Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2020 Examination Guide

SPECIAL NOTICES

Candidates entered for the February 2021 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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Published November 2020

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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.

In respect of the question paper, less well-prepared candidates struggled with some of the more application-based elements of the paper. This is noticeable across both Case Studies but more particularly so in Case Study 2 which focused more heavily on application.

Question 1

Part (a) was well answered by the majority of candidates who understood the benefits of risk-profiling. This question was a potential area of testing as it was clear from the Case Study that neither Vassos nor Rania had taken financial advice in the past.

Part (b)(i) saw a good level of performance. Some weaker candidates struggled with the main differences between the two different types of policy and it was disappointing to note that some candidates did not appreciate that Income Protection policies do not pay out on redundancy. This demonstrated a poorer level of knowledge but this was relatively rare.

Part (b)(ii) saw good performance. Given the client circumstances, this was a clear area of potential testing and well-prepared candidates had no difficulties.

Part (c) was well answered by the majority of candidates.

Part (d)(i) was generally answered well by most candidates.

Part (d)(ii) saw generally good performance overall. This is not a complicated topic and was clearly indicated as a potential area of testing within the Case Study.

Part (e)(i) some candidates struggled a little with this question and did not focus on the wider implications of repaying the debt for Vassos and Rania such as the impact this would have on their available mortgage deposit and the issues of higher costs for debt versus returns on savings. Well-prepared candidates achieved good marks as they applied the information contained in the Case Study to their answers.

Part (e)(ii) candidates who had researched Lifetime ISAs performed well but unfortunately a number of candidates had not identified that these might be an option for Vassos and Rania and therefore were unable to identify the key drawbacks of these products for the couple. Mixed performance was in evidence and this was largely linked to the level of preparation of each candidate.

Question 2

Part (a) was generally well answered with an overall pleasing performance. Well-prepared candidates were able to identify the higher level of Financial Services Compensation Scheme (FSCS) cover available on the savings due to the proceeds of a recent house sale.

Part (b)(i) saw good performance overall. Most candidates understood the key information required to build a cashflow model for Dietmar and Clara.

Part (b)(ii) saw slightly disappointing performance with candidates providing limited answers and failing to recognise that this particular tool can only be used to provide a snapshot of their position and should be reviewed on a regular basis.

Part (c)(i) was identified in the Case Study as a potential option for Dietmar and Clara and well-prepared candidates had no issues in providing a detailed answer to this question. It was pleasing to note that most candidates recognised the differing tax treatment of the PLA from their existing annuities.

Part (c)(ii) saw good performance overall.

Part (d) saw mixed performance in this question. This was an application-based question and weaker candidates provided generic answers and did not consider in enough detail how these shares could be used to assist Dietmar and Clara in retirement. Only a few candidates recognised that the shares could be used to provide both capital and income as they are liquid and therefore easily accessible to provide flexible withdrawals.

Part (e) saw overall reasonable performance although some candidates failed to identify the need to reduce the existing client holdings in fixed-interest and gilts. Again, this is an application-based question and candidates who had not considered the Case Study in sufficient detail failed to achieve the more ‘application-based’ marks.

Part (f) saw good performance. The issue of client concerns with future inflation was clearly indicated in the Case Study and many candidates were able to provide a wide range of appropriate answers.

Part (g) was a typical review question and it was pleasing to note that most candidates performed well.

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 2020/2021, 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)** and **(e)** which follow.*

Vassos and Rania are married and are both aged 28. Rania is pregnant with their first child which is due in three months' time. Vassos and Rania are in good health.

Vassos is employed as a sales manager for a telecommunications company and receives a basic salary of £60,000 per annum gross. He receives death-in-service cover of two times his basic salary and sick pay of four weeks' basic salary. He is a member of his employer's qualifying workplace pension scheme. The pension plan is invested in a managed lifestyle strategy fund.

Rania is employed as an assistant television producer and receives a basic salary of £67,000 per annum gross. Rania is a member of her employer's group money purchase pension scheme. She contributes 5% of her basic salary to the scheme and her employer contributes 8% of her basic salary. Her employer also provides death-in-service cover of three times her basic salary and three months' basic salary as sick pay. Rania's employer provides statutory maternity pay only. Rania plans to take six months' maternity leave after the birth of their child and will then return to work full time. Vassos and Rania's parents have agreed to look after the baby for the first few years after Rania returns to work.

