

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2015 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2014/2015, 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 2015 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 and then carry out ALL of the tasks (a), (b), (c), (d), (e) and (f) which follow.

Laurie, aged 37, is married to Danielle, aged 38. They have two children, Fiona, aged eight, and Oliver, aged four.

Laurie is a self-employed plumber with taxable net profits of £70,000 per annum. His drawings are £50,000.

Danielle is employed and works part-time at a local company. She earns £7,500 gross per annum. She plans to recommence full-time working at the same company, when Oliver is seven. She currently has a death-in-service benefit of two times her gross salary but has no further employee benefits.

Laurie and Danielle have a joint repayment mortgage on their home with a current balance of £160,000 and a remaining term of 24 years. They effected this mortgage last year with a fixed annual interest rate of 5.5% for five years. They have a joint life, first death mortgage protection policy covering the mortgage debt. They also have a joint life second death whole of life policy for £150,000 for which they pay £43 per month. This is a reviewable unit linked plan. They have no other protection policies.

Laurie has a credit card which has an outstanding balance of £12,000, with an APR of 26.9%. Additionally, Laurie has a store card with an outstanding balance of £8,500, with an APR of 18.5%.

Laurie and Danielle have limited personal savings. They have a joint bank account with a balance of £10,000 and cash NISAs of £3,000 each. Danielle has a stocks and shares NISA with a value of £2,000. Laurie and Danielle wish to help with the university costs for Fiona and Oliver. Danielle's parents set up a bare trust in 2013 to help with this.

The investments held within the bare trust are currently valued at £20,000.

Laurie and Danielle are both in good health and have a cautious attitude to risk. They have recently made Wills leaving their estates to the surviving spouse and then to the children. They have never received financial advice in the past.

Their financial aims are to:

- provide financial security in the event of death or illness;
- repay or improve their current debts;
- make financial provision for their children's future university education;
- ensure that their financial arrangements are as tax efficient as possible.

Questions

- (a) Explain to Laurie and Danielle the potential benefits of receiving and acting on advice from a qualified financial adviser. (10)
- (b) State the additional information you would require to advise Laurie and Danielle in respect of their aim to make financial provision for their children's future university education. (15)
- (c) Laurie is considering the structure of his business. Outline the **benefits** of Laurie:
- (i) remaining self-employed; (4)
 - (ii) incorporating his business. (6)
- (d) (i) Comment on the adequacy of Laurie and Danielle's existing protection arrangements. (10)
- (ii) Recommend and justify a suitable policy to protect the family's standard of living, in the event of Laurie becoming unable to work in the long term due to accident or sickness. *Assume Laurie remains self-employed.* (12)
- (e) (i) Explain briefly how a debt consolidation loan could help Laurie and Danielle to improve their financial position. (5)
- (ii) State the potential **drawbacks** that Laurie and Danielle should be made aware of if they apply for a debt consolidation loan. (5)
- (f) Comment on the suitability of Laurie and Danielle's current mortgage repayment strategy. (8)

Total marks available for this question: 75

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

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

Horace, aged 64, is married to Sarah, aged 60. They have two sons, Simon, aged 38, and Alex, aged 34. Neither of the children is financially dependent on their parents.

Horace has recently retired and has a capped drawdown pension arrangement. His pension fund is valued at £600,000 and is invested in a mixture of equities. Horace has taken his pension commencement lump sum and he draws an income from the fund of £30,000 per annum gross. Horace expects to receive his State Pension of £175 per week gross in a few months' time. Sarah's income from all sources is £5,000 per annum gross.

Sarah's mother, Emily, aged 83, is rapidly becoming frail and will soon need help in the home. Emily has little savings but lives in a house valued at £475,000 and has no mortgage. Emily's income from all sources is £12,000 per annum gross. Sarah is considering addressing Emily's long term care needs for the future.

Horace and Sarah live in a house worth £750,000 which has no mortgage and they have no debts. They are keen to help their children get on to the property ladder.

Their total other assets are as follows:

Ownership	Type	Amount (£)
Horace	Current account	200,000
Horace	Deposit account	30,000
Horace	NISA (stocks and shares)	60,000
Horace	Shares (single company)	45,000
Sarah	Deposit account	50,000
Sarah	NISA (stocks and shares)	40,000
Joint	Chattels	70,000

Horace has a medium attitude to risk, whilst Sarah is cautious. They made mirror Wills some time ago, leaving everything to each other, and then equally to their children.

