



Chartered  
Insurance  
Institute

# J02

## Diploma in Financial Planning

Unit J02 – Trusts

February 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.

## J02 – Trusts

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## IMPORTANT GUIDANCE FOR CANDIDATES

### Introduction

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

### Before the examination

#### Study the syllabus carefully

This is available online at [www.cii.co.uk](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, these are provided in the portal as you sit the exam (see page 6).*

**Know the structure of the examination**

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

**Appreciate the standard of the examination**

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

**Read the Assessment information and Exam policies for candidates**

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at [www.cii.co.uk/qualifications/assessment-information/introduction/](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.psionline.com/phoenix/instant/launch?auth=EH6jtrqPu3J6znVp&username=ILDemo1&test=05a75b4f-1c90-4a74-a22d-ec4aa8d4ca48&autoopen=1&samewindow=1&theme=custom/alternative/CII>

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.

The screenshot shows the AF1 October 2019 exam interface. On the left is the question paper, and on the right is the answer area. A blue line indicates scrolling from the question paper to the answer area.

**Question Paper (Left):**

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

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

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

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

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

**Answer Area (Right):**

AF1 October 2019

**SECTION A**

This question is compulsory and carries 80 marks

**Question 1**

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

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

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Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs.

**Navigation:** Tools, Calculator, End Test, 174:27

**Bottom Bar:** < Inf01 Inf02 Inf03 **1a** 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 >

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

The screenshot shows the AF1 October 2019 exam interface. On the left is the question paper, and on the right is the tax tables section. A blue line indicates scrolling from the question paper to the tax tables.

**Question Paper (Left):**

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With regard to the discretionary trust established by Frank:

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

**Navigation:** Tools, Calculator, End Test, 164:16

**Bottom Bar:** < Inf01 Inf02 Inf03 **1a** **1b** 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 >

**Tax Tables (Right):**

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**

	2018/2019	2019/2020
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.

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Prev Nav Next Clear Highlight

Tools Calculator End Test 158:41

AF1 October 2019

**INCOME TAX**

**RATES OF TAX**

	2018/2019	2019/2020
Starting rate for savings*	0%	0%
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Dividend tax rates

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Higher rate		32.5%
Additional rate		38.1%

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Standard rate band

	2018/2019	2019/2020
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Answer

1a 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06

Flag Clear

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

CII

R06 Financial planning practice

on-screen written exam demonstration (Demo 1)

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

## In the examination

### The following will help:

#### **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 in your answer, even if you have used a calculator. You are permitted to use your own calculator.

### Tips for laying out calculations in on-screen written exams

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

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

- Set out each stage of your calculation on a separate line.
- Label the values used i.e. in the trust calculation:
  - Settlement - £500,000,
  - Annual allowances - £6,000
- Identify all allowances, exemptions, tax rate bands, tax rates used in £ terms.
- Use subtotals, where appropriate: i.e.:
  - Settlement - £500,000
  - Annual allowances – (£6,000)
  - = £494,000
- Show all your workings, for example:
  - grossing up of the 20% lifetime rate
- Double check all of your figures, specifically:
  - That you have calculated each section correctly.
  - That you have added up all of your figures correctly.



## **EXAMINERS' COMMENTS**

### **Candidates' overall performance:**

It was very good to see that candidates generally performed very well in this examination.

The exam covered a wide range of subjects from the syllabus and it was clear that the majority of candidates had prepared well with the result that we saw some high scores in some of the main syllabus areas.

Future students should ensure they have thoroughly studied the J02 study text and used past Examination Guides to help them practice model answers as well as ensure the questions can be answered in the time allowed.

Most importantly candidates should ensure they read the question very carefully, noting how many marks are available. Answers should then be specific to the question and be of a length that reflects the marks on offer. Responses that do not answer the question will not be awarded marks, no matter how accurate the information is.

