R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2020 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2020 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 Qualifications Brochure
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. 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 examination preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of 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 use your own tax tables in 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 examination session to another.

Read the Assessment information and Examination policies

Details of administrative arrangements and regulations are available online at https://www.cii.co.uk/learning/qualifications/assessment-information/. This is *essential reading* for all candidates. For further information please contact Customer Service.

Two weeks before the examination

The case studies
The case studies, containing client information which will form the basis of the examination questions, will be available on the CII website and in RevisionMate.

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 examination 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 examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

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 answers once the three hours have elapsed. The model answers 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 are available to focus on the client details and prepare yourself for the examination day.

In the examination

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. The case studies will be provided on screen in the examination. 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 number of marks given next to each question.** 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 examination 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 elapsed, go on to the next question and return to the incomplete question, 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 well 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*.

Order of answering questions
Answer 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.* You are able to flag questions and then go back to them.

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 may be necessary to duplicate some of the answer.

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.

Marks are not lost due to poor spelling or grammar.

Calculators
The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used the calculator.

EXAMINERS' COMMENTS

Candidates' overall performance:

The overall performance in this sitting was good. Many candidates had prepared extremely well and did not appear to have any problems with the adjustment to online examinations.

In respect of the questions set, the performance was satisfactory across the entire paper with most candidates managing to obtain a pass standard in many of the questions set.

Question 1

Part (a) saw very good performance in general. Most candidates were able to provide a detailed answer.

Part (b) saw an excellent level of performance. This was a relatively straightforward question and did not present any issues to the majority of candidates.

In part (c) there was generally good performance in this question part, although some candidates did not provide sufficient detail to achieve higher marks. Some candidates were unable to identify the correct protection or gave limited details e.g. Fixed Protection 16 (FP16) but failed to state Individual Protection as an alternative or a method that could be used in conjunction with FP16.

Part (d)(i) saw some mixed performance. Some candidates focused on just one issue and unfortunately there was evidence of poor application of knowledge from some candidates. Many candidates did not understand that the Wills were invalidated by the clients' marriage. As a result, they answered as if Seth had a valid Will. This was incorrect and this aspect was clear from the Case Study.

Part (d)(ii) saw generally good performance from most candidates who could identify actions to take.

Part (e) saw weak performance overall. A number of candidates failed to identify the tax issues in respect of the Investment Bond. This is a common area of weakness at this level.

Overall in part (f) there was reasonable performance from well-prepared candidates. A straightforward question but weaker candidates struggled a little due to poor knowledge in this area.

In part (g) there was good performance overall.

Question 2

Part (a) saw slightly disappointing performance overall, with a mixed level of response. This was a very straightforward fact-finding type question and should have been well answered by most candidates, but many candidates struggled to identify all aspects.

Part (b) saw good performance overall. It did not cause any difficulties although some candidates gave very brief answers.

Part (c) was clearly flagged in the Case Study and well-prepared candidates had no issues in answering it. Some lesser prepared candidates struggled to provide enough points to achieve good marks.

Part (d)(i) saw good performance overall in this question and many candidates could provide the benefits of increasing existing pension contributions.

Part (d)(ii) good overall performance where candidates were able to provide suitable details.

Part (e) asked candidates to consider repaying Seth's buy-to-let mortgage and saw good performance overall where candidates could recite both benefits and drawbacks.

Part (f) saw a mixed performance. Some candidates provided only limited answers although better prepared candidates were able to provide sufficient detail to achieve higher marks.

Part (g) generally saw good performance although some candidates focused on Lasting Powers of Attorney and so failed to achieve high marks. This question related to an Enduring Power of Attorney (EPA) and was clearly flagged in the Case Study. Well-prepared candidates performed well and understood exactly how the EPA could be used.

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions

All questions in this examination are based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

- **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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- The case studies and the tax tables are provided on the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g. **1a.**
- Have you shown your ID during the ID check? If not, show it to the camera now please.
- Did you show the edge of your screen with a mirror during the room scan? If not, use a mirror to show it now please.
- If you have blank paper for notes, did you show both sides to the camera? If not, show both sides to the camera now please.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

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.*

Seth, aged 64 and Kaitlyn, aged 68, married recently and have just moved into their new home. The house, which is mortgage free, is valued at £950,000 and was purchased by Seth and Kaitlyn as tenants in common. Both of them own equal shares in the house. Kaitlyn's late husband died five years ago at the age of 76. She has two financially independent daughters and two grandchildren. Seth's late wife died seven years ago, and he has two financially independent sons and no grandchildren. Both Seth and Kaitlyn inherited all of their respective spouse's estates, including their share of their respective family homes which were subsequently sold to fund the purchase of their current home. Both Seth and Kaitlyn are in good health.

