Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2018 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

R06 – Financial planning practice

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Read the Diploma in Regulated Financial Planning information for candidates and important notes for candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Financial Planning Information for Candidates and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk or from Customer Service.

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk or from Customer Service. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of each examination paper and the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.
- The allocation of marks between the two case studies may vary slightly from one session to another.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

Two weeks before the examination

What will I receive?
Case studies will be sent to candidates two weeks before the examination. They will contain client information, which will form the basis of the exam questions.

How should I use my time over the two week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarizing yourself with the client details from the case studies.

How should I use the case studies to help me prepare?
- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions
Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the exam seeks to test
The examination is based on two case studies for imaginary clients whose details you will have received two weeks prior to the exam date. The case studies will enable you to familiarise yourself with the clients circumstances. The questions will only be supplied in the actual examination.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper taking into account the financial objectives provided.
- Compare your answers against the model answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies arrive to focus on the client details and prepare yourself for the examination day.

In the examination

What will I receive?

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. You will be issued with an identical fresh copy. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common sense rules:

1. **Spend your time in accordance with the allocation of marks as indicated on the paper.** The maximum marks allocated to each question and its constituent parts are given on the paper. The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably. Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and only return to the incomplete question after you have completed the rest of the paper, if you have time.

2. **Take great care to answer the precise question set.** The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However brilliantly a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated.* Many candidates leave the examination room confident that they have written a 'good' paper, only to be mystified when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.

Order of tackling questions
Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted, but *remember not to spend excessive time on the questions you are most confident about.*

Answering different question parts
Always read all parts of a question before starting to answer it, otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it would be necessary to duplicate much of what has already been written. The examiners will normally only give credit for an answer if it is contained within its correct question part.

Answer format
Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators
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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

The overall performance of candidates in this session was good and many well-prepared candidates scored very well across the paper.

Case study 1 proved to be easier for most candidates and performance here was generally very good.

Case study 2 provided sufficient detail to assist candidates in identifying the likely range of questions. Many well-prepared candidates scored highly here but there were a number of less prepared candidates who struggled with some of the more straightforward questions. These candidates did less well identifying the importance of the final salary pension scheme in Adam and Kathryn's financial planning and hence struggled to provide adequate answers to parts 2 (a) and 2 (b)(i).

It was pleasing to note that well-prepared candidates had no difficulty with either Case study.

Question 1

In part (a) candidates were asked to outline the key factors to consider when putting in place a suitable investment strategy for Suresh and Anya's retirement planning. Many candidates approached this as a standard fact-finding question and did not relate their answers to the young couple at all. They focused on issues that that did not have any impact at all on an investment strategy. As Suresh and Anya are so young and in their first jobs, issues such as State Pension are largely irrelevant, but many candidates focused on these issues, rather than considering investment related issues. Performance here was slightly disappointing although well-prepared candidates had no problem and scored more than half the available marks for this question part.

Part (b) focused on the benefits and drawbacks of using savings to repay credit card debt. This question was generally very well answered and did not cause any problems for candidates.

In part (c)(i) candidates were asked to list six key areas which are excluded by socially responsible investment managers. This was very well answered with the majority of candidates achieving full marks.

In part (c)(ii) candidates were asked to identify five drawbacks of a socially responsible investment strategy. Again, this did not cause any problems and most candidates scored very well in this question .

Part (d) asked candidates for a recommendation on a suitable protection policy for Anya. This was clearly signposted as an Income Protection policy and most candidates performed well.

In part (e)(i) candidates were asked to explain the key benefits of remaining as members of their respective employer's pension schemes. Most candidates performed well here although many did not identify the exact level of tax relief that the clients would receive and made just a vague comment on the benefits of tax relief. Overall, candidates performed well.

Part (e)(ii) asked candidates to state the employer obligations in respect of Suresh and Anya re-joining their company pension schemes if they have chosen to opt out. This was generally well answered.

In part (f) candidates were asked to identify the key benefits of using a Lifetime ISA to save a deposit for the new home. Given the information provided in the Case Study, the Lifetime ISA was a very clear option for this couple and candidates had prepared for this and provided excellent answers. Most candidates scored very well.

Part (g) asked candidates to state seven key benefits of receiving ongoing financial advice. This question was very well answered by most candidates and did not present any difficulties.

Question 2

Part (a) was a standard fact-finding question asking candidates to identify the additional information that a financial adviser would need to advise Adam and Kathryn on generating sufficient income in retirement. Well-prepared candidates did not have any difficulty here and clearly identified issues surrounding Adam's defined benefit pension scheme which was a key part of their financial planning arrangements. Less well-prepared candidates focused more on the use of other assets such as ISAs and downsizing their home, rather than identifying issues that were clearly key parts of their current financial plans such as Adam and Kathryn's existing pension plans. Overall performance here was slightly weak, although well-prepared candidates scored at least half marks.

Part (b) was a three-part question focusing on pension issues. The Case study clearly identified and signposted the importance of pension planning for this couple and this was recognised by well-prepared candidates.

