THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2013 examination

SPECIAL NOTICES
All questions in this paper are based on English law and practice applicable in the tax year 2012/2013, unless stated otherwise and should be answered accordingly.
Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.
Candidates should answer based on the legislative position immediately BEFORE the 2013 budget.

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

Mark, aged 42, is married to Susan, aged 32. Their children, twins Dylan and Sophia, are 12 months old.

Mark is a self-employed IT consultant with taxable net profits of £65,000 per annum. Susan gave up her job as a travel agent 12 months ago to dedicate her time to raising their two children.

Mark and Susan currently live in rented accommodation at a monthly cost of £980 and are keen to purchase their own property as soon as possible. They have seen several properties of interest to them and are now concentrating on building up a deposit before approaching their bank to discuss arranging a mortgage.

Their total assets are as follows:

Owner	Product Type	Fund	Current Value £
Mark	Stocks and Shares ISA	Pacific Basin Fund	15,580
Mark	Personal Pension Plan	Traditional With-Profits Fund	32,500
Mark	Current Account	N/A	2,000
Joint	Deposit Account	N/A	12,500

To help build up a suitable deposit, Mark recently stopped the monthly contributions to his ISA and increased the contributions to their deposit account.

Mark continues to pay £200 per month net of basic rate tax into his personal pension plan and is wondering whether or not this would make a suitable vehicle for repaying a mortgage.

Mark wishes to receive advice on whether a traditional with-profits fund is suitable for his pension investment.

Their financial aims are to:

- provide financial security in the event of death, long term illness or disability;
- purchase their own property;
- improve their tax position;
- save for their children's education.

Questions

(a) State the additional information you would require in order to advise Mark and Susan on their protection needs. **(12)**

(b) Recommend and justify a suitable product for Mark and Susan to protect their family in the event of death. **(14)**

(c) Mark is considering either an income protection or accident, sickness and unemployment (ASU) policy to protect his income in the event of being unable to work.

State **five** benefits and **five** drawbacks of using an income protection policy rather than an ASU policy for this purpose. **(10)**

(d) State the factors you would take into account when advising Mark and Susan on building up a suitable deposit for their property purchase. **(6)**

(e) Outline and justify the actions that Mark and Susan can take to improve tax efficiency. **(11)**

(f) State the benefits and drawbacks of Mark and Susan paying £3,000 into Junior ISAs in respect of each of their children to help fund future university costs. **(6)**

(g) In respect of Mark's personal pension plan:

(i) State the additional information you would require in respect of the traditional with-profits fund, prior to making a recommendation as to whether or not Mark should switch to an alternative fund. **(7)**

(ii) State **three** benefits and **five** drawbacks of Mark utilising this as a repayment vehicle for an interest-only mortgage. **(8)**

Total marks available for this question: 74

Questions continue over the page

Case study 2

James, aged 45, is divorced and has two children from a previous marriage, Alice, age 12 and Mary, age 14. The children live with their mother, who has since remarried.

James works as a project manager and changes jobs regularly. His current earnings are £180,000 gross per annum and he has 12 months remaining on his current contract of employment.

James has a self-invested personal pension (SIPP) into which he has contributed £400 per month net of basic rate tax for more than 10 years.

James owns a house worth £350,000 and has a mortgage of £150,000 on a repayment basis. Over the years, he has accrued a portfolio of investments. He is considering ethical investments but is unsure whether such an approach would be suited to his needs. His mother died one year ago and her estate has not yet been settled. He expects to receive an inheritance of around £300,000 in one month's time.

He would like to maximise his estate for the benefit of his children.

His savings and investment portfolio is as follows:

Type	**Amount £**
Deposit Account	30,000
Traditional With-Profits Bond	107,000
ISAs (stocks and shares: gilt and fixed interest fund)	14,000
Current Account	30,000
ISAs (cash)	61,000
Unit Trusts (corporate bond)	26,000
Unit Trust (gilt and fixed interest)	62,000
Unit Trust (emerging markets)	6,000

He has a medium-high attitude to risk and has not made a Will. He has not made any contribution in the current tax year to his ISAs.

His financial aims are to:

- maximise tax efficiency;
- maintain his standard of living in retirement;
- review the suitability of his savings and investments;
- preserve the value of his estate for his children.

