THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2017 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, 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.*

Matthew, aged 43, is married to Linda, aged 38. They have two children, Ben, aged 8, and Gary, aged 2.

Matthew is employed as a business analyst for a pharmaceutical company and his remuneration comprises solely of a salary of £110,000 gross per annum. He is a member of his employer's defined benefit pension scheme and contributes 8% of his gross salary.

Matthew is a member of his employer's death in service benefit scheme which provides four times his basic salary in the event of his death. Two years ago, Matthew's employer established a Group Personal Pension (GPP) scheme for employees who wish to make additional pension contributions, as they are no longer permitted to purchase additional pension benefits under the defined benefit scheme. Contributions can be made to the GPP via salary sacrifice. The default fund offered under this scheme is a target date fund that adopts a lifestyling approach prior to retirement.

Linda is employed and works part time as an administrator at a local company. She receives a basic salary of £7,500 gross per annum. She plans to recommence full-time working at the same company in two years' time. She is not entitled to any employee benefits.

Matthew and Linda have a joint interest-only mortgage on their home with a current balance of £220,000 and a remaining term of 22 years. They arranged this mortgage five years ago, when they committed to a fixed interest rate of 2.5% for ten years. They currently have no repayment vehicle in place for their mortgage and have enquired about the possibility of contributing to a Stocks and Shares ISA for this purpose.

Matthew and Linda have limited personal savings. They have a joint bank account with a balance of £10,000, and cash ISAs of £3,000 each. Linda also holds a Stocks and Shares ISA which has a current value of £4,000, invested solely in a corporate bond fund. Matthew and Linda wish to make financial provision to help with potential future university costs for both Ben and Gary.

Matthew and Linda are both in good health and consider themselves to have a medium attitude to risk. They have both recently made Wills, leaving their estates to the surviving spouse and then to their children. They have not received any form of financial advice before.

Their financial aims are to:

- ensure that they have sufficient income in retirement;
- provide financial security for their family in the event of death or illness;
- ensure that their mortgage is repaid before they retire;
- make financial provision for their children's future university education.

Questions

(a) State the additional information that you would require, in order to advise Matthew and Linda, on their financial aim of ensuring they have adequate income in retirement. **(12)**

(b) Explain to Matthew and Linda the potential benefits of receiving and acting upon advice from a financial adviser. **(10)**

(c) Recommend and justify one suitable protection product that meets the family's protection needs to cover the death or serious illness of Matthew or Linda. **(12)**

(d) **(i)** Explain how Matthew's **maximum** tax-relievable pension contribution for the 2017/2018 tax year is determined. *No calculations are required.* **(7)**

(ii) State the benefits of Matthew using salary sacrifice to make additional contributions into his employer's group personal pension (GPP) scheme. **(7)**

(iii) Explain how a target date fund, using a lifestyling strategy, operates and the benefits to Matthew of using this fund. **(7)**

(e) State the main features of a Junior ISA and explain how such a product could be used by Matthew and Linda to make provision for their children's future university costs. **(10)**

(f) State **five** benefits and **five** drawbacks of Matthew and Linda contributing to Stocks and Shares ISAs as mortgage repayment vehicles. **(10)**

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

Nigel, aged 60, is married to Mona, aged 57. Both Nigel and Mona are in good health. Nigel has two children from his first marriage, Cara, aged 30, and Tim, aged 32. Both Cara and Tim are married and financially independent. Nigel's first wife died ten years ago, leaving all of her estate to Nigel. Mona has never been married before and has no children.

Nigel is employed as the Managing Director of a printing firm. He receives a gross basic salary of £175,000 per annum. He is a member of his employer's defined benefit pension scheme and has a projected pension at the scheme's normal retirement age of £43,750 per annum. Nigel's employer also offers a Save as You Earn (SAYE) Sharesave scheme which he joined a few years ago. Nigel intends to retire in March 2018.

Mona is employed as a nursery school assistant and receives a gross basic salary of £17,000 per annum. Mona has a personal pension plan with a fund value of £145,000 and she pays £100 per month net into the plan. She has recently opted out of her employer's auto-enrolment pension scheme.

Nigel's mother died two years ago leaving her estate to Nigel, which totalled £250,000. Nigel's aunt died six months ago and he is expecting to receive £200,000 as an inheritance.

Mona is considering early retirement later this year, to spend more time with her mother, Agnes, who has recently moved into a private nursing home, following a lengthy stay in hospital. They are currently investigating potential state benefits that may be available to Agnes.

Nigel and Mona jointly bought a holiday cottage in Wales for £250,000, using the legacy from Nigel's late mother's estate. This has been let commercially as a holiday home since it was purchased. They will eventually move permanently to the cottage, and then let out their current home, which is mortgage free and owned in Nigel's name only. This property is valued at £1,000,000.

Both Nigel and Mona have a medium attitude to risk. Nigel and Mona's savings and investments are:

Investments	**Ownership**	**Amount (£)**
Bank deposit account	Joint	250,000
Onshore investment bond - traditional with profits	Joint	100,000
Stocks and Shares ISA - high yield bond fund	Mona	56,000
Unit trust - global equity fund	Mona	3,000
Stocks and Shares ISA - investment grade bond fund	Nigel	40,000
Ordinary shares in a UK bank	Nigel	45,000

Their financial aims are to:

- minimise any potential liability to Inheritance Tax;
- maximise tax efficiency;
- make financial provision for Agnes's care arrangements;
- ensure that they have adequate income in retirement.

Questions

(a) Explain briefly to Nigel the benefits of being a member of his employer's (SAYE) Sharesave scheme. **(5)**

(b) Explain to Mona **five** advantages and **five** disadvantages of using a flexi-access drawdown arrangement rather than a lifetime annuity when she retires later this year. **(10)**

(c) **(i)** Nigel is interested in executing a deed of variation in respect of the legacy from his aunt.

Describe how a deed of variation may be established. **(8)**

(ii) Recommend the actions that Nigel and Mona could take to reduce the potential Inheritance Tax liability that would arise on their deaths. **(12)**

(d) Nigel and Mona plan to move permanently to their holiday home, and let out their current home, in 5 years' time.

State the factors that Nigel and Mona should be aware of, in respect of private residence relief. **(5)**

(e) Nigel and Mona are disappointed with the performance of their with-profits bond.

State the information a financial adviser would require, to advise Nigel and Mona on whether to surrender or retain this bond. **(10)**

(f) Nigel and Mona are considering Agnes's long-term care costs.

Explain briefly, the potential State benefits that may be available to assist with these costs. **(6)**

QUESTIONS CONTINUE OVER THE PAGE

(g) Recommend and justify the actions that Nigel and Mona could take to improve the tax efficiency of their savings and investments. **(12)**

(h) Identify **seven** issues that a financial adviser should discuss with Nigel and Mona at their next annual review meeting. **(7)**

Total marks available for this question: 75

The tax tables can be found on pages 10 – 18

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
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

**not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£5,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances†	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
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
Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 157.00*****	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.85 where profits exceed £6,025 per annum.
Class 3 (voluntary)	Flat rate per week £14.25.
Class 4 (self-employed)	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£10,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member’s taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	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	2016/2017	2017/2018
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
- main residence nil rate band*	£100,000	£100,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished*

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/bride and/or groom	£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%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	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 2017/2018:

- The percentage charge is 9% 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 13%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 18% 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 (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

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

	2016/2017 Rates	2017/2018 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

	2016/2017	2017/2018
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£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*

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
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 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
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	140.98

*Only applicable where spouse or civil partner died on or after 6 April 2007**

CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%