### **Question 1**

This question asked for two examples of choses in action and two examples of choses in possession and overall candidates did well and were able to accurately describe both.

### **Question 2**

In part (a) candidates were asked to state five advantages to the settlor of using a trust and it was good to see that most candidates were easily able to explain what these were.

In part (b) candidates were asked to explain a beneficiary with a life interest, an absolute interest and a contingent interest and again it was pleasing to see that most candidates were able to do this.

### **Question 3**

This question was in two parts; part (a) asked for the key elements that should be included in a deed used to transfer an existing term assurance policy into trust. Most candidates stated the trust property, the names and powers of trustees and the names and rights of beneficiaries. The better prepared candidates also stated that the settlor and the trustees should sign the deed which should then be witnessed by independent parties. Part (b) asked for a description of a protector and it was pleasing to see many accurate responses.

### **Question 4**

This question, for three marks, tested when Inheritance Tax (IHT) might be paid on a discretionary trust. This was well answered however some candidates gave far too much information for the three marks available. Part (b) of the question asking for the different types of trust where the IHT charges stated in part (a) would not apply. This was also well answered by the majority of candidates.

**Question 5**

This question was in two parts; firstly candidates had to explain the main requirements of an excluded property trust. Most candidates were able to identify that the settlor should be a non-UK domicile when the trust is created and that assets must be non-UK assets. Part (b) asked for the main benefits of using an Enduring Power of Attorney (EPT) and again most candidates were able to describe the IHT advantages. The better prepared candidates also stated that the settlor and the spouse/children can still be a beneficiary.

**Question 6**

This question asked for the process for setting up a Lasting Power of Attorney (LPA). There were seven marks available and although there were some very good answers, some candidates gave too much detail regarding the different types of LPA which was not required. Part (b) asked for the circumstances when a property and financial affairs LPA is revoked and this was well answered by the majority of candidates.

**Question 7**

This question asked for the decisions that a Deputy cannot make on behalf of someone that has lost mental capacity. Most candidates were able to state that large gifts cannot be made or that Deputy's cannot make or change an existing Will although some of the finer detail was missing.

**Question 8**

Candidates were asked to explain the IHT nil rate bands that can be claimed on the second death of a married couple. Upon second death there was an outstanding mortgage and the well-prepared candidates were able to explain how this would impact the residence nil rate band.

Part (b) asked for the requirements that must be satisfied to make a valid Will and it was pleasing to see that this was very well answered.

**Question 9**

This question asked for an outline of the process for setting up an Individual Voluntary Arrangement (IVA). Some candidates scored very well with others giving too much information on what an IVA is rather than focusing on the process for setting one up. In part (b) candidates were asked for the advantages of setting up an IVA rather than being made bankrupt and this was well answered by the majority of candidates.

**Question 10**

This question tested the difference between the settlor paying the IHT on a chargeable lifetime transfer into a discretionary trust and the trustees. It was pleasing to see that most candidates recognised the grossing up principle and how this is applied.

### **Question 11**

Candidates were then asked to explain the payments on account under self-assessment for the tax year 2021/2022. Some candidates did very well whilst others answered as if it were the previous tax year, often citing the right day and month but incorrectly stating the year.

### **Question 12**

This question tested the non-taxable trusts that are excluded from the new Trust Registration Service. Many candidates scored marks for stating trusts for bereaved minors, trusts for disabled beneficiaries and trusts created by legislation. However some of the other types of trust were not mentioned at all.

### **Question 13**

This question asked for a list of the documents a life office would likely require from trustees to make a successful claim. Good marks were awarded but more detail regarding the death certificate of any trustees and remembering that a claim form must be signed would have resulted in higher overall marks.

### **Question 14**

This question asked for how a loan trust scheme operates and there were some very comprehensive answers which scored high marks.

### **Question 15**

The final question tested the circumstances when an interest in possession trust may need to be reviewed and again candidates did well to consider the needs of the life tenants as well as the needs of the remaindermen.

