Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

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.

AF7 – Pension Transfers

Contents

Published January 2021

Telephone: 020 8989 8464
Email: customer.serv@cii.co.uk

MPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully
This 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.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas; however, 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.

Note the assumed knowledge
For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook 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. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

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

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can 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
Assessment is by means of a two-hour online paper in two sections. All questions are compulsory:

Section A consists of 33 marks.
Section B consists of two case studies worth a total of 67 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

Appreciate the standard of the examination
Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

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

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates finish the examination confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before answering.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates' should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

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

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

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

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 a calculator.

EXAMINERS' COMMENTS

General

Overall performance was broadly in line with the July 2020 sitting. Where candidates achieved less than the pass standard required, it tended to be as a result of one or more of the following:

- Failing to answer the specific question being asked. For example, question 3 asked candidates to focus specifically on the Guaranteed Minimum Pension (GMP) benefits within their answer. Question 5 was another example in that a number of candidates failed to note the question related to a 'partial' transfer.
- Not referring to the information given within the case studies when answering questions that specifically asked candidates to use such information in formulating their answer. Questions 5, 7 and 9 are relevant examples from this paper.
- Failing to utilise the additional information within the tax tables when answering questions. This was particularly relevant for question 3 as the 'Supplementary Information' at the back of the exam paper contains relevant information regarding GMP benefits that would have assisted candidates in answering this question.

Question 1

This was a straightforward question and most candidates scored high marks on part (a) and a few marks on part (b). Where marks were not awarded it tended to be in part (b) as a result of either incorrect timescales being stated or failing to be clear as to the fact that the written evidence of advice needs to come from the advisor.

Question 2

Parts (a) and (c) were straightforward and most candidates performed very well. In part (b), candidates needed to apply the Pension Protection Fund (PPF) compensation to the particular circumstances detailed within the question stem (i.e., it was ill-health early retirement where benefits solely consisted of post-97 accrual and the member is married). As a result, candidates that simply listed the PPF compensation rules did not gain full marks. A surprising number of candidates failed to recognise that the '90%' compensation limit does not apply to ill-health early retirement under the PPF.

Question 3

Whilst GMP benefits have been tested in previous exam sittings as part of a wider question, this was the first time a question has been solely focussed on GMP benefits. The reason for testing this area in more depth is because it is both topical and relevant given the need for relevant schemes to both reconcile and equalise GMP benefits and the implications this has on transfer advice where a scheme has not undertaken these tasks.

Performance on this question was very disappointing, particularly given the fact that several marks could have been obtained simply by using the information in the tax tables.

Quite a few candidates failed to read the question properly which stated, ‘with specific regard to the GMP benefits’ and as a result they provided generic answers that did not directly relate to GMP benefits such as ‘attitude to risk’, ‘capacity for loss’ etc.

Question 4

This area had been tested relatively frequently and as a result candidate performance was generally very good.

Question 5

Performance on this question was lower than expected. A number of candidates answered this based on a ‘full transfer’ as opposed to ‘partial transfer’ so had not read the question properly. Such candidates were still able to gain most of the marks so were not disproportionately penalised.

Candidates also failed to base their answer on the information in the case study and provided generic statements that were not worthy of any marks.

Question 6

Part (a) saw mixed performance, some candidates missed out the fact that the full pension would be payable for the remainder of the guarantee period whilst others stated that there would be a ‘return of contributions’ which is not correct in respect of a ‘death in retirement’.

Part (b) has been tested quite frequently and performance was reasonable although there was still a lack of detail within candidate answers, particularly around the different options available and the recipient’s status as a ‘dependant’.

Question 7

This was a straightforward question and candidates should have scored much better than they did. A significant number of candidates are still struggling to provide answers to ‘factors’ questions that specifically relate to the circumstances in the case study – despite this being clear in the question. As a result, all too often candidates provided generic ‘fact-find’ style answers which were not worthy of marks.

Question 8

The performance on this question was quite pleasing with most candidates performing very well.

