

## R06

# Diploma in Regulated Financial Planning

## Unit 6 – Financial planning practice

October 2016 examination

### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2016/2017, 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.

### 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.

Alan, aged 42, and Kim, aged 40 are married with two children, Daisy, aged eight and Oliver, aged five. Alan and Kim are both in good health. They own their home as joint tenants and it is valued at £360,000. Alan and Kim have a mortgage on the property of £85,000 which is on a repayment basis, appropriately covered by a joint life decreasing term life and critical illness policy.

Alan works for an engineering company and earns a basic salary of £62,000 per annum gross. His employer provides death-in-service cover of four times his basic salary. Alan is a member of his employer's defined contribution group personal pension scheme into which both he and his employer contribute 8% gross of his basic salary. The contributions are invested in an adventurous managed fund, and the fund value is £74,000. Alan's employer has recently introduced a salary sacrifice arrangement and Alan has been asked if he would like to make use of it.

Kim works part-time and earns £11,000 per annum gross. Kim's employer is in the process of setting up an auto-enrolment pension scheme as their staging date is within the next few months.

Alan has recently received an inheritance of £170,000 following the death of his aunt. This sum is held in Alan and Kim's joint savings account. They are keen to use this money for long-term investment to improve their joint retirement provision. Alan and Kim are both medium to high risk investors.

Their current assets are as follows:

<b>Assets</b>	<b>Ownership</b>	<b>Current Value (£)</b>
Bank current account	Joint	15,000
Bank savings account	Joint	170,000
OEIC – Emerging Markets Equity fund	Joint	65,000
Cash ISA	Alan	25,000
OEIC – UK Equity Income fund	Alan	120,000
Cash ISA	Kim	25,000

Their financial aims are to:

- improve the tax-efficiency of their current financial arrangements;
- build up a fund to provide deposits for their children's first homes;
- ensure they have adequate income in retirement;
- ensure adequate financial protection for the family whilst their children remain dependant.

## Questions

- (a) State the additional information that you would require in order to advise Alan and Kim on their financial aim of ensuring they have adequate income in retirement. (12)
- (b) (i) Explain how Alan's maximum tax-relievable pension contribution for the current tax year is determined. *No calculations are required.* (7)
- (ii) State **five** benefits and **five** drawbacks to Alan of using his employer's salary sacrifice arrangement to increase his pension benefits. (10)
- (iii) Explain to Alan the **advantages** of continuing to fund his defined contribution group personal pension scheme to provide an improved income in retirement, rather than using a stocks and shares ISA. (5)
- (c) (i) Explain to Alan and Kim how the income and capital gains on their existing OEICs are likely to be treated for tax purposes. (10)
- (ii) Recommend and justify how Alan and Kim could improve the tax-efficiency of their existing savings and investment portfolio. (12)
- (d) Recommend and justify a suitable financial protection policy to ensure that any childcare costs can be met in the event of Kim's death. (12)
- (e) Alan and Kim would like to invest a regular sum to fund future deposits for their children's first homes.
- State **five** advantages of using a stocks and shares ISA, rather than a Junior ISA for this purpose. (5)
- (f) Alan and Kim wish to invest the inheritance from Alan's aunt for their long-term financial security.
- State the main **benefits** of investing the inheritance in a diversified investment portfolio. (5)

**Total marks available for this question: 78**

**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.

Bisham, aged 66, and Val, aged 64, are married. They have two children, James, aged 28, who is married and financially independent, and Reena, aged 23, who is a university student. Bisham and Val are both in good health. Val expects to retire in the next couple of years and is considering her options.

Val is employed as a marketing director and earns a salary of £60,000 per annum gross and has worked for her employer for 40 years. Val is a member of the company's defined benefit pension scheme which has a 60<sup>th</sup>s accrual rate.

Bisham is retired and in receipt of his Basic State Pension of £68 per week gross and has no other pension benefits.

Bisham and Val own their home as joint tenants. This is mortgage-free and valued at £450,000. They plan to leave as much of their estate as possible to their two children on second death. Bisham and Val have both made mirror Wills which leave their assets to each other and thereafter to their children in equal shares.

Val's mother died six months ago and Val is shortly to receive an inheritance of £300,000.

Both Bisham and Val have a medium attitude to risk.

