



Chartered
Insurance
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AF5

Advanced Diploma in Financial Planning Practice Test 1

Unit AF5 – Financial planning process

2020-2021 Revision Aid

Based on October 2015 examination

SPECIAL NOTICES

These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.

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

AF5 – Financial planning process

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AF5 - FINANCIAL PLANNING PROCESS



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FACT-FIND – Practice Test 1

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Mr and Mrs Wilson recently.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Wilson	Wilson
First name(s)	Ken	Barbara
Address	123 Bennett Street, Windsor	123 Bennett Street, Windsor
Date of birth	01.09.1961	06.12.1964
Domicile	UK	UK
Residence	UK	UK
Place of birth	London	London
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Canoeing	Aerobics

Notes:

Ken and Barbara married in June 2015, after living together for nine years. They were both previously married.

PART 2: FAMILY DETAILS**Children and other dependants**

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent ?
Helen	Daughter	26	01.07.1989	Good	Surveyor	No
Steven	Son	25	31.08.1990	Good	Sales Adviser	No
Jake	Son	24	15.05.1991	Good	Taxi Driver	No
James	Son	23	14.04.1992	Good	Administrator	No

Notes:

Helen, Steven and James are Ken's children from his previous marriage. Jake is Barbara's son from her previous marriage. Helen and Jake are both getting married this year to their respective partners.

Although all the children are financially independent, James has been reckless with his finances in the past. Ken felt obliged to assist James financially but still has concerns about James' financial stability.

PART 3: EMPLOYMENT DETAILS		
	Client 1	Client 2
Employment		
Occupation	Director	Department Manager
Job title	Managing Director	Manager
Business name	Clearview Camping Ltd	Hawtrey & Dale Ltd
Business address	Castle Road, Windsor	Church Road, Windsor
Year started	2005	
Remuneration		
Salary	£10,000	£36,000
Dividends	£60,000	Nil
State Pensions	Nil	Nil
Overtime	Nil	Nil
Benefits		
Benefits-in-kind	No	No
Pension scheme (see Part 11)	Yes	Yes
Life cover	No	Yes
Private Medical Insurance	Yes	Yes
Income Protection/Sick Pay	No	Yes
Self Employment		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
Other Earned Income		
Notes:		
<p>Ken set up Clearview Camping Ltd in 2005 and he owns 50% of the shareholding.</p> <p>The remaining 50% of the shareholding is owned by Ken's brother, Conor, who is a co-director in the business. In the event of death, the Articles of Association state that the deceased's shares pass to the surviving shareholder. There are no protection policies in force to cover this agreement.</p>		
	Client 1	Client 2
Previous Employment		
Previous employer	Various companies	N/A
Job title		
Length of service		
Pension benefits (see Part 11)	Yes	
Notes:		
<p>Ken worked for a number of different companies prior to setting up Clearview Camping Ltd and has accrued a number of preserved pension policies over his working life. (See Part 11).</p> <p>Barbara started working for Hawtrey & Dale Ltd after leaving university.</p>		

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant	Pool & Co	Pool & Co
Bank	Crucible Bank	Crucible Bank
Building Society		
Doctor	Dr Knowles	Dr Knowles
Solicitor	Davies Hendry LLP	Davies Hendry LLP
Stockbroker		
Other		

Notes:**PART 5: INCOME AND EXPENDITURE****Income**

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary	833		3,000			
Benefits-in-kind						
Investment income (gross)		3,850				500
Rental (gross)						
Dividend	5,000					

Notes:

The investment income is derived from their bank deposit accounts and Ken's Unit Trusts/OEICs.

