THE CHARTERED INSURANCE INSTITUTE

CII

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 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.

Candidates should answer based on the legislative position immediately BEFORE the 2017 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.*

Mark, aged 38, and Penny, aged 32, are married. They have two children, Sophie, aged six, and Harry, aged three, and are expecting another child in six months' time. Mark and Penny want their children to be privately educated from age 11.

Mark is employed in a large engineering firm and earns £90,000 per annum gross. He is a member of his employer's comprehensive private medical insurance scheme and contributes to the scheme so that his family is covered.

Mark is a member of his employer's defined contribution pension scheme. Mark's employer pays 6% and he pays 3% of his gross salary per annum into this scheme. Mark's fund value is currently £135,000, which is invested in the scheme's managed fund. There is no death-in-service scheme provided.

Penny has always been a houseperson. She has no protection cover or pension plans in place.

Mark has a unit-linked whole of life plan and pays £35 per month for life cover of £130,000. Mark is seeking advice on whether this policy is suitable for his needs.

Mark and Penny purchased their home two years ago as tenants in common. The house is valued at £350,000 and there is an interest only mortgage of £120,000 in place. When the mortgage commenced, Mark started paying into a stocks and shares ISA to build up a fund to repay it. He currently pays £400 per month into the stocks and shares ISA which is invested in a UK Equity fund.

Mark and Penny have little savings and have a credit card debt of £2,000. The annual percentage rate (APR) on this debt is currently 28.9%.

Mark and Penny believe they both have a low to medium attitude to risk but they have not had their attitude to risk assessed for a long time. They are both in good health.

Their financial aims are to:

- ensure they are financially secure in the event of death or serious illness;
- provide for their children's private education costs;
- repay their mortgage by the time Mark is aged 60.

Questions

(a) State the additional information an adviser would require to advise Mark and Penny on their aim to ensure they are financially secure in the event of death or serious illness. **(10)**

(b) State the factors an adviser should take into account when formulating a plan to pay for their children's private education costs. **(10)**

(c) Describe the process an adviser should use to determine the risk profile of Mark and Penny when using a computer-based model. **(8)**

(d) State **three** benefits and **three** drawbacks of using each of the following options to repay Mark and Penny's mortgage:

(i) making increased monthly payments directly into their interest only mortgage; **(6)**

(ii) continuing to make regular payments into Mark's stocks and shares ISA to generate a lump sum to repay the mortgage; **(6)**

(iii) increasing pension contributions to generate a lump sum to repay their mortgage. **(6)**

(e) **(i)** Recommend and justify a suitable product that meets the family's protection needs to cover the death of either Mark or Penny, whilst the children are still financially dependent. **(14)**

(ii) Describe how Mark's unit-linked whole of life plan operates and why it may be unsuitable in his circumstances. **(10)**

(f) Identify **five** benefits of Mark being a member of his employer's private medical insurance scheme. **(5)**

Total marks available for this question: 75

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

James, aged 64, and his wife, Kim, aged 62, are married. They have two children, both of whom are financially independent. They also have three grandchildren and are keen to leave as much of their estate as possible to their children and grandchildren.

Kim works for a large construction firm and earns £75,000 per annum gross. She is a member of her company's defined benefit pension scheme. The normal retirement age under this scheme is 65 and Kim has the option to commute part of her pension for a lump sum. Kim has been advised that her pension will be £30,000 per annum gross, before commutation, at age 65. Kim has no other pension benefits.

James works part-time for a local accountancy practice and earns £17,000 per annum gross. He is a member of his employer's defined contribution group personal pension scheme. James' pension fund has a current value of £82,000 which is invested in a range of cautious managed investment funds.

James and Kim are both in good health. They own their own home as joint tenants, which is mortgage free. Their home is worth £440,000.

James and Kim have obtained a forecast of their State Pension entitlements and both will receive the full single tier State Pension at their respective State Pension ages. James has heard that it is possible to defer the State Pension and receive a higher income in future years and would like to learn more about this. Both James and Kim are keen to ensure that they are able to generate a secure income in retirement.

Kim's mother, Julie, is currently in reasonable health but wishes to set up a suitable arrangement to ensure she has funds available to meet any care costs when needed. James and Kim are keen for Julie to complete a Lasting Power of Attorney whilst she still has mental capacity.

James and Kim have the following assets:

Asset/Investment	**Ownership**	**Value**
Family home	Joint	£440,000
Bank current account	Joint	£87,000
ISA – UK Corporate Bond fund	James	£85,000
Bank savings account	Kim	£95,000
ISA – Global Equity fund	Kim	£125,000
Unit Trust – Global Emerging Market fund	Kim	£350,000
Venture Capital Trust	Kim	£65,000

Kim has built up significant gains within her unit trust portfolio and is concerned about the possible taxation implications. She is considering a further investment into a new venture capital trust or similar investment in the near future.

Kim is a high-risk investor and James is a medium-risk investor.

Their financial aims are to:

- ensure that their investments are held as tax-efficiently as possible;
- minimise their potential liability to Inheritance Tax;
- review their options for generating adequate income in retirement.

Questions

(a) State **four** benefits and **four** drawbacks of James deferring his State Pension. **(8)**

(b) **(i)** State **four** options available for James to draw benefits from his group personal pension scheme and explain the Income Tax implications for each option identified. **(8)**

(ii) Explain to James why it may be beneficial to draw an income from his ISA portfolio, rather than drawing income from his pension plan. **(5)**

(c) State the process and conditions that must be met to enable Julie to set up a valid Lasting Power of Attorney. **(8)**

(d) Recommend and justify the actions that James and Kim could take to immediately reduce their potential Inheritance Tax liability. **(8)**

(e) James and Kim wish to improve the tax-efficiency of their savings and investments.

(i) Comment briefly on the tax-efficiency of their current savings and investments. **(6)**

(ii) Recommend and justify the actions that James and Kim could take to improve the tax-efficiency of their current savings and investments. **(14)**

(f) **(i)** Outline the tax treatment of the venture capital trust (VCT) held by Kim. **(5)**

(ii) Recommend and justify why an enterprise investment scheme may be a more suitable vehicle for a future investment for Kim than a VCT. **(6)**

(g) State the factors an adviser should take into account when reviewing James and Kim's savings and investments at their next annual review. **(7)**

Total marks available for this question: 75

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

	2015/2016	2016/2017
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%

§ 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.

	2015/2016	2016/2017
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
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
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	2015/2016	2016/2017
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%
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_2) 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_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 11%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO_2 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_2 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% first year	18% reducing balance	8% 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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