



Unit 9: Taxation, Investment Wrappers and Trusts

Delivery Guide

Taxation, Investment Wrappers and Trusts

Unit Aim: Understand the different taxes, investment wrappers and features of trusts.

Unit Relevance to the Course: Having explored ethical practice within the sector, this unit will identify some key features that will be reviewed in unit 11.

Learning Hours:

Scheduled – 0

Guided – 4

Independent – 2



Unit 9 Learning Outcomes

Learning Objective	Learning Outcomes	Chapter Section
9.1.1	Know the direct and indirect taxes affecting individuals <ul style="list-style-type: none"> • Income tax • Capital gains tax • Inheritance tax • Stamp duty • Corporation tax • State benefits / HMRC tax credits • National insurance • Residency / domicile 	2
9.1.2	Know the main exemptions in respect of the main personal taxes	2
9.2.1	Know the definition of and tax incentives provided by ISAs	3
9.2.2	Know the main types of ISA available: <ul style="list-style-type: none"> • Cash ISA • Stocks and shares ISA • Innovative ISA • Lifetime ISA • Junior ISA 	3
9.3.1	Know the benefits provided by pensions	4

Learning Objective	Learning Outcomes	Chapter Section
9.3.2	Know the basic characteristics of the following: <ul style="list-style-type: none"> • State Pension Scheme • Occupational Pension Scheme • Personal Pensions including SIPPs 	4
9.4.1	Know the features of the main trusts: <ul style="list-style-type: none"> • Discretionary • Interest in possession • Bare 	5
9.4.2	Know the definition of the following terms: <ul style="list-style-type: none"> • Trustee • Settlor • Beneficiary 	5
9.4.3	Know the main reasons for creating trusts	5

How to use this delivery guide

Throughout this delivery guide, look out for the different icons to support the learner experience:

Understand and learn – These **compulsory** sections will help learners to develop their knowledge and understanding of the assessed learning objectives. We have also integrated the CISI micromodules into this learning. These give learners key explanations of the themes in a short, digestible manner and can be found on the CISI learning platform.



Apply and practise – These sections allow the learners to practise and test their newly acquired learning by undertaking a range of **compulsory** activities to help them prepare for the multiple choice assessment at the end of the course.



Further your knowledge – These sections allow learners to consolidate their understanding of key concepts by reading and interacting with current, credible CISI resources to help further enhance their learning. These **optional** resources include the CISI professional refresher modules and CISI YouTube videos.



Extension Activities – Whilst these activities do not form part of the core learning, we have added lots of extension activities to enhance the learners understanding. These activities include videos and webinars from the CISI TV channel. These activities also provide help and support if learners feel that they might need an extra bit of guidance after completing the end of unit multiple choice assessments.