	Client 1	Client 2
Income Tax	£	£
Personal allowances		
Taxable income		
Tax		
National Insurance		
Net Income		

Notes:

Expenditure

Household Expenditure	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent			1,240			
Council tax			200			
Buildings and contents insurance						400
Gas, water and electricity			200			
Telephone			45			
TV licence and satellite			55			
Property maintenance						2,000
Regular Outgoings						
Life assurance (see Part 8)		30	150			
Health insurance (see Part 9)		145				
Savings Plans (see Part 10)	150					
Car tax, insurance and maintenance				750	550	
Petrol and fares	100	80				
Loans						
Hire purchase						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			800			
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers			25			
Entertainment			200			
Clubs and sport				1,000	400	
Spending money						4,200
Clothes						2,000
Maintenance						
Other (Holidays)						2,000
Total Monthly Expenditure	250	255	2,915			
Total Annual Expenditure	3,000	3,060	34,980	1,750	950	10,600
Total Outgoings						54,340
Notes:						

Do you foresee any major/lump sum expenditure in the next two years?

Notes:

Ken and Barbara wish to give a lump sum of £10,000 each to Helen and Jake towards their forthcoming weddings.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			450,000	
2.	Contents/car			50,000	
3.	Current account – Crucible Bank	2,000	1,000		Nil
4.	Easy Access Savings Account – Crucible Bank			35,000	500
5.	Stocks & Shares ISAs – UK Equity tracker funds	32,840	24,710		
6.	Unit Trusts/OEICs – emerging market Equity funds	30,350			450
7.	Unit Trusts/OEICs – UK Equity Income funds	85,100			3,400
8.	UK Onshore Investment Bond – Distribution fund			78,500	
9.	Shares in Clearview Camping Ltd	600,000			60,000

Notes:

Their home is owned on a tenants-in-common basis. In the event of death, they want the deceased's share of the house to be passed to the deceased's surviving children with the surviving spouse being able to remain in the house for the rest of their life.

Ken and Barbara have not made any ISA contributions this tax year.

The Stocks and Shares ISAs and Unit Trusts/OEICs are held in accumulation units.

The UK Onshore Investment Bond was taken out in 2012 for an initial investment of £65,000. No withdrawals have been taken. On second death they want to ensure that the proceeds are split equally between their four children.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			Crucible Bank
Type of mortgage			Repayment
Amount outstanding			£200,000
Start date			2012
Term/maturity			2027
Monthly payment			£1,240
Interest rate			1.5%
Life policies (see Part 8)			Yes

Notes:

The mortgage rate tracks the Bank of England base rate.

Other Loans	Client 1	Client 2	Joint
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			

Notes:

Ken and Barbara do not have any loans.

Other Liabilities (e.g. tax)**Notes:**

Ken has to pay additional Income Tax on his dividend income via self-assessment. Ken puts this money aside in their Easy Access Savings Account each year. Ken and Barbara do not have any other liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Maturity date	Start date	In trust?	Surrender Values £
1.	Joint	Joint	200,000	150 p.m.	2027	2012	No	N/A
2.	Barbara	Barbara	98,000	30 p.m.	2022	1997	No	N/A

Notes:

The joint life policy is a decreasing term assurance, designed to protect the mortgage. The proceeds are payable on the first event of death or earlier critical illness.

Barbara's policy is a level term assurance, written on a single life basis. This was taken out to support a previous mortgage.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
Private Medical Insurance	Joint					145 p.m.

Notes:

The Private Medical Insurance is a comprehensive policy which covers both Ken and Barbara. The premium is paid by Barbara.

Barbara receives full pay for six months and then half pay for a further six months in the event of long-term illness/incapacity.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
Unit Trusts/OEICs		Ken	UK Equity Income	150 p.m.	N/A	N/A	85,100

Notes:

The value of these regular savings is included in the £85,100 figure, as shown in Part 6.

PART 11: PENSION DETAILS**Occupational pension scheme**

	Client 1	Client 2
Member of employer's scheme	N/A	Yes
Type of scheme		Defined Benefit
Date joined		1985
Retirement age		65
Pension benefits		Sixtieths
Death benefits		4 times salary
Dependant's benefits		50% pension
Contracted-in/out		Out
Contribution Level (employee)		6%
Contribution Level (employer)		N/A
Fund type		N/A
Fund value		N/A

Notes:

No nomination of beneficiaries has been made.

Additional Voluntary Contributions (including free standing additional voluntary contributions).

	Client 1	Client 2
Type	N/A	N/A
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		

Notes:

Ken and Barbara do not have any additional voluntary contributions.