Vassos and Rania rent their current home and neither of them have ever owned a property. They pay rent of £1,200 per month. They have been struggling to save for a deposit for their first home but are hoping to buy a house in the next two years. Rania's parents have just decided to gift them the sum of £20,000. Vassos's parents are also willing to lend them £10,000 towards the deposit. His parents wish to set up this loan on a formal basis. They have seen suitable properties in the price range of £250,000 to £300,000. Vassos and Rania do not have any financial protection policies in place, other than those provided by their employers, but are keen to consider making appropriate arrangements before their child is born.

Over the last year, Vassos and Rania have accrued personal debts. They have accumulated credit card debts of £8,000 in total. Rania also has a personal loan of £10,000 which has a remaining term of four years and costs £220 per month.

Vassos and Rania consider themselves to be medium to high risk investors. They have not received financial advice previously and wish to understand the benefits of doing so.

Vassos and Rania have the following assets:

Assets	Owner	Value (£)
Current account	Joint	1,500
Deposit account	Joint	2,500
Help to Buy ISA	Vassos	1,240
Help to Buy ISA	Rania	1,240
Unit Trust – UK Smaller Companies fund	Rania	5,000

Vassos and Rania's financial aims are to:

- ensure that they have adequate financial protection arrangements;
- purchase their first home;
- consider the repayment of their personal debt.

Questions

(a) State the benefits to Vassos and Rania of undertaking a computerised risk-profiling exercise when obtaining financial advice. **(7)**

(b) **(i)** State the key differences between a personal income protection insurance policy and a critical illness insurance policy for Rania. **(12)**

(ii) State the benefits of Vassos and Rania effecting a family income benefit policy. **(10)**

(c) Outline the additional information that a financial adviser would need to obtain to provide retirement planning advice to Vassos and Rania. **(13)**

(d) **(i)** Explain the possible Inheritance Tax implications for Rania's parents of making the planned gift. **(8)**

(ii) Explain the key issues that Vassos's parents should consider when setting up the loan agreement. **(8)**

(e) **(i)** Vassos and Rania are considering repaying some of their personal debt by using the gift from Rania's parents.

State the factors Vassos and Rania should be aware of when making any decision to repay their debts. **(10)**

(ii) Identify the key **drawbacks** for Vassos and Rania of taking out Lifetime ISAs to save for the house deposit. **(8)**

Total marks available for this question: 76

Case Study 2

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

Dietmar and Clara, both aged 76, are married with three children and seven grandchildren. Both Dietmar and Clara retired a number of years ago and are in receipt of income from pensions from previous employment and their State Pensions. The income from previous employments is in the form of level lifetime annuities with 50% spousal benefit in the event of either death. They are in receipt of full State Pensions.

Dietmar and Clara have recently downsized their main residence. Their new home is mortgage-free and valued at £200,000.

Dietmar and Clara are considering investing some of the proceeds of the recent house sale in a purchased life annuity as they believe this will give them an additional source of guaranteed income in retirement. They are unsure if this would be a suitable option for them.

Clara inherited a portfolio of UK blue-chip shares with a probate value of £80,000 from her father earlier this year. They are unsure if they wish to retain this portfolio in its current form as they are keen to generate as much income as possible throughout their retirement.

Dietmar and Clara have built up a portfolio of ISAs over many years which are invested in a range of cash ISAs and stocks and shares ISAs. They are keen to generate a higher level of income from their portfolio of ISAs and would like to review the current holdings. The stocks and shares ISAs are held on a platform which offers a wide range of investment funds.

Clara wishes to start making regular gifts to their children and grandchildren to mitigate any potential Inheritance Tax liability. However, Dietmar is concerned that this may cause them financial hardship in future years as he is worried that inflation could rise significantly over the course of their lifetimes.

Dietmar and Clara both have a medium attitude to risk and are happy to invest in a wide range of assets.

Dietmar and Clara have the following assets:

Asset	Ownership	Current Value (£)
House	Joint Tenants	200,000
Current Account	Joint	40,000
Deposit Account – instant access	Joint	300,000
UK Blue Chip shares	Clara	85,000
Cash ISA	Dietmar	115,000
Cash ISA	Clara	100,000
Stocks and shares ISA – UK Fixed Interest funds	Clara	170,000
Stocks and shares ISA – UK Gilts fund	Dietmar	150,000

Dietmar and Clara's financial aims are to:

- ensure they have sufficient income throughout retirement;
- ensure the suitability and tax-efficiency of their current savings and investments;
- ensure their retirement income is protected against inflation.

Questions

(a) Explain to Dietmar and Clara why it is **unsuitable** for them to retain the cash in the deposit account with their existing bank over the longer term. **(8)**

(b) **(i)** Outline the key information that should be taken into consideration by a financial adviser when building a lifetime cashflow model for Dietmar and Clara, to assist them with planning their future income needs. **(10)**

(ii) Identify **six drawbacks** for Dietmar and Clara of solely relying on lifetime cashflow models when planning for their future financial objectives. **(6)**

(c) Dietmar and Clara would like to put in place an additional source of guaranteed income for their retirement.