Kaitlyn's late husband had a crystallised pension scheme which was held in a capped drawdown arrangement when he died. The fund is now held in a flexi-access drawdown scheme and is invested in UK and US equity funds. The current fund value is £417,000. Kaitlyn draws an income of £1,500 per month gross from this plan. Kaitlyn deferred her state pension when she attained state pension age in 2014. Kaitlyn was entitled to a full basic State Pension at that time and has not started to draw this pension yet.

Seth is a self-employed accountant working as a sole trader. He has net profits of £145,000 per annum gross in the current tax year. His earnings have been very similar for the last few years. Seth has a personal pension plan with a fund value of £1,220,000. The plan is invested in both UK and global equity funds. Seth has not made any pension contributions for the last five years.

Seth plans to retire in a few months' time at the age of 65 and has never applied for any form of transitional protection in respect of his Lifetime Allowance for pension purposes.

Seth arranged an offshore bond six years ago following his wife's death, when he invested £200,000. His intention was to look at assigning the bond into a trust as part of his Inheritance Tax planning but he has not assigned the bond or arranged a trust at this stage. He has wondered recently if this investment was appropriate for his needs, as the investment performance has been quite volatile. The current fund value is £237,000 and the bond is invested in emerging markets and Asian equity funds. No withdrawals have been made from the bond.

Seth and Kaitlyn both wish to ensure that their respective estates can pass as tax-efficiently as possible to their children on their deaths. They wish to ensure that all of their individual assets pass to their respective children and that their home is left for their children under trust on second death. Both Seth and Kaitlyn made Wills three years ago to confirm these intentions.

Seth and Kaitlyn both believe that they have medium to high risk profiles.

Seth and Kaitlyn have the following assets:

Assets	Owner	Value (£)
Main residence	Tenants in common	950,000
Current account	Joint	8,000
Deposit account	Seth	140,000
Stocks & shares ISA – UK fixed interest fund	Seth	127,000
Offshore bond – Emerging markets and Asian equity funds	Seth	237,000
Deposit account	Kaitlyn	120,000
Stocks & shares ISA – Global property fund	Kaitlyn	60,000

Seth and Kaitlyn's financial aims are to:

- obtain an adequate income in retirement;
- ensure that their current investment holdings are suitable and tax-efficient;
- ensure that their estate can be passed as tax-efficiently as possible to their children.

Questions

(a) State the additional information that a financial adviser would need, to recommend a strategy to ensure that Seth and Kaitlyn can receive an adequate income in retirement. **(10)**

(b) Identify, in respect of Seth's and Kaitlyn's state pensions:

(i) the benefits that Kaitlyn will be accruing from her state pension deferral; **(4)**

(ii) the factors that Seth should consider before deciding whether to defer his state pension. **(4)**

(c) Explain to Seth how he is affected by the Lifetime Allowance for pension purposes and the factors that he should consider in relation to this position, prior to retiring. **(7)**

(d) Seth and Kaitlyn are currently considering their estate and Inheritance Tax planning.

(i) State how Seth's estate would currently be dealt with, and distributed, should Seth die in the near future. *No calculations are required.* **(8)**

(ii) Recommend and justify the actions that Seth and Kaitlyn could take now, to ensure that they each reduce the potential Inheritance Tax liability that would apply on their deaths, whilst ensuring that their respective assets pass to their children. **(12)**

(e) State **five** benefits and **five** drawbacks for Seth, of encashing his offshore bond and investing the proceeds into a range of unit trusts. **(10)**

(f) State **four** benefits and **four** drawbacks for Seth and Kaitlyn of investing in an Enterprise Investment Scheme. **(8)**

(g) State **eight** factors that an adviser should take into account when reviewing Seth and Kaitlyn's investments at their next annual review meeting. **(8)**

Total marks available for this question: 71

Case Study 2

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

Mita, aged 52 and her husband Harish, aged 54, have two children, aged 14 and 16. They own their own home as joint tenants and have an outstanding repayment mortgage of £160,000. The property has a current value of £400,000. Harish also owns a buy-to-let property with an interest-only mortgage of £80,000 outstanding. This property was his former home and has a current value of £125,000. Both Mita and Harish are in good health.