Part (b)(i) asked candidates to describe how Adam's maximum tax-relievable pension contribution for the current tax year is determined. Candidates were clearly instructed that no calculation was required. Unfortunately, many candidates did not provide sufficient detail to score many marks. Many candidates focused on the tapered annual allowance which was irrelevant for Adam and did not describe very simple issues such as the annual allowance of £40,000. Overall, performance was disappointing although a few candidates managed to score almost full marks.

In part (b)(ii) candidates were asked to explain the factors that Kathryn should consider when deciding whether to increase her contributions to her group personal pension (GPP) scheme, rather than using an ISA. Performance here was generally very good and most candidates scored well.

Part (b)(iii) asked candidates to state the benefits for Kathryn of making additional National Insurance contributions to increase her State Pension. Many candidates scored well and identified the key benefits.

In part (c)(i) candidates were asked to comment briefly on the suitability of Adam and Kathryn's savings and investments. Many candidates failed to provide sufficient detail to achieve high marks and provided only vague comments, rather than identifying suitable and unsuitable elements of their existing products/savings.

Part (c)(ii) asked candidates to describe the actions that Adam and Kathryn could take to improve the tax-efficiency of their savings and investments. This was generally well-answered by most candidates and did not present any difficulties.

Part (d)(i) asked candidates to recommend and justify the actions that Adam and Kathryn could take to immediately reduce their potential Inheritance Tax liability. Many candidates scored well, but a few provided solutions that would not work for a number of years such as Alternative Investment Market (AIM)/Business Relief (BR) qualifying assets and longer-term trust solutions that would have no immediate impact on the couple's Inheritance Tax (IHT) liability.

In part (d)(ii) many candidates performed well, although it was noted that a significant number of candidates believed that any assets placed into Trust would be automatically excluded for IHT purposes with immediate effect.

In part (e) candidates were asked to state eight factors a financial advisor should take into account when reviewing Adam and Kathryn's investments at their next annual review. Performance here was generally good and most candidates scored well.

THE 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

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

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a) *Candidates would have gained full marks for any fifteen of the following:*
- Retirement income target/capital target.
- Assumed rate of return/inflation.
- Planned retirement age/timescale of investment.
- Charges/cost/advice fees.
- Employer matching contributions rules/salary sacrifice available.
- Affordability/Budget.
- Existing Qualifying Workplace Pension (QWP) fund choice/options/asset allocation.
- Diversification/correlation of assets.
- Emergency fund.
- Active/Passive management.
- Currency Risk/Hedged.
- Volatility.
- Tax wrapper/ISA/use of non-pension assets/inheritances.
- Lump Sum or monthly investment/pound cost averaging.
- Ethical requirements.
- Capacity for loss/tolerance for loss.

(b) Benefits:
- Reduces high cost debt 18.5% APR/reduces interest payable.
- Improves affordability for mortgage/deposit.
- Saving on interest higher than likely return on Premium Bonds/Current Accounts.
- Reduces monthly outgoings/increases disposable income.

Drawbacks:
- Reduces lump sum available for house deposit/takes longer to accrue house deposit.
- Loss of potential tax-free prizes/Premium Bonds.
- Reduced emergency fund/lack of liquidity/capital no longer available.
- Temptation to build up debt in the future.

(c)(i) *Candidates would have gained full marks for any six of the following:*

- Tobacco/alcohol.
- Religious issues.
- War zones/weapons/armaments.
- Environment issues/pollution/energy companies.
- Animal welfare.
- Social/political policies.
- Exploitation of labour/excessive remuneration.

(cii) *Candidates would have gained full marks for any five of the following:*

- Restricted fund choice/investment options.
- Higher charges/passives funds not available.
- More volatile/higher risk/normally Small and Medium Enterprises (SMEs)
- Limited dividend income.
- Potentially lower growth/poorer performance.
- Difficult to screen companies.

(d)

- Income Protection policy/income protection insurance (PHI).
- To maintain lifestyle/cover household costs.
- Maximum benefit/50-65% of salary.
- PHI is a tax-free benefit.
- Term to retirement/to pension age.
- Own occupation basis.
- To provide widest cover/greatest chance of pay out.
- Deferred period of 3 months (or shorter)/to match employer sick pay.
- Short deferred period required as limited savings available.
- Indexation.
- To keep pace with rising costs/inflation/earnings growth.
- Guaranteed premiums.
- To ensure affordability.
- Multiple claims/cannot be cancelled by insurer.

(e)(i)

- 20% Tax relief.
- Employer contributions/salary sacrifice.
- Tax-efficient fund/pension commencement lump sum (PCLS).
- No administration to set up a personal plan/no advice cost.
- Discipline/taken direct from salary.
- Pound cost averaging/monthly savings/potential for growth.
- Low charges.
- Tax free death benefits/Inheritance Tax (IHT) efficient.
- May have ethical/high risk fund/match attitude to risk.
- May offer linked death in service.

