Chartered Insurance Institute

J02

Diploma in Financial Planning

Unit J02 – Trusts

September 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 2023 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

J02 – Trusts

Contents

This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is an extension that is available from **https://speechify.com/**. If for accessibility reasons you require this document in an alternative format, please contact us at **online.exams@cii.co.uk** to discuss your needs.

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Telephone: 020 8989 8464
Email: customer.serv@cii.co.uk

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. 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.

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/. This is *essential reading* for all candidates.

On-screen written exam demonstration (Demo 1)

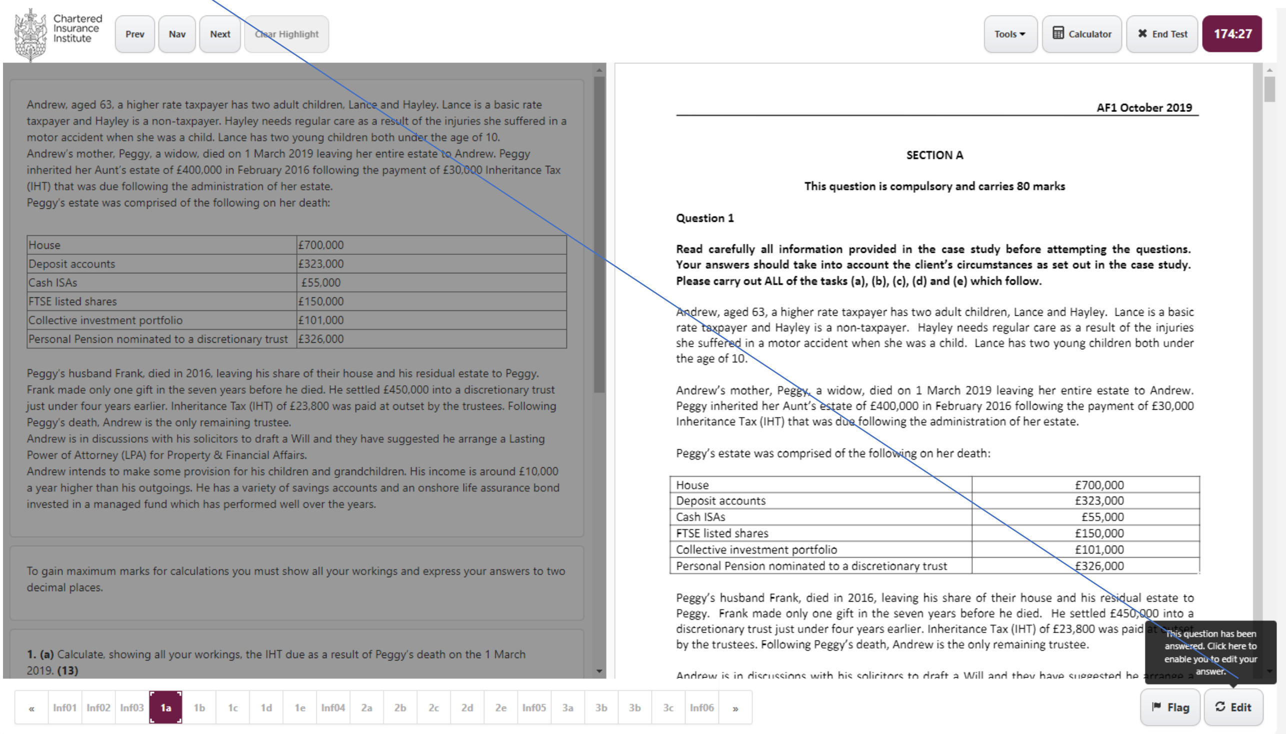
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

