Chartered
Insurance
Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2018 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.

R06 – Financial planning practice

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Read the Diploma in Regulated Financial Planning information for candidates and important notes for candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Financial Planning Information for Candidates and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk or from Customer Service.

Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk or from Customer Service. 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.

Read widely

It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook 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. 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 purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of each examination paper and the Examination Guide. 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.*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.
- The allocation of marks between the two case studies may vary slightly from one session to another.

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. For further information contact Customer Service.

Two weeks before the examination

What will I receive?
Case studies will be sent to candidates two weeks before the examination. They will contain client information, which will form the basis of the exam questions.

How should I use my time over the two week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarizing yourself with the client details from the case studies.

How should I use the case studies to help me prepare?
- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions
Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the exam seeks to test
The examination is based on two case studies for imaginary clients whose details you will have received two weeks prior to the exam date. The case studies will enable you to familiarise yourself with the clients circumstances. The questions will only be supplied in the actual examination.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper taking into account the financial objectives provided.
- Compare your answers against the model answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies arrive to focus on the client details and prepare yourself for the examination day.

In the examination

What will I receive?

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. You will be issued with an identical fresh copy. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common sense rules:

1. **Spend your time in accordance with the allocation of marks as indicated on the paper.** The maximum marks allocated to each question and its constituent parts are given on the paper. The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of 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 only return to the incomplete question after you have completed the rest of the paper, if you have time.

2. **Take great care to answer the precise question set.** The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However brilliantly a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated.* Many candidates leave the examination room confident that they have written a 'good' paper, only to be mystified 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.

Order of tackling questions
Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted, but *remember not to spend excessive time on the questions you are most confident about.*

Answering different question parts
Always read all parts of a question before starting to answer it, otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it would be necessary to duplicate much of what has already been written. The examiners will normally only give credit for an answer if it is contained within its correct question part.

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.

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

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

Many candidates performed well but there were gaps in knowledge from others. Performance overall was not as good as previous sessions.

Question 1

Part (a) This question has been tested before in a variety of formats and those that had studied past papers performed well. It was a typical factfinding style question and allowed for comments on information needed to consider a client's investments and pensions.

Part (b)(i) Some candidates found this question difficult as they focused on just one aspect of the policy, rather than looking at its' overall suitability. Even the better prepared candidates struggled to score above 3 marks. Many candidates did not mention Waiver of Premium, no candidate mentioned guaranteed insurability options.

Part (b)(ii) Most candidates scored well as this is a standard protection area that has been tested before.

Part (c) Candidate responses were very good. Most candidates were able to identify the majority of benefits associated with the Private Medical Insurance (PMI) but fewer candidates were able to identify more than a couple of drawbacks.

Part (d) This was a Lifetime ISA question that has been tested in the recent past as it is a new product offering tax benefits to certain client groups. Most candidates performed well as it was clear from the Case Study that this would be an option for the clients. Unfortunately, a number of candidates did not perform well as they had not researched this area thoroughly enough – some candidates thought the allowance was £20,000 – this indicates not enough preparation and these candidates did not perform particularly well overall.

Part (e) There were some good answers, although not many candidates scored "present client with Key Investor Information Document (KIID)/Packaged Retail and Insurance-based Investment Products (PRIIP)" despite this being a requirement of Markets in Financial Instruments Directive (MiFID II) regulations.

In part (f) Candidates did not achieve high marks in this section, despite platforms being a mainstream part of financial advice. Candidates had not considered relatively straightforward issues such as the ability to Bed and ISA and the availability of specialist funds.

Part (g) Reasonable performance was seen in this question, although some candidates did not state some key points, for example, regulatory/political risk.

Question 2

In part (a) This was well signposted in the case study and should have been straight forward. This was typical of past papers where comments on tax efficiency were sought. Many candidates achieved high marks in this question which had been tested previously and described the process in detail. Although some candidates did not identify the exact tax savings from each course of action.

Part (b) This was a new type of question and caused difficulties for some candidates. Generally, candidates did not appear to focus on the question being asked. Many candidates performed well on either the benefits or the drawbacks but very few candidates performed well on both.

