

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

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

John, aged 45, is married to Ann, aged 42. They have two children, Emily, aged 10 and Sam, aged eight.

John and Ann have agreed to have an amicable divorce and have recently contacted solicitors to begin the process of legal separation. They will both remain in their house whilst they arrange their financial affairs. The house is mortgage-free, currently valued at £190,000 and held on a joint tenancy basis. Ann would like to remain in the house until the children finish full-time education. John is happy with this arrangement. Following the completion of their divorce, John plans to live with his retired parents for the next few years.

John works for a large retailer and earns a salary of £50,000 per annum gross. Ann works part-time as a marketing consultant for a local company and earns a salary of £14,000 per annum gross. Ann plans to return to work full-time in three years' time.

John has been a member of his employer's defined benefit pension scheme for 20 years and currently contributes 6% of his gross annual salary. John's employer offers a death-in-service benefit of four times gross salary as well as a group private medical insurance scheme which currently covers the whole family. John also has a personal pension plan to which he no longer contributes. This is invested in a with-profits fund. John has not reviewed this personal pension plan in a number of years. Ann is a member of her employer's group personal pension scheme and both Ann and her employer contribute 6% of her gross salary. This is invested in a multi-asset managed fund.

They have the following assets:

Investments	Ownership	Amount (£)
Stocks and Shares ISA – UK tracker fund	John	60,000
OEIC – UK equity fund	John	80,000
OEIC – Global equity fund	John	45,000
Stocks and Shares ISA – UK corporate bond fund	Ann	60,000
Bank deposit account	Joint	35,000

Emily and Sam have Child Trust Funds with a current value of £3,000 each. These funds are held with a provider who can offer only cash accounts. John and Ann have saved regular small sums into these accounts with a view to funding future university education for Emily and Sam.

John and Ann are in very good health, do not smoke and both have a medium to high attitude to risk. They have recently updated their Wills in anticipation of their divorce which detail any future guardianship arrangements for Emily and Sam. The children will live with Ann but John will have unrestricted access rights to the children. John will pay monthly maintenance to Ann and the amount of this is to be agreed in the near future.

John and Ann's financial aims are to:

- ensure adequate financial protection for their children until Emily and Sam complete their education;
- ensure their assets are invested in line with their attitude to risk;
- arrange for a suitable and tax-efficient division of assets on divorce;
- ensure sufficient funding is in place to meet future university fees.

Questions

- (a) State the additional information that you would require to advise John and Ann on achieving their financial aim of arranging for a suitable and tax-efficient division of assets on divorce. (15)
- (b) In respect of the division of pension assets on divorce, John would prefer to use a pension offset arrangement.
- (i) Explain in detail to Ann the process of setting up a pension offset arrangement in respect of John's pensions. (7)
- (ii) State **six** benefits and **six** drawbacks for Ann of accepting a pension offset arrangement in respect of John's pensions. (12)
- (c) Ann is concerned that the divorce may result in a lack of financial protection for herself and their two children.
- (i) Identify the factors that Ann should consider, in respect of any potential weaknesses in her financial protection arrangements, immediately following the divorce. (8)
- (ii) Recommend, giving your reasons, a suitable life insurance policy on John's life to protect the maintenance payments until the children complete their education. (12)
- (d) State **four** benefits and **four** drawbacks of using a multi-asset managed fund within Ann's pension fund. (8)
- (e) In respect of Emily and Sam's Child Trust Funds:
- (i) comment on their suitability for ensuring that there is sufficient funding to meet future university fees; (6)
- (ii) explain why a Junior ISA may be a more suitable arrangement to meet the cost of future university fees. (6)

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), (e)** and **(f)** which follow.

Joe, aged 62, and Pam, aged 65, are married and have two adult children, both of whom are married and financially independent. They also have three young grandchildren. Joe and Pam are in good health, and do not currently have a financial adviser. Both Joe and Pam plan to retire in three years' time.

Joe is employed as an engineer on a salary of £60,000 per annum gross, and has worked for his current employer for 40 years. Joe is a member of his employer's defined benefits pension scheme which has a 60ths accrual rate. At a recent actuarial valuation, it was confirmed that the scheme is in deficit. The scheme's normal retirement age is 65.

Pam is in part-time employment on a salary of £15,000 per annum gross and is also in receipt of her Basic State Pension of £98 per week. She has heard that she could increase her Basic State Pension by making additional National Insurance contributions. Pam is a member of her employer's group personal pension scheme, valued recently at £24,000.

Joe and Pam own their home as joint tenants. This is mortgage-free and valued at £600,000. They plan to leave as much of their estate as possible to their two children and have both made mirror Wills leaving their assets to each other and thereafter to their children in equal shares. Joe and Pam are considering setting up a trust for their grandchildren with a payment of £100,000.

Joe has a medium to high attitude to risk and Pam has a low to medium attitude to risk.

They have the following assets:

Investments	Ownership	Amount (£)
Stocks and Shares ISA – Corporate bond fund	Joe	80,000
OEIC – UK smaller companies fund	Joe	150,000
Stocks and Shares ISA – Corporate bond fund	Pam	65,000
Bank current account	Joint	35,000
Bank deposit account	Joint	220,000

Joe and Pam's financial aims are to:

- ensure they have a secure income in retirement;
- improve the tax-efficiency of their savings and investments;
- mitigate any potential Inheritance Tax liability for the benefit of their children.

Questions

- (a) Explain to Joe how his pension benefits would be treated under the Pension Protection Fund should his employer's defined benefit pension scheme become insolvent. (8)
- (b) Joe and Pam would like to know how the financial advice they are being given will be paid for.
- State **four** benefits and **four** drawbacks for Joe and Pam if their financial adviser charges them for the ongoing investment advice:
- (i) as a fund based fee; (8)
- (ii) on an hourly cost basis. (8)
- (c) Pam is considering using some of the money held on deposit to top up her Basic State Pension.
- (i) Explain to Pam how this operates and the **benefits** of purchasing additional State Pension entitlement. (8)
- (ii) Identify the **advantages** of contributing to a personal pension rather than purchasing additional State Pension entitlement. (10)
- (d) (i) Comment briefly on the suitability of Joe and Pam's existing investments. (7)
- (ii) Recommend and justify the actions that Joe and Pam could take to improve the tax-efficiency of their savings and investments. (12)
- (e) Explain to Joe and Pam why an investment into a discretionary trust could be a suitable arrangement for their intended gift to the grandchildren. (8)
- (f) State the factors a financial adviser should consider when reviewing Joe and Pam's liability to Inheritance Tax and its mitigation, at their next annual review. (7)

Total marks available for this question: 76

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
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**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%
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:

	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%	8%
	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 Support Group	Up to 101.15 Up to 108.15	Up to 102.15 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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