THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

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

Simon, aged 63, left his job as an engineer in October 2016 to care for his wife, Sally, who died aged 64, in January 2017. Their two adult children, Daniel and Sarah, are both married with two children each. Daniel and Sarah are both financially independent. Simon is in good health although he is still recovering from the shock of losing his wife.

Sally left her entire estate to Simon and probate has recently been granted to Simon as her sole executor. Simon has been drawing on his cash deposits since Sally was taken ill. Simon's cash deposits have reduced to £15,000 and he now wishes to review his financial arrangements to ensure that he can generate sufficient income to meet his current and future needs. Simon has heard about cashflow modelling and is interested in finding out how this could help him.

Simon has a defined contribution pension plan through his former employer with a current value of £270,000, which is invested in a UK fixed-interest fund. Simon is the nominated beneficiary on Sally's personal pension plan which has a current value of £115,000. This is invested in a range of UK and global equity income funds. The trustees have been notified of Sally's death, and Simon wishes to review this pension plan as soon as possible, to establish how this can be managed for the future benefit of both himself and his two children. Sally was in receipt of her State Pension and had been drawing this for a couple of years prior to her death.

Sally had a portfolio of stocks & shares ISA's invested in a range of AIM holdings with a total value of £85,000. Simon is keen to ensure that he does not lose the tax-efficient ISA wrappers and would like guidance on how this can be achieved. Simon has his own ISA portfolio with a current value of £120,000 and this is invested in a range of UK fixed-interest funds. Both Sally and Simon purchased their ISA holdings on an ad-hoc basis and these are held with individual fund managers.

Simon still has a small mortgage on his home of £40,000. The property is valued at £300,000. Simon has no other debts or liabilities.

Simon believes he has a cautious to moderate attitude to investment risk. He is keen to learn more about investing in higher risk assets with a view to generating additional returns over the longer-term.

Simon's financial aims are to:

- generate sufficient income for his immediate and future needs;
- establish a suitable method to draw benefits from both his and Sally's pension plans;
- protect the tax-efficiency of Sally's ISA portfolio.

Questions

(a) State the additional information a financial adviser would require to advise Simon on establishing his current and future income requirements. **(12)**

(b) State why Simon should be treated as a vulnerable client and the actions a financial adviser should take, when providing initial advice to Simon. **(6)**

(c) State **three** benefits and **three** drawbacks of Simon repaying his mortgage from the proceeds of Sally's personal pension plan. **(6)**

(d) Explain the tax treatment of Sally's ISA portfolio following her death and the actions that Simon needs to take to maintain its tax-efficiency. **(10)**

(e) Recommend and justify how Simon could draw flexible benefits from Sally's personal pension plan whilst preserving the tax-efficiency of the pension wrapper. **(8)**

(f) **(i)** Comment on the suitability of Simon retaining the AIM holdings in Sally's existing ISA portfolio. **(6)**

(ii) State **six benefits** of Simon using a platform arrangement for his ISA portfolio. **(6)**

(iii) State **three** benefits and **three** drawbacks for Simon of retaining Sally's existing fund choices within her personal pension plan. **(6)**

(g) **(i)** Describe how a cashflow model could be used to assist Simon in planning his future income needs. **(8)**

(ii) Explain to Simon the limitations of cashflow modelling and why he should not rely on this as the sole method of planning his future income needs. **(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), (f)** and **(g)** which follow.*

Russell, aged 59, and Laura, aged 57, are married and have two adult sons, Dylan and William. Dylan is married and financially independent. William still lives with his parents as he is trying to save a deposit to help him to purchase a property. Russell and Laura are both in good health.

Russell has retired as a teacher and receives a teacher's pension of £18,000 gross per annum. Laura plans to retire in three months' time.

Laura is employed as an IT programmer on a salary of £120,000 gross per annum. Her employer runs a contracted-in money purchase scheme (CIMP) of which Laura ceased to be a member on 5 April 2016. Laura's fund value is currently £250,000 but was valued at £210,000 on 5 April 2016.

Laura also has a self-invested personal pension scheme (SIPP) which is currently valued at £745,000. This was set up in December 2016 as a result of a transfer from a defined benefit pension scheme. As of 6 April 2016, her deferred pension was valued at £27,000 per annum plus a pension commencement lump sum entitlement of £50,000.

Russell and Laura 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 and have both made mirror Wills, which leave their assets to each other and thereafter to their children in equal shares.

Both Russell and Laura have a low to medium attitude to investment risk.

They have the following assets:

Investments	**Ownership**	**Amount (£)**
Stocks and shares ISA – Corporate Bond fund	Russell	80,000
OEIC – UK Equity tracker	Russell	80,000
Stocks and shares ISA – Managed fund	Laura	110,000
Bank deposit account	Laura	140,000
OEIC – UK Equity Income fund	Laura	230,000
OEIC – UK Growth fund	Laura	160,000

Russell and Laura's financial aims are to:

- protect Laura's accrued pension benefits from being subject to a lifetime allowance tax charge;
- maximise their estate for the benefit of their children;
- ensure that their investments are tax-efficient;
- assist William to fund a deposit for his house purchase.

Questions

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

(a) In respect of Laura's pension benefits:

(i) Calculate, **showing all your workings**, the value of these benefits as of 6 April 2016 for the purposes of the lifetime allowance. **(4)**

(ii) Recommend to Laura how she can protect her pension benefits from an excess lifetime allowance charge and explain briefly how the protection applies. **(8)**

(b) Identify the factors relating to Russell and Laura's circumstances that would typically influence their attitude to investment risk. **(8)**

(c) **(i)** Comment on the Income Tax efficiency of Russell and Laura's current savings and investments. **(10)**

(ii) Explain the Capital Gains Tax implications of transferring the OEICs held by Laura to Russell. **(6)**

(d) Explain the factors that Russell and Laura should be made aware of if they were to lend £50,000 to William for his house deposit. **(8)**

(e) State **four** benefits and **four** drawbacks of Russell and Laura appointing a discretionary fund manager to look after their investments. **(8)**

(f) In respect of Russell and Laura's financial objective to pass on as much of their estate to their children as possible:

(i) Recommend and justify how Russell and Laura should set up a suitable life assurance policy to cover their current and future Inheritance Tax liability. **(10)**

(ii) Explain briefly **six** potential **drawbacks** of the recommendations made in your answer to part **(f)(i)** above. **(6)**

(g) State the factors a financial adviser should take into account when reviewing Russell and Laura's Inheritance Tax planning at their next annual review. **(8)**

Total marks available for this question: 76

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%

§ 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)	£2,780	£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		
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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