



AF1 Exam Study Tips



10 Predictions for the AF1 exam

We could re-phrase the above heading as “How to destroy our reputation in one easy step”.

Who knows exactly what the examiners are thinking?

Sadly, we don't have supernatural powers to look into the future. All we can do is what you can do. That is before the exam:

1. Re-read the syllabus to know what is covered.
2. Read through past papers to get a feel for popular recurring topics, questions where candidates struggle (because these tend to be re-tested) and the more occasional subjects.
3. Check again against the syllabus to see what has been left out for the last few exams (you never know when these less popular topics will return).
4. Assess from various resources whether there are any personal taxation / trust rule or protocol changes that are topical and therefore quite likely to appear in the exam.
5. Check one more time against the syllabus to make sure you haven't left anything out.

Boring answer we know with a time consuming solution but *ideally*, that's what we'd recommend. No surprises on the day, no shocks about the subject matter. You are prepared for anything. Some of it might be difficult to deal with or asked in a different way but the key thing is, you are not shocked – the question doesn't phase you and you can get on with answering the paper in the time you have been given.



That said, you can get a lot of assistance from point number 2 above. The following is a list of things we would definitely want you to make sure you are well-practised in as a result of reading through the past papers. The most important ones first:

1. Income tax.

This looks like an absolute given in the exam and is worth a fair number of marks (20 or more?). What you would want to be sure of is whether you could work out a tax liability from a fairly complex situation or indeed comment on it; perhaps from the perspective of saving tax.

The scenario is usually going to involve some detail that will need time spent on the calculation even if you are well-practised.

For instance, allowable deductions from gross income, amendments to the personal allowance due to high income levels, extension of the basic rate band, several sources of income including self-employment, employment, pensions, rental, interest, dividends and income tax reducers e.g. VCT/EIS etc.

Self-assessment. This could come up particularly with a self-employed individual. Areas to consider:

- Payment dates against profits made and class 4 NICs;
- Overlap profits for self-employed (opening and closing years);
- Payment of CGT.

2. Inheritance tax.

Again, this is a pretty certain topic in the exam mainly because it causes so much confusion with candidates. If you know the syllabus though, you can do well. Things to make sure you can work out or explain include:

- IHT on lifetime gifts at the time they arise;
- IHT on lifetime gifts on death and their impact on the rest of the estate. The “14 year rule” may come into play here;
- Using wholly exempt transfers;
- Calculating the correct nil rate band / residence nil rate band for a widow or widower who has inherited their deceased spouse’s NRB / RNRB.
- Applying reliefs. Popular ones include agricultural relief, business relief and quick succession relief. Would you be certain that you knew when to apply these?
- Explaining the difference between gifts with reservation and the pre owned assets tax charge.
- Explaining who pays IHT and when by.



3. Capital gains tax

There was a healthy size question in the April 2015 paper on CGT – the biggest for some time. Guess what? It shocked a few people. They had become accustomed to the main question being all about income tax and / or inheritance tax.

What to ensure you can do in case this happens again:

- Basic capital gains tax process;
- PPR reliefs, including letting relief;
- CGT for shares and the matching rules;
- Reliefs again – what about the link between CGT and IHT namely holdover relief? Also entrepreneurs' relief – how gains that get this relief interact with other gains. Business rollover relief and CGT reinvestment relief;
- Understanding CGT on gifts;
- Chattel rules.

4. Trust taxation

Remember this is a tax and trusts exam. You won't get away with hoping for the best that trusts don't turn up. In some way, they will. Here is our list of top priorities:

- How income and capital gains are taxed within trusts;
- How income and capital gains are taxed in the hands of beneficiaries;
- How relevant property trusts pay periodic and exit charges;
- How individuals are taxed on making gifts into trusts.

5. Trust types and oversight

You need to be able to explain how the various forms of personal trust work and indeed their uses. Don't be surprised if you are asked about something slightly more unusual for instance, trusts for vulnerable beneficiaries or 18-25 trusts.

Make sure you can discuss the roles and responsibilities of trustees not only in general but also relative to particular trust types (and the case study itself).



6. Investments

You'd need to be very knowledgeable to be an expert on all investment taxation. However, you can identify from past papers, some common topics. Here's our list of top priorities to practise on:

- Life assurance investment bonds – onshore and offshore. Top slicing and use of the 5% allowance;
- VCT, EIS Seed EIS. Know your income tax, CGT and IHT reliefs and about offsetting losses. Also know about conditions that schemes need to fulfill to be eligible for status.
- Understand taxation of collectives including special schemes such as REITs and PAIFs.
- Understand how alternative assets are taxed – derivatives, commodities, collectibles.

7. Residence and domicile.

This has popped up a few times in recent exams. Areas to focus on include the rules on testing residency, CGT and non-residents, and the impact of non-domicile status where there are sizeable sums of unremitted income or gains.

8. National insurance contributions

Commonly these are included alongside an income tax scenario so if you are practising calculating income tax, why not have a go at NICs at the same time? Common areas to consider:

- Class 1 (employee, employer, benefits in kind (Class 1A));
- Class 2 and 4 for self-employed;
- Payment dates;
- Possibly something on Class 3.

The last two points that follow relate to areas that whilst not regular, can provide easy marks if you know your stuff. They often involve lists. These are the things we would recommend you concentrate on:

9. Powers of attorney - all types as well as wills and intestacy rules, deeds of variation and disclaimer.
10. Bankruptcy rules and alternative arrangements.

We hope this helps in working out your priorities.

Good luck!