



Chartered
Insurance
Institute

AF1

Advanced Diploma in Financial Planning

Unit AF1 – Personal tax and trust planning

February 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 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.

AF1 – Personal tax and trust planning

Contents

Important guidance for candidates.....	3
Examiner comments.....	10
Question paper.....	14
Model answers.....	22
Glossary of terms to use in exams.....	30
Tax tables.....	32

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully

This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas, however you should be prepared to **read around the subject**. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge

For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements*. While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks, *however, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as ‘mock’ examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner’s comments on candidates’ actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

Assessment is by means of a three-hour written paper in two sections. All questions are compulsory:

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

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

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

Appreciate the standard of the examination

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

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. 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.**

- From the AF1 demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.

Chartered Insurance Institute | Prev | Nav | Next | Clear Highlight | Tools | Calculator | End Test | 174:27

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.

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)

Navigation: « Inf01 Inf02 Inf03 **1a** 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 »

Buttons: Flag Edit

This question has been answered. Click here to enable you to edit your answer.

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

Chartered Insurance Institute | Prev | Nav | Next | Clear Highlight | Tools | Calculator | End Test | 164:16

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance †	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

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: « Inf01 Inf02 Inf03 **1a** **1b** 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 »

Buttons: Flag Clear

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.

The screenshot shows the AF1 exam interface. On the left, there is a question area with a text input field and an 'Answer' button. The question text is partially obscured by a blue line. On the right, there is a table titled 'INCOME TAX' for 'AF1 October 2019'. The table lists various tax rates and allowances for the years 2018/2019 and 2019/2020. The 'Answer' button is highlighted in red, and the '1b' question marker is also highlighted in red.

AF1 October 2019		
INCOME TAX		
RATES OF TAX	2018/2019	2019/2020
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.		
Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%
MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance†	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

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

The image shows two buttons for exam navigation. The first button is labeled 'AF1 Personal tax and trust planning' and the second button is labeled 'on-screen written exam demonstration (Demo 1)'. Both buttons have a small icon of a document with a checkmark.

5. The above screenshot shows the point before the exam has started; you wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **AF1 Personal tax and trust planning**.

In the examination

The following will help:

Spending your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the three questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Marks are not lost due to poor spelling or grammar.

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

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

Tips for laying out calculations in on-screen written exams

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

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

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

Please note that it is currently not possible to insert tables for AF1 exams. You are required to type your answers without the requirement for alignment. As guidance, please refer to the model answers provided in any Exam Guides as templates.

There are no special formulas you are required to be aware of included in the system to submit your answers.

EXAMINERS' COMMENTS

Candidates' overall performance

It was pleasing that candidates generally performed better in this examination when compared to the September 2022 AF1 examination.

There was a greater consistency in performance across the paper and candidates who had prepared thoroughly for the exam achieved high marks, particularly in the calculation questions.

However, candidates continue to struggle with some of the core areas of the syllabus, including the responsibilities for the reporting and payment of Income Tax, the duties of an attorney and residency.

It was particularly disappointing that many candidates answered question 1(e), relating to the Trust Registration Service, poorly. This remains a prominent topic in the industry and candidates were reminded of this in the September 2022 examination guide.

Question 1

Part (a)(i) asked candidates to calculate Pedro's Income Tax liability in the 2022/2023 tax year. There were some very good answers to this question with many candidates achieving full marks. Those who did not achieve full marks commonly made errors when calculating the total taxable income (i.e. including the dividend paid after Pedro's death) and either not using, or incorrectly calculating, the Gift Aid donation to extend the basic rate band.

In part (a)(ii), candidates had to explain the Income Tax liability for Pedro's estate in the 2022/2023 tax year. Full marks were awarded to some candidates, however, many lacked detail in their answers, with some candidates failing to identify the question was testing the taxation of income received **after** Pedro's death.

Part (b) tested candidates on Joy's responsibilities as executor in respect of the reporting and payment of **Income Tax** in the 2022/2023 tax year. This question was not answered well and there was an obvious lack of knowledge in this area. Candidates generally failed to recognise the difference in Joy's responsibilities in reporting the income received **before and after** Pedro's death and it was particularly disappointing some candidates provided answers based on the reporting and payment of Inheritance Tax (IHT).

