THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2014 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.
Candidates should answer based on the legislative position immediately BEFORE the 2014 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

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

David, aged 36, is married to Lyn, aged 35. They have two children, Emma, aged seven, and Sam, aged four. David is a self-employed electrician with taxable net profits of £25,000 gross for the previous tax year. Lyn is employed as a management consultant on a salary of £95,000 per annum gross. Lyn has recently been promoted and her gross salary will increase to £115,000 per annum in August 2014.

Lyn's employer has recently introduced an approved partnership Share Incentive Plan for all senior employees. Lyn has not yet joined this arrangement.

David and Lyn have a joint interest-only mortgage on their home with a current balance of £200,000 outstanding, and a remaining term of 19 years. Their home was recently valued at £250,000. They have an existing level term assurance policy, on a joint life first death basis, with a sum assured of £150,000, for the term of the mortgage. Neither David nor Lyn have any further protection policies.

David and Lyn would like to move to a larger house within the next two years. They jointly own shares in a UK equity open ended investment company (OEIC) into which they pay £250 per month, with the aim of using this to repay their mortgage. The current value of their OEIC investment is £26,000.

Lyn holds a number of individual shareholdings in UK companies, currently valued at £40,000 in total. These shares generated annual dividend income of £1,200 gross in the last tax year. Lyn also holds £25,000 in a deposit account, which receives interest of 1.5% per annum gross.

David holds £15,000 in National Savings & Investments Premium Bonds.

They would like their children to attend private school from the age of 11 to 18.

David and Lyn are both in good health and have a medium attitude to risk.

Their financial aims are to:

- provide financial security in the event of death, long-term illness or disability;
- make provision to move house in two years time;
- ensure that their investments are held as tax-efficiently as possible;
- make provision to fund their children's future private school fees.

Questions

(a) Outline the actions that David and Lyn should take to improve the tax-efficiency of their existing cash deposits and investment portfolio. **(7)**

(b) David is considering incorporating his business.

State **four** benefits and **four** drawbacks for David of effecting the incorporation. **(8)**

(c) State the additional information you would require, to advise David and Lyn on their future investment strategy in respect of their aims to fund:

(i) private school fees; **(10)**

(ii) their planned house move. **(6)**

(d) Lyn is considering joining her employer's approved partnership Share Incentive Plan (SIP):

(i) Explain how this type of plan operates. *Your answer should include the tax treatment of this plan.* **(10)**

(ii) List **five** potential **drawbacks** for Lyn of joining this plan. **(5)**

(e) In respect of David and Lyn's protection arrangements:

(i) Outline why their current arrangements are insufficient to meet their needs. **(7)**

(ii) Recommend and justify a suitable policy to protect David and Lyn's standard of living in the event of death or serious illness. **(12)**

(f) **(i)** Explain in detail the tax implications of Lyn's salary increase. *No calculation is required.* **(5)**

(ii) State **three** actions that Lyn could take to reduce her Income Tax liability. **(3)**

Total marks available for this question: 73

QUESTIONS CONTINUE OVER THE PAGE

Case Study 2

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

Paul, aged 61, has just married Anna, aged 60. Anna finalised her divorce a few months ago. Paul has been divorced for two years. He has two children from his previous marriage, Chelsea, aged 19, and Tom, aged 15. Both children live with Paul and Anna and are financially dependent on them.

Paul is employed as Managing Director of a limited company and owns 100% of its shares which are valued at £500,000. He receives a basic salary of £75,000 per annum gross, and received gross dividends in the last two tax years of £20,000. He anticipates the same dividend in the current tax year. Anna is employed by Paul's company as a part-time secretary and has a basic salary of £12,000 per annum gross.

Paul and Anna recently purchased a new home for £400,000. This home is owned outright on a joint tenancy basis. Anna's mother has recently suffered a fall, and has moved in with the family for the foreseeable long term future.

Paul has a self-invested personal pension scheme (SIPP) with a total asset value of £1,350,000. The plan assets include the yard, from which his company operates. The yard is valued at £500,000 and all remaining funds are held in a trustee bank account.

Anna has a personal pension plan with a fund value of £340,000. She is also in receipt of a scheme pension of £18,000 per annum. Anna has agreed to accept 50% of her ex-husband's funded defined benefit pension scheme under a pension sharing order, as part of her financial settlement on divorce. Her ex-husband's Cash Equivalent Transfer Value (CETV) is £200,000.

Both Paul and Anna are considering their pension crystallisation options. Their total investments are as follows:

Type	Investor	Value	Initial investment
Deposit Account	Joint	£60,000	£59,000
Stocks and Shares ISA	Paul	£127,000	£59,000
Unit Trusts	Paul	£155,000	£37,000
Offshore Life Assurance bond	Paul	£220,000	£150,000

Neither Paul nor Anna have contributed to ISAs in the current tax year and both have stated that they have a medium to high attitude to risk. No withdrawals have been made from any of their investments. Neither Paul nor Anna have made a will.

Their financial aims are to:

- maintain their standard of living in retirement;
- mitigate potential inheritance tax liabilities;
- maximise tax efficiency on their investments;
- make provision for the two children in the event of their deaths.

Questions

(a) State the additional information that a financial adviser would require when providing Paul with retirement planning advice. **(12)**

(b) **(i)** Anna is considering the use of phased flexible drawdown in respect of her personal pension.

Explain, in detail, how such an arrangement could operate for Anna. **(10)**

(ii) Comment on how Paul's risk profile will impact upon his retirement planning decisions. **(4)**

(c) Anna is considering how to proceed with the pension sharing order.

Explain the implications of the pension sharing order, and the factors she should consider, based on her circumstances. **(5)**

(d) Paul is considering the use of an Enterprise Investment Scheme to reinvest the potential sale proceeds from his unit trusts.

State **five** benefits and **five** drawbacks of this course of action. **(10)**

(e) Anna is planning to help her mother make a claim for Attendance Allowance.

State the qualifying criteria for this benefit. **(6)**

QUESTIONS CONTINUE OVER THE PAGE

(f) Paul and Anna are both planning to write new wills in the near future.

(i) Explain how Paul's estate would be distributed if he were to die before the new will is made, assuming Anna survives for more than 28 days. *No calculation is necessary.* **(8)**

(ii) State the conditions that must be satisfied for a will to be valid. **(6)**

(iii) Recommend and justify ways in which Paul and Anna could reduce or mitigate their potential Inheritance Tax liability**.** **(12)**

(g) List **four** areas that an adviser should consider when reviewing Paul and Anna's financial affairs. **(4)**

Total marks available for this question: 77

THE TAX TABLES CAN BE FOUND ON PAGES 10 – 16

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	2012/2013	2013/2014
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.

	2012/2013	2013/2014
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.

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.*

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	2012/2013	2013/2014
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%

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

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

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