Part (c)(i) This question was answered to a very good standard by many candidates. Most candidates were able to identify the key benefits of the loan trust although many did not clearly state the benefits of using a discretionary trust. Basic understanding of the loan trust arrangement was good, and some candidates were able to achieve high marks.

Part (c)(ii) This question focused on the Residential Nil Rate Band which is a key issue for consideration in Inheritance Tax planning (IHT), and was answered well by many candidates.

Part (d) Most candidates showed signs of very good preparation, with many achieving high marks. However almost all candidates omitted “appoint Trustees” and “on first death and assets pass into Trust”. Few candidates recognised that new Wills should be drawn up to include a Trust arrangement. This is a key option which would ensure the financial security of the survivor, whilst guaranteeing the inheritance for their respective children. Well prepared candidates were able to identify the fact that using a Trust would allow Sabine to use her late husband’s Nil Rate Band – effectively giving them additional IHT relief.

Part (e)(i) Many candidates performed well and were able to identify the benefits of using part of the self-invested personal pension scheme (SIPP) to purchase an annuity. Few candidates considered the fact that this action still left some IHT-efficient benefits for their families within the remaining SIPP.

Part (e)(ii) There were some very good candidate performances in this question part asking candidates to state the reasons why Stefan and Sabine should consider making further contributions to personal pensions.

Part (f) This was a standard review question and very well answered by many candidates.

Chartered Insurance Institute

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Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2018 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper.
- This paper consists of **two** case studies and carries a total of 150 marks.
- You are advised to spend approximately 90 minutes on the questions for each case study. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. 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.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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

Attempt ALL questions for each case study

Time: 3 hours

Case study 1

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e)**, **(f)** and **(g)** which follow.*

Mike, aged 40, and Shuwan, aged 39, are married with twin daughters, Taliyah and Stella, who are 7-years-old. Mike and Shuwan own their home as joint tenants, which is valued at £350,000 and they have an outstanding repayment mortgage of £175,000. The term remaining on the mortgage is 20 years. They have a joint life first death mortgage protection policy with a sum assured of £150,000. This policy provides life cover only.

Shuwan has recently taken an employed position as an engineer with Automation Engineering Ltd. Her salary is £55,000 gross per annum and she is a member of her employer's group personal pension scheme. She receives a 5% employer contribution based on her basic gross salary and makes a personal contribution of 2% of her basic gross salary.

Shuwan also has a group personal pension with her previous employer JTT Engineering Ltd, which has a current value of £115,000. It is invested in a UK Fixed Interest fund.

Shuwan's employer's pension scheme provides a death in service benefit of three times her basic salary. Death benefit nominations have been completed on both of Shuwan's pension arrangements in favour of Mike.

Shuwan's current employer offers a group private medical insurance (PMI) scheme which she is considering joining.

Mike and Shuwan are concerned about their financial security in the event of death or serious illness. Both Mike and Shuwan have made a Will leaving everything to each other on first death and thereafter to their children.

Mike was previously self-employed but closed down his business when the twins were born to become a full-time house person. He has no previous pension benefits.

Neither Mike or Shuwan have checked their entitlement to State pensions.

Mike and Shuwan have a medium attitude to risk. They have the following assets:

Type	Ownership	Current Value (£)
Current account	Joint	5,000
Deposit account	Joint	15,000
House	Joint Tenants	350,000
Cash ISA	Mike	22,000
OEIC – UK managed funds	Mike	50,000
Stocks and shares ISA (technology fund)	Shuwan	20,000

Mike and Shuwan's financial aims are to:

- put in place suitable financial protection in the event of death or serious illness;
- ensure that their savings and investments are suitable for their needs;
- ensure they have adequate income in retirement.

Questions

(a) State the additional information that you would require, in order to advise Mike and Shuwan on the suitability of their current pensions and investments. **(10)**

(b) Mike and Shuwan are keen to put in place suitable protection policies to meet their objectives.