Their financial aims are to:

- ensure that their financial arrangements are as tax-efficient as possible;
- restructure their investments in line with their attitude to risk;
- assist Simon with a deposit for house purchase in the near future;
- ensure that Emily has sufficient income to meet her expenditure.

Questions

- (a) (i) Comment on the suitability of Horace and Sarah's current savings and investments. (7)
- (ii) State the additional information that an adviser would require to advise Horace and Sarah on their savings and investments. (13)
- (b) State **six** advantages and **six** disadvantages of Horace using capped income drawdown rather than purchasing a lifetime annuity to continue to take his retirement benefits. (12)
- (c) Recommend and justify the actions that could be taken on Horace and Sarah's savings and investments to maximise tax efficiency. (12)
- (d) Horace and Sarah are considering loaning Simon a deposit to help him get on to the property ladder.
- Outline the factors they should take into account before making such an arrangement. (10)
- (e) (i) List the areas that an adviser would need to discuss with Emily before any recommendation for a potential equity release scheme can be made. (6)
- (ii) Describe how using a lifetime mortgage with the interest rolled-up would help Emily maintain her standard of living. (7)
- (f) State the factors an adviser should take into account when reviewing Horace and Sarah's investments at their next annual review. (8)

Total marks available for this question: 75

The tax tables can be found on pages 9 - 15

INCOME TAX

RATES OF TAX	2013/2014	2014/2015
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,790*	£2,880*
Threshold of taxable income above which higher rate applies	£32,010	£31,865
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) §	£9,440	£10,000
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% †	£3,040	£3,140
Married/civil partners (if born before 6 April 1935) at 10% †	£7,915	£8,165
Income limit for age-related allowances	£26,100	£27,000
Blind Person's Allowance	£2,160	£2,230
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)	£2,720	£2,750
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,910	£16,010

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£111	£481	£5,772
Primary threshold	£153	£663	£7,956
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£805	£3,489	£41,865

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate (final salary)
Up to 153.00*	Nil	Nil
153.01 – 770.00	12%	10.6%
770.01 – 805.00	12%	12%
Above 805.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £111 per week. This £111 to £153 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	
		<i>Final salary</i>	<i>Money purchase</i>
Below 153.00**	Nil	Nil	Nil
153.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 805.00	13.8%	13.8%	13.8%
Excess over 805.00	13.8%	13.8%	13.8%

***Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.75 where earnings exceed £5,885 per annum.
Class 3 (voluntary)	Flat rate per week £13.90.
Class 4 (self-employed)	9% on profits between £7,956 - £41,865 2% on profits above £41,865.

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
2014/2015	£1,250,000	£40,000

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	2013/2014	2014/2015
Individuals, estates etc	£10,900	£11,000
Trusts generally	£5,450	£5,500
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 2013/2014 2014/2015

Transfers made after 5 April 2014

- 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 2014, 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)	£325,000	£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 2014/2015:

- 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 11%.
- For cars with CO₂ emissions of 95g/km to 99g/km the percentage is 12%.
- Cars with CO₂ emissions of 100g/km have a percentage charge of 13% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 210g/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 (£21,700 for 2014/2015) e.g. car emission 100g/km = 13% on car benefit scale. 13% of £21,700 = £2,821.

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

	2013/2014 Rates	2014/2015 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

	2013/2014	2014/2015	
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£250,000	£500,000	
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 2014 (Corporation Tax) or 06 April 2014 (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

*If new

CORPORATION TAX

	2013/2014	2014/2015
Full rate	23%	21%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	23.75%	21.25%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2013/2014	2014/2015
Standard rate	20%	20%
Annual registration threshold	£79,000	£81,000
Deregistration threshold	£77,000	£79,000

MAIN SOCIAL SECURITY BENEFITS

		2013/2014	2014/2015
		£	£
Child Benefit	First child	20.30	20.50
	Subsequent children	13.40	13.55
	Guardian's allowance	15.90	16.35
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.80	Up to 57.35
	Aged 25 or over	Up to 71.70	Up to 72.40
	Main Phase		
	Work Related Activity Group	Up to 100.15	Up to 101.15
	Support Group	Up to 106.50	Up to 108.15
Attendance Allowance	Lower rate	53.00	54.45
	Higher rate	79.15	81.30
Retirement Pension	Single	110.15	113.10
	Married	176.15	180.90
Pension Credit	Single person standard minimum guarantee	145.40	148.35
	Married couple standard minimum guarantee	222.05	226.50
	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		108.30	111.20
Jobseekers Allowance	Age 16 - 24	56.80	57.35
	Age 25 or over	71.70	72.40
Statutory Maternity, Paternity and Adoption Pay		136.78	138.18

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