Personal Pensions

	Client 1	Client 2
Type of scheme	Self-Invested Personal Pension	N/A
Date started	2015	
Retirement age	65	
Death benefits	Return of fund	
Contracted-in/out	In	
Contribution level (employee)	Nil	
Contribution level (employer)	£40,000 per annum	
Fund type	Wrap/platform – various funds	
Fund value	£148,000	

Notes:

No nomination of beneficiaries has been made

Previous pension arrangements

	Client 1	Client 2
Type	Various Plans (see notes below)	N/A
Company		
Fund		
Contributions		
Retirement date		
Current value		
Date started		

Notes:

Ken has three personal pensions and a retirement annuity policy that were all taken out when he worked for previous employers. The personal pension policies are invested in a range of managed funds and the retirement annuity policy is invested in with-profits. All the policies are paid-up.

Ken estimates the combined value of these plans is £120,000.

No nomination of beneficiaries have been made on any of these plans.

State Pension

	Client 1	Client 2
Basic pension		
SERPS/S2P		
Graduated pension		
Total		

Notes

Ken and Barbara have not obtained their State Pension forecasts.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes

Notes:

Both Wills were taken out in 2008. Ken and Barbara have left their individual estates to their respective children.

Trusts	Client 1	Client 2
Are you a beneficiary under a trust?	No	No
If yes, give details		
Are you a trustee?	No	No
If yes, give details		

Notes:

Gifts	Client 1	Client 2
Give details of gifts made and received	None	None

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected	N/A	N/A

Notes:

Ken and Barbara do not expect to receive any future inheritances.

PART 13: ATTITUDE TO RISK

What level of risk are you prepared to take to achieve your financial objectives?

Notes:

Both Ken and Barbara have a balanced attitude to risk.

PART 14: BUSINESS RECORDS**Compliance**

Date fact-find completed	20.09.2015	
Client agreement issued	20.09.2015	
Data Protection Act	20.09.2015	
Money laundering	20.09.2015	

Consultations

Dates of meetings	20.09.2015	
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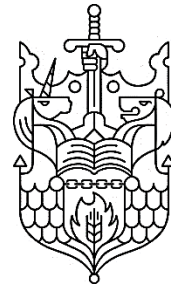
Marketing

Client source		
Referrals		

Documents

Client documents held		
Date returned		
Letters of authority requested	23.09.2015	

Notes:**PART 15: OTHER INFORMATION**



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SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2020/2021, 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.

Unit AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf, and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer.
- 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 use a calculator, 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 permitted to be used for this paper and all questions are based on the current tax year 2020/2021.
- Answer each task on a new page and leave six lines blank after each task.

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.

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

Immediate objectives

- To ensure that Barbara is financially secure in the event of Ken's death.
- To review the suitability of Ken's existing pension plans.
- To improve the tax efficiency of Ken and Barbara's investment portfolio.
- To gift £10,000 to their children for their forthcoming weddings.

Longer-term objectives

- To ensure Ken and Barbara's estates pass to their intended beneficiaries.
- To ensure Ken and Barbara have sufficient income for their retirement.

Attempt ALL tasks**Time: 3 hours**

1. Identify the additional information you would need to discuss with Ken and Barbara in order to advise them on how to meet their longer-term objectives of ensuring:
 - (a) their individual estates pass to their intended beneficiaries; (7)
 - (b) they have sufficient income for their retirement. (15)

2. Ken and Barbara would like to know more about the risks associated with their investments.

Identify and describe the key investment risks that apply to Ken's emerging market equity funds. *Excluding systematic risk and non-systematic risk.* (12)

3. With regard to Ken and Barbara's immediate financial objectives:
 - (a) Explain, in detail, how Ken and Barbara can use the UK Onshore Investment Bond to provide a tax-efficient lump sum of £10,000 each for Helen and Jake's weddings. (11)
 - (b) Describe fully to Ken and Barbara how they can maximise **both** their ISA allowances by disposing of Ken's Unit Trusts and OEICs without incurring any Capital Gains Tax liability. (11)

4. Ken and Barbara are concerned about the impact that the death of Ken will have on Barbara's financial situation.
 - (a) Comment on Ken's current situation and identify any weaknesses in his existing protection and pension arrangements in the event that he dies before retirement. (15)
 - (b) Recommend and justify how Ken's company can set up a suitable individual life policy for Ken, which maximises tax-efficiency, to provide benefits for his spouse and children in the event of his death before retirement. (11)

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.