Introduction

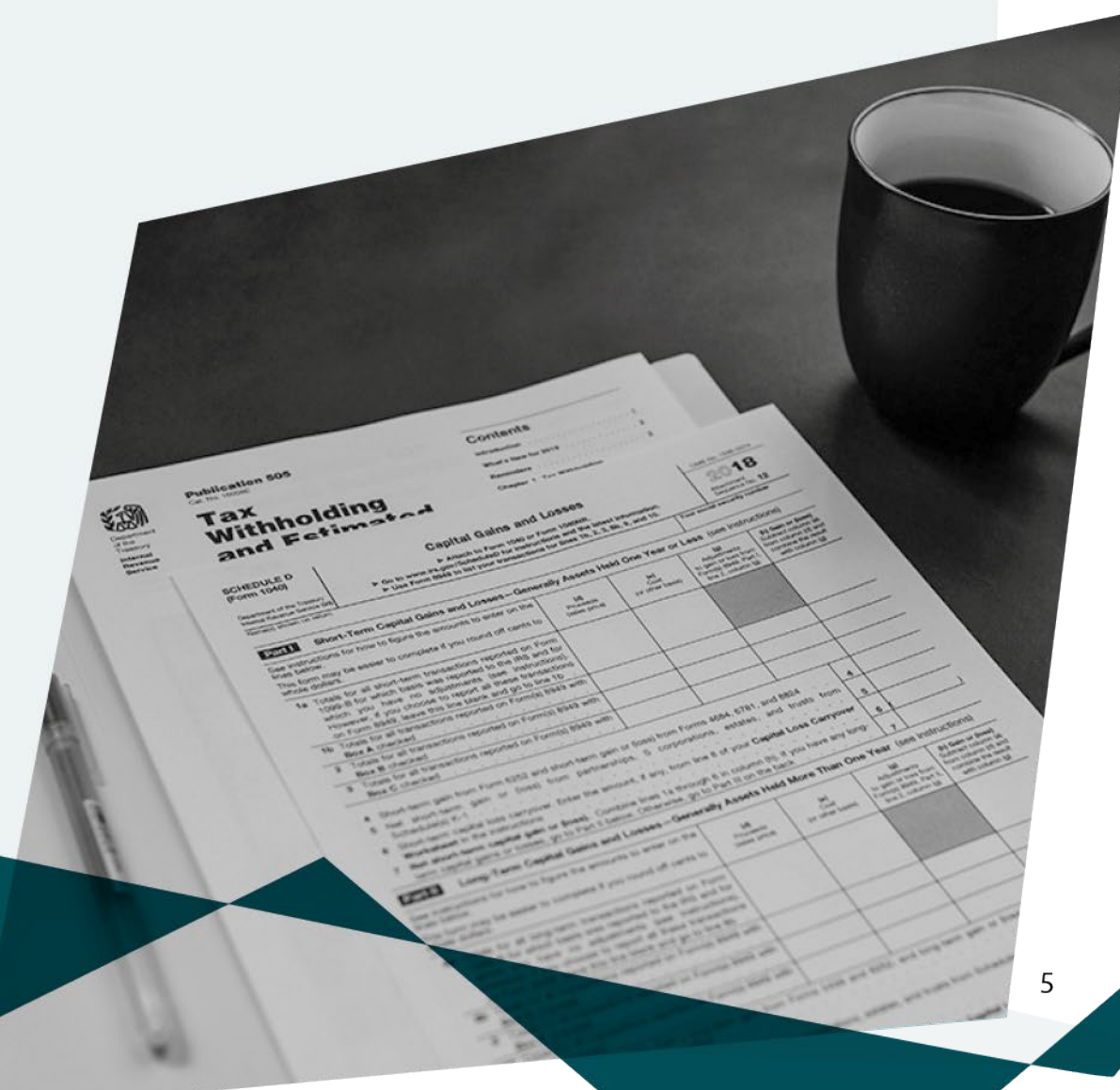
“Nothing is certain but death and taxes”

Benjamin Franklin, 1789.

Write down your thoughts on the following:

Why do we pay taxes?

What different types of taxes can you think of?





Learning Outcome 9.1 – Tax

9.1.1: Understand the direct and indirect taxes affecting individuals

- Income tax
- Capital gains tax
- Inheritance tax
- Stamp duty
- Corporation tax
- State benefits/HMRC tax credits
- National insurance
- Residency / domicile

9.1.2: Know the main exemptions in respect of the main personal taxes



Taxation

Read section 2 about the different types of taxation in chapter 9 of the course workbook.
In your own words **summarise** the 3 types of income tax in the table below.

Non-savings income	Savings income	Dividend income



Income tax

The amount of **non-savings income tax** that individuals pay is based on earnings from employment and/or pension income. Using the [Gov.UK website](https://www.gov.uk), answer the following questions:

1. What is the standard personal allowance currently in the UK and what does this mean?
2. What are the current income tax bands?
3. What is a tax code and how are these used?
4. Who administers income tax in the UK?



Income tax

Interest on savings is taxed after earned income. In 2016, a personal savings allowance was introduced and is based on the individual's tax band. Using [Gov.UK](https://www.gov.uk), read the information about tax on savings interest and complete the table on the right:

Band	Tax free savings allowance
Saving rate	
Basic rate	
Higher rate	
Additional rate	

How it works – the savings rate

If an individual earns less than £17,570 per year, they are eligible for the “savings rate”. This means that if a person earns below the personal allowance, they can earn £5,000 in savings interest before they pay tax on it. For every £1 of other income above the Personal Allowance, it reduces the starting rate for savings by £1. Take a look at the example taken from [Gov.UK](https://www.gov.uk) showing how it works.