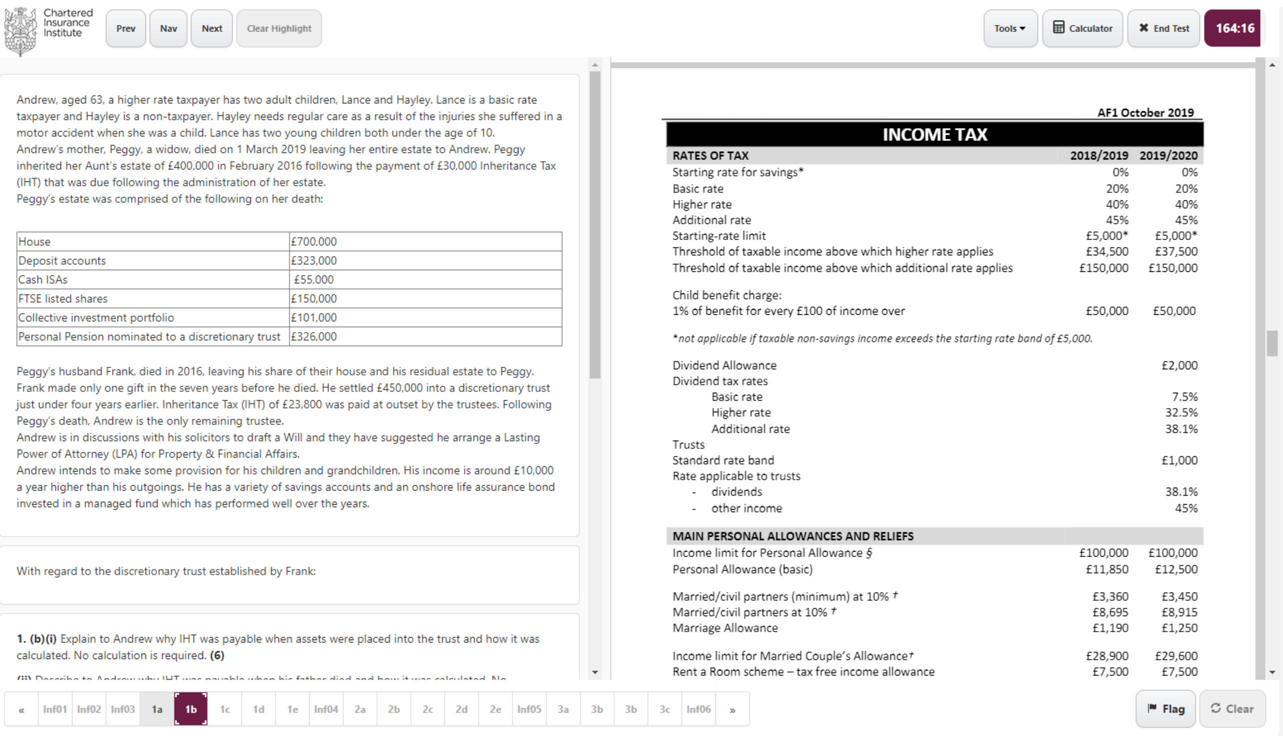
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