Part (c)(i) asked candidates to explain how Joy could contribute to her Stocks & Shares ISA using the inherited estate from Pedro. This question tested 'Additional Permitted Subscriptions' (APS) and was generally answered well.

Part (c)(ii) was not well answered. This question required candidates to state the time limits which would apply for Joy to contribute to her ISA using APS. Some candidates were given credit for stating any subscription must be made within 3 years of the date Pedro died, however, few identified there was a difference in the time limits for a **cash** or **in-specie** APS. Cash subscriptions must be made within 3 years of the date Pedro died or, if later, 180 days after the completion of the administration of the estate. In-specie transfers must be made within 180 days of the distribution of the assets to Joy.

In part (d)(i), candidates had to explain the Income Tax and IHT treatment of the death benefits from Pedro's self-invested personal pension plan (SIPP). Many candidates correctly identified as Pedro died before age 75, any lump sum/dependants income is paid to Joy free of Income Tax, although few stated this was providing benefits were paid within 2 years of death. The majority of candidates also correctly stated there would be no IHT liability, however, many failed to identify this was because the benefits were paid at the discretion of the scheme trustees.

Part (d)(ii), which asked candidates to explain briefly the Income Tax treatment of the death benefits from the SIPP when Joy dies, assuming James and Pippa benefit from any remaining funds, was generally answered very well.

Part (e) required candidates to explain James' and Pippa's responsibilities for registering the discretionary trust with the Trustee Registration Service (TRS) and the penalties for failing to register in time. This question was poorly answered and it was particularly disappointing many candidates were not able to identify the trust must be registered within 90 days of the date the trust was created. The majority of candidates were also unable to correctly identify a penalty of £5,000 may be payable for failing to register a trust/late registration, although there is an exception for a first offence, unless the trustees fail to register deliberately.

Part (f)(i) asked candidates to calculate the IHT payable when Joy created the discretionary trust in August 2022 assuming it was paid by the trustees. Many candidates scored full marks, however, those candidates who lost marks commonly made the mistake of including the Potentially Exempt Transfer (PET) in cumulation when calculating the excess over the nil rate band. It was also disappointing to see other basic errors, including the failure to deduct the annual exemptions from the Chargeable Lifetime Transfers (CLT's) and using the 40% death rate instead of the 20% lifetime rate of IHT.

In part (f)(ii), candidates were asked to explain how and why the answer given in (f)(i) would have differed if the IHT had been paid by Joy. There were some good attempts at answering this question with well-prepared candidates able to identify the transfer would need to be grossed up and the effective rate of tax is 25%. Although few candidates were able to provide the level of detail required to score full marks.

Part (f)(iii) asked candidates to explain the IHT position of Joy's gift into the discretionary trust if she dies before August 2029. This should have been a straight-forward question, however, once again, a lack of detail let some candidates down, i.e. stating the CLT would become chargeable to IHT, but not giving the 40% rate and stating taper relief would be available, but not stating this would apply from 3 years after the date of the gift. Many candidates correctly identified a credit would be given for the tax paid when the trust was created.

In part (g), candidates had to explain the Capital Gains Tax (CGT) position when Joy transferred the unit trusts into the discretionary trust. This question was generally answered well, although only the better prepared candidates correctly identified only Joy would be required to claim holdover relief, with many stating it would be a joint claim between Joy and the trustees.

Question 1 closed with part (h), which asked candidates to state the factors the trustees of the discretionary trust should consider when reviewing the investments held in the trust. Candidates generally scored well on this question.

Question 2

Part (a), which was a calculation of the IHT liability on Carole's estate in the 2022/2023 tax year, was very well answered overall. Those who did not score full marks generally made mistakes calculating Carole's remaining nil rate band and her late husband's transferable nil rate band (NRB).

Part (b)(i) asked candidates to explain the Income Tax implications for Kay of establishing a discretionary trust using a Deed of Variation (DOV). This was not well answered as the majority of candidates failed to identify the trust would be deemed to be settlor interested.

Part (b)(ii), which asked candidates to explain the IHT implications for Kay and for Carole's estate if a discretionary trust is established using a DOV, was also not well answered, although some candidates correctly identified a discretionary trust cannot benefit from the residence nil rate band (RNRB), as the trust property would not pass to a direct descendant.

In part (b)(iii), candidates had to describe the conditions which must be met for a DOV to be effective for IHT purposes. This question is frequently tested in the Diploma level J02 paper and so it was disappointing to see AF1 candidates struggle with this question.

