THE CHARTERED INSURANCE INSTITUTE

CII

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

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

Martin, aged 55, is married to Gina, aged 50. Both of them are in good health. Martin has an adult son from a previous marriage, who is financially independent.

Martin and Gina own a limited company in equal shares. Martin draws a salary of £45,000 per annum and Gina draws a salary of £15,000 per annum from the business. They are planning to sell the business when Martin is aged 60.

The business operates from premises owned by the company. Martin and Gina understand that some businesses operate from premises owned by the directors' pension schemes and are interested in this idea.

Martin and Gina have built up limited funds in personal pensions. Additionally, they have the following investments:

Asset	Ownership	Current Value
Share portfolio	Martin	£250,000
Open-ended investment company (OEIC) funds	Martin	£150,000
Bank current account	Martin	£50,000
Cash NISA	Gina	£10,000

Martin inherited the share portfolio and OEIC funds from his parents. The OEIC's are mainly invested in overseas equities. Both Martin and Gina have a cautious attitude to investment risk.

The couple live in a property they own in their joint names which is currently worth £750,000. There is an outstanding mortgage of £150,000 which is covered by an appropriate life policy.

Martin and Gina both have private medical insurance and income protection insurance which is paid for by the business.

Due to their plans to sell the business, they feel they should take financial advice.

Their accountant has told them previously that their business would qualify for entrepreneurs' relief.

Their financial aims are to:

- increase their pension savings prior to the sale of the business;
- plan for the sale of the business;
- ensure their existing investment portfolio is suitable;
- ensure they currently have adequate protection in place.

Questions

(a) Explain to Martin and Gina the potential **benefits** of engaging the services of an independent financial adviser. **(8)**

(b) **(i)** State the additional information you would require to advise Martin and Gina on their retirement planning. **(12)**

(ii) Explain ways in which Martin and Gina could maximise their pension contributions prior to the sale of the business. *No calculation is required*. **(5)**

(iii) State the age at which Martin and Gina will each qualify to receive the Basic State Pension. **(2)**

(c) Outline **five** benefits and **five** drawbacks to Martin and Gina of their business making an '*in specie*' contribution of the business premises to suitable pension arrangements. **(10)**

(d) State the additional information you would require to assess the suitability of Martin and Gina's existing income protection insurance policies. **(10)**

(e) **(i)** Comment on the suitability of Martin and Gina's existing investments. **(7)**

(ii) State **five** benefits and **five** drawbacks if Martin and Gina appointed a discretionary fund manager to look after their investments. **(10)**

(f) In respect of entrepreneurs' relief, explain to Martin and Gina:

(i) the eligibility criteria for obtaining the relief; **(5)**

(ii) how the relief is calculated and claimed. *No calculation is required.* **(5)**

Total marks available for this question: 74

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

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

Phil, aged 63, is married to Sally, aged 59. Both of them are in good health. They have two adult children, Tim and Amy, who are both married and financially independent, and a grandson, aged eight.

Phil is retired and receives a pension of £47,000 per annum gross from a defined benefit scheme. Phil also has an uncrystallised self-invested personal pension scheme (SIPP) with a fund value of £255,000. The death benefit is written under trust for Tim and Amy. The fund is invested in equity-backed collectives.

Sally works as a National Health Service (NHS) nurse, and is due to retire in five months' time. Sally will receive a pension of £13,000 per annum gross from the NHS. Sally will also receive a pension commencement lump sum of £39,000. Her current salary is £30,000 per annum gross.

They have the following investments:

Investment type	**Ownership**	**Value (£)**
Bank current account	Joint	30,000
Onshore investment bond	Joint	80,000
30 days' notice bank account	Phil	60,000
UK Equity NISAs	Phil	75,000
Equity unit trusts/OEICs	Phil	430,000
Cash NISA	Sally	40,000

Phil and Sally have not made any contributions to NISAs or to Phil's SIPP in the tax year 2014/2015.

Phil and Sally own their home as joint tenants. It is currently worth £300,000 and is mortgage free.

Phil and Sally have not made Wills and are not expecting to receive any inheritances. They are planning to make lifetime gifts of £50,000 to each of their children, from Phil's investments.

Phil has a medium to high attitude to risk and Sally has a cautious attitude to risk.

Their financial aims are to:

- leave their estate to each other on death and then to their children on second death;
- minimise their liability to Inheritance Tax;
- improve the tax efficiency of their investments;
- provide financial assistance for their grandson's university education.

Questions

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

(a) State the additional information you would require to advise Phil and Sally on their aim of providing financial assistance for their grandson's university education. **(10)**

(b) **(i)** Phil and Sally are considering making a settlement into a discretionary trust to help fund their grandson's university education.

State how such an arrangement should be set-up and operated, and explain why it would be suitable. **(12)**

(ii) Explain how a level term assurance policy could be used to help mitigate any liability to Inheritance Tax on the planned gifts to their children. **(7)**

(c) In respect of their investment portfolio:

(i) Recommend and justify the actions that Phil and Sally could take to improve its tax efficiency. **(14)**

(ii) Explain briefly to Phil and Sally the **benefits** of having a well diversified portfolio. **(7)**

(d) **(i)** Recommend and justify the actions Phil and Sally could take to immediately reduce their Inheritance Tax liability whilst maximising the value of their estate for their family. **(8)**

(ii) In the event of Phil's death, outline the process that would need to be followed to ensure that his estate is dealt with in accordance with legal requirements. **(7)**

(iii) Calculate, **showing all your workings**, the Inheritance Tax liability if Phil should die after Sally. *Ignore Sally's NHS pension in your calculation and assume that the gifts to the children have not been made.* **(5)**

(e) State **six** areas that you should discuss at the next review meeting with regards to Phil's self-invested personal pension scheme (SIPP). **(6)**

Total marks available for this question: 76

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	
		Final salary	*Money purchase*
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	2013/2014	2014/2015
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 (CO_2) emissions. There is no reduction for high business mileage users.

For 2014/2015:

- 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 11%.
- For cars with CO_2 emissions of 95g/km to 99g/km the percentage is 12%.
- Cars with CO_2 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 CO_2 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% first year	18% reducing balance	8% 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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