They have the following assets:

Assets	Ownership	Amount
Traditional with-profits bond	Joint	£80,000
Bank current account	Joint	£35,000
Bank deposit account	Joint	£220,000
OEIC – UK Equity fund	Bisham	£150,000
OEIC – Corporate Bond fund	Val	£65,000

Their financial aims are to:

- ensure that their risk profile is suitable for their current circumstances;
- ensure they have adequate income in retirement;
- seek to mitigate their potential Inheritance Tax liability.

**Questions**

- (a) (i) State the process a financial adviser should follow to provide Bisham and Val with suitable advice on their savings and investments. (9)
- (ii) Identify the reasons that an adviser should **not** solely rely on the output from a computer-based risk-profiling tool to confirm Bisham and Val's attitude to risk. (6)
- (b) Bisham and Val are uncertain whether the with-profits bond meets their needs.
- State the information you would require to advise Bisham and Val on whether to surrender or retain the bond. (8)
- (c) Comment on the suitability of Bisham and Val's existing investment portfolio. (8)
- (d) State the actions Bisham and Val could take now to mitigate their potential Inheritance Tax liability. (8)
- (e) With regard to Val's imminent inheritance:
- (i) Describe how a deed of variation to her mother's Will is set up and the formalities which must be incorporated within the deed. (10)
- (ii) Comment briefly on the **benefits** and **drawbacks** of this type of arrangement for Bisham and Val. (5)
- (f) Explain the **benefits** to Val of remaining as a member of her employer's defined benefit pension scheme, for both her and Bisham. (10)
- (g) State the factors an adviser should take into account when reviewing Bisham and Val's investments at their next annual review. (8)

**Total marks available for this question: 72**

The tax tables can be found on pages 9 – 15



## INCOME TAX

RATES OF TAX	2015/2016	2016/2017
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£31,785	£32,000
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) §	£10,600	£11,000
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,600	£11,000
Personal Allowance (if born before 6 April 1938) §	£10,660	£11,000
Married/civil partners (minimum) at 10% †	£3,220	£3,220
Married/civil partners at 10% †	£8,355	£8,355
Transferable tax allowance for married couples/civil partners	£1,060	£1,100
Income limit for age-related allowances §	£27,700	£27,700
Blind Person's Allowance	£2,290	£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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£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 Earnings Limit (UEL)	£827	£3,583	£43,000

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
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Up to 155.00*	Nil
155.01 – 827.00	12%
Above 827.00	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
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Below 156.00**	Nil
156.01 – 827.00	13.8%
Excess over 827.00	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.80 where profits exceed £5,965 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £14.10.
<b>Class 4 (self-employed)</b>	9% on profits between £8,060 - £43,000. 2% on profits above £43,000.

## 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 §
2016/2017	£1,000,000	£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	2015/2016	2016/2017
	£10,000*	£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	2015/2016	2016/2017
Individuals, estates etc	£11,100	£11,100
Trusts generally	£5,550	£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%	10%
Above basic rate limit	28%	20%
Surcharge for residential property and carried interest	0%	8%

Trustees and Personal Representatives	28%	20%
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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

	2015/2016	2016/2017
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%

*A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered 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<sub>2</sub>) emissions. There is no reduction for high business mileage users.

### For 2016/2017:

- The percentage charge is 7% of the car's list price for CO<sub>2</sub> emissions of 50g/km or less.
- For cars with CO<sub>2</sub> emissions of 51g/km to 75g/km the percentage is 11%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 16% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/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 CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£22,200 for 2016/2017) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,200 = £3,774.

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

	2015/2016 Rates	2016/2017 Rates
<b>Cars</b>		
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
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	2015/2016	2016/2017
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£500,000	£200,000
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 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO <sub>2</sub> 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

## CORPORATION TAX

	2015/2016	2016/2017
Standard rate	20%	20%
Small companies rate	20%	N/A
Small companies limit	£300,000	N/A
Effective marginal rate	20%	N/A
Upper marginal limit	£1,500,000	N/A

## VALUE ADDED TAX

	2015/2016	2016/2017
Standard rate	20%	20%
Annual registration threshold	£82,000	£83,000
Deregistration threshold	£80,000	£81,000

## MAIN SOCIAL SECURITY BENEFITS

		2015/2016	2016/2017
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.30
Attendance Allowance	Lower rate	55.10	55.10
	Higher rate	82.30	82.30
Retirement Pension	Single	115.95	119.30
	Married	185.45	190.80
Single Tier State Pension	Single	N/A	£155.65
Pension Credit	Single person standard minimum guarantee	151.20	155.60
	Married couple standard minimum guarantee	230.85	237.55
	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		112.55	112.55
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	139.58

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