## 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 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

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

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

Attempt ALL questions

Time: 2 hours

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

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

1.    **(a)**    Describe briefly and give **two** examples of choses in action. **(3)**  
      **(b)**    Describe briefly and give **two** examples of choses in possession. **(3)**
  
2.    **(a)**    State **five** advantages to the settlor of using a trust. **(5)**  
      **(b)**    Describe briefly a beneficiary with:  
          **(i)**    a life interest; **(2)**  
          **(ii)**   an absolute interest; **(2)**  
          **(iii)**   a contingent interest. **(2)**
  
3.    Aleena has an existing term assurance policy which she has been advised to transfer into a trust.  
      **(a)**    State the key elements that should be included in the trust deed. **(7)**  
      **(b)**    Describe briefly the role of a protector. **(3)**
  
4.    Rowley is considering the transfer of a portfolio of direct shares into a discretionary trust for the benefit of his grandchildren.  
      **(a)**    State when the property held within the trust will potentially be liable to an Inheritance Tax (IHT) charge. **(3)**  
      **(b)**    Identify the different types of trust where the IHT charges stated in **part (a)** above would **not** apply. **(7)**

5. Ben was born in Sweden and has been a UK resident for tax purposes for the last 10 years. He is non-UK domiciled. Ben has investments held in Sweden which he is keen to protect from any potential Inheritance Tax liability in the future.

Explain to Ben the:

- (a) main requirements of an excluded property trust (EPT); (3)
- (b) main benefits to him of placing his Swedish investments into an EPT. (5)

6. (a) Explain the process for setting up a Lasting Power of Attorney (LPA). (7)
- (b) Identify the circumstances when a property and financial affairs LPA is revoked. (6)

7. Belinda is 90 and lacks mental capacity. As she did not have Lasting Powers of Attorney in place, the Court of Protection appointed Jenny to act as her Deputy.

Explain briefly the decisions that Jenny **cannot** make on behalf of Belinda. (4)

8. Jamil died in November 2021. She left an estate with a value of £800,000 to her two children in equal shares. Her estate included her main residence which had a value of £280,000. At the date of her death Jamil had an outstanding mortgage of £160,000. Jamil's husband died in 2018 leaving all of his estate to Jamil.

- (a) Explain the Inheritance Tax nil rate bands that can be claimed by Jamil's executors. *No calculations are required.* (6)
- (b) State the requirements that must be satisfied in order to make a valid Will. (7)

9. (a) Outline the process for setting up an Individual Voluntary Arrangement (IVA). (5)
- (b) Describe the **advantages** for an individual of setting up an IVA instead of being made bankrupt. (4)

- 10.** Kim is setting up a discretionary trust for the benefit of her children with a cash settlement of £500,000. Kim has made no previous gifts.

Calculate, **showing all your workings**, the Inheritance Tax liability on the transfer if:

- (a) Kim pays the tax; **(5)**
- (b) the trustees pay the tax. **(3)**

- 11.** Stan is the trustee of a discretionary trust.

In the tax year 2020/2021 the trust had an Income Tax liability of £6,000. In the tax year 2021/2022 the trust had an Income Tax liability of £8,000.

Explain, in detail, when Stan should make payments on account under self-assessment for the tax year 2021/2022 stating the relevant amounts. **(7)**

- 12.** List **six** non-taxable trusts that are excluded from the new Trust Registration Service. **(6)**

- 13.** During his lifetime Sam set up a whole of life policy in trust for his children. He has recently died.

State the documents the life office are likely to require from the trustees in order to make a successful claim. **(7)**

- 14.** Explain, in detail, how a loan trust scheme operates. **(10)**

- 15.** Ben and Alice are the life tenants of an Interest in Possession trust, and their children are the remaindermen.