(i) Comment on the suitability of Mike and Shuwan's existing joint life first death mortgage protection policy to meet their protection needs. **(8)**

(ii) Recommend and justify **one** suitable protection policy that will provide Mike with a regular income payment in the event of Shuwan's death. **(12)**

(c) State **six** benefits and **four** drawbacks for Shuwan of joining her employer's group private medical insurance (PMI) scheme. **(10)**

(d) Explain to Mike and Shuwan why Lifetime ISAs may **not** be suitable for them as long-term savings vehicles. **(10)**

(e) Outline the factors an adviser should consider and the process they should follow when recommending a fund switch within Shuwan's previous pension arrangement with JTT Engineering Ltd. **(10)**

(f) Explain to Mike and Shuwan the benefits of holding their investments on a platform. **(10)**

(g) Identify **five** types of risk to Shuwan of holding a technology fund within her ISA. **(5)**

Total marks available for this question: 75

Case study 2

Read the following carefully, and then carry out ***ALL*** *of the tasks* ***(a), (b), (c), (d), (e) and (f)*** *which follow.*

Stefan, aged 69, is married to Sabine, aged 65. Both of them were previously married. Stefan is divorced from his previous wife and Sabine was widowed in 2011. Stefan has one adult daughter, Emilia, who is married with three children. Sabine has four children, all of whom are married and she has five grandchildren. All of their adult children are financially independent. Both Stefan and Sabine are in good health.

Stefan and Sabine own their home which is mortgage-free and valued at £650,000. They have no other debts or liabilities. Stefan has a self-invested personal pension with a value of £700,000 from which he draws a gross pension income of £38,000 per annum. Sabine receives the widow's pension from her late husband's defined benefit pension scheme of £15,000 gross per annum. Both Stefan and Sabine are in receipt of their full State pension.

Stefan receives an income of £9,000 per annum gross from a portfolio of individual shares that he inherited from his parents. Stefan is keen to review the suitability and tax-efficiency of this portfolio.

Stefan and Sabine have the following assets:

Assets	Ownership	Amount (£)
Main residence	Joint Tenants	650,000
Current account	Joint	15,000
National Savings and Investments Premium Bonds	Sabine	50,000
Cash ISA	Sabine	35,000
Savings account	Stefan	90,000
Unit trust – UK Corporate Bond Fund	Stefan	70,000
Individual shares – UK Blue Chip shares	Stefan	300,000
Stocks and Shares ISA – UK Equity Tracker Fund	Stefan	85,000

Stefan and Sabine have a moderate attitude to investment risk and both of them are keen to preserve as much of their capital as possible for their children and grandchildren. Stefan and Sabine are considering the use of a loan trust to mitigate some of their future Inheritance Tax liability.

Stefan and Sabine have mirror Wills which leave all of their assets to each other and then to their respective children on second death.

Stefan and Sabine's financial aims are to:

- generate a sustainable income throughout their retirement;
- maximise their estate for their intended beneficiaries;
- improve the tax-efficiency of their current savings and investments.

Questions

(a) Recommend and justify the actions that Stefan and Sabine could take to improve the tax-efficiency of their current portfolio of savings and investments. **(12)**

(b) State **six** benefits and **six** drawbacks to Stefan of retaining the portfolio of individual shares. **(12)**

(c) **(i)** Explain to Stefan and Sabine how a loan trust operates and the benefits of such an arrangement to them. *No calculations are required.* **(10)**

(ii) Explain briefly to Stefan and Sabine how the Residential Nil Rate Band can be used to assist them with their Inheritance Tax planning. **(8)**

(d) Recommend and justify why Stefan and Sabine should draw up new Wills to ensure that their intended beneficiaries receive their residual estates on second death. **(8)**

(e) **(i)** Explain the benefits of Stefan buying a lifetime annuity with a portion of his self-invested personal pension. **(10)**

(ii) State the reasons why Stefan and Sabine should consider making further contributions to personal pensions. **(7)**

(f) State **eight** factors an adviser should take into consideration when reviewing Stefan and Sabine's investment portfolio at their next annual review. **(8)**

Total marks available for this question: 75

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

Model answer for Question 1

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

- Income/capital requirement.
- Timescale/intended retirement date.
- Emergency fund required.
- Fund choices/asset allocation/switching option.
- Performance of investments/interest rates on deposits/gains/income from investments.
- Charges.
- Base cost of open-ended investment company.
- Use of Capital Gains Tax exemption/use of ISA allowance/carry forward available.
- Ethical/religious preferences.
- Capacity for loss.
- Any inheritances/downsizing/use of other investments/State Pension.
- Affordability/expenditure.