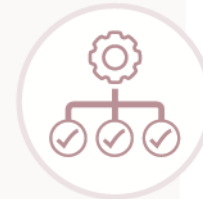
How much income tax will you pay on your earned income during that tax year?

You earn £16,000 of wages and get £200 interest on your savings.

Your Personal Allowance is £12,570. It's used up by the first £12,570 of your wages.

The remaining £3,430 of your wages (£16,000 minus £12,570) reduces your starting rate for savings by £3,430.

Your remaining starting rate for savings is £1,570 (£5,000 minus £3,430). This means you will not have to pay tax on your £200 savings interest.



Calculating income tax

Carlos receives earned income of £24,000 and received savings interest of £300 during the year. In total, how much income tax does he owe?

Earned income - £

Personal Allowance - £

Tax payable - £

Savings interest - £

Personal saving allowance - £

Tax payable - £

TOTAL INCOME TAX PAYABLE = £



Calculating income tax

Ash is a higher rate tax payer with earned income of £62,000 and received £1,200 in savings interest. How much tax do they owe?

Earned income - £

Personal Allowance - £

Tax payable - £

Savings interest - £

Personal saving allowance - £

Tax payable - £

TOTAL INCOME TAX PAYABLE = £



Tax on dividend income

You may get taxed if you earn shares in a company and receive dividend income each year. Read [Gov.UK](#) rules around the dividend allowance and the tax bands that apply and answer the following questions:

1. How are dividends taxed?
2. What is the current dividend allowance?
3. What are the current tax rates on dividends (over the allowance)?
4. Write a case study about a client who has shares and pays tax on their dividends. Show all of your calculations



Income tax exemptions

List 5 tax free income streams below:

- 1.
- 2.
- 3.
- 4.
- 5.





National Insurance

Read the section about National Insurance in the course workbook and on [Gov.UK](https://www.gov.uk). Complete the following questions:

1. What do National Insurance Contributions fund in the UK?
2. Who pays National Insurance?
3. What are the different National Insurance classes?
4. How can people check their National Insurance record and why should we all do this?



Capital Gains Tax

Using the course workbook and [Gov.UK](https://www.gov.uk) website, answer the questions below:

1. In your own words, explain Capital Gains Tax.
2. What assets are liable to Capital Gains Tax?
3. What assets are exempt from Capital Gains Tax?
4. What are the current allowances and [rates of Capital Gains Tax](#)?



Further your knowledge – Capital Gains Tax

Log in to the professional refresher section of the CISI learning platform and complete the [Capital Gains Tax essentials](#) module (45 mins). This module examines the different types of assets that are affected, the various rates and some of the special arrangements relating to residencies, possessions and investments.





Inheritance Tax

Using the course workbook and [Gov.UK](https://www.gov.uk) website, answer the questions below:

1. In your own words, explain Inheritance Tax.
2. What is the current Inheritance Tax threshold?
3. What is the current rate of standard Inheritance Tax?
4. What assets are exempt from Inheritance Tax?



Further your knowledge – Inheritance Tax

Log in to the professional refresher section of the CISI learning platform and complete the [Inheritance Tax essentials](#) module (1hr 15 mins). This module examines the rates, excepted estates, how certain gifts fall into an estate and the effects of intestacy.





CISI TV Extension Activity

Watch the video on CISI TV about what tools financial planners can use to achieve client objectives when it comes to [Inheritance Tax](#).





Stamp Duty and Stamp Duty Land Tax

Using chapter 9 of the course workbook and the Gov.UK website, answer the following questions:

1. What is the difference between [Stamp Duty](#) and [Stamp Duty Land Tax](#) (SDLT)?
2. What is Stamp Duty Reserve Tax (SDRT)?
3. What is the current rate of stamp duty?
4. What is the current threshold/rate of stamp duty land tax for residential properties?
5. What is exempt from stamp duty?