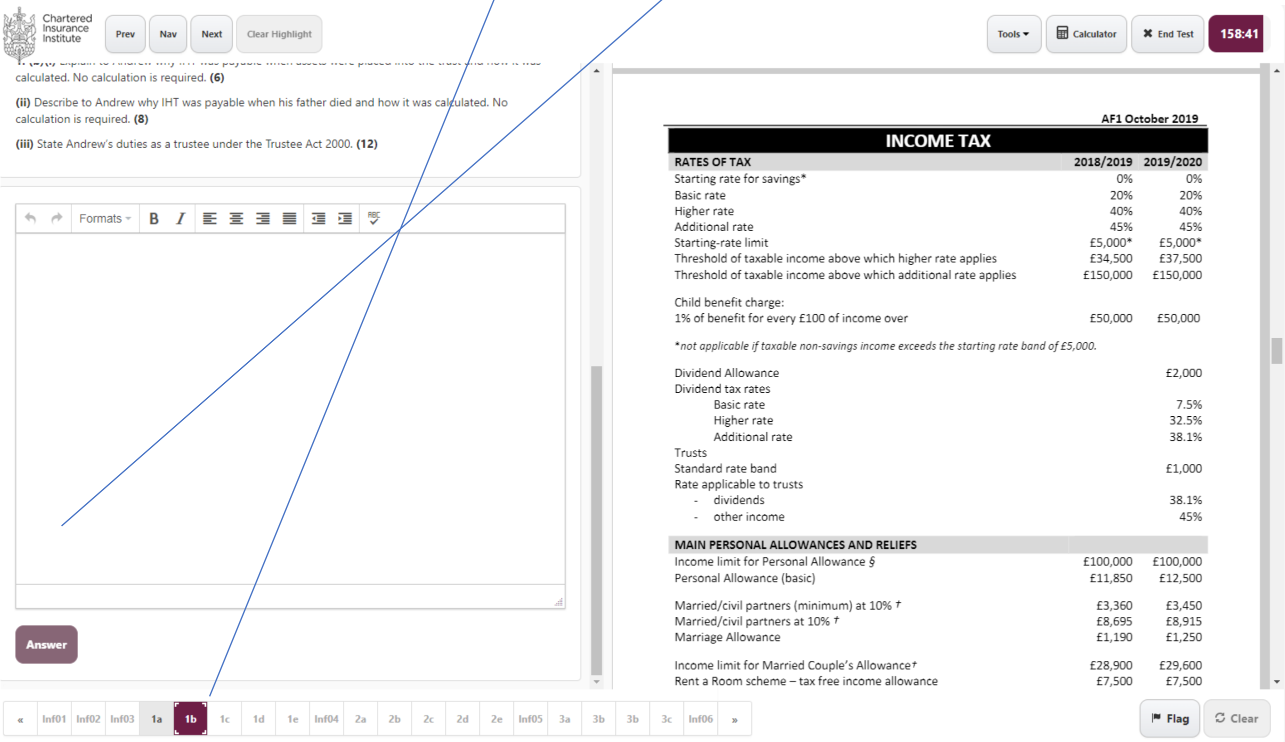
1. From the AF1 demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.



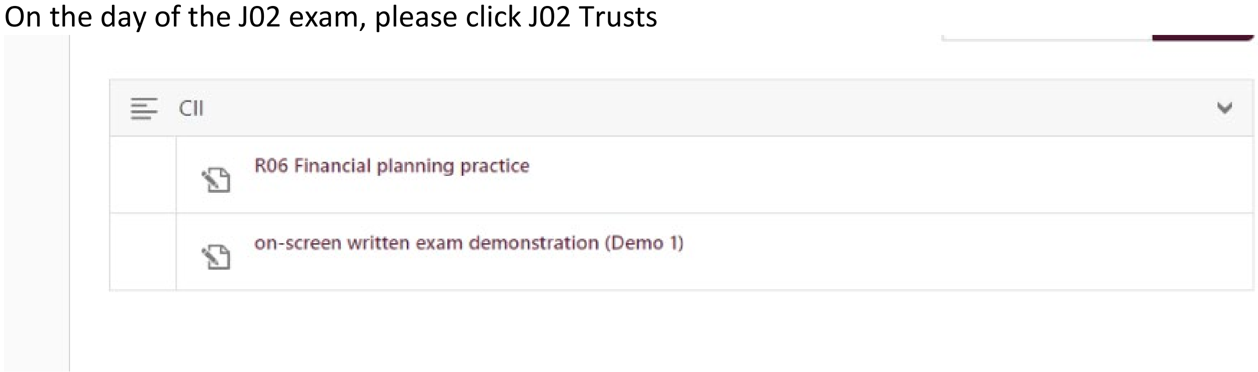
2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam.



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. Unless you press 'Answer', you will not be permitted to move onto other questions. 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.



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



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:

In this exam sitting, it was very good to see that the core syllabus questions, including the questions on trust law, were answered very well by most candidates.

Some candidates struggled with the discretionary trust Inheritance Tax (IHT) charges although a pleasing number gained high marks.

Question 1

This question tested the three certainties that need to be present for a trust to be valid. This has been tested many times before and it was very good to see that most candidates scored very well.

Question 2

This question asked for the three main methods by which trustees can initially be appointed. Part (b) of this question asked for the circumstances when trustees can be replaced under the Trustee Act 1925. Candidates overall demonstrated very good knowledge in both areas.

Question 3

The exam continued with a brief explanation of joint tenants and tenants in common where candidates had to use the information given in a short case study. Most candidates were able to state that as joint tenants the property on death would pass immediately to the survivor. Few were able to state the reason for this is because of the 'right of survivorship. Most candidates scored well in part (b) although those that had not used the information given in the case study often missed the mark identifying the children would benefit as this was what was stated in his Will.