Questions

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

(a) **(i)** Recommend and justify ways James could immediately reduce the Inheritance Tax that would be payable on his death. **(9)**

(ii) In the event of James's death, describe the process of how his estate will be settled if he does not make a Will and identify the potential problems that could arise. *A statement of the laws of intestacy is not required.* **(11)**

(b) **(i)** Calculate, **showing all your workings,** the maximum net tax relievable contribution James could make in the current tax year to his SIPP. **(6)**

(ii) State **three** benefits and **three** drawbacks of James continuing to contribute to his SIPP rather than to a personal pension plan. **(6)**

(c) Describe how a deed of variation is set up and the formalities which have to be incorporated within the deed. **(12)**

(d) **(i)** Comment on the suitability of James's existing investment portfolio. **(6)**

(ii) Recommend and justify how the tax efficiency of his investment portfolio could be improved. **(8)**

(e) Describe the issues that James's adviser should consider when formulating a recommendation to assist James in an ethical investment strategy. **(11)**

(f) State **seven** areas an adviser would address when effecting a review on a job change. **(7)**

Total marks available for this question: 76

The tax tables can be found on pages 9 – 13

INCOME TAX

RATES OF TAX	2011/2012	2012/2013
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	50%
Starting-rate limit	£2,560*	£2,710*
Threshold of taxable income above which higher rate applies	£35,000	£34,370
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	N/A	£50,000

**restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.*

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£7,475	£8,105
Personal Allowance (age 65-74) §	£9,940	£10,500
Personal Allowance (aged 75 and over) §	£10,090	£10,660
Married/civil partners (minimum) at 10% †	£2,800	£2,960
Married/civil partners (age 75 and over) at 10%	£7,295	£7,705
Income limit for age-related allowances	£24,000	£25,400
Blind Person's Allowance	£1,980	£2,100
Enterprise Investment Scheme relief limit on £1,000,000 max (£500,000 in 2011/2012)	30%	30%
Seed Enterprise Investment relief limit on £100,000	N/A	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.
† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- Child element per child (maximum)	N/A	£2,690
- family element	£545	£545
Threshold for tapered withdrawal of CTC	N/A	£15,860

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£107	£464	£5,564
Primary threshold	£146	£634	£7,605
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£817	£3,540	£42,475

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 146.00*	Nil	Nil
146.01 – 770.00	12%	10.6%
770.01 – 817.00	12%	12%
Above 817.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £107 per week. This £107 to £146 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	*Money purchase*
Below 144.00**	Nil	Nil	Nil
144.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 817.00	13.8%	13.8%	13.8%
Excess over 817.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.65 where earnings exceed £5,595 per annum.
Class 3 (voluntary)	Flat rate per week £13.25.
Class 4 (self-employed)	9% on profits between £7,605 - £42,475 2% on profits above £42,475.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000
2012/2013	£1,500,000	£50,000

ANNUAL ALLOWANCE CHARGE
20% - 50% member's tax charge on the amount of total pension input in excess of the annual allowance.

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.

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS	2011/2012	2012/2013
Transfers made after 5 April 2012		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

**For deaths after 5 April 2012, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

MAIN EXEMPTIONS		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£55,000	£55,000
- UK-registered charities	No limit	No limit
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	£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%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO2) emissions. There is no reduction for high business mileage users.

For 2012/2013:

- Cars that cannot emit CO_2 have a 0% charge.
- The percentage charge is 5% of the car's list price for CO2 emissions of 75g/km or less.
- For cars with CO_2 emissions of 76g/km to 99g/km the percentage is 10%.
- Cars with CO_2 emissions of 100g/km have a percentage charge of 11% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 220g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 35% 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 (£20,200 for 2012/2013) e.g. car emission 100g/km = 11% on car benefit scale. 11% of £20,200 = £2,222.

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 Contributions (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2011/2012 Rates	2012/2013 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

	2011/2012	2012/2013
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£100,000	£25,000
Plant & machinery (reducing balance) per annum	20%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	10%	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 01/04/09 (Corporation Tax) or 06/04/09 (Income Tax)

CO_2 emissions of g/km:	110 or less*	111-160	161 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

*If new

Research & Development:	Capital expenditure	100%

MAIN SOCIAL SECURITY BENEFITS

		2011/2012	2012/2013
		£	£
Child Benefit	First child	20.30	20.30
	Subsequent children	13.40	13.40
	Guardian's allowance		15.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 53.45	Up to 56.25
	Aged 25 or over	Up to 67.50	Up to 71.00
	Main Phase		
	Work Related Activity Group	Up to 94.25	Up to 99.15
	Support Group	Up to 99.85	Up to 105.05
Attendance Allowance	Lower rate	49.30	51.85
	Higher rate	73.60	77.45
Retirement Pension	Single	102.15	107.45
	Married	163.35	171.85
Pension Credit	Single person standard minimum guarantee	137.35	142.70
	Married couple standard minimum guarantee	209.70	217.90
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		100.70	105.95
Jobseekers Allowance	Age 16 - 24	53.45	56.25
	Age 25 or over	67.50	71.00
Statutory Maternity, Paternity and Adoption Pay		128.73	135.45

CAPITAL GAINS TAX

EXEMPTIONS	2011/2012	2012/2013
Individuals, estates etc	£10,600	£10,600
Trusts generally	£5,300	£5,300
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	28%	28%
Trustees and Personal Representatives	28%	28%
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.

CORPORATION TAX

	2011/2012	2012/2013
Full rate	26%	24%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	27.5%	25.0%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2011/2012	2012/2013
Standard rate	20%	20%
Annual Registration limit	£73,000	£77,000

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