(e)(ii)

- Employer must re-enrol every 3 years/at next scheme re enrolment date.
- Action re enrolment request at least once every 12 months.
- Employer must assess their eligibility.

(f)

- ISA is tax free.
- Lifetime ISA is £4,000 per annum.
- Both eligible as under 40.
- Wide choice of investment funds/cash.
- Government bonus of 25%/maximum £1,000 per annum.
- Lump sum bonus added to ISA in April 2018/Bonus added monthly after April 2018.
- Potential for growth.
- No penalty for access if used to purchase first home/can retain Government bonus if used for house purchase.
- Liquid/can access at any time but with potential penalty.
- Can provide pension benefits at age 60.

(g)

Candidates would have gained full marks for any seven of the following:

- Identify targets/objectives.
- Analyse existing arrangements/identify shortfalls.
- Ensure tax allowances are used/maximised.
- Assess budget/affordability/cashflow.
- Assess attitude to risk/capacity for loss.
- Identify new products available/new regulations.
- Review performance/asset allocation/rebalance.
- Consumer protection.

Case study 2

(a) *Candidates would have gained full marks for any twelve of the following:*

- Income/capital needed in retirement.
- Intended retirement date.
- Group personal pension (GPP) charges.
- Fund choices available for (GPP)/projections of GPP fund.
- GPP – is employer matching being maximised/AVC available on DB scheme.
- BR19/State Pension forecast.
- Level of DB scheme Widows pension/death benefits/nominations completed.
- Early retirement penalties on defined benefit (DB) scheme/escalation under DB scheme.
- Commutation factor/transfer value of DB scheme.
- Further inheritances expected/use of other assets/savings/downsize.
- Capacity for loss.
- Affordability/budget/expenditure.
- Ethical/religious preferences.
- Contribution history for pensions.

(b)(i)

- Take current annual allowance/£40,000.
- Obtain pension input amount for current tax year.
- Employer and employee contributions are included in input.
- Deduct pension input amount from annual allowance/£40,000.
- this gives remaining allowance for current tax year.
- Calculate any carry forward allowance from previous three tax years.
- Must use current years allowance first.
- Unused carry forward cannot exceed earned income in current tax year/£60,000.

(b)(ii)

- Tax relief on contribution for pension/no tax relief for ISA.
- Employer contribution.
- Lower contribution levels for pension (£18,000).
- Pension outside estate for Inheritance Tax.
- No administration/no advice costs.
- Only 25% tax free/remainder taxable.
- ISA can be withdrawn all tax free.

(b)(iii)

- Guaranteed income.
- Matches her attitude to risk.
- Value for money.
- Inflation-linked (in payment).

(c)(i)

- ISA's for tax-efficiency.
- Deposit interest likely to be within their Personal Savings Allowance/savings eroded by inflation/they have adequate emergency fund.
- Open-ended investment company (OEIC) dividends are likely to exceed Adam's dividend allowance/dividend will be liable to higher rate tax.
- Kathryn not fully utilising her Dividend allowance/Personal Savings Allowance/Capital Gains Tax.
- More investments should be held in Kathryn's name.
- Investment Bond/Adam's ISA meets attitude to risk.
- Adam's OEIC/Kathryn's unit trust/ Kathryn's ISA does not meet attitude to risk.

(c)(ii) *Candidates would have gained full marks for any twelve of the following:*

- Adam is higher rate taxpayer and Kathryn is a basic rate taxpayer.
- Use ISA allowances/Bed & ISA;
- Assign bond to Kathryn.
- This will potentially save tax on encashment/before chargeable event.
- Transfer some of OEIC portfolio to Kathryn;
- Transfer uses interspousal exemption.
- Use dividend allowance for both.
- Transfer of OEIC saves dividend tax of 25%/7.5% not 32.5%;
- Transfer of OEIC to Kathryn reduces Capital Gains Tax by 10%;
- Use CGT exemption/£11,300.
- Make pension contributions.
- Pension provides tax relief/tax-free growth.
- Pension is Inheritance Tax free.

(d)(i)

- Use annual gift allowance/£3,000/small gift allowances/£250.
- Make political/charitable donations.
- Gifts out of normal expenditure/income;
- All above gifts are removed from estate immediately.
- Discounted gift trust (DGT);
- DGT immediately reduces estate/growth outside estate.
- Make pension contributions;
- Pension fund passes IHT free.

(d)(ii) Benefits

- Outside of estate after 7 years.
- Immediate discount on value of gift.
- Growth immediately outside estate.
- Provides regular income.
- Retain control as trustees.
- (Grand) children can inherit residual fund.

(e)

- Change in circumstances/objectives/lifestyle/health/tax status/new money to invest.
- Income requirement/expenditure change/income change.
- Investment performance/asset allocation/rebalance.
- Change in attitude to risk/capacity for loss.
- Charges.
- Use of tax allowances.
- Changes in economy.
- Legislative changes/tax changes/new products on the market.

January 2018 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the April 2018 paper will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the April 2018 and July 2018 examinations.

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**

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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%