Question 9

As with questions 5 and 7, candidates failed to utilise the information in the case study when answering the question and as a result did not perform as well as they would have done had they utilised the information provided. These ‘factors’ style questions should in theory be amongst the easiest questions for candidates to answer as they simply require candidates to recognise the relevant information that is already given to them in the case study and state why its relevant.

Question 10

Most candidates gained the first two marks but very few covered the remaining three points.

Question 11

An area that has not been tested directly before (only as part of a wider question) and as a result candidate performance was perhaps unsurprisingly poor. Good candidates gained a few marks, but most candidates struggled with this question. Some candidates explained the factors HM Revenue & Customs would take into account in determining whether or not to assign a value to the transfer for Inheritance Tax purposes, but this information was not required as candidates were told to assume that HM Revenue & Customs had made this determination already.

Unit AF7 – Pension transfers

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.

- **Please write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**

- **Two hours** are allowed for this paper which carries a total of 100 marks as follows:
- Section A: 33 marks
- Section B: 67 marks

- You are strongly advised to attempt **all** questions to gain maximum possible marks.

- 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.

- Tax tables are provided at the right-hand side of the interface.

- Supplementary information is also included at the end of the tax tables on the right-hand side of the interface.

- For each answer, please type in the full question number you are answering e.g. **1a** **in the correct corresponding question answer box.**

- Please familiarise yourself with **all** questions before starting the exam.

- 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.

SECTION A

The following questions are compulsory and carry a total of 33 marks

1. Bakari, aged 60, is interested in transferring the cash equivalent transfer value (CETV) of his deferred benefits in his previous employer's defined benefit pension scheme to a personal pension plan. The scheme is offering a CETV of £28,750 that has been reduced by 15% due to underfunding.

Explain to Bakari:

(a) why he must receive appropriate independent financial advice before any transfer can take place; and **(2)**

(b) the steps that must be taken to prove he has received this advice, including any timescale involved. **(5)**

2. Mallorie, aged 46, is married. She has rheumatoid arthritis which is likely to reduce her life expectancy by about ten years. Her illness has now progressed to the point where she feels unable to continue working. Mallorie is an active member of her employer's defined benefit pension scheme, having joined the scheme in April 1998.

Mallorie's employer has said that she may apply for an early retirement scheme pension on the grounds of ill health or, once she has ceased employment, a transfer of the cash equivalent value of her pension benefits.

(a) State the HM Revenue & Customs criteria that must be met to enable an ill-health early retirement scheme pension to be payable to Mallorie. **(3)**

(b) Explain the compensation that is likely to be provided in respect of Mallorie's benefits if the scheme enters the Pension Protection Fund whilst she is in receipt of an ill-health early retirement scheme pension. **(6)**

(c) State why, based on Mallorie's state of health, a cash equivalent transfer value may represent good value. **(2)**

3. Liam, aged 55, is married. He was a member of a former employer's defined benefit pension scheme between 1986 and 2000. He has received a statement of entitlement that shows part of the scheme benefits are made up of a guaranteed minimum pension (GMP) that is subject to fixed rate revaluation.

With specific regard to the **GMP benefits**, outline **eight** factors that you would consider when evaluating a potential transfer of the cash equivalent value to a defined contribution arrangement. **(8)**

4. Anvil is a deferred member of a former employer's defined benefit pension scheme. He has recently received a cash equivalent transfer value (CETV) which is higher than one he obtained three years ago.

Outline **seven** possible reasons for the increase in the CETV. **(7)**

Total marks available for this question: 33

SECTION B

All questions in this section are compulsory and carry an overall total of 67 marks.

Case study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study.

Zak, who will be 65 in December 2020, is married to Martina, aged 66. The couple are both in excellent health and have a history of longevity in their families. Zak and Martina do not have any children so legacy planning is not important to them as they plan to leave their estate to charity.

The couple retired in 2019. Their house, which is mortgage free, is valued at £650,000. Their only other assets are an emergency fund of £20,000 plus stocks and shares ISAs valued at £140,000. The couple, who both have a medium attitude to investment risk, would like to purchase a holiday cottage for £210,000.