Question 4

This question tested the main features of an accumulation and maintenance trust. Whilst most candidates could give a few of the features, very few managed to score well. Although A & M trusts created since March 2006 do not benefit from special trust treatment, these types of trust are still in existence.

Question 5

This question asked for the actions trustees could take in accordance with their investment powers under the Trustee Act 2000. Some very good technical knowledge was demonstrated here with some high scoring marks.

Question 6

The IHT advantages of a spouse electing to be treated as UK domiciled was tested next. Mostly candidates did well, scoring the majority of marks on offer although few identified the non-UK domicile spouse exemption of £325,000.

Question 7

The differences between a general power of attorney and a lasting power of attorney were tested in this question and most candidates made a good effort in considering what these differences are.

Question 8

Here the five key principles of the Mental Capacity Act 2005 were tested as well as the main functions of the Office of the Public Guardian. Answers were varied but many candidates had clearly studied well and scored full marks.

Question 9

Bankruptcy was tested next with part (a) testing the restrictions placed on a bankrupt and here candidates answered well. In part (b) candidates were asked to describe the rules that apply to a bankrupt's assets whilst they are still under the bankruptcy order; many candidates confused the general rules around assets with the specific rules around investments, pensions etc, highlighting the need for future candidates to read each question carefully before answering.

Question 10

This question tested the duties of an executor and was very well answered with many high scoring answers.

Question 11

This question asked candidates to calculate a periodic charge and an exit charge on a discretionary trust. Many candidates confused the 10 yearly periodic charge with the charge at outset and others deducted the nil rate band from a capital distribution rather than when working out the periodic charge.

Question 12

This question tested how a nomination on a personal pension operates and this was in the main answered fairly well. Part (b) asked for the IHT implications when a personal pension plan is transferred into a discretionary trust and only a very few candidates mentioned that the transfer of value will be treated as nominal unless the member is in poor health.

Question 13

In this question the Income Tax position of a discretionary trust was tested. Most candidates identified correctly that the standard rate band had to be divided by the number of trusts that were in existence and most then went on to tax the income and dividends correctly. A few taxed the dividends first instead of the interest but credit was given for using the correct rates of tax and splitting the standard rate band correctly.

Question 14

This question asked how a back-to-back arrangement operates and it was very pleasing to see so many detailed and correct answers.

Question 15

The final question asked for examples of where a dispute can arise between the beneficiaries and the trustees of a trust with part (b) asking for a description of the actions that adult beneficiaries can take against the trustees when a dispute arises. The first part was answered well with some well thought through examples. In part (b) the high scoring candidates were those that were able to explain in full the consequences of Saunders vs Vautier.

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 2022/2023, 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. State and describe the **three** certainties that need to be present for a trust to be valid. **(6)**

2. **(a)** Explain briefly the **three** main methods by which trustees can initially be appointed. **(3)**

(b) Describe **five** circumstances when trustees can be replaced under section 36 of the Trustee Act 1925. **(5)**

3. Jack died on 1 June 2022. He was not married but lived with his partner Aoife in a property they owned as joint tenants. Jack's estate was left to his children in his Will.

(a) Explain briefly how legal ownership of the property will pass following Jack's death. **(3)**

(b) Explain briefly how legal ownership of the property would have passed if the couple had owned it as tenants in common. **(3)**

4. Describe the main features of an accumulation and maintenance trust set up prior to 22 March 2006 that has remained unaltered. **(7)**

5. Describe the actions trustees should take in accordance with their investment powers under the Trustee Act 2000. **(8)**

6. Juan and Julie are married. Juan is non-UK domiciled and Julie is UK-domiciled.

Explain the Inheritance Tax advantages of Juan electing to be treated as UK-domiciled. **(5)**

7. State the differences between a general power of attorney and a lasting power of attorney. **(7)**

8. **(a)** State the **five** key principles of the Mental Capacity Act 2005. **(5)**

(b) Describe the **five** main functions of the Office of the Public Guardian. **(5)**

9. **(a)** State **four** restrictions that a bankruptcy order imposes on an individual who has not been discharged. **(4)**

(b) Describe the rules that apply to a bankrupt's assets whilst they are still under the bankruptcy order. **(6)**

10. Describe the duties of an executor of a Will. **(9)**

11. Rosie set up her first and only discretionary trust in September 2012 with assets valued at £450,000. In September 2022 the trust fund had grown to £495,000.