Harish is the sole director of a small printing company. He draws a salary of £60,000 gross per annum and has received dividends of £70,000 per annum for the last two years. He has a self-invested personal pension (SIPP) which was established in 2002, which has a current value of £600,000. Harish has not made any contributions to this pension scheme for several years. The SIPP is partly invested in a range of fixed interest, corporate bond and high yield bond collective investment funds. Also, Harish has used this scheme to purchase a commercial property from which his company operates.

Mita is employed as an office manager and is a member of her employer's qualifying workplace pension scheme. She earns £62,000 gross per annum and her employer pays 5% of her basic salary into the pension scheme. Mita also contributes 5% of her basic salary gross. Her employer will match her contributions up to a maximum of 7% of her basic salary. Her pension fund is invested in a target date retirement fund and she has a current fund value of £40,000. Mita is also a deferred member of her former employer's defined benefit pension scheme and has recently received a cash equivalent transfer value (CETV) of £190,000 from the scheme trustees. The pension from this scheme is projected to pay £8,000 per annum gross at age 65.

Mita has been contributing to her current employer's Share Incentive Plan (SIP) for almost five years. The cash value of the investment in this plan is currently £16,000. This plan is due to mature in the next two months.

Harish's mother has recently moved into a care home. She is in poor health and Harish holds an Enduring Power of Attorney for her, although this has not yet been registered. Harish's father died some years ago. Harish is keen to ensure that he can manage his mother's assets in future, should she lose mental capacity.

Mita and Harish wish to set up a new monthly savings plan to repay their children's student loans in the future, should they choose to go to university. The children have not yet decided if they will take up university places, so Mita and Harish wish to retain flexibility in respect of this new savings plan.

Mita and Harish are medium-risk investors and both plan to retire in ten years' time.

Mita and Harish have the following assets:

Assets	**Ownership**	**Value (£)**
Main residence	Joint tenants	£400,000
Current account	Joint	£12,000
Deposit account	Joint	£120,000
Buy-to-let property	Harish	£125,000
Stocks & shares ISA – UK fixed-interest fund	Harish	£40,000
Stocks & shares ISA – Multi-asset managed fund	Mita	£60,000

Mita and Harish's financial aims are to:

- ensure their existing pension arrangements are on target to meet their retirement aims;
- repay Harish's buy-to-let mortgage before he retires;
- build up funds to assist the children with future university fees and to repay any student loans;
- ensure Harish can manage his mother's financial affairs.

Questions

(a) Identify the additional information a financial adviser would require, regarding Lara's SIPP, to advise Lara on her retirement planning. **(13)**

(b) Harish has been considering various financial protection arrangements.

State the reasons why an income protection insurance policy may be more suitable for him than a critical illness insurance policy. **(6)**

(c) Explain how Mita's Share Incentive Plan (SIP) operates and the options available to her when the SIP matures. **(12)**

(d) **(i)** State the benefits of Harish and Mita increasing their existing pension contributions. **(10)**

(ii) Explain to Harish why the investments held in his SIPP may be **unsuitable** for his long term retirement planning objectives. **(8)**

(e) State **five** benefits and **five** drawbacks for Harish of using the joint deposit savings account proceeds to repay his buy-to-let mortgage. **(10)**

(f) Outline the reasons why Mita and Harish should consider investing on a monthly basis into an equity-based open-ended investment company (OEIC), to build up funds to repay any student loans that their children may take. **(10)**

(g) Explain to Harish how the Enduring Power of Attorney that he holds for his mother operates and how this can be used to manage his mother's affairs both now and in the future, if she were to lose her mental capacity. **(10)**

Total marks available for this question: 79

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

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

(a)
- Target income for clients/capital needed/increasing income needed?/flexible income needed?
- Plans to use other assets at retirement? /downsize planned?/inheritances expected?/plans for the business/plans for the offshore bond.
- Capacity for loss/investment experience.
- Ethical concerns.
- Growth rates to be assumed/inflation.
- Willingness to transfer asset ownership.
- Use of tax allowances.
- Affordability/budget.
- State Pension expected/BR19.
- Charges.
- Pension fund value at April 2016 for Seth.

(b) (i) Kaitlyn
- Lump sum option available.
- With 2% interest added.
- Income increases by CPI.
- Increases by 1% for every five weeks deferral/10.4%.

(ii) Seth
- 1% increase for every nine weeks of deferral/5.8%.
- Tax planning.
- Other sources of income are available/need for income.
- No lump sum option.