Value Added Tax (VAT)

Using chapter 9 of the course workbook and [Gov.UK](#), answer the following questions:

1. What is VAT?
2. What is the current standard rate of VAT?
3. What is VAT charged on?
4. What products and services are except from VAT?



Corporation Tax

Using chapter 9 of the course workbook and the [Gov.UK](https://www.gov.uk) website, answer the following questions:

1. What is Corporation Tax?
2. Is Corporation Tax paid on gross or net profit?
3. Explain the current different rates of Corporation Tax.
4. What organisations are except from Corporation Tax?



Which tax is it?

Using your knowledge about the different types of UK taxation, decide which tax applies in the following scenarios

1. It is charged in a unit trust are sold for more than the original price paid
2. It is charged at 0.5% of the purchase price of shares
3. Has a nil-rate of tax for assets received by an individual of £325,000 or less
4. Charged at a standard rate of 20% on goods and service
5. Has a basic rate of 20% on earnings between £12,571 - £50,270
6. The sale of a buy to let property that is not your home
7. Company profits of £70,000



Residency / domicile

Using chapter 9 of the course workbook, answer the following questions:

1. What does domicile mean?
2. Explain the 3 types of domicile.
3. What is the difference between a UK resident and a non-resident?



Further your knowledge – Tax

Complete the professional refresher module on [taxation](#) (2hrs 15 mins) on the CISI learning platform. This module explores all of the different taxes in the UK.





Learning Outcome 9.2 – Investment wrappers

9.2.1: Know the definition of and tax incentives provided by ISAs

9.2.2: Know the main types of ISA available:

- Cash ISA
- Stocks and shares ISA
- Innovative ISA
- Lifetime ISA
- Junior ISA



Individual Savings Accounts (ISAs)

Read the section about ISAs in chapter 9 of the course workbook and the [ISA section on the Gov.UK website](#). Answer the following questions:

1. What is an ISA?
2. What does the term investment wrapper mean?
3. What is the key benefit of having an ISA?
4. What are the ISA subscription limits?
5. Is it possible to transfer ISAs? If so, how?



Different types of ISAs

Using online sources, research and complete the table below about the different types of ISAs

Type of ISA	Annual Allowance (£)	Description and main terms
Cash ISA		
Stocks and Shares ISA		
Innovative Finance ISA		
Lifetime ISA (LISA)		
Junior ISA (JISA)		
Help to Buy ISA		



True or False – ISAs

	True	False
1. The primary purpose of an ISA is to provide a guaranteed income for pensioners		
2. Only interest earned on cash ISAs is tax free		
3. An investment wrapper refers to the protective regulations surrounding ISA investments		
4. HMRC is responsible for approving firms that offer ISA investment products		
5. ISAs can be gifted or transferred to another individual		
6. The annual subscription limit is determined by an individuals income		



CISI TV ISA Essentials

Log in to the Professional Refresher section of the CISI learning platform using your username and password and complete the [ISA Essentials module](#) (30 mins). This module explores the different types of ISA and outlines their broader role and purpose.





Learning Outcome 9.3 – Pensions

9.3.1: Know the benefits provided by pensions

9.3.2: Understand the basic characteristics of the following:

- State Pension Scheme
- Occupational Pension scheme
- Personal Pensions including SIPPs



Pensions

Read the section about pensions in chapter 9 of the course workbook and answer the following questions:

1. What is a pension?
2. What are the benefits provided by pensions?



Complete the [Pensions and Provisions](#) module (1hr 45 mins) on the Professional Refresher section of the CISI learning platform. This module examines the definition, legislation and regulation around the different types on pensions. It also explores saving for retirement and retirement planning.



State pension scheme

Read the section on the Gov.UK website about [state pensions](#), how to [check your state pension age](#) and how to [check your state pension forecast](#). Using the Gov.UK website and the section on pensions in chapter 9 of the course workbook, create a handout for your clients explaining the principles of the new state pension, who is eligible, how to check your state pension age and forecast plus any other details that your clients might consider important.