Describe the circumstances when the trust may need to be reviewed. **(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) *Candidates would have gained full marks for any three of the following:*

- Intangible assets/not physical in nature.
- Life insurance policies/investment bonds.
- Capital redemption policies.
- Debts/fixed interest securities/corporate bonds.
- Reversionary interests.
- Shares in a company/collective investments.

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

- Tangible objects/can be handled and physically enjoyed.
- Works of art.
- Furniture.
- Cars.
- Jewellery.

**Model answer for Question 2**

- (a)
- Inheritance Tax (IHT) planning/mitigation.
  - Settlor can be a trustee/control over who benefits.
  - Provide for disabled/vulnerable beneficiaries/minors.
  - Protection from creditors/divorce/spendthrifts.
  - Settlor access may be permitted.
- (b)
- (i) • A beneficiary with an immediate right to income/use of trust assets but no entitlement to capital.
  - (ii) • The beneficiary has full equitable ownership of trust property which cannot be taken away.
  - (iii) • A beneficiary whose interest depends on the occurrence of a particular event which will not come to fruition if the event never happens.



**Model answer for Question 3**

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

- The trust property should be specified/details of the policy.
- The trustees should be named.
- Trustees powers should be set out
- The beneficiaries should be named.
- The rights of the beneficiaries should be set out.
- As an existing policy is being placed into trust Aleena, as settlor, should sign the deed.
- The trustees should sign (to show their acceptance of their position).
- All signatures should be witnessed by independent parties.

(b) 

- The protector's role is to ensure the trustees administer the trust effectively and ensure that the settlor's intentions are followed.
- The protector is able to veto certain decisions made by trustees and is able to remove trustees.

**Model answer for Question 4**

(a) 

- When the property is transferred into the trust (entry charge).
- When the property is transferred out of the trust (exit charge).
- At each 10-year anniversary (periodic charge).

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

- An interest in possession trust created before 22 March 2006.
- When property is subject to a transitional serial interest made before 5 October 2008.
- Under the terms of an immediate post death interest (IPDI) trust.
- When the beneficiary is a disabled person/vulnerable.
- When the property is for a bereaved minor.
- When the property is in an 18-25 trust.
- Bare Trusts.
- Excluded property trusts (EPT).

**Model answer for Question 5**

(a) 

- When the trust is created Ben should be classed as a non-UK domicile and also when any additions are made.
- The assets must usually be non-UK assets which are held outside of the UK/never been held in the UK.
- No further assets should be transferred once/if Ben becomes deemed UK domicile.

(b) 

- The transfer into trust is not a transfer of value for Inheritance Tax (IHT) purposes.
- The trust would not be subject to periodic or exit charges.
- He and the settlor's spouse/children can be a beneficiary (with no gift with reservation)
- The trust assets will be outside of his estate for IHT purposes.

**Model answer for Question 6**

- (a)
- Complete the Lasting Power of Attorney (LPA) form.
  - Submit to the Office of the Public Guardian (OPG) for registration.
  - The form must be signed by the donor, the attorney, a certificate provider and witnessed by an independent person.
  - Payment of registration fee/£82.
- (b)
- The donor can revoke the LPA if they have mental capacity.
  - Bankruptcy of the donor/attorney.
  - Death of the attorney/donor.
  - Incapacity of the attorney.
  - Dissolution of marriage or civil partnership between donor and attorney.
  - The attorney is removed by the COP/they are refusing to act.

**Model answer for Question 7**

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

Jenny cannot:

- Make a Will for Belinda or change her existing Will.
- Make large gifts from Belinda's capital.
- Hold money or property on behalf of Belinda.
- Invest Belinda's capital without liaising with the COP first.
- Make decisions about matters not covered by the Court Order appointing them Deputy.
- Stop life sustaining treatment for Belinda.
- Restrain Belinda unless it is to stop her coming to harm.

