

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2016 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2015/2016, 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 2016 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.*

Paul, aged 32, is married to Giselle, aged 31. They have a five year old son, Charlie.

Paul and Giselle currently live in rented accommodation. They intend to purchase a house as their main residence within the next six months and are considering their options.

Paul is employed and works part-time. He earns £13,000 per annum gross. Giselle is currently self-employed as a marketing consultant. Her taxable net annual profits, after allowable expenses, amount to £60,000 and she takes this amount as drawings. Giselle is considering incorporating her business.

Paul is eligible to join his employer's death-in-service scheme in two months' time. This will provide him with life cover of four times basic salary when he joins the scheme. Giselle has an existing critical illness policy, taken out three years ago. They have no further protection cover.

Paul and Giselle have the following savings and investments:

Assets	Ownership	Amount (£)
Cash ISA	Paul	15,000
Cash ISA	Giselle	22,000
UK Smaller Companies – OEIC	Giselle	38,000
Bank current account	Joint	14,000

They have made no ISA contribution in the tax year 2015/2016.

Paul and Giselle are disappointed with the returns on their existing savings and investments. They have a low attitude to risk, but this has not been reviewed for some time.

Paul will join his employer's workplace pension scheme, under auto-enrolment, in May 2016. Giselle contributes £5,000 gross per annum to a self-invested personal pension (SIPP). The current fund is invested in UK blue chip stocks and is valued at £40,000.

They both enjoy good health and are not expecting any inheritances from their parents or other family members.

Giselle is interested in setting up a savings plan in her own name to build a future capital sum for the family. She plans to contribute £125 per month.

Their financial aims are to:

- provide financial security for the family in the event of death or serious illness;
- ensure their investments are tax-efficient;
- ensure they have sufficient income in retirement;
- effect a suitable savings plan for Giselle.

Questions

- (a) Comment on the suitability of Paul and Giselle's existing savings and investments. (7)
- (b) Explain why a stocks and shares ISA, invested in a fixed-interest fund, could be a suitable investment for Giselle's proposed monthly contribution. (10)
- (c) State the reasons why Paul should be a member of his employer's workplace pension scheme. (8)
- (d) With regard to their aim of providing financial security for the family:
- (i) State the **benefits** of Paul joining his employer's death-in-service scheme. (6)
 - (ii) Identify the information you would require, in respect of Giselle's existing critical illness policy, to assess its suitability. (10)
 - (iii) Recommend and justify a suitable product that meets the family's protection needs to cover the death of either Paul or Giselle, whilst Charlie is financially dependent. *Ignore the proposed house purchase in your recommendation.* (12)
- (e) (i) Identify **six** benefits and **four** drawbacks of Giselle incorporating her business. (10)
- (ii) Explain briefly how her National Insurance contributions would need to change if Giselle incorporates her business. (3)
- (f) Identify the reasons why an adviser should not solely rely on a risk-profiling tool to clarify Giselle and Paul's attitude to risk. (6)

Total marks available for this question: 72

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.

Ryan, aged 65, is married to Mylene, aged 64. They have two adult children who are both financially independent.

Ryan continues to work in his accountancy practice and has drawn an income of £50,000 per annum gross for some time. He employs 15 people and his business's staging date for auto-enrolment purposes is in three months' time. Ryan would like to find out what his obligations are as an employer in respect of this.

Ryan's self-invested personal pension (SIPP) has a current value of £650,000 and is invested in a number of equity funds. He wants to start taking benefits from this pension and gradually reduce his working hours. Ryan has deferred his State Pension.

Mylene has retired fully. Her only income is a State Pension of £5,200 per annum gross. Mylene is concerned that her mother, Rita, may lose mental capacity in the future.

Ryan and Mylene have accumulated savings and investments over their working life. They have a house valued at around £750,000, and have repaid their mortgage. Ryan has a medium attitude to risk and Mylene has a cautious attitude to risk.

They have the following assets:

Assets	Ownership	Amount (£)
Home	Joint Tenancy	750,000
Savings account	Joint	70,000
Onshore Investment Bond – managed fund	Joint	150,000
Cash ISA	Ryan	30,000
Unit Trust – UK equity fund	Ryan	75,000
Cash ISA	Mylene	40,000
Stocks & shares ISA – UK equity fund	Mylene	55,000

Ryan and Mylene have not contributed to their ISAs in the tax year 2015/2016.

Their financial aims are to:

- ensure they have sufficient income in retirement;
- maximise the tax-efficiency of their savings and investments;
- ensure Rita's financial affairs are catered for;
- retain as much of their estate as possible to pass on to their children.