5. Ken wants to review his existing pension policies and also consider his options when he retires.
- (a) Explain in detail how using a flexi-access drawdown plan can provide flexibility and tax-efficiency:
 - (i) when Ken wants to start drawing benefits from his pension plans. (8)
 - (ii) in the event of Ken's death. (6)
 - (b) Describe **six** benefits and **six** drawbacks of consolidating Ken's four paid-up pension plans into his self-invested personal pension scheme. (12)
 - (c) Explain to Ken the factors that should be considered when evaluating the suitability of the with-profit fund in his pension. (8)
6. Recommend and justify the actions Ken and Barbara could take to ensure that their individual estates pass to their intended beneficiaries on death.
Assume that no further investments or protection policies are to be taken out by Ken or Barbara, and that they do not alter the ownership of their property. (15)
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.*
7. Ken and Barbara are interested in setting up a trust to provide tax-efficient benefits for their respective children and any future grandchildren.
- (a) Explain how Ken and Barbara can transfer their existing UK Onshore Investment Bond into a suitable trust to achieve this objective. (13)
 - (b) Describe the principal duties and obligations of a trustee. (9)
8. Identify **seven** factors that should be taken into account at future reviews of Ken's self-invested personal pension scheme. (7)

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 Task 1**(a) Ensure estates pass to their intended beneficiaries:**

- To whom assets should be paid/split of assets between beneficiaries.
- Percentage split of main residence.
- Set up new Wills.
- Willingness to use trusts/make outright gifts.
- Willingness to change ownership of assets between spouses.
- Use nominations/spousal bypass trust/pensions in trust.
- Any inherited nil rate band from previous spouse.

(b) *Candidates would have gained full marks for any fifteen of the following:***Ensure sufficient income for their retirement:**

- Income required and selected retirement date.
- Barbara's recent benefit statement/projection/pensionable salary definition.
- Commutation factors under Barbara's pension.
- Escalation of pensions in payment.
- Funding position of scheme/possible changes to scheme basis/closure/move to defined contribution.
- Early retirement penalty/actuarial reduction.
- In-house additional voluntary contributions options.
- Asset allocation in self-invested pension scheme/preserved pensions.
- Retirement options under Ken's existing pensions/guaranteed annuity rates/any protected pension commencement lump sum entitlement for Ken.
- Charges/performance.
- Estimated benefits from Ken's pensions/projections.
- State Pension entitlement/BR19/State Pension age.
- Any pension sharing/pension earmarking orders in force.
- Contribution history/carry forward/pension input period.
- Willingness to use other assets/downsizing/sale of business/continuing income from business/affordability.
- Mortgage repaid at retirement?/plans to repay mortgage early.
- Capacity for loss.

Model answer for Task 2

- **Political risk.**
- Less robust political systems/unstable governments.
- **Regulatory/Legislation/Taxation risk.**
- Lower regulatory standards/changes in tax and legislation.
- **Currency risk.**
- Currency fluctuations can affect performance/value.
- **Event risk.**
- Specific event, e.g. tsunami/earthquake, can affect performance.
- **Diversification risk/Geographical risk.**
- Only invests in equities/no other asset classes/limited number of countries.
- **Operational/Management risk.**
- Fraud/poor accounting standards/poor corporate governance.