Two years later, the trustees distribute the whole trust fund to the beneficiaries when the fund value is £525,000.

(a) Calculate, **showing all your workings**, the periodic charge in September 2022. **(8)**

(b) Calculate, **showing all your workings**, the exit charge in two years' time. **(4)**

12. **(a)** Explain how a nomination on a personal pension operates. **(6)**

(b) Explain the Inheritance Tax implications if an existing personal pension is transferred into a discretionary trust. **(5)**

13. The Leonard Family Trust is one of five existing discretionary trusts created by Philip. The trust has received interest of £600 and dividends of £820 in the 2022/2023 tax year.

(a) Explain briefly how the standard rate band will be calculated for the Leonard Family Trust. **(4)**

(b) Calculate, **showing all your workings**, the Income Tax liability on the income received by the Leonard Family Trust in the 2022/2023 tax year. **(5)**

14. Explain, in detail, how a typical back-to-back arrangement operates. **(10)**

15. **(a)** State **six** examples of where a dispute can arise between the beneficiaries of a trust and the trustees. **(6)**

(b) Describe the actions adult beneficiaries can take against the trustees when a dispute involving the trust arises. **(6)**

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

- Words/intention.
- Intention to create a trust put in writing.
- Subject matter.
- Property that is being settled into the trust.
- Objects.
- Beneficiaries of the trust.

Model answer for Question 2

(a)
- A trust created by deed; the initial trustees are appointed by the deed.
- A trust created by a Will; the will should name the trustees.
- A trust set up under the laws of intestacy; the administrators will be the trustees.

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

- When a trustee has died.
- If a trustee remains out of the UK for more than 12 months.
- If the trustee desires to be discharged/retirement.
- If they refuse to act.
- When a trustee is unfit/bankrupt
- If a trustee is incapable of acting/mentally incapacitated.
- If a trustee is a minor.

Model answer for Question 3

(a)
- The property will pass to Aoife/his partner because of the 'right of survivorship' as Jack and Aoife have an identical and equal interest in the property.

(b)
- Jack's share of the property will pass as part of his estate to his children as directed in his Will.

Model answer for Question 4

- No immediate interest in possession/discretionary trust at outset.
- Beneficiary/ies had to acquire an absolute interest or IIP on or before a specified age, not exceeding 25.
- Income can be accumulated or can be used for the maintenance/education/benefit of the beneficiaries.
- No periodic or exit charges.
- Transfer in/creation was a Potentially Exempt Transfer (PET)/not relevant property.
- Preferential IHT treatment only applied for trusts of less than 25 years or where all the beneficiaries were grandchildren of a common grandparent.

Model answer for Question 5

- Assess the suitability of the investment to the trust/standard investment criteria.
- Ensure investments are suitably diversified.
- Keep investments under review.
- Vary them if appropriate.
- Obtain and consider proper advice unless the trustees have the necessary skills/or the investment is small so cost of advice is disproportionate.
- Trustees must invest money properly/as if the money were their own.
- Keep proper accounts.

Model answer for Question 6

- The spouse exemption for transfers from Julie is unlimited.
- Rather than being restricted to £325,000.
- Juan will be entitled to inherit the whole of Julie's estate IHT free.
- The transferable Nil Rate band (NRB) and the Residence Nil Rate band (RNRB) will be available on the second death.

Model answer for Question 7

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

- Usually for a temporary period.
- No need to register with the Office of the Public Guardian (OPG).
- No fees.
- No certificate provider required/no solicitor.
- For financial use only/no health and welfare.
- No requirement to notify relatives/friends etc.
- Ceases on donor losing mental capacity.
- Cannot have replacement attorneys.

