THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2013 examination

SPECIAL NOTICES
All questions in this paper are based on English law and practice applicable in the tax year 2013/2014, 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

Graham, aged 45, is married to Mary, aged 39. They have a daughter, Jane, aged 14. As a result of a serious car accident six months ago, Jane is severely physically disabled, but retains full mental capacity. Jane is in need of full time care which is expected to be the case for the rest of her life. Until Jane's accident, Mary was a teacher at a private school, but now cares for Jane on a full-time basis and is investigating if she will be entitled to any State support.

Graham works full time as an aerospace engineer for a multinational company and receives a basic salary of £90,000 gross per annum. He has worked for this employer since he left university. He is a member of his employer's non-contributory defined benefit pension scheme and receives a regular bonus of approximately £12,000 gross per annum. Graham has nominated the death benefits that may be payable on his death to a spousal bypass trust for the eventual benefit of Jane.

As a result of Jane's accident, Graham and Mary have been taking legal action against the insurance company of the driver of the other car involved in the accident, and the insurer has now admitted full liability for Jane's injuries. Jane is to be awarded substantial damages by the court for her continuing care and this will allow Mary to continue looking after her full-time and provide for Jane's welfare both now and in the future. It is expected that the award will be in the region of £4,000,000 in total.

Graham and Mary have never taken significant risks with their money, but are now willing to consider other options. Their home is currently valued at £700,000. They have just completed the repayment of their mortgage following a legacy received by Graham, the balance of which is currently held in their joint deposit account.

Graham and Mary made Wills soon after Jane's accident, leaving everything to each other on first death, and into a disabled person's trust for Jane on second death. Graham's younger sister, Esther, has been named as Jane's guardian and trustee in the event of anything happening to Graham and Mary. Esther has agreed that she would look after Jane full time for as long as necessary.

Graham and Mary's total assets are currently:

Owner	Asset	Amount (£)
Joint	Deposit Account	212,000
Graham	Options	18,000
Mary	Cash ISA	22,000
Graham	Cash ISA	22,000

The options were granted when Graham's employer was bought by a multinational company.

Graham and Mary's financial aims are to:

- make sure Jane is cared for both now and in the future;
- arrange their finances as tax efficiently as possible;
- ensure their investments are in line with their attitude to risk;
- seek to mitigate any potential Inheritance Tax liability.

Questions

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

(a) **(i)** State the main factors that would typically influence a client's attitude towards investment risk. **(8)**

(ii) Outline the process that an adviser should follow to determine the attitude to risk for Graham and Mary by the use of a risk profile tool. **(7)**

(b) State ways in which Graham could improve his tax efficiency. **(8)**

(c) State the qualifying criteria that Mary has to meet in order to claim Carer's Allowance for the time that she looks after Jane. **(6)**

(d) **(i)** Calculate, **showing all your workings**, the current Inheritance Tax (IHT) liability that would apply in the event of both Graham and Mary dying now. **(5)**

(ii) Recommend and justify a suitable policy to mitigate Graham and Mary's potential IHT liability. **(12)**

(e) As a result of the settlement, Jane has been offered the choice of taking the compensation in the form of a lump sum payment or a series of periodic payments.

State the **advantages** and **disadvantages** to Jane and her family of receiving a:

(i) lump sum payment; **(8)**

(ii) series of periodic payments. **(8)**

(f) **(i)** Describe the main conditions which need to be met for a trust to qualify as a disabled person's trust. **(5)**

(ii) Explain how Graham and Mary can continue to manage Jane's affairs when she attains the age of majority. **(6)**

Total marks available for this question: 73

Questions continue over the page

Case Study 2

Emma, aged 38, is married to Jim, aged 42. They have two children, Noah, aged 12, and Hamish, aged 16.

Emma has been running a successful children's clothing company for the past 15 years. Emma owns 75% of the company with Jim owning the other 25% of the shares. The company pays her a salary of £120,000 gross per annum and they both receive dividends when the company's performance allows. In the 2012/2013 tax year the gross dividend paid by the company was £100,000. Emma expects the dividend in the 2013/2014 tax year to be the same.

For the past eight years, Jim has worked for a local charity on a part-time basis, after returning to work when the children started school. He receives a salary of £12,000 gross per annum. In addition, he is also a member of his employer's defined benefit pension scheme. His intended retirement age is 65.

Emma has a self-invested personal pension scheme into which the company has made contributions of £20,000 per year, on her behalf, for the previous eight years. With the accumulated fund, Emma has recently completed the purchase of a commercial property, which has been leased to her company as their headquarters for the next ten years at a rent of £25,000 per annum. The property is worth £450,000 on which there is a mortgage of £150,000.

Jim inherited £400,000 from his parents' estate in March 2005 and immediately invested £120,000 into an onshore life assurance bond which is currently worth £218,000. With the balance, they repaid the mortgage on their jointly owned home, which is now worth £425,000. The bond is held jointly in a distribution fund and no withdrawals have been made. They currently hold £50,000 in their joint current account and would like to consider investing this for growth.

Jim has stated that he would like to review their investments and savings and also to consider some form of savings for their children. Prior to the 2013/2014 tax year they had been saving £100 per month in a savings account from the child benefit Jim receives. The savings account pays 3% gross interest per annum and is in Jim's sole name, for the benefit of their children. The savings account is currently worth £12,000 which Emma and Jim intend to split equally for the benefit of Noah and Hamish when they start University at age 18. In January 2013, Jim elected to no longer receive any further child benefit due to the level of Emma's earnings.