Part (c) tested Powers of Attorney and it was noted in the September 2022 Examination Guide that candidates performed poorly in this area of the syllabus and they should ensure they have studied and have a solid understanding of Powers of Attorney before entering an AF1 exam.

It was therefore particularly disappointing, part (c)(i), which required candidates to state Samuel's duties as Isaac's attorney, was answered extremely poorly. This was a test of basic level 4 knowledge and candidates are once again reminded they should expect to be tested on this area of the syllabus.

Parts (c)(ii) and (iii), which tested candidates on Samuel's ability to make gifts under Isaac's Lasting Power of Attorney (LPA) and the consequences for Samuel if he gifts Isaac's money to himself, were answered much better.

Question 3

Part (a) asked candidates to explain how Business Asset Disposal Relief (BADR) may apply to Brendan on the sale of 50% of the shares in August 2022. This is an area which has been tested previously and many candidates correctly identified BADR would cover the first £1m and these gains would be taxed at a reduced rate of 10%, however, it was disappointing candidates generally struggled to score high marks.

Part (b) was a calculation of the CGT Brendan will pay on the disposals he has made in the tax year 2022/2023. This was very well answered by many candidates.

In part (c), candidates were asked to explain how the remaining shares in Brendan's company can be gifted to his children in May 2023 without any immediate liability to CGT. This was fairly well answered with many candidates correctly identifying Brendan and the children could jointly elect to claim holdover relief, however, few candidates scored full marks.

Candidates should note the difference between this question and question 1(g) in respect of who must make a claim for holdover relief. Transfers to the trustees of a discretionary trust require only the donor to make the claim.

In part (d), candidates had to explain the CGT impact on the gift of shares when Archie leaves the UK in September 2023. This question tested the effect of Archie becoming non-UK resident within 6 years of the gift as holdover relief is only available for gifts to those that are UK resident. Unfortunately candidates struggled with this question with many providing answers based on the general rules around temporary non-residence.

The exam concluded with part (e), which required candidates to describe how the automatic residence test might apply to Archie when he leaves the UK in September 2023 and returns for the first time in September 2028 for Layla's wedding. The information provided in the question and the case study was sufficient to enable candidates to identify the second automatic overseas test would be applicable. Unfortunately, few candidates scored well, with many candidates providing unnecessarily lengthy answers in which they attempted to explain all three automatic tests.

Unit AF1 – Personal tax and trust planning

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 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

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
Section A: 80 marks
Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B, **both questions are compulsory.**
- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- For each answer, please type in the full question number you are answering e.g. 1a
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are permitted**
- Please familiarise yourself with **all** questions before starting the exam.

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

SECTION A

This question is compulsory and carries 80 marks

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

Question 1

Pedro died on 1 January 2023. He was married to Joy, aged 76, and the couple have two children, James and Pippa, and five grandchildren.

Pedro was employed as an architect until two years ago, when he was aged 70. At that point, he started to receive the retirement benefits from his employer's workplace pension scheme. At the time of his death he had received a total gross pension income of £47,000 in the 2022/2023 tax year, which included his State Pension.

After his employment ended, Pedro continued to work part-time as a self-employed consultant. Prior to his death he had made profits of £7,250 after expenses in the 2022/2023 tax year.

In September 2022, Joy and Pedro donated £11,200 from their cash deposit account to a local charity, making the required Gift Aid declaration.

Income received from Pedro's investments **before** 1 January 2023:

Investment	Account holder	Income received in 2022/2023 tax year (£)
Direct Corporate Bonds	Pedro	840
General Investment Account (GIA) – UK equity fund	Pedro	2,800
Cash ISA	Pedro	120
Stocks & Shares ISA - European fund	Pedro	160
Cash deposit account	Joint	80

Income received from Pedro's investments **after** 1 January 2023:

Investment	Account holder	Income received in 2022/2023 tax year (£)
General Investment Account (GIA) – UK equity fund	Pedro	1,600
Cash ISA	Pedro	80

Whilst he was self-employed, Pedro contributed to a self-invested personal pension (SIPP), on a single premium basis at the end of each tax year. The scheme trustees have confirmed they will use their discretion and pay the death benefits to Joy.