(c)
- Lifetime allowance is £1,055,000/£1,073,100.
- Value assessed at crystallisation/at age 75/on death.
- Balance over allowance taxed at 55% for lump sum/25% for income/max pension commencement lump sum (PCLS) is based on £1,055,000.
- Could apply for Fixed Protection 2016 /or Individual Protection 2016.
- Could apply for both Individual Protection (IP) 2016 & Fixed Protection (FP) 2016 for planning.
- No contributions paid since 4/2016/5 years – therefore FP16 is available.
- Lifetime allowance would be £1,250,000 if protection used.

(d) **(i)**
- No valid Will in place now.
- Laws of intestacy apply.
- 50% of home passes into his estate/Kaitlyn receives the bank account.
- Drawdown plan would be paid tax free (pre 75).
- £250,000/£270,000 would pass to Kaitlyn;
- plus half of remaining estate.
- Seth's children jointly inherit remainder.
- Inheritance Tax to be settled prior to payments being settled.

(ii) *Candidates would have gained full marks for any twelve of the following*
- Make Wills.
- Use Will trust/Immediate Post-Death Interest Trust to be used.
- To use Residence Nil Rate Band/late spouses' nil rate bands.
- Pension death benefit nominations/Trust for pension/make pension contributions.
- Use of gifting allowances/marriage/income.
- Removed from their estates.
- Consider Enterprise Investment Scheme/Alternative Investment Market (AIM) ISA.
- Benefits from Business Relief.
- Make charitable gifts/political.
- Reduces effective Inheritance Tax (IHT) rate.
- Assign bond to trust/create loan trust/discounted gift trust.
- Potentially Exempt Transfers (PETs)/ Chargeable Lifetime Transfers (CLTs).
- Reduces IHT over 7 years.
- Whole of life under trust.

(e) **Benefits**
- Likely to be cheaper for fees/charges.
- Less complex.
- Can use Capital Gains Tax (CGT) allowance for encashment of Unit Trusts/offset losses for CGT.
- Can Bed and ISA/use ISA.
- Uses dividend allowance for dividends received/dividend tax rates are lower than income tax rates.

Drawbacks
- CGT to apply on encashment for Unit Trusts.
- Could assign bond to trust for IHT planning.
- Income Tax charge on (encashment of bond)/misses out on 5% deferred taxable income.
- Requires advice to encash and tax planning/fees.
- Bond has gross roll up offshore/no immediate tax to pay if retained.

(f) *Candidates would have gained full marks for any four of the following*

Benefits

- Potential for growth.
- 30% Income Tax relief.
- Business Relief/IHT free.
- No CGT to pay on growth/tax free dividends.
- Can use losses in EIS to offset taxable gains elsewhere.

Drawbacks

- Default risk/volatile/high risk.
- Expensive fees.
- Need advice/complex/monitoring.
- Illiquid.

(g)

- Personal circumstances/changes/health/family/retired.
- Income/outgoings/budget/inheritances/new money/tax status.
- Attitude to risk/capacity for loss.
- Investment returns/growth/rebalance/performance.
- Use of tax allowances.
- New products/changes to legislation/taxation.
- Economic position/market changes.
- Charges/fees.

Case Study 2

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

- Funding status of Defined Benefit (DB) scheme/financial strength of DB employer.
- Indexation/escalation on DB scheme/dependants' benefits of DB scheme.
- Commutation factor on DB scheme/DB accrual rate.
- Early retirement factor on DB scheme.
- Is Cash Equivalent Transfer Value (CETV) enhanced/deduction in place?
- Need for guaranteed/flexible income/loss of guaranteed income on DB transfer.
- Asset allocation/details of target date fund/fund choices available.
- Charges/switch charges.
- Capacity for loss.
- Plans for business premises in future?/sell or retain.
- Business property value/rental value/SIPP borrowing.
- State Pension entitlement/BR19.
- Budget/affordability/can Mita increase contributions to 7%.
- Income needed/lump sum.

(b)

- Multiple claim/wider cover than Critical Illness Cover.
- Proportionate benefit available.
- Indexed cover in payment.
- Deferred period.
- Regular income.
- Own occupation available.

(c)

- Can invest up to £3,600 per year.
- Shares are held in Trust.
- Can purchase Partnership shares.
- Maximum £1,800/10% of salary.
- No Income Tax on dividends used to purchase dividend shares if held for 3 years.
- She may sell shares (at maturity);
- no CGT on sale (at maturity).
- No Income Tax or National Insurance (NI) on shares if held to maturity/5 years.
- Also they are tax free on retirement/redundancy.
- Can retain shares outside Share Incentive Plan (SIP)/taxable outside SIP.
  Can transfer to ISA to retain tax-efficiency/no CGT on transfer to ISA;
- which must be done within 90 days of maturity of SIP.