(i) Explain to Dietmar and Clara how a purchased life annuity (PLA) operates. **(10)**

(ii) State **five** key reasons why a purchased life annuity (PLA) may **not** be a suitable arrangement for their circumstances. **(5)**

(d) Explain to Dietmar and Clara how retaining the existing portfolio of UK blue-chip shares could assist them in providing additional tax-efficient income. **(9)**

(e) Outline to Dietmar and Clara the changes that they could make to their existing ISA holdings to enable them to generate a higher level of income. **(8)**

(f) Identify and explain a range of suitable options that Dietmar and Clara could consider, to help to protect their financial arrangements from the impact of inflation. **(10)**

(g) State **eight** factors that an adviser should take into account when reviewing Dietmar and Clara's financial arrangements at their next annual review meeting. **(8)**

Total marks available for this question: 74

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

Model answer for Question 1

(a)
- Helps them to consider aims/objectives/priorities.
- Helps understanding of risk and rewards/gives a risk score.
- Helps with analysis of current assets.
- Helps to develop a financial plan/identify suitable asset allocation.
- Transparency/no bias/independent outcome/no human error.
- May gave rise to further discussion/can identify inconsistencies.
- Capacity for loss.

(b) (i) *Candidates would have gained full marks for any twelve of the following:*
- Income Protection Insurance/Critical Illness Cover lump sum.
- Income Protection Insurance pays out on being unable to work due to sickness/accident.
- Critical Illness Cover pays out on listed illnesses only/Income Protection Insurance allows multiple claims/wider cover/can only claim once under Critical Illness Cover.
- Cover decreases over term for Income Protection Insurance/decreasing cover to Normal Retirement Age/Retirement Age set under plan.
- Potentially longer-term cover for Critical Illness Cover/whole of life.
- Income Protection insurance is limited to percentage of salary/Critical Illness Cover is not linked to earnings.
- Income Protection Insurance will have a deferred period.
- Critical Illness Cover has a survival period.
- Income Protection Insurance is based on occupation definitions e.g. own/any.
- Critical Illness Cover can have life cover added/Total Permanent Disability
- Other benefits also available under Critical Illness Cover (e.g. children's cover).
- Income Protection Insurance requires more detailed underwriting to get cover.
- Critical Illness Cover can be set up under Trust.

(ii)
- Tax-free income.
- Sum assured is not limited/sum assured to maintain lifestyle/can maintain standard of living.
- Term set to match their needs/to Normal Retirement Age.
- Low cost cover.
- Guaranteed premium.
- Can be set up under trust.
- Increasing cover available/indexation.
- Peace of mind/meets their objectives.
- Simple underwriting/both are in good health.
- Cannot be cancelled by insurer.

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

Vassos

- Contribution levels for employee.
- Contributions for employer.
- Cautious/balanced/management style of Managed Lifestyle fund?

Rania

- Investment fund used.

Both

- Salary sacrifice available/employer matching contributions?
- Death benefit nominations.
- Charges.
- Target income/lump sums.
- Retirement ages planned.
- Any other pensions/inheritances expected/use of other assets.
- Affordability to pay more/priority of this objective.
- Fund choices available within their plans.
- BR19/State Pension entitlement.
- Ethical concerns/considerations.
- Capacity for loss.
- Current fund values.

(d) (i)

- Could be a Potentially Exempt Transfer (PET)/no immediate charge to Inheritance Tax (IHT).
- Value of PET reduces over 7 years.
- PET will be outside of estate in 7 years.
- It may be a chargeable lifetime transfer (CLT) if other gifts have been made/if nil rate band exceeded.
- May incur immediate 20% IHT charge.
- £3,000 gift allowance available/£6,000 for both.
- If chargeable on death could be taxed at 40%.
- Could use life cover/liability could fall on Vassos and Rania.

(ii)

- Loan agreement to be signed/in writing.
- Interest rate stated.
- Term stated.
- Will it be secured on the new house?/any charge on property?
- Repayments per month.
- Default/divorce.
- What happens on death of parents/Vassos and Rania/life cover?
- Their tax status/Personal Savings Allowance/tax planning/loan remains in their estate.

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

- Loss of liquidity/reduces fund available to purchase house/limited emergency fund.
- Saves interest/high interest on credit card debt.
- Debt interest is higher than savings rates/mortgage rates.
- Parents may not agree with this use of money.
- Improves mortgage affordability.
- Saves monthly costs for them/increases disposable income.
- Improved credit score.
- Peace of mind.
- Reduced earnings for 6 months/Rania will be on maternity leave.
- Retaining debt increases flexibility/more capital available for other needs.
- Early repayment charges/settlement figure on loan.