Joy is the executor and sole beneficiary of Pedro's estate, which was valued at £600,000 when he died. She is in the process of administering the estate and has recently obtained a Grant of Probate. Joy is considering investing some of the inherited estate into her Stocks & Shares ISA.

In August 2022, Joy created a discretionary trust for the benefit of her grandchildren, transferring unit trusts valued at £175,000 to the trustees, James and Pippa.

Joy had made a previous gift of £200,000 into an interest in possession trust in August 2021 and cash gifts of £50,000 each to James and Pippa in January 2018. Joy has made no other gifts.

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

Questions

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

- (a) (i) Calculate, **showing all your workings**, Pedro's Income Tax liability in the 2022/2023 tax year. **(16)**
- (ii) Explain the Income Tax liability for Pedro's estate in the 2022/2023 tax year. *No calculations are required.* **(6)**

- (b) Explain Joy's responsibilities as executor in respect of the **reporting and payment** of Income Tax in the 2022/2023 tax year. **(7)**

- (c) (i) Explain how Joy could contribute to her Stocks & Shares ISA using the inherited estate from Pedro. **(5)**
- (ii) State the time limits which would apply for Joy to contribute to her ISA in accordance with the answer you have given in **part (c)(i)** above. **(3)**

- (d) (i) Explain the Income Tax and Inheritance Tax (IHT) treatment of the death benefits from Pedro's SIPP. **(5)**
- (ii) Explain briefly the Income Tax treatment of the death benefits from the SIPP when Joy dies, assuming James and Pippa benefit from any remaining funds. **(3)**

- (e) Explain James' and Pippa's responsibilities for registering the discretionary trust with the Trustee Registration Service (TRS) and the penalties for failing to register in time. **(5)**

- (f) (i) Calculate, **showing all your workings**, the IHT payable when Joy created the discretionary trust in August 2022 assuming it was paid by the trustees. (7)
- (ii) Explain briefly how and why the answer you have given in **part (f)(i)** above would have differed if the IHT had been paid by Joy. *No calculations are required.* (4)
- (iii) Explain briefly the IHT position of Joy's gift into the discretionary trust if she dies before August 2029. *No calculations are required.* (4)
- (g) Explain the Capital Gains Tax (CGT) position when Joy transferred the unit trusts into the discretionary trust in August 2022. *No calculations are required.* (9)
- (h) State the factors the trustees of the discretionary trust should consider when reviewing the investments held in the trust. (6)

Total marks for this question: 80

SECTION B

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

Question 2

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

Carole, a widow, died on 1 November 2022, aged 68. She left her entire estate to her children, Jon and Kay, who are in their 30s and who are also named as executors in her Will. Carole has three grandchildren, aged between 4 and 9.

Carole's husband died several years ago when the Inheritance Tax (IHT) nil rate band was £300,000. In his Will, he left £120,000 each to Jon and Kay. Carole inherited the remainder of his estate.

Carole sold the family home a few years after her husband died and purchased a new home with the proceeds of the sale. Carole's new partner Isaac moved in with her in 2015.

In September 2021, Carole gifted a total of £225,000 split between three bare trusts; one for each of her grandchildren. She had made no other lifetime gifts.

Carole's estate comprised the following assets:

Asset	Value at date of death (£)
Main residence	350,000
Current account	20,000
Premium Bonds	50,000
Cash ISA	75,000
Onshore Investment Bond	90,000

Kay would like to re-direct her share of her mother's estate to her own children. She is considering using a Deed of Variation to create a discretionary trust as she would like to access the funds herself should her financial circumstances change.

A few years ago, Isaac executed a property and financial affairs Lasting Power of Attorney (LPA), appointing Carole and his son Samuel as his attorneys to act jointly and severally. Jon and Kay have concerns regarding Isaac's mental capacity and are worried about Samuel's suitability as an attorney. Samuel has financial difficulties and has recently mentioned gifting some of Isaac's own funds to himself. He views this as an advancement on his future inheritance.

