

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2017 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.

Paul, aged 67, is married to Ann, aged 64. Paul and Ann are currently in reasonable health but both have a family history of heart disease and are concerned that they may need to consider long-term care costs if either of them falls ill. Paul and Ann have two children, David, aged 32, who is single and about to purchase his first home and Carol, aged 36, who is married with three children. Paul and Ann own their own home valued at £270,000. This is mortgage-free and they have no other debts or liabilities.

Both Paul and Ann retired at age 60. Ann is in receipt of pension income from a defined benefit scheme and State Pension totalling £40,000 per annum gross. Paul has a self-invested personal pension (SIPP) which is currently in a capped drawdown arrangement with a fund value of £425,000. Paul currently receives £18,000 per annum gross from his SIPP and is in receipt of his Basic State Pension. Paul and Ann feel that their need for income has increased recently and they would like to draw additional monies from Paul's SIPP.

They have the following assets:

Type	Ownership	Amount
Bank current account	Joint	£12,000
Bank deposit account	Joint	£65,000
Onshore Investment Bond	Joint	£175,000
Stocks & Shares ISA – Emerging Markets funds	Paul	£62,000
Stocks & Shares ISA – UK Growth Equity funds	Ann	£39,000
Cash ISAs	Ann	£60,000
OEIC – UK Corporate Bond fund	Ann	£125,000

Paul and Ann are unsure whether their current portfolio is still suitable now that they are retired. They are also concerned that they are earning only 0.25% per annum gross on their bank deposit account. Both Paul and Ann consider themselves to be medium risk investors.

Their son, David, is having difficulties obtaining a mortgage on his first home as he has a low income and has had debt problems in the past. Paul and Ann are considering the possibility of either making a loan to David to assist him or gifting him a lump sum. They would like to use their investment portfolio to provide this lump sum and are keen to ensure that this is done as tax-efficiently as possible.

Paul and Ann's financial aims are to:

- ensure they have sufficient ongoing income in retirement;
- assess the suitability of their current savings and investments;
- provide a tax-efficient lump sum from their investments to assist David with his house purchase.

Questions

- (a) State the additional information that you would require to advise Paul and Ann on achieving their financial aim of ensuring they have sufficient ongoing income in retirement. (15)
- (b) State **four advantages** and **four disadvantages** for Paul of switching to flexi-access drawdown in his self-invested personal pension rather than remaining in capped drawdown. (8)
- (c) (i) Identify for Paul and Ann the key factors to consider when reviewing the suitability of their current investment holdings. (8)
- (ii) Recommend and justify the changes that Paul and Ann could make to the existing cash deposits and investments to ensure they meet their aim of increasing their income in retirement. *Do not include their pension arrangements in your answer.* (12)
- (d) Paul and Ann are planning to provide their son David, with a lump sum to assist with his house purchase.
- Comment briefly on the Inheritance Tax implications for Paul and Ann, should they provide these funds by each of the following methods:
- (i) in the form of an interest-free loan; (3)
- (ii) in the form of a gift. (3)
- (e) Explain to Paul and Ann the process that you would follow to determine the most tax efficient way of withdrawing monies from their investment bond to assist their son, David, with his house purchase. *No calculations are required.* (10)
- (f) Comment on the suitability of Paul and Ann using a purchased life annuity to meet their income needs. (13)

Total marks available for this question: 72

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.

Dan, aged 35, is married to Sarah, aged 34. They have two children, Theo, aged six and Isla, aged five.

Dan and Sarah purchased their home in 2010, as joint tenants, using an interest only mortgage. They have an outstanding mortgage of £275,000, and the property is valued at £400,000. The interest rate is fixed for two more years at 2.5% and is arranged on an offset basis, with a linked savings account. They do not have a mortgage repayment vehicle in place and would like to ensure that the mortgage is repaid before they retire in 30 years' time. They are also concerned about how they would meet their mortgage payments, should either of them be unable to work and are keen to learn if any State benefits might be available to assist them.

Dan is a self-employed orthodontist. His taxable net profits, after allowable expenses, are £169,000 per annum and he takes this amount in drawings. Sarah is employed as a chartered surveyor, and receives a salary of £50,000 per annum gross.

Sarah is a member of her employer's auto-enrolment pension scheme. Both Sarah and her employer contribute at the minimum level, based on qualifying earnings. She has chosen the default investment fund in her pension scheme, which is a balanced lifestyle fund. Sarah is considering the possibility of joining her employer's private medical insurance scheme.

Dan has a personal pension plan, with a fund value of £95,000. This is currently invested in a managed fund. He contributes £300 per month net.

Dan has an income protection insurance policy which he arranged when he started his self-employed business five years ago.

Dan and Sarah have a savings account with a balance of £30,000, and £2,000 in their offset mortgage linked savings account, which are both jointly held.

Dan and Sarah both enjoy good health. Dan had a back injury around seven years ago, following a car accident but he is now fully recovered. They are interested in saving for their children, and would like to consider funding for possible future university costs.

Their financial aims are to:

- ensure that their mortgage is repaid before retirement;
- provide financial security for their family in the event of death or serious illness;
- ensure that they have sufficient income in retirement;
- effect suitable savings arrangements to plan for future university costs.

Questions

- (a) With regard to Dan and Sarah's aim of providing financial security for their family:
- (i) Identify the information you would require, in respect of Dan's existing income protection insurance policy, to assess its suitability. (10)
 - (ii) State the **benefits** to Sarah, of joining her employer's private medical insurance scheme. (6)
 - (iii) Recommend and justify a suitable product that meets the family's protection needs to cover the death or serious illness of Dan or Sarah. (12)
- (b) State **six advantages** and **six disadvantages** of using Dan and Sarah's pension arrangements as a mortgage repayment vehicle rather than using ISAs. (12)
- (c) Identify **six** reasons why the default investment fund in Sarah's employer's auto-enrolment pension scheme may be a suitable choice for her. (6)
- (d) State the main features of a Junior ISA and explain how such a product could be used by Dan and Sarah to fund their children's university costs. (10)
- (e) Identify and explain briefly the main features of Support for Mortgage Interest (SMI) that Dan and Sarah could potentially claim to pay their mortgage, should either of them be unable to work due to long-term sickness. (8)
- (f) Explain to Dan and Sarah the financial **benefits** of using the offset mortgage linked savings account rather than holding money in their savings account. (7)
- (g) State **seven** issues that a financial adviser should discuss with Dan and Sarah at their next annual review meeting. (7)

Total marks available for this question: 78

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.*

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 - £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 (CO₂) 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 CO₂ emissions of 50g/km or less.
- For cars with CO₂ emissions of 51g/km to 75g/km the percentage is 11%.
- For cars with CO₂ emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO₂ 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 CO₂ 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
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

	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 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

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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