The couple require an inflation proofed, net income of £3,750 per month to cover essential and discretionary expenditure; this will reduce to £2,500 per month net on first death. They also require £5,000 - £10,000 per annum net to cover ad-hoc expenditure. Martina receives a scheme pension of £30,200 per annum gross from her previous employer's defined benefit scheme. This includes a 50% spouse's pension. She also receives a State Pension of £130 per week. The couple currently use capital and income from their stocks and shares ISAs to cover the shortfall in their income.

Zak left his previous employer's defined benefit scheme in 2014. The scheme permits partial transfers, with Zak able to transfer just the pre-97 benefits or the post-97 benefits if he wishes. Some details of the scheme are shown below:

Pre-commutation pension at age 65	£31,000 gross per annum, of which £12,600 is in respect of pre-97 accrual and £18,400 is in respect of post-97 accrual
Maximum pension commencement lump sum (PCLS)	£143,077 Commutation rate is 15:1 at age 65
Guarantee period	5 years (payable as continuing income)
Spouse's Pension	50% of member's pre-commutation pension
Increases to pension in payment	In line with statutory requirements
Cash equivalent transfer value (CETV)	£976,000 of which £365,000 is in respect of pre-97 accrual; and £611,000 is in respect of post-97 accrual

Zak will be entitled to a State Pension of £140 per week when he reaches his State Pension age in 2022.

Zak would like to ensure the couple's essential and discretionary expenditure continues to be met throughout retirement and would like advice on whether this would be best achieved by taking his full benefits from the defined benefit scheme or transferring some or all of his benefits into a defined contribution pension arrangement and accessing them flexibly.

Zak would also like to use some of the capital currently held in their ISAs plus some of his PCLS to purchase the holiday cottage.

Questions

5. An option you are considering is for Zak to transfer the cash equivalent of his pre-97 benefits into a defined contribution arrangement, leaving the post-97 benefits preserved in the defined benefit pension scheme.

Based on the information provided in the case study, outline the factors that should be taken into account when deciding whether this option should be recommended. **(15)**

6. In the event of Zak's death, outline the potential death benefits payable to Martina, including their Income Tax treatment, in respect of:

(a) a scheme pension being received by Zak in respect of the post-97 benefits within the defined benefit pension scheme; **(4)**

(b) a defined contribution pension arrangement following the transfer of the cash equivalent of Zak's pre-97 pension benefits. **(8)**

7. You have recommended that Zak takes the scheme pension in respect of his post-97 benefits and transfers the pre-97 CETV into a defined contribution arrangement.

Based on the information provided in the case study, outline the factors you would take into account when designing an investment strategy for Zak's transferred pension fund. **(7)**

Total marks available for this question: 34

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study.

Rosie, aged 50, is a widow with two dependent children, aged 12 and 14. Her husband Lloyd died in March 2020 of cancer, aged 59. A couple of months before he died, Lloyd completed a transfer of benefits from a previous employer's defined benefit pension scheme to a personal pension plan. This was done with the intention of improving the death benefits payable to Rosie. The amount transferred was £135,200 and Lloyd did not make any withdrawals prior to his death. Rosie has recently notified the scheme administrator that she wishes to designate the funds to a dependant's flexi-access drawdown pension.

The mortgage on Rosie's home was cleared with the proceeds of a joint life first death life policy and she has funds held in ISAs valued at £38,000. Rosie has no other savings or life cover in place.

Rosie earns £55,000 per annum gross. She is a member of her employer's workplace pension scheme to which she and her employer contribute 5% of her salary. Her fund is currently valued at £76,000.

Rosie recently obtained a statement of entitlement in respect of her membership of a former employer's contracted-in defined benefit pension scheme. This includes the following information:

Cash equivalent transfer value	£730,000
Date of membership	1/5/1990 – 30/4/2010
Deferred pension at date of leaving	£18,350 per annum
Scheme normal pension age	65
Dependants' pension payable?	Yes
Revaluation in deferment	All benefits: inflation capped at 5%
Escalation in payment	All benefits: inflation capped at 5%

Although currently in good health, Rosie wants to make sure her children will be well provided for in the event that she dies before they are financially independent. For this reason, she has asked for advice about transferring the cash equivalent of her benefits in her former employer's pension scheme to a defined contribution pension arrangement.