Questions

- (a) State the additional information an adviser would require in order to advise Ryan and Mylene on their aim to ensure they have sufficient income in retirement. **(12)**
- (b) Explain to Mylene how a Lasting Power of Attorney should be set up and how it would operate for Rita. **(9)**
- (c) (i) List the factors Ryan should be aware of if he decides to use flexi-access drawdown to take his pension income in retirement. **(12)**
- (ii) Ryan's employees have requested that a salary sacrifice arrangement is set-up when the employer's workplace pension is put in place.
- State **five** benefits and **five** drawbacks of using a salary sacrifice pension arrangement. *Your answers should include the position for both employer and employee.* **(10)**
- (iii) State Ryan's auto-enrolment obligations as an employer, in setting up a workplace pension scheme. **(8)**
- (d) Recommend and justify the actions Ryan and Mylene could take to improve the tax-efficiency of their savings and investments. **(13)**
- (e) Recommend and justify the actions that Ryan and Mylene could take now to reduce their potential Inheritance Tax liability. **(8)**
- (f) Assuming Ryan decides to use flexi-access drawdown to provide a pension income, identify **six** issues that an adviser should discuss at the next review meeting in respect of such an arrangement. **(6)**

Total marks available for this question: 78

The tax tables can be found on pages 9 - 15

INCOME TAX

RATES OF TAX	2014/2015	2015/2016
Starting rate for savings*	10%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,880*	£5,000*
Threshold of taxable income above which higher rate applies	£31,865	£31,785
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) §	£10,000	£10,600
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,600
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) at 10% †	£3,140	£3,220
Married/civil partners at 10% †	£8,165	£8,355
Transferable tax allowance for married couples/civil partners	N/A	£1,060
Income limit for age-related allowances §	£27,000	£27,700
Blind Person's Allowance	£2,230	£2,290
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	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)	£2,750	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,010	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£112	£486	£5,824
Primary threshold	£155	£672	£8,060
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£815	£3,532	£42,385

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate (final salary)
Up to 155.00*	Nil	Nil
155.01 – 770.00	12%	10.6%
770.01 – 815.00	12%	12%
Above 815.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £112 per week. This £112 to £155 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 156.00**	Nil	Nil	Nil
156.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 815.00	13.8%	13.8%	13.8%
Excess over 815.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.80 where profits exceed £5,965 per annum.
Class 3 (voluntary)	Flat rate per week £14.10.
Class 4 (self-employed)	9% on profits between £8,060 - £42,385. 2% on profits above £42,385.

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
2015/2016	£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.

MONEY PURCHASE ANNUAL ALLOWANCE	2014/2015	2015/2016
	N/A	£10,000*

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.

§ increased to £80,000 from 6 April - 8 July 2015. If not used, can be carried forward to 9 July 2015 - 5 April 2016, subject to a maximum of £40,000.

* transitional rules apply to the calculation for pre/post 8 July 2015 position.

CAPITAL GAINS TAX

EXEMPTIONS	2014/2015	2015/2016
Individuals, estates etc	£11,000	£11,100
Trusts generally	£5,500	£5,550
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%
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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 TRANSFERS

	2014/2015	2015/2016
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

For deaths after 5 April 2015, 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 2015/2016:

- The percentage charge is 5% of the car's list price for CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 9%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 13%.
- Cars with CO₂ emissions of 95g/km have a percentage charge of 14% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (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 37% 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 (£22,100 for 2015/2016) e.g. car emission 100g/km = 15% on car benefit scale. 15% of £22,100 = £3,315.

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 contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2014/2015 Rates	2015/2016 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

	2014/2015	2015/2016
Plant & machinery (excluding cars) 100% annual investment allowance (first year) §	£500,000	£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 2015 (Corporation Tax) or 06 April 2015 (Income Tax)		
CO ₂ emissions of g/km:	75 or less*	76-130
		131 or more
Capital allowance:	100%	18%
	first year	reducing balance
		reducing balance

*If new

§ From 01 January 2016 allowance will decrease to £200,000.

CORPORATION TAX

	2014/2015	2015/2016
Full rate	21%	20%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	21.25%	20%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2014/2015	2015/2016
Standard rate	20%	20%
Annual registration threshold	£81,000	£82,000
Deregistration threshold	£79,000	£80,000

MAIN SOCIAL SECURITY BENEFITS

		2014/2015	2015/2016
		£	£
Child Benefit	First child	20.50	20.70
	Subsequent children	13.55	13.70
	Guardian's allowance	16.35	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.35	Up to 57.90
	Aged 25 or over	Up to 72.40	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 101.15	Up to 102.15
	Support Group	Up to 108.15	Up to 109.30
Attendance Allowance	Lower rate	54.45	55.10
	Higher rate	81.30	82.30
Retirement Pension	Single	113.10	115.95
	Married	180.90	185.45
Pension Credit	Single person standard minimum guarantee	148.35	151.20
	Married couple standard minimum guarantee	226.50	230.85
	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		111.20	112.55
Jobseekers Allowance	Age 18 - 24	57.35	57.90
	Age 25 or over	72.40	73.10
Statutory Maternity, Paternity and Adoption Pay		138.18	139.58

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