Model answer for Task 3

- (a)
- Fund taxed internally/covers basic rate tax (BRT) liability/BRT deemed already paid.
 - Withdraw 5% per annum of the initial investment tax deferred.
 - Assign bond to Barbara as she is a basic rate taxpayer/Ken is a higher rate tax.
 - Surrender in Barbara's name avoids extra 20% Income Tax.
 - Not treated as chargeable event/no gain between spouses.
 - Top slicing relief.
 - Establish Helen and Jake's tax status/Income Tax liability falls on Helen and Jake.
 - Assign sufficient segments of the bond to Helen and Jake.
 - Not treated as chargeable event.
 - Use of Inheritance Tax exemptions, e.g. wedding/£3,000/potentially exempt transfer if survives seven years.
 - Wedding gift allowance includes stepchildren.
- (b)
- Establish base cost.
 - Calculate gain/current value less cost.
 - Use Ken's Capital Gains Tax (CGT) exemption.
 - Factor in any carried forward losses.
 - Gain of up to £12,300
 - Ken sells/transfers sufficient shares/bed & ISA/ISA wrap/to fund ISA allowance/£20,000.
 - Ken transfers part of unit trust to Barbara.
 - Spousal exemption applies/no CGT payable/no loss no gain basis.
 - Barbara receives the investment at the base cost.
 - Transfer allows them to use two CGT exemptions/Barbara has CGT exemption/£12,300.
 - Barbara sells/transfers sufficient shares/bed & ISA/ISA wrap/to fund ISA allowance/£20,000.

Model answer for Task 4

- (a)
- Ken is the main breadwinner.
 - Mortgage covered via decreasing term assurance (DTA)/existing life policy.
 - No additional cover for Ken/possible shortfall.
 - No life cover/protection for share agreement/£600,000/no business protection.
 - Shares pass to brother/Barbara or children receive no value.
 - Benefits payable tax free under Ken's pension plans.
 - £40,000 ongoing contribution per annum/increasing benefits annually.
 - No nominations are in place.
 - Benefits paid at trustees/scheme administrator discretion.
 - Could be disputed/possibly paid to estate/Inheritance Tax implications.
 - UK Onshore Investment Bond passes to Barbara.
 - As jointly held.
 - No trusts in place - DTA/retirement annuity contracts.
 - Wills invalid/Intestacy rules apply.
 - Estate may not go to intended beneficiaries.
- (b) *Candidates would have gained full marks for any eleven of the following:*
- Relevant life/death in service (DIS) policy.
 - Clearview Camping is policyholder/pays premium/sets up policy on Ken's life.
 - Relevant business expense/deductible against tax.
 - Not classed as benefit in kind for Ken.
 - As written under DIS/pension rules.
 - Discretionary trust applies.
 - Benefit paid tax free/outside estate.
 - Level term/Life cover only.
 - Level of cover not restricted to salary/financially underwritten.
 - Can cover share value/£600,000/living expenses.
 - Indexation to cover increase in share value/inflation.
 - Term to normal retirement date/exit from company.

Model answer for Task 5

- (a) (i)
- Pension commencement lump sum (PCLS)/tax-free cash.
 - Flexibility of withdrawals/no minimum/maximum amount.
 - Allows tax efficient income/withdrawals.
 - Remaining fund held tax-efficiently.
 - Potential for investment growth.
 - Can purchase annuity at a later date.
 - Can continue to make contributions/tax relief.
 - £40,000 annual allowance available if no drawdown income taken/reduces to £4,000 annual allowance if any drawdown accessed.
- (ii)
- Flexibility of beneficiaries/nomination.
 - Lump sum and continued drawdown/annuity.
 - Benefits tax free on death before age 75.
 - Taxed at recipients' marginal rate on death after age 75.
 - Decision must be made within two years of death.
 - Provides Inheritance Tax planning.
- (b) *Candidates would have gained full marks for any six of the following:*
- Benefits:**
- Greater fund choice/range of investments/match attitude to risk.
 - Potentially improve performance.
 - Possible lower charges/transparent charges.
 - Online access/less administration/under one plan/monitor performance.
 - Wider retirement options.
 - May improve death benefits.
 - Take benefits from age 55/retirement annuity only from age 60.
- Drawbacks:**
- Loss of any Guaranteed Annuity Rates.
 - Loss of other guarantees e.g. guaranteed fund/bonus rate/protected tax free cash.
 - Transfer/initial/ongoing/ higher charges.
 - Greater personal involvement.
 - Money out of the market during transfer process.
 - No guarantee of better performance.
- (c)
- Provides smoothed returns/reduced volatility.
 - Asset allocation/closed fund/financial strength.
 - Does it match Ken's attitude to risk?
 - Any guaranteed bonuses/conventional or unitised?
 - Existing bonuses cannot be withdrawn/How has it performed to date?
 - Future annual bonus rates unknown/terminal bonus payable.
 - Market value adjustment/penalty may apply.
 - Bonus rates may not match inflation/may provide low returns in future.