Emma and Jim's financial aims are to:

- review their pension planning arrangements to enable them to maintain their standard of living in retirement;
- review the suitability of their investments;
- ensure their arrangements are as tax efficient as possible.

Questions

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

(a) Calculate, **showing all your workings**, the maximum allowable tax relievable single pension contribution that can be made to Emma's self-invested personal pension scheme in the 2013/2014 tax year, without triggering an annual allowance charge. **(8)**

(b) In respect of the contribution calculated in part (**a**), state **four** advantages of:

(i) Emma making the maximum personal contribution to the pension; **(4)**

(ii) the company making the maximum contribution to the pension. **(4)**

(c) State the additional information that an adviser would require in order to advise Jim on his retirement planning. **(14)**

(d) **(i)** Calculate, **showing all your workings**, the maximum amount that can currently be withdrawn from the investment bond without incurring an immediate tax liability. **(3)**

(ii) Calculate, **showing all your workings**, the tax liability for Emma due on the full surrender of the investment bond. *Assume that the bond is fully surrendered in October 2013.* **(8)**

(iii) In respect of both Emma and Jim, explain how the tax liability would be different if the bond had been held as an offshore bond rather than an onshore bond. *No calculation is required.* **(4)**

(e) State the additional information that an adviser would require when reviewing Emma and Jim's investment planning. **(12)**

(f) Recommend and justify how Emma and Jim could improve their tax efficiency. **(12)**

(g) Explain in detail how Junior ISAs could be suitable for making investments on behalf of their children. **(8)**

Total marks available for this question: 77

The tax tables can be found on pages 9 - 13

INCOME TAX

RATES OF TAX	2012/2013	2013/2014
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	45%
Starting-rate limit	£2,710*	£2,790*
Threshold of taxable income above which higher rate applies	£34,370	£32,010
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

**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 if born after 5 April 1948) §	£8,105	£9,440
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,500
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) at 10% †	£2,960	£3,040
Married/civil partners (if born before 6 April 1938) at 10%	£7,705	£7,915
Income limit for age-related allowances	£25,400	£26,100
Blind Person's Allowance	£2,100	£2,160
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000	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)	£2,690	£2,720
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,860	£15,910

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£109	£473	£5,668
Primary threshold	£149	£646	£7,755
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£797	£3,454	£41,450

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 149.00*	Nil	Nil
149.01 – 770.00	12%	10.6%
770.01 – 797.00	12%	12%
Above 797.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £109 per week. This £109 to £149 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 148.00**	Nil	Nil	Nil
148.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 797.00	13.8%	13.8%	13.8%
Excess over 797.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.70 where earnings exceed £5,725 per annum.
Class 3 (voluntary)	Flat rate per week £13.55.
Class 4 (self-employed)	9% on profits between £7,755 - £41,450 2% on profits above £41,450.

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
2013/2014	£1,500,000	£50,000

ANNUAL ALLOWANCE CHARGE
20% - 45% 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	2012/2013	2013/2014
Transfers made after 5 April 2013		
- 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 2013, 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	£325,000
- 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 (CO_2) emissions. There is no reduction for high business mileage users.

For 2013/2014:

- Cars that cannot emit CO_2 have a 0% charge.
- The percentage charge is 5% of the car's list price for CO_2 emissions of 75g/km or less.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 10%.
- For cars with CO_2 emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO_2 emissions of 100g/km have a percentage charge of 12% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 215g/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 (£21,100 for 2013/2014) e.g. car emission 100g/km = 12% on car benefit scale. 12% of £21,100 = £2,532.

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

	2012/2013 Rates	2013/2014 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

	2012/2013	2013/2014
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£25,000	£250,000
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 2013 (Corporation Tax) or 06 April 2013 (Income Tax)

CO_2 emissions of g/km:	95 or less*	96-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

*If new

Research & Development:	Capital expenditure	100%

MAIN SOCIAL SECURITY BENEFITS

		2012/2013	2013/2014
		£	£
Child Benefit	First child	20.30	20.30
	Subsequent children	13.40	13.40
	Guardian's allowance	15.55	15.90
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.25	Up to 56.80
	Aged 25 or over	Up to 71.00	Up to 71.70
	Main Phase		
	Work Related Activity Group	Up to 99.15	Up to 100.15
	Support Group	Up to 105.05	Up to 106.50
Attendance Allowance	Lower rate	51.85	53.00
	Higher rate	77.45	79.15
Retirement Pension	Single	107.45	110.15
	Married	171.85	176.15
Pension Credit	Single person standard minimum guarantee	142.70	145.40
	Married couple standard minimum guarantee	217.90	222.05
	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		105.95	108.30
Jobseekers Allowance	Age 16 - 24	56.25	56.80
	Age 25 or over	71.00	71.70
Statutory Maternity, Paternity and Adoption Pay		135.45	136.78

CAPITAL GAINS TAX

EXEMPTIONS	2012/2013	2013/2014
Individuals, estates etc	£10,600	£10,900
Trusts generally	£5,300	£5,450
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

	2012/2013	2013/2014
Full rate	24%	23%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	25%	23.75%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2012/2013	2013/2014
Standard rate	20%	20%
Annual registration threshold	£77,000	£79,000
Deregistration threshold	£75,000	£77,000

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