

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

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 in the question, 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 AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task 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 task on a new page and leave six lines blank after each task.

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.

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

Immediate objectives

- To make provision for Miles and Harriet's future university costs.
- To provide financial security for each other and the children in the event of either Phil or Jane dying or being unable to work due to illness or accident.
- To protect the value of Jane's inheritance so that it can be used to help achieve their other objectives.

Long term objectives

- To provide adequate income in retirement.
- To maximise the value of the estate passed on to their children.

Attempt ALL tasks**Time: 3 hours**

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

1. Identify the additional information you would need to discuss with Phil and Jane in order to advise them how to meet their:
 - (a) immediate financial objectives (14)
 - (b) longer-term objectives. (10)

2. Phil and Jane are unsure about how much investment risk they should take.

Identify the main factors you should discuss with Phil and Jane in order to establish and agree their risk profiles. *You are not required to list or explain the different investment risks they may face.* (10)

3. Phil and Jane are concerned about the potential Inheritance Tax liability if they were to die in the near future, particularly in relation to the money that Jane has inherited.
 - (a) Explain briefly how executing a deed of variation on Jane's mother's Will could mitigate the Inheritance Tax liability on Jane's death, assuming Jane dies after Phil. (6)
 - (b) Describe briefly how Quick Succession Relief would operate if Jane were to die in two years' time. *No calculations are required.* (6)
 - (c) Jane would like Miles and Harriet to benefit from a proportion of the money she has inherited from her mother on her death, whilst allowing Phil access to this money during his lifetime. Explain briefly how a trust arrangement set up as part of Jane's Will might help achieve these objectives. (6)

4. Identify **four** key benefits and **four** key drawbacks for Phil and Jane of using the following investment options to help achieve their objective of securing an adequate retirement income.
 - (a) Pension plans. *You are not required to comment on which kind of pension plan(s) they might use.* (8)
 - (b) A portfolio of unit trusts/open-ended investment companies (OEICs). (8)
 - (c) A buy-to-let property partially funded by a mortgage. (8)

Questions continue over the page

5. Phil and Jane are particularly concerned about the effect that death or long-term illness would have on the family's financial situation.
- (a) Comment on their present position and identify any weaknesses if either of them were to die tomorrow. (12)
- (b) Comment on their present position and identify any weaknesses if either of them suffered a long-term illness or disability. (8)
6. Detail and justify the recommendations you would make in respect of each of the following financial objectives. *No calculations are required:*
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.*
- (a) Provide financial security for each other and their children in the event of either Phil or Jane dying. (18)
- Provide financial security for themselves and their children if either Phil or Jane suffered a long-term illness or disability. (12)
7. Detail and justify the recommendations you would make in respect of each of the following financial objectives. *No calculations are required.*
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.*
- (a) To ensure Phil and Jane have an adequate income in retirement. (14)
- (b) To make provision for Miles and Harriet's university costs. (12)
8. When conducting your annual review, identify **eight** areas you would specifically address with Phil and Jane. (8)

The tax tables can be found on pages 8 – 12

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) (if born before 6 April 1935) at 10% † | £2,960 | £3,040 |
| Married/civil partners (if born before 6 April 1935) 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 (CO₂) emissions. There is no reduction for high business mileage users.

For 2013/2014:

- Cars that cannot emit CO₂ 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 CO₂ emissions of 76g/km to 94g/km the percentage is 10%.
- For cars with CO₂ emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO₂ 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 CO₂ 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% | 18% |
| | 8% | |
| | first year | reducing balance |
| | reducing balance | reducing balance |
| *If new | | |
| Research & Development: | Capital expenditure | 100% |

MAIN SOCIAL SECURITY BENEFITS

| | 2012/2013 | 2013/2014 |
|---|---|--------------|
| | £ | £ |
| Child Benefit | First child | 20.30 |
| | Subsequent children | 13.40 |
| | Guardian's allowance | 15.55 |
| Employment and Support Allowance | Assessment Phase | |
| | Age 16 – 24 | Up to 56.25 |
| | Aged 25 or over | Up to 71.00 |
| | Up to 56.80 | Up to 71.70 |
| | Main Phase | |
| | Work Related Activity Group | Up to 99.15 |
| | Support Group | Up to 105.05 |
| | Up to 100.15 | Up to 106.50 |
| Attendance Allowance | Lower rate | 51.85 |
| | Higher rate | 77.45 |
| | 53.00 | 79.15 |
| Retirement Pension | Single | 107.45 |
| | Married | 171.85 |
| | 110.15 | 176.15 |
| Pension Credit | Single person standard minimum guarantee | 142.70 |
| | Married couple standard minimum guarantee | 217.90 |
| | Maximum savings ignored in calculating income | 10,000.00 |
| | 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 |
| | Age 25 or over | 71.00 |
| | 56.80 | 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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