Other resources to help create your state pension handout include:

[MoneyHelper](#)

[Money Saving Expert](#)



Occupational pension scheme

Using the section about occupational pension schemes in chapter 9 of the course workbook and information about [workplace pensions on the Gov. UK website](#), answer the following questions:

1. What are the benefits of being a member of a workplace pension scheme?
2. Explain the differences between defined benefit and defined contribution pension schemes. Consider the benefits and implications of each.
3. What is "auto-enrolment"?



Personal Pensions / Private Pensions (including SIPPs)

Read the section on personal/private pensions in the chapter 9 course workbook and answer the following multiple choice questions.

1. What type of pension plans are private pensions or personal pensions?
 - A. Defined benefit schemes
 - B. Defined contribution schemes
 - C. State pension schemes
 - D. Joint pension arrangements
2. What type of personal pension allows individuals to decide which investments are included?
 - A. Defined benefit scheme
 - B. Workplace pensions
 - C. Group personal pension scheme
 - D. Self-invested personal pensions



Personal Pensions / Private Pensions (including SIPPs)

Read the section on personal/private pensions in the chapter 9 course workbook and answer the following multiple choice questions.

3. Which of the following is NOT a benefit of private pension schemes?
 - A. Tax-deductible contributions
 - B. Tax-exempt investment income
 - C. Tax-exempt capital gains
 - D. Guaranteed retirement income
4. How are private pensions different from occupational schemes?
 - A. Private pensions offer higher contribution limits
 - B. Private pensions are managed by employers
 - C. Private pensions require self-organisation and investment choices
 - D. Private pensions are tax-exempt



Case study

Alex is 26, works full time and has paid into a workplace, defined contribution pension since he started working for his employer 4 years ago. Along with his employer, Alex has only ever paid the minimum contributions but is now thinking about other ways to boost his retirement pot whilst he can. As Alex's financial adviser, what other information might you need and what pension recommendations might you suggest?





CISI TV Further Your Knowledge – Defined Benefits

Complete the [Defined Benefits Pension Schemes module](#) (2hrs 15 mins) on the Professional Refresher section of the CISI learning platform. This module explores the differences between defined benefits and contributions schemes, with particular attention paid to the options for scheme holders and employers.





CISI TV Further Your Knowledge – Pensions Advice and pension freedoms

Complete the [Pensions Advice module](#) (1 hr) on the Professional Refresher section of the CISI learning platform. This module investigates the issues relating to giving advice and guidance following government changes around pension freedoms.





CISI TV Extension Activity – The problems with British pensions

Listen to the CISI podcast episode about the [problems with British pensions](#). Summarise the key issues discussed.





CISI TV Extension Activity

There is huge variety of videos on the CISI TV channel around pensions from [changes to the lifetime allowance](#) to [the role of the regulator](#). To extend your knowledge of pensions, search the extensive video library using the filter below and choose a couple of themes to watch that might interest you.

All Subjects pension



Learning Outcome 9.4 – Trusts

9.4.1: Understand the features of the main trusts:

- Discretionary
- Interest in possession
- Bare

9.4.2: Know the definition of the following terms:

- Trustee
- Settlor
- Beneficiary

9.4.3: Understand the main reasons for creating trusts



Trust terms

Choose the correct definition that matches main roles of the individuals involved the process of establishing trusts.

1. Trustee
2. Settlor
3. Beneficiary

KEY

- A. The person who creates the trust
- B. The person to who will look after the property on behalf of others
- C. The individuals for whom the property is intended



Main features of a trust

Choose the correct definition to go with the different types of trusts.

1. Discretionary
2. Interest in possession
3. Bare

KEY

- A. The beneficiary has the right to the income of the trust during their life and the capital passes to others on their death.
- B. A trustee holds assets for one or more person absolutely
- C. The trustees have discretion over to whom the capital and income is paid



CISI TV Further Your Knowledge – Trusts

Complete the module on [Trusts](#) (1hr 15 mins) on the Professional Refresher section of the CISI learning platform. This module provides an understanding of the definition of trusts, the different types available and their features and benefits.