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

Questions

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

- (a) Calculate, **showing all your workings**, the Inheritance Tax (IHT) liability on Carole's estate. **(11)**
- (b) (i) Explain briefly the Income Tax implications for Kay of establishing a discretionary trust using a Deed of Variation (DOV). **(4)**
- (ii) Explain the IHT implications **for Kay and for Carole's estate** if a discretionary trust is established using a DOV. **(5)**
- (iii) Describe the conditions which must be met for a DOV to be effective for IHT purposes. **(8)**
- (c) (i) State Samuel's duties as Isaac's attorney. **(6)**
- (ii) Explain briefly the limitations to Samuel's ability to make gifts under Isaac's LPA. **(3)**
- (iii) Explain briefly the consequences for Samuel if he gifts Isaac's money to himself. **(3)**
- Total marks available for this question: 40**

Question 3

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

Brendan, a divorcee, is aged 64. He has two children, Archie aged 21 and Layla aged 23. Archie is moving to America in September 2023 to live with his mother. Layla is in a long-term relationship and is planning to get married in September 2028.

Brendan was the sole shareholder and director of a successful market research company. He bought the company in 2002 when he paid £460,000 for 100% of the shares. He sold 50% of the shares in August 2022 when the company was valued at £1.8m. Brendan had always worked full time in the company and had never owned a business before 2002.

He is planning on gifting the remainder of the company shares to his children in May 2023 when he retires. Brendan is concerned about any Capital Gains Tax (CGT) he may be liable for on both the sale of the shares in August 2022 and the planned gift to Archie and Layla in May 2023.

Brendan has also sold a buy-to-let flat he had owned for over 10 years. He had never lived in the property. The purchase price was £150,000 and he sold it on 1 February 2023 for £319,000. Purchase costs were £5,300 and the costs on sale were £4,000.

In the 2022/2023 tax year Brendan will be a higher-rate taxpayer.

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

Questions

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

- (a) Explain how Business Asset Disposal Relief (BADR) may apply to Brendan on the sale of 50% of the shares in August 2022. *No calculations are required.* **(8)**

- (b) Calculate, **showing all your workings**, the CGT Brendan will pay on the disposals he has made in the tax year 2022/2023. **(12)**

- (c) Explain how the remaining shares in Brendan’s company can be gifted to his children in May 2023 without any immediate liability to CGT. **(8)**

- (d) Explain the CGT impact on the gift of shares when Archie leaves the UK in September 2023. **(8)**

- (e) Describe how the automatic overseas residence test might apply to Archie when he leaves the UK in September 2023 and returns for the first time in September 2028 for Layla’s wedding. *You should assume Archie spends two weeks in the UK.* **(4)**

Total marks for this question: 40

NOTE ON MODEL ANSWERS

The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

1. (a) (i)	Non-savings income (£)	Savings income (£)	Dividend income (£)
Pension earnings	47,000		
Self-employed net profit	7,250		
Corporate Bonds		840	
Deposit account		80/2 = £40	
General Investment Account (GIA)			2,800
Total	54,250	880	2,800

Gift Aid donation extends basic rate band

$$£11,200/2 = £5,600$$

$$£5,600/0.8 = £7,000$$

$$£37,700 + £7,000 = £44,700$$

Non-savings

$$£12,570 \times 0\% = £0$$

$$£41,680 \times 20\% = £8,336$$

Savings

$$£500 \text{ Personal Savings Allowance (PSA)} \times 0\% = £0$$

$$£380 \times 20\% = £76$$

Dividends

$$£2,000 \times 0\% = £0$$

$$£140 \times 8.75\% = £12.25$$

$$£660 \times 33.75\% = £222.75$$

$$\text{Total} = £8,336 + £76 + £12.25 + £222.75 = £8,647$$

- (ii)
- The dividend payment of £1,600
 - was received during the period of the administration of the estate.
 - Joy/the executor is liable to tax
 - at the rate applicable to personal representatives 8.75%.
 - No Personal Allowance/dividend allowance are available.
 - There is no tax payable on the interest of £80 from the Cash ISA.

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

- Joy must complete an individual tax return/SA100
- for the income Pedro received up to the date of his death
- and claim tax relief on Pedro's half of the gift to charity.

- Joy must pay tax on the dividend income received after Pedro died
- although she will not be required to complete a trust and estate tax return/SA900
- as total income/gains did not exceed £10,000
- and the estate was valued at less than £2.5m.

- Any tax due must be paid from the estate
- by 31st January after the tax year Pedro died/31st January 2024

- Joy must complete form R185 for the beneficiary of the estate with details of the tax deducted.