(d) **(i)**

- Employer matching to 7% for Mita.
- Reduced National Insurance.
- 40%/higher rate tax relief for either.
- Salary sacrifice might be available.
- Could recover some Child Benefit allowance.
- Harish could recover some Personal Allowance.
- Carry forward/make use of unused allowances.
- Corporation Tax relief for Harish.
- Tax-efficient extraction of profits from company for Harish.
- Tax free growth/tax free death benefits.

(ii) *Candidates would have gained full marks for any eight of the following;*

- No equity holdings.
- Not suited to attitude to risk.
- High yield/corporate bonds may behave like equities.
- Interest rate risk.
- Not diversified.
- Limited growth/does not keep up with inflation.
- Vulnerable to economic conditions/volatile.
- Property may be illiquid.
- Property costs/property management charges.

(e) **Benefits**

- Reduced monthly outgoings/increased disposable income.
- Saves interest over term of mortgage.
- Meets objectives/may improve credit rating.
- No need for life cover.
- Peace of mind.

Drawbacks

- Loss of liquidity/lack of emergency funds.
- No mortgage interest to set against tax on rental income.
- Does not match attitude to risk.
- Possible early repayment charges on mortgage
- Cannot use funds for other purposes/objectives/investing/pension funding.
- Potential for growth.

(f)
- Potential for growth.
- Pound cost averaging;
- benefit from volatility/reduces market timing risk.
- Mita can use dividend allowance.
- Can use CGT allowance/Bed and ISA/hold in ISA.
- Retain ownership/control.
- Diversification/choice of funds.
- Flexible contributions/start/stop/accessible.
- Suitable for medium-term/long-term investment.
- Matches attitude to risk.

(g) *Candidates would have gained full marks for any ten of the following;*

- Harish can only act in mother's best interests/he must exercise duty of care.
- Can be used at any time with mother's permission/can assist her at any time if capacity lost.
- Can only be used to manage finances/pay bills/operate bank accounts/sell property/limited gifting allowed.
- Must be registered when capacity is lost.
- Must be registered with Office of Public Guardian (OPG).
- It was made and signed before 2007 it is still valid.

- Pay fee/£82 to register;
- takes 8-10 weeks/long time to register.
- When registering must advise at least three other family members.
- Must gain approval from OPG if assets are sold below market value/any potential conflict of interest.
- Can claim expenses for carrying out duties/cannot charge for his work.

July 2020 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 October 2020 paper will be based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise and should be answered accordingly.

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£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

**not applicable if taxable non-savings income exceeds the starting rate band of £5,000.*

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)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance†	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,390	£2,450
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%

§ 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.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 166.00*****	Nil
166.01 – 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 £118 per week. This £118 to £166 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 166.00**	Nil
166.01 – 962	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.00 where profits exceed £6,365 per annum.
Class 3 (voluntary)	Flat rate per week £15.00.
Class 4 (self-employed)	9% on profits between £8,632 - £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

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
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£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	2018/2019	2019/2020
	£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	2018/2019	2019/2020
Individuals, estates etc	£11,700	£12,000
Trusts generally	£5,850	£6,000
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 (2018/2019), two years (2019/2020).*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2018/2019	2019/2020
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*	£125,000	£150,000
- 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 2019/2020:

- The percentage charge is 16% 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 19%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 22%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 23% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 165g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro 6 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 (£24,100 for 2019/2020) e.g. car emission 90g/km = 22% on car benefit scale. 22% of £24,100 = £5,302.

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

	2018/2019 Rates	2019/2020 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

	2018/2019	2019/2020
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£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	8%	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% first year	18% reducing balance	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2018/2019	2019/2020
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	17.20	17.60
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 110.75	Up to 111.65
Attendance Allowance	Lower rate	57.30	58.70
	Higher rate	85.60	87.65
Basic State Pension	Single	125.95	129.20
	Married	201.45	201.45
Single Tier State Pension	Single	164.35	168.60
Pension Credit	Single person standard minimum guarantee	163.00	167.25
	Married couple standard minimum guarantee	248.80	255.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
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	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		145.18	148.68

**Only applicable where spouse or civil partner died before 6 April 2017.*
*** Only applicable where spouse or civil partner died on or after 6 April 2017.*

CORPORATION TAX

	2018/2019	2019/2020
Standard rate	19%	19%

VALUE ADDED TAX

	2018/2019	2019/2020
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%

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 is 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%