(b)(i)

- Sum assured is too low to cover mortgage.
- No further life cover/they have insufficient life cover.
- Policy is suitable if policy matches existing mortgage term.
- Policy is suitable if premium is competitive.
- No critical illness cover.
- Policy is suitable if it has Waiver of Premium attached/Waiver of Premium is valuable.
- Current health/was policy rated?
- Guaranteed insurability options.

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

- Family income benefit.
- Provides tax free income.
- On Shuwan's life or joint life first death.
- In trust/life of another.
- Avoids probate/quick payment/known beneficiaries.
- Sum assured to maintain standard of living/£27,500 minimum.
- Term to retirement/when children are independent.
- Guaranteed premiums;
- known cost.
- Indexation;
- keeps pace with inflation.
- Waiver of Premium.
- To maintain a policy in the event of accident or sickness.

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

Benefits

- Cover for whole family.
- Minimal underwriting.
- Covers pre-existing conditions/if joined at first opportunity/moratorium.
- Subsidised cost by employer/cheap form of cover.
- Speedier treatment/return to work.
- Could be portable on leaving employer.
- Choice of hospital/consultant/availability of treatments.

Drawbacks

- Taxable benefit in kind.
- Inflexible if changes employer.
- Limited affordability at present.
- Benefit-in-kind cost could result in loss of Child Benefit.
- Provides no emergency cover.

(d)

- Limited contribution/£4,000.
- No tax relief/bonus is less than higher rate taxpayer pension tax relief.
- Limited number of providers/fund choice.
- They already own a house.
- Cannot withdraw without penalty until age 60;
- otherwise 25% penalty on withdrawal.
- Charges/advice costs to set up new plan.
- Can only contribute up to age 50/bonuses stop at age 50.
- Mike does not qualify due to age.
- Legislation may change.

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

- Fact-finding/knowing your client/client agreement.
- Assess attitude to risk/capacity for loss.
- Timescale.
- Charges.
- Performance.
- Fund choice available.
- Ethical.
- Asset allocation/diversification.
- Select fund/portfolio to match attitude to risk.
- Present client with Key Investor Information Document (KIID)/Packaged Retail and Insurance-based Investment Products (PRIIP).
- Obtain client permission/implement.
- Suitability Letter/recommendation letter to client.

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

- Ease of administration/online access.
- Low charges.
- Range of tax wrappers.
- Wide fund choice/ease of switching/rebalancing.
- Specialist funds/Discretionary Fund Management/exchange traded fund's/model portfolios/individual shares.
- Platform research/fund factsheets.
- Cash option.
- Tax reporting/Capital Gains Tax.
- Bed and ISA.
- In specie transfer.
- Facilitates adviser charging.

(g)

- Market risk/investment risk/systemic risk/systematic risk.
- Non-systematic risk/stock specific risk.
- Currency risk.
- Diversification risk/sector risk.
- Regulatory/political risk.

Case study 2

Model answer for Question 2

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

- Stefan is a higher rate tax payer and Sabine is a basic rate tax payer.
- Use ISA allowances/Bed & ISA;
- tax-efficiency.
- Transfer savings to joint names;
- uses Sabine's personal savings allowance /£1,000;
- saves 20% tax on interest.
- Transfer some shares/open-ended investment company to Sabine;
- interspousal transfer;
- use her Dividend allowance;
- saves Dividend Tax of 25%;
- saves Capital Gains Tax of 10%.
- Use Capital Gains Tax allowance.
- Pension contribution;
- tax relief/pension commencement lump sum/tax-efficient fund/Inheritance Tax efficiency.

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

- Potential for growth/hedged against inflation.
- Provides dividend income/yield.
- Uses Stefan's dividend allowance/£5,000/£2,000.
- Can Bed & ISA holdings.
- Easily accessible/relatively liquid.
- Can use Capital Gains Tax allowance/tax-efficiency.
- No currency risk.