**Model answer for Question 8**

- (a)
- Jamil's nil rate band (NRB) = £325,000
  - Plus her late husband's NRB = £325,000
  - Plus her late husband's residence NRB (RNRB) of £175,000
  - Plus her RNRB of £175,000
  - RNRB is restricted to value of the home (£280,000) less the mortgage of £160,000 = £120,000
- (b)
- Must be aged 18 or over.
  - Must be of sound mind.
  - Under no pressure to make the Will.
  - It must be in writing.
  - It must be signed by the testator/person making the Will.
  - Signature must be witnessed by two independent witnesses.
  - Witnesses must also sign.

**Model answer for Question 9**

- (a)
- Individual applies to the Court to be helped by an insolvency practitioner (IP).
  - The individual and the IP make a formal repayment proposal to the creditors to pay part or all of the debts/includes payments and time period.
  - The IP checks with creditors to see if the proposal is acceptable.
  - The creditors vote on whether the scheme is acceptable and if creditors holding more than 75% of the total debt are happy, the proposal is accepted.
  - If the proposal is agreed, a supervisor is appointed to oversee the repayments.
- (b) *Candidates would have gained full marks for any four of the following:*
- An Individual Voluntary Arrangement (IVA) usually costs less than a formal bankruptcy.
  - The individual retains control over his assets.
  - There is less stigma involved with an IVA.
  - The individual remains closely involved in the process.
  - They are not subject to bankruptcy restrictions such as not being able to obtain credit for more than £500 from a single lender or acting as a director of a company.

**Model answer for Question 10**

- (a)  $£500,000 - £6,000$  (annual allowances) = £494,000  
 $£494,000 - £325,000 = £169,000$   
 $£169,000 / 0.8 = £211,250 \times 20\% = £42,250$
- (b)  $£500,000 - £6,000$  (annual allowances) = £494,000  
 $£494,000 - £325,000 = £169,000$   
 $£169,000 \times 20\% = £33,800$

**Model answer for Question 11**

- First payment on account must be paid by 31 January 2022.
- This is 50% of the previous year's liability = £3,000.
- Second payment on account must be paid by 31 July 2022.
- This is 50% of previous year's liability = £3,000.
- Balancing payment must be paid by 31 January 2023.
- This is the actual liability for 2021/2022 less the two payments on account = £2,000.
- Plus the first payment on account for 2022/2023.

### Model answer for Question 12

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

- Trusts holding life insurance policies that pay out on death/terminal illness/critical illness/total and permanent disability only.
- Compensation/personal injury trusts.
- Trusts holding assets of a UK registered pension scheme.
- Will trusts (up to 2 years after death).
- Trusts created by legislation/intestacy/court order.
- 18-25 trusts.
- Trusts for disabled beneficiaries.
- Charitable trusts.
- Co-ownership trusts/couples who own their home jointly with no one else.
- Pilot trusts set up before 6 October 2020 holding less than £100.
- Trusts established in a European Economic Area member state/required to be registered on the equivalent beneficial ownership register of that member state.
- Financial/commercial trusts.

### Model answer for Question 13

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

Trustees will normally need to provide:

- Sam's death certificate.
- A copy of the Trust Deed.
- The policy document or, if unavailable, a completed 'lost policy document' form.
- Any deeds of appointment of new trustees.
- Any deeds of retirement of previous trustees.
- A claim form signed by all trustees of the trust.
- Death certificate of any trustees that have died.
- Money laundering ID.