1. (c) (i) *Candidates would have scored full marks for any five of the following:*

- Joy can make an Additional Permitted Subscription (APS)

- to the value of Pedro's ISAs on the date he died
- or the value when his ISA ceases to be a continuing ISA
- whichever is the highest.

- The APS can be made using an in specie from Pedro's ISA's or Joy's own cash.
- The APS is in addition to Joy's ISA allowance/£20,000.

- (ii) • Any cash subscription must be made within 3 years of the date Pedro died
- or 180 days after the completion of the administration of the estate if later.

- Any in-specie transfer must be made within 180 days of the distribution of the assets to Joy.

- 1. (d) (i)**
- As Pedro died before age 75
 - any lump sum/dependants income is paid to Joy free of Income Tax
 - if benefits are paid within 2 years of the date of Pedro's death.

 - There is no IHT liability
 - as the benefits were paid at the discretion of the scheme trustees.
- (ii)**
- As Joy will have died after age 75
 - any lump sum death benefit/income payable to James and Pippa will be subject to Income Tax
 - at their marginal rate.
- 1. (e)**
- The trustees must have registered the trust with the Trust Registration Service (TRS) within 90 days
 - of the date the trust was created.

 - A penalty of £5,000 may be payable for failure to register a trust on time
 - although there is no penalty for a first offence of failure to register a trust/late registration
 - unless the trustees deliberately fail to register.
- 1. (f) (i)**
- £200,000 - £6,000 (2 x annual exemption) = £194,000
 NRB (nil rate band) £325,000 less £194,000 = £131,000
 £175,000 - £3,000 (1 x annual exemption) = £172,000
 Excess over NRB £172,000 less £131,000
 = £41,000
 x 20%
 = £8,200
- (ii)**
- As the IHT charge is based on the loss to Joy's estate
 - the amount of the transfer would have been grossed up by 20%
 - so IHT is payable on the gross gift including the tax paid by Joy.
 - The effective rate of tax is 25%/total Inheritance Tax (IHT) on the gross gift is £10,250
- (iii)**
- The CLT will become chargeable to IHT at 40%
 - on the excess over the available nil rate band
 - less a credit for tax paid when the trust was created.
 - Taper relief will be available after 3 years.

1. (g)

- Joy is treated as having disposed of the unit trusts
- at the market value on the date of the transfer into trust.

- She would have been liable for Capital gains Tax (CGT) at her marginal rate
- on any gain in excess of
- the annual exempt amount/£12,300

- unless Joy
- claimed holdover relief
- which will defer the gain
- until the trustees dispose of the asset/transfer assets to the beneficiaries.

1. (h)

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

- Provisions of the trust/investment powers/Trustee Act 2000.
- Performance of existing/new investments.
- Investment charges/advice charges.
- Changes in objectives/need for income or capital
- Changes in beneficiaries tax status.
- Changes in ATR/CFL.
- Any CGT liability on disposal of unit trusts/holdover relief.
- Economic conditions/legislative changes.

Model answer for Question 2

2. (a) Carole's NRB:

£225,000 - £6,000 (2 x £3,000) = £219,000
 £325,000 - £219,000 = £106,000 (remaining NRB)

Transferable NRB:

£240,000/£300,000 = 80%
 £325,000 x 20% = £65,000

Asset	Value at date of death (£)
Main residence	350,000
Current account	20,000
Premium Bonds	50,000
Cash ISA	75,000
Onshore Investment Bond	90,000
Total	585,000
Carole's NRB	(106,000)
Transferable NRB	(65,000)
RNRB	(350,000)
Taxable estate	64,000
IHT at 40%	25,600

2. (b) (i) *Candidates would have scored full marks for any four of the following:*
- As the trust is deemed to be settlor interested/Kay is the settlor for Income Tax purposes
 - any income received into the trust will be taxed at Kay's rate of Income Tax
 - whether she receives it or not.
 - She can use the PSA and Dividend Allowance (DA).
 - The trustees pay tax at the trust rates on behalf of Kay.
 - Kay receives a tax credit/Income Tax could be recovered from HM Revenue & Customs (HMRC).
- (ii)
- Kay is not treated as having made a transfer of value for IHT.
 - The transfer is treated as if it had come directly from Carole's estate for IHT purposes/Carole is the settlor of the trust for IHT.