(ii)

- Limited contribution/£4,000 per annum.
- Early access leads to penalty
- Penalty on withdrawal exceeds government bonus/temporary reduction on penalties due to pandemic.
- Rules apply/restricted use/must meet exact criteria/must take out a mortgage.
- Investment risk.
- Charges
- Limited choice of providers.
- Additional administration/may need to set up standard ISA as well.

Case Study 2

(a)
- Default risk/bank failure/risk of capital loss.
- Not covered in full by Financial Services Compensation Scheme(FSCS)/limited to £85,000 per person.
- Limited diversification.
- £1m cover under FSCS (temporary).
- 12 months cover only for £1m.
- Inflation risk/interest rate risk.
- No potential for capital growth/low interest/low returns.
- Not held in ISA/not tax-efficient/not IHT efficient.
- Does not meet stated objectives/does not match attitude to risk.

(b) (i)
- Current income needs/future income needs.
- Planned capital expenditure/inheritances/new capital.
- Current assets/current income/level of guaranteed income.
- Growth rate assumptions/interest rate assumptions/charges.
- Inflation assumptions.
- Attitude to risk/capacity for loss.
- Longevity/health.
- Market corrections/estimates of market falls/stress test.
- Potential cost of long-term care.
- Impact of death of either Dietmar or Clara.

(ii)
- Provides snapshot only.
- Circumstances may change/ill health/loss of income/longevity.
- Attitude to risk/capacity for loss may change.
- Growth rates may not be achieved/adverse market conditions/assumptions may be incorrect.
- Taxation regulations/legislation may change.
- Input errors/misunderstanding of information by client or adviser.
- Must be updated regularly/regular reviews required.

(c) (i)
- Lump sum paid to insurance company.
- Irrevocable/inflexible.
- Annuity rate agreed for lifetime/fixed term/underwriting required.
- Income paid as mix of return of capital and income.
- Return of capital is tax-free/exempt sum.
- Income element is taxable/Personal Savings Allowance/savings income.
- Tax deducted at source by insurance company.
- Escalation available
- Joint life/spouse's benefit available.
- Capital guarantee available.

(ii)
- Irrevocable/lack of flexibility/loss of capital/liquidity/may not meet objectives.
- No potential for future growth.
- Not tax efficient.
- Annuity rates currently low.
- Does not match attitude to risk.

(d) *Candidates would have gained full marks for any nine of the following:*

- Provides dividend income/lower tax rate on dividend income.
- Interspousal transfer to Dietmar/transfer 50% of holding.
- No gain/no loss for Capital Gains Tax (CGT) on interspousal transfer.
- Can use Dividend Allowance/£2,000 each.
- Matches their attitude to risk.
- Can each use CGT exemption/£12,300
- Flexible withdrawals.
- Can Bed & ISA each tax year.
- Potential for capital growth/dividend growth.
- Provides degree of inflation-proofing.

(e) *Candidates would have gained full marks for any eight of the following:*

- Switch Cash ISA holdings to stocks and shares ISA.
- Cash ISA returns will not match inflation/low interest rates.
- Switch portion of fixed-interest holdings.
- Diversifies portfolio.
- Fund switches can be made on platform/free of charge.
- No tax implications for switches.
- Equity funds provide dividend income.
- Potential for capital growth/can take capital withdrawals.
- Reduce UK gilt holdings/limited income.
- BED & ISA share portfolio/make ISA contributions.
- Can match attitude to risk.

(f)

- Reduce cash holdings/they have excess cash holdings.
- Interest rates are currently below inflation rate.
- Cash is losing real value/capital erosion.
- Transfer Cash ISAs to S&S ISAs/use ISA allowance.
- Invest in equities/retain UK blue chip shares/invest in multi asset funds.
- Invest in property.
- Invest in Index-Linked bonds/gilts.
- Real assets keep pace with inflation.
- Index-linked Purchased Life Annuity.
- Provides guaranteed lifetime inflation-linked income.

(g)

- Personal circumstances/health/family.
- Financial circumstances/income needs/capital expenditure/new money/tax status/objectives.
- Attitude to risk/capacity for loss.
- Performance/rebalance.
- Use of tax allowances/ISA/gifting.
- Charges.
- New products/are existing products still suitable?
- Legislation changes/taxation changes/economic changes.

October 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 February 2021 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	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%

§ 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	£2,830
- 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%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£1,000,000

**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% first year	18% reducing balance	6% 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%