Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:**

- For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.
- For purchases above £250,000, the band rates above apply as normal.
- For purchases from 1 October 2021, 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%