Drawbacks

- No diversification/all UK holdings.
- High risk/could make a loss.
- Does not match his attitude to risk.
- Administration/time to monitor.
- Not held in ISA/does not use any of Sabine's tax allowances.
- Dividend yield exceeds annual allowance/£5,000/£2,000/taxed at 32.5% on dividend income.

(c)(i) *Candidates would have gained full marks for any ten of the following:*

- Discretionary Trust.
- Settlors should be Trustees.
- They retain control/allows access to original capital.
- Identify beneficiaries/change beneficiaries.
- Discretionary Trust protects beneficiaries in case of bankruptcy/divorce.
- Make capital loan to Trustees/not a gift.

- No immediate Inheritance Tax liability.
- Growth immediately outside estate.
- Loan remains within estate/repayable on demand.
- Can be held in Investment Bond.
- Trust may suffer periodic/exit charges.

(c)(ii)

- Provides additional Nil Rate Band (NRB)/in excess of £325,000.
- Available to home owners/Stefan and Sabine are eligible.
- Must leave property to linear descendants.
- Includes children/grandchildren/stepchildren.
- currently £100,000/£125,000.
- Increases to £175,000 by 2021.
- Can be transferred to survivor.
- Tapered reduction if estate exceeds £2 million.

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

- Current Wills unsuitable/do not meet objectives.
- Wills leave all assets to survivor on first death.
- Survivor can write new Will on first death/No guarantee of beneficiaries on second death/can disinherit children/can remarry/mirror Will becomes invalid.
- Include Will Trust/immediate post death interest.
- Appoint Trustees.
- On first death, assets pass into Trust.
- May permit Sabine to use her late husband's nil rate band.
- Survivor is life tenant.
- Survivor can take income/capital in form of a loan.

(e)(i)

- Provides guaranteed income for life.
- Can buy further annuities in future/rates may improve/worsen.
- Can be index-linked.
- Can purchase capital protection/guarantee period.
- Can provide spouse's benefit.
- No investment risk (on annuity).
- No administration/simple product/no reviews needed.
- No ongoing cost/adviser charges.
- Potential growth on remaining fund.
- Residual self-invested personal pension scheme (SIPP) fund provides Inheritance Tax benefits.

(e)(ii)

- Tax relief.
- Pension commencement lump sum.
- Tax efficient fund.
- Potential for growth.
- Inheritance Tax efficiency.
- Intended beneficiary can be nominated/flexible death benefits.
- Fund choice can match attitude to risk.

(f)

- Change in personal circumstances/health/family.
- Need for income/affordability/tax status/new funds to invest/change in objectives.
- Fund values/performance.
- Rebalance/attitude to risk/asset allocation.
- Use of tax allowances/ISA/gifting for Inheritance Tax.
- New products/legislation/taxation.
- Change in economic circumstances/market/political.
- Charges.

July 2018 Examination - R06 Financial Planning Practice		
Question No.	**Syllabus learning outcomes being examined**	
1.	1.	Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process.
	2.	Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions.
	3.	Analyse a client's situation and the advantages and disadvantages of the appropriate options.
	4.	Formulate suitable financial plans for action and explain and justify recommendations.
	5.	Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1.	Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process.
	2.	Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions.
	3.	Analyse a client's situation and the advantages and disadvantages of the appropriate options.
	4.	Formulate suitable financial plans for action and explain and justify recommendations.
	5.	Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the October 2018 paper will be based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise and should be answered accordingly.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
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.*

Dividend Allowance		£5,000
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)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances†	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 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.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 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 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.85 where profits exceed £6,025 per annum.
Class 3 (voluntary)	Flat rate per week £14.25.
Class 4 (self-employed)	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

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	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

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, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£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	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
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%
Entrepreneurs’ Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2016/2017	2017/2018
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£100,000	£100,000
- UK-registered charities	No limit	No limit

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

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2017/2018:

- The percentage charge is 9% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates	2017/2018 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
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2016/2017	2017/2018
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian’s allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98

*Only applicable where spouse or civil partner died on or after 6 April 2007**

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

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