**Model answer for Question 14**

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

- Settlor sets up the trust and makes an interest-free loan to the trustees/trust.
- The trustees invest this into an investment bond/collective investment(s).
- No transfer of value for IHT occurs because the settlor has not made a gift/HM Revenue & Customs accepts that a starter gift is not required.
- The settlor is usually appointed as one of the trustees.
- Any future investment growth is held for the benefit of the beneficiaries and accrues outside the settlor's estate.
- Since the settlor is excluded from benefiting from the growth, the value of the capital used to fund the loan trust is effectively frozen in the estate.
- The settlor's entitlement from the trust is limited to the amount of the original loan.
- If any loan is still unpaid at the time of death, it will form a part of the settlor's estate for IHT purposes and pass under the Will or intestacy rules.
- The settlor has control over, and access to, their original loan capital, and can demand the balance of the outstanding loan at any time.
- The loan can be repaid in ad hoc/regular instalments.
- Withdrawals can be made in a tax efficient manner from 5% pa single premium bond/as capital gain within the Annual Exempt Amount (AEA) for collectives.
- When calculating the potential IHT charge on each ten-year anniversary, the value of the trust fund will be reduced by any loan still outstanding to the settlor.
- Loan repayments to the settlor do not attract IHT exit charges.

**Model answer for Question 15**

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

- The death of Ben or Alice (the life tenants)/remaindermen/trustee /settlor.
- Changing income needs of Ben or Alice/if they would like to give up their Interest in Possession.
- Bankruptcy of settlor/trustee/beneficiary.
- Loss of capacity of trustee/beneficiary.
- Residency of trustee.
- Marriage/separation/divorce of beneficiary.
- Where there is a dispute between trustees/beneficiaries/settlor.
- Changes in taxation/legislative changes.
- Economic changes.
- Where the investments are not providing the right balance of income and capital growth.
- Where there has been a change to the capacity for loss/risk profile of the beneficiary.
- Performance issues.

## Glossary of terms

*Some abbreviations candidates can use in financial planning online 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. DOV – Deed of variation
8. DIS – Death-in-Service
9. DFM – Discretionary Fund Manager
10. ESG – Environmental, Social and Governance
11. EPT – Excluded property trust
12. EPA – Enduring power of attorney
13. ERC – Early repayment charges
14. FAD – Flexi-access drawdown
15. FSCS – Financial Services Compensation Scheme
16. FOS – Financial Ombudsman Service
17. GAR – Guaranteed annuity rate
18. HRT – Higher rate taxpayer
19. IHT – Inheritance Tax
20. IT – Income Tax
21. IVA – Individual Voluntary Arrangement
22. LPA – Lasting power of attorney
23. LTA – Lifetime allowance
24. MVR – Market value reduction
25. MPAA – Money purchase annual allowance
26. NICs – National Insurance contributions
27. NPA – Normal pension age
28. NRA – Normal retirement age
29. NRB – Nil rate band
30. OPG – Office of the Public Guardian
31. OEIC – Open ended investment company
32. PAYE – Pay As you Earn
33. PPP – Personal pension plan
34. PCLS – Pension commencement lump sum
35. PA – Personal allowance
36. PSA – Personal savings allowance
37. RAC – Retirement annuity contract
38. RNRB – Residence nil rate band
39. SIPP – Self-invested personal pension plan
40. SEIS – Seed Enterprise Investment Scheme
41. UFPLS – Uncrystallised funds pension lump sum
42. VCT – Venture capital trust

February 2022 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. 2. Explain how trusts are created.
3.	1. Explain the structure of a trust and the roles of the main parties. 2. Explain how trusts are created.
4.	7. Analyse how trusts are subject to tax and how a liability can fall to the settlor, trustees or beneficiaries.
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.	4. Explain substituted decision making, to include all types of Power of Attorney and other options.
8.	5. Explain the use of Wills and the consequences of dying intestate.
9.	6. Explain the bankruptcy rules, the role of the trustee in bankruptcy and alternatives to bankruptcy.
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.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
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 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 September 2021 and February 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%

### MAIN PERSONAL ALLOWANCES AND RELIEFS

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%

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

† where at least one spouse/civil partner was born before 6 April 1935

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

### 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
<b>Total earnings £ per week</b>	<b>CLASS 1 EMPLOYEE CONTRIBUTIONS</b>
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:

- 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

	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%
<b>Motor cars:</b> 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%
	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
	Aged 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%