Model answer for Question 8

(a)
- Every adult has the right to make their own decisions and it must be assumed they have the capacity to do so unless proven otherwise
- An individual must be supported and given all reasonable help to make their own decisions.
- An individual is not to be treated as lacking capacity simply because they make an unwise decision.
- Everything done for an individual who lacks capacity must be in their best interest.
- Where a decision is made for another, the 'least restrictive option' principle should be followed/not make decisions which interfere with rights and freedoms of incapacitated individuals.

(b)
- Protecting individuals lacking mental capacity from abuse
- Registering lasting power of attorney (LPAs)/maintaining register of LPAs and enduring power of attorneys (EPAs).
- Supervising/registering deputies appointed by the Court of Protection (COP).
- Dealing with complaints/concerns about attorneys and deputies.
- Providing admin support to the COP/providing reports to the COP as requested/working with other organisations such as social services.

Model answer for Question 9

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

- Cannot obtain credit of more than £500 from a single lender without disclosing their bankruptcy.
- Must make payments in advance for the supply of goods or services.
- Are unable to trade under any name except that in which they were declared bankrupt by the court (without disclosing the name under which they were made bankrupt).
- Are banned from acting as a director of a company/create/manage/promote a company.
- Cannot work as an insolvency practitioner.

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

- Cannot deal with their property because it legally belongs to the trustee in bankruptcy.
- Must disclose all their property to the trustee in beneficiary (TIB).
- The bankrupt must not conceal any debts or assets from the TIB.
- They must not destroy or falsify any records of their affairs.
- The bankrupt must not make any false statements to the TIB.
- They must not dispose of property with intent to defraud creditors.
- The bankrupt must not fraudulently give preference to one creditor over another.
- They must not leave the country and take any of their property with them.

Model answer for Question 10

- Determine/collect the assets of the estate.
- Determine/settle liabilities of the estate; including paying any Income Tax or CGT liabilities.
- Complete the necessary estate accounts/executors must complete an HMRC (IHT) account.
- Showing any gifts made in the previous 7 years/including any gifts with reservation. (GWR).
- Assess any unused percentage of the nil rate bands from a previously deceased spouse or civil partner.
- Any IHT due must be paid before grant of probate can be issued to the executors.
- Obtain probate.
- Distribute the estate in accordance with the Will.

Model answer for Question 11

(a) £495,000 - £325,000 = £170,000
£170,000 x 30% = £51,000
£51,000 x 20% = £10,200
£10,200/£495,000
x 100 = 2.06% (Effective Rate)

(b) £525,000 x 8/40 = £105,000
£105,000 x 2.06% = £2,163

Model answer for Question 12

(a)
- The member can nominate/expression of wishes beneficiaries to receive any death benefits which can be updated by the member at any time as the nomination is revocable.
- Potential beneficiaries usually include spouse/children but could also include a trust/bypass trust set up during the member's lifetime.

- The pension scheme trustees will usually follow a nomination although they are not bound by it.

(b)
- The transfer of an existing personal pension into trust is a transfer of value for IHT purposes.
- HM Revenue & Customs regard the value as nominal where the member is in normal health at the time of the transfer
- There may be a value on the transfer if death occurs within 2 years.

- Any lump sum death benefit paid to the trustees will normally be free of IHT.
- There is normally no exit charge/periodic charge if paid within 2 years of death.

Model answer for Question 13

(a)
- The discretionary trust has a standard rate band of £1,000 divided by the 5 trusts created by Philip/settlor that were in existence for any part of a tax year.
- Each trust will have a standard rate band of £200.

(b) Standard rate band of £1,000/5 = £200

£200 x 20% = £40
£400 x 45% = £180
£820 x 39.35% = £322.67
Tax payable £40 + 180 + £322.67 = £542.67

Model answer for Question 14

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

- A lump sum is invested in an own life purchased life annuity.
- An own life policy is taken out under trust.
- Can be on a single or joint life second death basis.
- The individual will need to be in good health/life policy is underwritten.
- Income from PLA pays premiums on the life policy.
- The capital element of the annuity is tax free; the interest element is taxable.
- Premiums are Chargeable Lifetime Transfers (CLTs) unless the £3,000 annual exemption/normal expenditure exemption can be used.
- On death the annuity stops with no value for IHT purposes.
- The sum assured from the life policy pays to the trustees/can distribute to the beneficiaries.
- No Income Tax charge because the life policy should be qualifying.
- The life policy under trust is not part of the estate for IHT.
- The individual is not a beneficiary of the trust, so there should be no gift with reservation (GWR) or pre-owned asset tax (POAT) issues.
- To work effectively for IHT planning it must be proved that the life policy and the annuity are not associated/not associated operations.