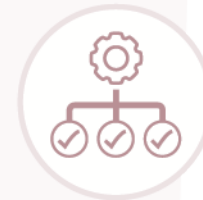
CISI TV Extension Activity – Trusts

To further your knowledge about trusts, watch the Royal London Series: [It's all about the trust\(s\)](#) video on CISI TV. This looks at the business opportunities of making trusts a key part of protection propositions.





End of Unit 9 Multiple Choice Assessment



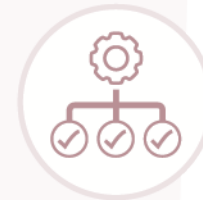
Test your knowledge

1. The annual allowance for a stocks and shares ISA is:
 - A. £4,000
 - B. £16,000
 - C. £20,000
 - D. £9,000
2. Firms offering ISAs must be approved by:
 - A. FCA
 - B. HMRC
 - C. FOS
 - D. Bank of England



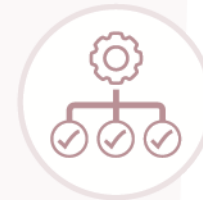
Test your knowledge

3. ISAs are NOT:
- A. Tax free
 - B. Investment wrappers
 - C. Arranged on a joint basis and put into a trust
 - D. A way to save and/or invest
4. Which of the following are except from income tax? *(tick all that apply)*
- A. Premium bond prizes
 - B. ISAs
 - C. Dividends on ordinary shares
 - D. Statutory redundancy payments



Test your knowledge

5. A basic taxpayer has a savings tax allowance of:
- A. £5,000
 - B. £0
 - C. £500
 - D. £1,000
6. Capital Gains Tax is not liable on:
- A. The sale of shares
 - B. Your main home
 - C. Sale of a second rental property
 - D. Unit trusts



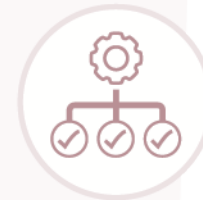
Test your knowledge

7. If you buy shares electronically and no stock transfer form is used, you will pay:
- A. Stamp Duty Reserve Tax
 - B. Stamp Duty
 - C. Stamp Duty Land Tax
 - D. Capital gains Tax
8. The Inheritance Tax threshold for an individual is:
- A. £325,000
 - B. £200,000
 - C. £650,000
 - D. £175,000



Test your knowledge

9. A defined contribution pension is not...
- A. Also called a “final salary scheme”
 - B. Related to the number of years service
 - C. Able to passed to a spouse, civil partner or dependent when you die
 - D. Determined by the value of investment funds at retirement
10. SIPP stands for
- A. Self-invested personal pension
 - B. State-invested personal pension
 - C. Self-invested pension pot
 - D. State-initiated pension pot



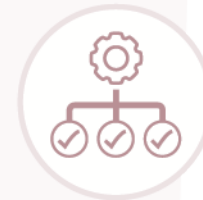
Test your knowledge

11. If a client chooses to take all of their pension as a lump sum, what proportion is tax free?

- A. 75%
- B. 50%
- C. 25%
- D. 10%

12. A settlor is

- A. A person who benefits from a trust
- B. A person who creates a trust
- C. A person who looks after a trust for someone else
- D. A person who manages lots of trusts



Test your knowledge

13. An interest in possession trust is:

- A. When a trustee holds assets for one or more person absolutely
- B. When a trustee has discretion over whom the capital and income is paid
- C. When a trustee is able to pass a trust to someone of their choice
- D. When a beneficiary has access to the income of the trust during their life and the capital passes to others an their death



Test your knowledge

14. Domicile helps to determine:
(tick all that apply)

- A. How much IHT is payable and where
- B. Who inherits, if there is no will
- C. Where someone lives
- D. Who has the right to inherit assets on death

15. What tax helps to build entitlement to the UK state pension?

- A. Income tax
- B. National Insurance Contributions
- C. Capital gains Tax
- D. VAT



Monitoring my progress – Unit 9

My multiple choice assessment mark is ___ / 15

I am happy with the progress that I made on the multiple choice assessment
___ Yes ___ No

To improve my knowledge and understanding, I now need to....

- 1.
- 2.
- 3.

Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 9 multiple choice questions in the course workbook.