Ideally Rosie would like to retire before age 60, although she has no firm plans at the moment. Neither does she have any clear idea of what annual income she will require in retirement but expects it to be at least £30,000 net in today's terms. At present, Rosie has between £300-£400 surplus income per month. She has a cautious to moderate attitude to risk.

Questions

8. Identify the additional information an adviser would require in respect of Rosie's former employer's defined benefit pension scheme before advising her on the suitability or otherwise of transferring the benefits. **(11)**

9. Based on the information provided in the case study, explain the factors that would support a potential recommendation for Rosie to retain her pension benefits within the defined benefit pension scheme at this point in time. **(12)**

10. Explain why Rosie should complete nominations in favour of her children for the dependant's flexi-access drawdown pension and her workplace pension scheme. **(5)**

11. The executor of Lloyd's estate has advised Rosie that the transfer of benefits from Lloyd's previous employer's defined benefit pension scheme is likely to be deemed a transfer of value for Inheritance Tax (IHT) purposes.

Assuming HM Revenue & Customs do assign a value to this transfer for IHT purposes, outline the impact this will have for Rosie when carrying out any future IHT planning. **(5)**

Total marks available for this question: 33

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)
- The unreduced CETV;
- is in excess of £30,000.

(b)
- The advisor's written confirmation needs to be sent to the scheme trustees within three months of the date he received the Statement of Entitlement (answers stating within three months and ten days of the guarantee date were also rewarded as this is the deadline quoted by the Pensions Regulator within their guidance).

Model answer for Question 2

(a)
- Medical evidence;
- that she is unable to work/has stopped working;
- and will continue to be unable to work/unlikely to recover.

(b)
- Unreduced pension/100% of the pension in payment;
- escalating at CPI capped at 2.5% as all benefits are from post April 1997 accrual;
- A 50% spouse's pension would also be included as they are married.

(c)
- The calculation of the CETV will not take her health into account/it is based on the average longevity of the scheme as a whole/it is based on her being in good health.
- Taking the CETV could provide higher/flexible benefits (given her reduced life expectancy) or offer her more flexibility to utilise the funds how she wishes.

Model answer for Question 3

Candidates would have scored full marks for any eight of the following:
- 6.25% fixed revaluation.
- The age from which GMP will be paid/paid from age 65.
- Whether a bridging pension is payable.
- He has Pre and post 88 GMP;
- post 88 GMP must increase by a minimum of CPI capped at 3%.
- Spouse's pension (of at least 50%) is included.
- Whether GMP benefits have been reconciled/equalised.
- How much of the deferred benefit is made up of GMP?
- GMP cannot provide PCLS.
- Are partial transfers allowed/can he leave his GMP and transfer the rest.

Model answer for Question 4

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

- Previous transfer value may have been reduced (due to underfunding).
- New CETV has been enhanced (to encourage transfer there).
- Annuity rates/gilt yields may have fallen.
- Revaluation/escalation/CPI/inflation may have increased.
- Life expectancy/longevity assumptions have increased.
- Discount rates/investment assumptions have reduced.
- Shorter period to retirement/he is 3 years older.
- Discretionary increases have been added to the scheme/benefits increased as a result of GMP equalisation.

Model answer for Question 5

- They would have sufficient (secure) income to cover their essential and discretionary expenditure.
- Once Zak's State pension is in payment their ad-hoc needs will also be covered.
- If the full scheme pension is taken their income will be surplus to their requirements.
- The transferred fund can be used to top up their requirements.

- The post-97 pension will be inflation proofed and this meets the couple's requirement for an inflation proofed income.

- The pre-97 CETV will provide a PCLS of up to £91,250/the PCLS would likely be higher than under the defined benefit scheme.
- The partial transfer gives enough PCLS to purchase of the holiday cottage.

