Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2018 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), (f)** and **(g)** which follow.*

Suresh and Anya, both aged 25, have recently married. They have no children. They are both in good health. They have both recently commenced employment in the UK for the first time after an extended period of travelling overseas.

Suresh is employed as a production manager at a large engineering company and earns a salary of £31,000 gross per annum. Anya has taken up a new position with a marketing company as a sales manager and earns a salary of £35,000 gross per annum. Both Suresh and Anya have been automatically enrolled in their respective qualifying workplace pension schemes with an employee contribution of 5% of their gross salary per annum each, with a matching 5% employer contribution. They are considering opting out of their employer qualifying workplace pension schemes as they do not believe that they can currently afford to make these contributions.

Suresh and Anya live with Anya's mother whilst they save up a deposit for their first home together. Suresh and Anya would like to purchase a property within the next three years. They estimate that they will need to save approximately £40,000 to pay for the deposit and the associated purchase costs. At present, they have combined savings of £17,000 which are held in National Savings & Investments Premium Bonds as well as the sum of £1,000 each in their bank accounts.

Suresh and Anya also have a range of credit card debts from their extended period of travel. These debts total £15,000 and are continuing to accrue interest at an annual percentage rate of 18.5%. Suresh and Anya are keen to pay off their credit card debts as quickly as possible.

Anya's father died a number of years ago after suffering a long-term illness. Consequently, both Suresh and Anya are keen to put insurance in place to protect them in the event of long-term sickness or disability.

Suresh and Anya consider themselves to be high risk investors and are keen to explore a wide range of investment options. They are particularly interested in socially responsible investments.

Their financial aims are to:

- save for a deposit for the purchase of their first home;
- ensure that they are financially protected in the event of long-term illness or disability;
- repay their credit card debts;
- put in place a suitable investment strategy for their long-term retirement planning.

Questions

(a) Outline the key factors that a financial adviser should consider when putting in place a suitable investment strategy for Suresh and Anya's retirement planning. **(15)**

(b) State **four** benefits and **four** drawbacks for Suresh and Anya of using their savings to repay their credit card debts. **(8)**

(c) **(i)** List **six** key areas for investment which are typically excluded by socially responsible investment managers. **(6)**

(ii) State **five** drawbacks of using a socially responsible investment strategy. **(5)**

(d) Recommend and justify **one** suitable protection policy for Anya to provide her with a regular income in the event of her suffering a long-term illness or disability. **(14)**

(e) Suresh and Anya are considering opting out of their qualifying workplace pension schemes.

(i) Explain in detail to Suresh and Anya the key benefits of remaining as members of their respective employer's pension schemes. **(10)**

(ii) If Suresh and Anya opt out of their qualifying workplace pension schemes, state their employer obligations in respect of Suresh and Anya re-joining the schemes. **(3)**

(f) Identify the key benefits for Suresh and Anya of using a Lifetime ISA to save a deposit for their new home. **(10)**

(g) State **seven** key benefits for Suresh and Anya of receiving ongoing financial advice. **(7)**

Total marks available for this question: 78

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

Read the following carefully, and then carry out ***ALL*** *of the tasks* ***(a), (b), (c), (d) and (e)*** *which follow.*

Adam, aged 59, is married to Kathryn, aged 55. They have two adult children who are both financially independent and four grandchildren. Adam and Kathryn are considering taking early retirement so they can travel more whilst they are both still in good health.

Adam is currently employed as a computer analyst and earns a salary of £60,000 gross per annum. He is a member of his employer's defined benefit pension scheme. The scheme is not in deficit and has a normal retirement age of 65. Adam has recently received his annual benefit statement which stated that he is currently entitled to a gross pension of £30,000 per annum at the scheme's normal retirement age and that he can commute part of this for a pension commencement lump sum. Adam has no other pension plans.

Kathryn is currently employed part-time as a finance assistant and earns a salary of £18,000 gross per annum. She is a member of her employer's group personal pension scheme (GPP) and both Kathryn and her employer contribute 5% gross of her annual salary to the scheme. Kathryn's GPP entitlement is valued at £57,000 and it is invested in a cautious managed fund. Kathryn has been told that she could increase her State Pension by making additional National Insurance contributions as she has gaps in her contribution record.

Adam and Kathryn own their home as joint tenants. Their house is mortgage-free and valued at £650,000.

Adam is keen to ensure that Kathryn will have sufficient income should he pre-decease her. On second death, they plan to leave as much of their estate as possible to their two children.

They have both recently made mirror Wills which leave their assets to each other and thereafter to their children in equal shares.

They both have a low to medium attitude to risk and have the following savings and investments:

Type	**Ownership**	**Amount (£)**
Current account	Joint	25,000
Deposit account	Joint	50,000
Onshore Investment bond - Managed fund	Joint	125,000
Stocks and Shares ISA – Fixed Interest fund	Adam	105,000
OEIC – UK Equity Income fund	Adam	180,000
Stocks and Shares ISA – Global Equity fund	Kathryn	58,000
Unit Trust – UK Smaller Companies fund	Kathryn	58,000

Their financial aims are to:

- ensure they have sufficient income in retirement;
- ensure that, if Adam pre-deceases Kathryn, she has sufficient income for her needs;
- mitigate any potential Inheritance Tax liability on second death;
- improve the tax efficiency of their income and investments.

Questions

(a) Identify the additional information that a financial adviser would need to advise Adam and Kathryn on generating sufficient income in retirement. **(12)**

(b) Adam and Kathryn are considering using some of the money held on deposit to improve their income in retirement.

(i) Describe how Adam's maximum tax-relievable pension contribution for the current 2017/2018 tax year is determined. *No calculations are required.* **(8)**

(ii) Explain the factors Kathryn should consider when deciding whether to increase her contributions to the GPP rather than investing in a Stocks and Shares ISA. **(7)**

(iii) State the benefits of Kathryn making additional National Insurance contributions to increase her State Pension entitlement. **(4)**

(c) **(i)** Comment briefly on the suitability of Adam and Kathryn's savings and investments. **(7)**

(ii) Describe the actions Adam and Kathryn could take to improve the tax-efficiency of their savings and investments. **(12)**

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

(ii) State **six** benefits of Adam and Kathryn settling money into a discounted gift trust to mitigate their potential Inheritance Tax liability. **(6)**

(e) State **eight** factors a financial adviser should take into account when reviewing Adam and Kathryn's investments at their next annual review. **(8)**

Total marks available for this question: 72

The tax tables can be found on pages 9 – 17

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	£4,000

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% first year	18% reducing balance	8% 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%

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