Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

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

John and Kate, both aged 42, are married with one daughter, Lucy, who is 7 years old. John and Kate own their home as joint tenants. This is valued at £350,000 and they have an outstanding repayment mortgage of £150,000 which is on a standard variable rate of 3.5% per annum. The term remaining on the mortgage is 20 years. This mortgage is covered by a joint life first death mortgage protection policy with a sum assured of £150,000. This policy provides life cover only.

Lucy has been recently diagnosed with learning difficulties, which will require additional educational support. As a result of this, John and Kate are planning to send her to a private school where specialist help will be available. John's parents have gifted a sum of £50,000 to John and Kate to assist them in meeting the first five years of Lucy's private school fees. This is held in a deposit account. John and Kate are keen to put in place a suitable investment strategy to enable them to pay Lucy's school fees due in future years.

John works as a self-employed electrician and Kate is employed as a teacher. John has taxable net profits of £50,000 per annum which he takes wholly as drawings and Kate has a salary of £28,000 gross per annum. Kate is a member of the Teachers' Pension Scheme, which is a defined benefit scheme. John has a paid-up personal pension plan. He has not made any pension contributions to this pension plan since he became self-employed four years ago. This personal pension is valued at £35,000 and is invested in a UK fixed interest fund.

John and Kate are concerned about their financial security in the event of death or serious illness. Kate's employer's pension scheme provides a death-in-service benefit of three times her basic salary. John and Kate have no further protection policies. Neither John nor Kate have made a Will.

John would like to consider the option of setting up a limited company for his electrical business as he believes this may offer greater security for his family.

John has an unsecured loan with an outstanding balance of £25,000 which was taken out when he first became self-employed. John and Kate are keen to pay off this loan as quickly as possible as the interest rate is 16.8% per annum. The remaining term on the loan is four years. They are considering remortgaging their home to consolidate this loan into their mortgage.

John and Kate have a low to medium attitude to risk and have little experience of investing. They have the following assets:

Type	**Ownership**	**Current Value (£)**
Current Account	Joint	10,000
Deposit Account	Joint	50,000
House	Joint	350,000
Cash ISA	Kate	3,000
Cash ISA	John	2,000

John and Kate's financial aims are to:

- put in place suitable financial protection in the event of death or long-term serious illness;
- put in place a suitable investment strategy to meet Lucy's school fees;
- ensure John's unsecured loan is repaid as soon as possible.

Questions

(a) Identify the additional information that a financial adviser would require to advise John and Kate on their aim of building up a fund to meet Lucy's future school fees. **(13)**

(b) Explain, in detail, the **drawbacks** for John and Kate if they decide to consolidate John's outstanding loan by remortgaging their home. **(8)**

(c) State **five** benefits and **five** drawbacks for John of incorporating his business. **(10)**

(d) **(i)** Recommend and justify for John, **one** suitable protection policy to provide a lump sum in the event of his death or him suffering a serious illness. **(12)**

(ii) State the factors an adviser should consider in identifying a suitable sum assured for the policy recommended in **part (d)(i)** above.
No calculations are required. **(6)**

(e) Explain, to John and Kate why they should each set up a Will. **(6)**

(f) John and Kate are able to meet Lucy's school fees for the next five years from the gift received from John's parents. They wish to start investing regular monthly amounts to build-up funds to meet Lucy's school fees after the £50,000 gift has been used.

(i) Explain how stocks and shares ISA's could be suitable investment vehicles for John and Kate to build-up a fund to meet Lucy's school fees. **(10)**

(ii) Outline the benefits to John and Kate of using a diversified investment strategy to meet Lucy's school fees. **(7)**

Total marks available for this question: 72

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

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

Felix and Sally, both aged 64, are married. They have two children who are both married and financially independent. Felix and Sally are both in good health. Felix is employed as a financial director and earns a salary of £70,000 gross per annum and has worked for his employer for 24 years. He is a member of his employer's defined benefit pension scheme. Felix's employer is introducing a Share Incentive Plan (SIP) for all of its employees.

Sally is a self-employed podiatrist and takes all of her taxable net profits of £30,000 per annum as drawings. She has a personal pension with a fund value of £300,000. Sally is about to retire and wants to know her retirement options. Sally understands that she will soon become eligible to receive the State Pension.

They own their own home as joint tenants which is mortgage free and valued at £420,000. They would like to leave as much of their estate as possible to their children on second death. They have recently established mirror Wills.

Both Felix and Sally believe that they have medium attitudes to risk.

They have the following assets:

Assets	**Ownership**	**Amount (£)**
Deposit account	Felix	120,000
Units trusts UK equity fund	Felix	80,000
Onshore investment bond traditional with profit	Felix	100,000
Stocks and Shares ISA – UK smaller companies	Felix	24,000
Cash ISA	Sally	18,000
House	Joint	420,000

Their financial aims are to:

- ensure they have sufficient income in retirement;
- improve the tax efficiency of their savings and investments;
- ensure that their savings and investments meet their needs.

Questions

(a) **(i)** State the **process** a financial adviser should follow to provide Felix and Sally with suitable advice on their savings and investments. **(9)**

(ii) Identify **six** reasons why an adviser should **not** solely rely on a computer-based risk-profiling tool to confirm Felix and Sally's attitude to risk. **(6)**

(b) **(i)** List the factors Sally should be aware of if she decides to use flexi-access drawdown to take her pension income in retirement. **(12)**

(ii) Detail the taxation treatment that will apply if Sally immediately takes her pension fund in its entirety in a single transaction using flexi-access drawdown. *No calculations are required.* **(5)**

(c) Recommend and justify the actions Felix and Sally could take to improve the tax efficiency of their savings and investments. **(12)**

(d) Explain to Felix how a Share Incentive Plan (SIP) operates and the benefits of him joining this scheme. **(10)**

(e) State **three** benefits and **three** drawbacks of Sally deferring her State Pension. **(6)**

(f) Felix is uncertain whether his investment bond meets their needs.

State the information you would require to advise Felix on whether to surrender or retain this investment bond. **(10)**

(g) State the factors an adviser should take into account when reviewing Felix and Sally's investments at their next annual review. **(8)**

Total marks available for this question: **78**

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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