- Zak is in excellent health/family history of longevity;
- so is likely to benefit from the secure income/no longevity risk.

- Medium attitude to investment risk is suitable for a partial transfer.
- They have some investment experience through stocks and shares ISAs.
- Partial transfer means they have a good capacity for loss as they will be retaining secure income within the defined benefit scheme.
- Survivors income needs will be met from secure sources on death.
- Partial transfer (as opposed to full) is less likely to trigger a Lifetime Allowance charge.

Model answer for Question 6

(a)
- 100% of his pension/his pension would continue/£18,400;
- for balance of the guarantee period;
- thereafter 50% of his pre-commutation pension/£9,200.
- Taxed as Martina's pension income/PAYE/marginal rate.

(b)
- Lump sum.
- Dependant's annuity.
- Dependant's (flexi-access) drawdown.

- Tax free if dies before 75 and paid/designated within the two-year window.

- Two-year window only applies to lump sums/uncrystallised funds used for income.
- Taxable as Martina's pension income/taxed under PAYE if death is after age 75 or benefits are paid outside the two-year window (where relevant).

Model answer for Question 7

Candidates would have scored full marks for any seven of the following:
- He has a medium attitude to risk.
- They have capacity for loss.
- They have investment experience.
- They have no requirement to leave a legacy/they want to leave their estate to charity.

- They will only need to take small withdrawals/withdrawals will be £5,000 - £10,000 per annum/withdrawals will be within the Safe Withdrawal rate and only needed until Zak reaches State Pension Age/only needed for a couple of years.

- Zak's fund is not needed to provide death benefits for Martina.

- Need to hold funds in cash to purchase the holiday cottage/provide ad hoc withdrawals.
- They are in good health/family history of longevity/potentially a long investment term.

Model answer for Question 8

Candidates would have scored full marks for any eleven of the following:

- The inflation measure used for revaluation/used for escalation.
- Scheme's definition of dependant/are children's pensions payable?
- What level of child's/dependants' pension is payable?
- Maximum age a child's pension would pay to?
- Earliest age benefits can be taken without reduction/penalty.
- Early retirement factors.
- Are partial transfers allowed.
- Scheme commutation rates/amount of PCLS payable.
- Guarantee period.
- Any lump sum death benefits/return of member contributions.
- Scheme funding status/recovery plan details.
- Does the scheme offer Pension Increase Exchange/bridging pension?

Model answer for Question 9

- She is in good health;
- and can purchase life assurance;
- to cover the period between now and the children reaching financial independence.

- She has a limited capacity for loss.
- Cautious to moderate attitude to risk/her attitude to risk does not support a transfer.
- She has money purchase schemes/workplace pension/dependant's flexi-access drawdown;
- that can provide flexibility when required/can be nominated in favour of the children.
- Less chance of Lifetime Allowance tax charge.

- Her husband has recently died/she is a vulnerable client.

- She does not know when she will retire.
- She does not know how much income she will need in retirement.
- There is no need to make a decision now.

Model answer for Question 10

- It makes the administrators aware of who she wants the benefits paid to;
- although nomination is not binding.

- Allows them to offer the children the option of taking the benefits as income;
- even if she has remarried;
- and/or the children are no longer deemed as dependants.

Model answer for Question 11

- A discounted value of the CETV will be calculated;
- and treated as a (chargeable) lifetime transfer.

- Unlike other transfers between spouses this is not deemed to be exempt.

- As a result, a portion of Lloyd's NRB will be used;
- therefore, increasing the potential IHT payable on Rosie's death/she may want to run down her non-Inheritance Tax exempt assets/increase life cover required to cover Inheritance Tax.

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.

The Tax Tables and Supplementary Information which follow are applicable to the October 2020 and February 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%

§ 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%

Supplementary Information Pension Papers – AF7 2020/2021

Revaluation

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
After 5 April 2017	3.5%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

Escalation

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

Pension Protection

Compensation cap at age 65 (2020/2021): £41,461

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%