Model answer for Task 6

- Write new Wills as invalid due to marriage.
- Complete nomination forms for pension/pension in trust.
- And Barbara's 4 times death-in-service.
- Spousal bypass trust.
- To protect children from previous marriages.
- Place Barbara's life policy/lifetime allowance in trust.
- Place UK Onshore Investment Bond under trust.
- Speed of payment/outside estate.
- Any changes above ensure that intended beneficiary receives assets.
- Set up trust via Will for property.
- Interest in possession/life interest trust/immediate post death interest trust.
- Deceased's share of house owned by trust.
- Spouse has right to live in house/life tenant.
- Deceased's children are remaindermen/reversionary interest/receive their share on spouse's death.
- Set up trust for James (financially reckless).

Model answer for Task 7

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

- Discretionary trust.
- Chargeable lifetime transfers/relevant property trust.
- No immediate Inheritance Tax charge/below nil rate band.
- Outside estate after seven years.
- Annual gift exemptions available.
- Periodic/exit charges.
- But unlikely to apply in view of amount.
- Ken and Barbara can be trustees/retain control/appoint trustees.
- Relevant for James/protects against creditors/divorces.
- Beneficiaries can be amended/flexibility of beneficiary.
- Transfer/assignment is not a chargeable event/no tax charges.
- As not for money's worth.
- Non-income producing asset.
- Ease of administration for trustees/no tax return required/tax efficient.

- (b)
- Act for benefit of the beneficiaries/treat all fairly.
 - Registered/legal owner of all trust property.
 - Act in accordance with trust provisions/investment instructions /trust laws.
 - Use utmost diligence to avoid losses.
 - Review investments and amend when necessary/diversify investments.
 - Obtain/consider professional advice on investments.
 - Keep proper accounts/pay taxes/reporting.
 - Act as ordinary prudent business person would.
 - Invest cash as soon as possible (unless being paid out immediately).

Model answer for Task 8

- Change in personal circumstances e.g. divorce/death/health.
- Change in retirement age/plans to draw benefits.
- Change in income/profits of Clearview Camping/tax status/current contributions.
- Nominations completed/updated.
- Review performance/attitude to risk/rebalancing.
- Changes in taxation/legislation/regulation.
- Market conditions/new products/charges.

The Tax Tables which follow are applicable to the October 2020 and April 2021 examinations.

INCOME TAX

RATES OF TAX	2019/2020	2020/2021
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	£37,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
Dividend Allowance		£2,000
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) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance †	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 183.00*	Nil
183.00 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 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 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,475 per annum.
Class 3 (voluntary)	Flat rate per week £15.30.
Class 4 (self-employed)	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

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
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021	£1,073,100

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£40,000*
2020/2021	£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 by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.

MONEY PURCHASE ANNUAL ALLOWANCE

2019/2020	2020/2021
£4,000	£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	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
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%
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	10%	10%
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Business Asset Disposal Relief* – Gains taxed at:

Lifetime limit	£10,000,000	£1,000,000
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**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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*	£150,000	£175,000
- 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%

PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 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

	2019/2020	2020/2021
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
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	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	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:	50 or less*	51-110
		111 or more
Capital allowance:	100%	18%
	first year	reducing balance
		reducing balance

*If new

MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	57.90	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20

CORPORATION TAX

	2019/2020	2020/2021
Standard rate	19%	19%

VALUE ADDED TAX

	2019/2020	2020/2021
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£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%

Important note: For residential properties purchased between 8th July 2020 and 31st March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.

Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.

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

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

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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