 - A discretionary trust cannot benefit from a RNRB
 - as the trust property will not pass to a direct descendant.
 - Increased IHT liability on Carole's estate.
- (iii) *Candidates would have scored full marks for any eight of the following:*
- Kay must be over 18
 - and of sound mind.
 - Deed must be in writing/state what is being varied.
 - Referring specifically to the original Will.
 - Must be executed within 2 years of death.
 - Must not be done for consideration/money or money's worth.
 - Must state that variation is effective for IHT as if made by Carole.
 - Kay must sign it.
 - Executors must also sign if the variation increases the IHT payable.

2. (c) (i)
- Making decisions in Isaac's best interest.
 - Only making decisions that are authorised by the LPA.
 - Consult Isaac prior to taking action, wherever possible, and with others who may have an interest in Isaac's affairs.
 - Keeping their own money separate from that of Isaac's.
 - Keeping Isaac's affairs confidential.
 - Ensuring that there is no conflict of interest.
- (ii) *Candidates would have scored three marks for any three of the following:*
- Only make gifts on customary occasions (birthdays, weddings, family events).
 - To a charity Isaac has previously made gifts to.
 - Size of gift must be reasonable in relation to the size of Isaac's estate and circumstances.
 - LPA may restrict gifts.
 - He cannot make gifts for IHT purposes.
 - If Samuel wants to make a gift that falls outside the restrictions in the law or in the Enduring Power of Attorney (EPA) or Lasting Power of Attorney (LPA), he must apply to the Court of Protection (COP) for approval.
- (iii) *Candidates would have scored three marks for any three of the following:*
- Samuel would be in breach of his duties as Attorney.
 - If Samuel does not perform his duties properly, he can be made to compensate Isaac for any losses.
 - Mistreating/neglecting someone who lacks capacity is a criminal offence.
 - The penalty for this is a fine
 - and/or a prison sentence of up to 5 years.

Model answer for Question 3

3. (a)
- Business Asset Disposal Relief (BADR) will cover the first £1m
 - of qualifying gains that Brendan makes.
 - These gains are taxed at a reduced rate of 10%.
 - Gains over the lifetime limit of £1m are subject to normal CGT rates.
 - As Brendan has owned the business for more than 2 years he will qualify as
 - he also meets the 5% shareholding test
 - and is an employee/director.
 - The business is a trading company/not an investment company.

3. (b) Sale of shares: 50% of value = £900,000
 - £230,000 = £670,000
 x 10% = £67,000

Buy to let flat: Disposal £319,000 - £4,000 costs = £315,000
 Minus Purchase price of £150,000
 + £5,300 costs
 = £159,700
 Less £12,300
 = £147,400
 x 28%
 = £41,272

£67,000 + £41,272 = **£108,272**

- 3. (c)**
- Brendan,
 - Archie and Layla
 - can elect to claim holdover relief
 - as the gift consists of shares in Brendan's personal company.
 - No CGT is paid at the time of the gift
 - and Archie and Layla receive the shares with Brendan's base cost/ £230,000.
 - When Archie and Layla dispose of the shares they will be taxed on the disposal proceeds
 - minus £230,000/base cost.
- 3. (d)**
- As Archie will be non-UK resident
 - within 6 years of the gift
 - the gain becomes taxable.
 - Holdover relief is only available for gifts
 - to those that are UK resident.
 - CGT will be charged on Archie
 - on his share of the held-over gain.
 - If Archie does not pay, Brendan will become liable.
- 3. (e)**
- Archie will be treated as non-UK resident
 - as he will not have been UK resident for any of the previous 3 tax years
 - and he will be in the UK for less than 46 days
 - In the 2028/2029 tax year.

Glossary of terms

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

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

All questions in the September 2023 paper will be based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the September 2022 and February 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	12%
Above 967.00	2%

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

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00**	Nil
175.00 – 967.00	13.8%
Excess over 967.00	13.8%

*** 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)	9.73% on profits between £11,908 and up to £50,270. 2.73% 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%
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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:

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

Quick succession relief:

	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
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Bicycles

	20p per mile	20p per mile
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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
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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%
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Patent rights & know-how (reducing balance) per annum	25%	25%
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Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
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Energy & water-efficient equipment	100%	100%
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Zero emission goods vehicles (new)	100%	100%
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Electric charging points	100%	100%
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Qualifying flat conversions, business premises & renovations	100%	100%
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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%	18%	6%
	first year	reducing balance	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 £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as below:

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*

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