Model answer for Question 15

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

- Breach of trust.
- Investment concerns/performance/advice.
- Trust deed clarity.
- Poor trustee administration.
- Unfair beneficiary treatment.
- Poor trustee conduct/refusal to act.
- Trustee unfit.
- Misunderstanding between parties of the trust.
- Trustee advice/adviser issues.

(b)

- The beneficiaries and trustees could attempt to resolve the dispute via mediation/arbitration.
- The beneficiaries can bring the trust to an end/demand the trust property from the trustees under Saunders v. Vautier (1841) if they are all over the age of 18, as long as they are 'ascertainable' ie no possibility of further beneficiaries, they are all in agreement with full mental capacity.
- If all else fails, the parties can start legal proceedings in an attempt to resolve the dispute.

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. GWR – Gift with reservation
19. HRT – Higher-rate taxpayer
20. IHT – Inheritance Tax
21. IT – Income Tax
22. IVA – Individual Voluntary Arrangement
23. LPA – Lasting power of attorney
24. LTA – Lifetime allowance
25. MVR – Market value reduction
26. MPAA – Money purchase annual allowance
27. NICs – National Insurance contributions
28. NPA – Normal pension age
29. NRA – Normal retirement age
30. NRB – Nil rate band
31. OPG – Office of the Public Guardian
32. OEIC – Open ended investment company
33. PAYE – Pay As you Earn
34. PPP – Personal pension plan
35. PCLS – Pension commencement lump sum
36. PA – Personal allowance
37. PSA – Personal savings allowance
38. POAT – Pre-owned asset tax
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. SRB – Standard rate band
44. TIB – Trustee in Bankruptcy
45. UFPLS – Uncrystallised funds pension lump sum
46. VCT – Venture capital trust

September 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.
3.	1. Explain the structure of a trust and the roles of the main parties.
4.	2. Explain how trusts are created.
5.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
6.	3. Explain the rules covering the investment of trust assets and the administration of trusts.
7.	4. Explain substituted decision making, to include all types of Power of Attorney and other options.
8.	4. Explain substituted decision making, to include all types of Power of Attorney and other options.
9.	6. Explain the bankruptcy rules, the role of the trustee in bankruptcy and alternatives to bankruptcy.
10.	5. Explain the use of Wills and the consequences of dying intestate.
11.	7. Analyse how trusts are subject to tax.
12.	8. Explain how life, pension and other investments can be placed in trust, and the tax implications.
13.	7. Analyse how trusts are subject to tax.
14.	9. Apply effective trust and related tax planning solutions.
15.	9. Apply effective trust and related tax planning solutions.

All questions in the March 2023 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 2022 and March 2023 examinations.

INCOME TAX

RATES OF TAX	2021/2022	2022/2023
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£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%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% *†*	£3,530	£3,640
Married/civil partners at 10% *†*	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
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)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£123
Primary threshold	£242*
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 242.00**	Nil
242.00* – 967.00	13.25%
Above 967.00	3.25%

**£190 per week/£9,880 per annum before 6 July 2022.*
***This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242* band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week	**CLASS 1 EMPLOYER CONTRIBUTIONS**
Below 175.00***	Nil
175.00 – 967.00	15.05%
Excess over 967.00	N/A

**** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.15 where profits exceed £6,725 per annum.
Class 3 (voluntary)	Flat rate per week £15.85.
Class 4 (self-employed)	10.25% on profits between £11,908 – £50,270. 3.25% 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 – 2022/2023	£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
2014/2015 – 2022/2023	£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	2021/2022	2022/2023
	£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	2021/2022	2022/2023
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	2021/2022	2022/2023
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 EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

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

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- 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

	2021/2022 Rates	2022/2023 Rates
Cars		
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
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2021/2022	2022/2023
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction		130%
Special rate		50%
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_2 emissions of g/km:	0*	1-50	Over 50
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	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	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
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%

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%