



Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

October 2020 Examination Guide

SPECIAL NOTICES

Candidates entered for the March 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.

AF5 – Financial planning process

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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

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 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.*

Note the assumed knowledge

For this Advanced Diploma in Financial Planning, candidates are assumed to have already the knowledge gained from studying the relevant units of the Advanced Diploma, Diploma and Certificate in Financial Planning or the equivalent.

Understand the nature of assessment

Assessment is by means of a three-hour paper. 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.

Familiarise yourself with the fact-find

The examination has been specially written by practitioners with relevant technical knowledge and experience. It is then put through a rigorous editing procedure by a panel of active practitioners to ensure that the fact-find is both technically and structurally correct. At least one qualified practitioner then acts as a scrutineer by sitting the paper in advance and writing a report on it. The scrutineer's comments are taken into account in producing the final examination paper.

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 sophisticated scheme of investment.* These clients require a critical appraisal of the various financial planning options available to them.

Test yourself under timed conditions

You should test your report writing skills under timed conditions. A good way to do this and to assess your technical knowledge at the same time is to set yourself a mock examination using the Examination Guide. To gain the most benefit from this exercise you should:

- Study the fact-find detail 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 answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently holistic and if your 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 fact-find details arrive to focus on the client details and prepare yourself for the examination day.

Understand the skills the exam seeks to test

The examination is based on a fact-find for imaginary clients whose details you will have received two weeks prior to the exam date. The fact-find will contain all the client details available. The actual financial objectives of the client will be supplied in the actual examination.

Tasks in the exam will not require candidates to produce a full financial plan. They will instead be focussed on the various elements in the syllabus which are based on the following steps in the financial planning process:

- The relationship between adviser and client.
- Evaluation of the client's objectives.
- Understanding the client's financial status.
- Putting forward appropriate recommendations.
- Reviewing the financial plan.

They may also be focused on other aspects of the syllabus which we believe are key to the customer receiving an effective financial planning service. These include an explanation of technical terms, selection of appropriate remuneration terms etc.

In this way, we are able to test key aspects of the financial planning process. If all aspects of the process are carried out thoroughly, an effective financial plan will be produced.

It is anticipated that at each exam session, a significant proportion of the total marks will be allocated to putting forward recommendations supported by relevant evidence. In this exercise, candidates will always be rewarded for thinking logically about the various objectives and potential solutions to the client.

Two weeks before the examination

What will I receive?

A fact-find will be available to candidates two weeks before the examination and it can be viewed at <https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/supporting-exam-documents> It will contain client information which will form the basis of the report you will be required to prepare in the examination.

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 familiarising yourself with the client details from the fact-find. Treat the fact-find as though it belongs to a real client whom you will be meeting shortly for the first time.

How should I use the fact-find to help me prepare?

- Study the client details to find areas of need identified by the clients and look for other potential areas of need.
- Look for technical areas you may wish to revise, e.g. trusts, partnerships.
- Practise some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.
- Do not attempt to 'learn' the answers to such calculations but make sure you are confident with the method and know what to include in your workings. You should be able to see from the fact-find whether the clients are higher-rate taxpayers or close to the threshold. You will be able to ascertain the financial position on death and whether there is likely to be an income shortfall which needs addressing.
- If the client has an investment portfolio, ensure that you are familiar with all the investments held within the portfolio. For example, you should understand the risk profile, tax treatment, accessibility and yield of each investment.

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 etc.

AF5 Examination Technique Exam Guide

To help you prepare for the AF5 examination a FREE AF5 Examination Technique Exam Guide is available to download on the following link <https://www.cii.co.uk/learning/qualifications/unit-financial-planning-process-af5/>.

In the examination

What will I receive?

The fact-find

You will not be able to take your pre-released copy of the fact-find into the examination with you. An identical copy will be available on the online system. There will not be any new or different information contained within the fact-find.

Supplementary information

A summary of the client's key financial objectives will be supplied as part of the examination. You should spend some time studying this information before you commence your financial plan.

The tasks

The instructions are focused on the main steps required to write a financial plan. Mark allocations will be shown and you should use these to guide you on how long to spend on each section of your report. The task that gains most marks is invariably that requesting candidates to outline their key recommendations, supported by relevant evidence.

Answer format

You should provide sufficient technical details to enable you, in the role of financial adviser, to analyse your clients' needs and to demonstrate that the recommendations you make are appropriate and holistic. Merely reproducing quantities of technical detail which is not directly relevant or would be provided through stock paragraphs or appendices in a finished report will not achieve high marks.

Marks will be awarded for demonstrating the holistic consequences of your analysis and recommendations, i.e. how one part of the financial planning process affects all the other parts: how they all interrelate and interact.

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**Candidates overall performance:**

Overall performance was good across this paper.

Question 1 (a)

This was a Fact-Finding question and was generally well answered by most candidates. Some candidates provided limited answers and failed to identify 'client-specific' issues, instead providing generic answers only. As an example, some candidates simply stated that attitude to risk should be considered without recognising that Dan and Tara have a high attitude to risk. More client-specific detail was required.

Question 1 (b)

Very pleasing performance from the majority of candidates. Most candidates were able to identify the key information that would be required in respect of Dan and Tara's existing pension plans in order to review their suitability.

Question 2 (a)

Overall good performance from candidates. Most recognised the key benefits of using a combination of salary and dividends from their company and were able to identify the exact tax benefits that would accrue as a result of this combination of earnings.

Question 2 (b)

Most candidates did well. This topic has been tested before and did not present any difficulties for well-prepared candidates.

Question 3 (a)

Generally good performance although some candidates failed to recognise that neither Dan nor Tara could benefit from the other's sole assets as they were unmarried. Some candidates provided an answer that would have been appropriate for a married couple, but the Fact-Find makes it clear that they are unmarried and have no intention of getting married. A more detailed review of the Fact-Find would have been of benefit to some candidates.

Question 3 (b)

The Fact-Find identified Dan and Tara's concerns regarding the children's financial security in the event of their deaths. Well-prepared candidates were able to provide a comprehensive response and understood the use and benefits of the Bereaved Minors Trust. Some candidates failed to recognise the tax benefits of a Bereaved Minors Trust and so were unable to achieve high marks.

Question 4 (a)

The issue of school fees was clearly identified in the Fact-Find and candidates had prepared well.

Question 4 (b)

Good performance was demonstrated in this question. Most candidates were able to identify the main drawbacks of using a lump sum for the school fees objective. Some candidates failed to identify the tax implications of investing a lump sum for Dan and Tara although this is a clear potential drawback of this particular course of action.

Question 5 (a)

A number of candidates failed to identify specific protection products and gave generic answers only. The identification of Dan and Tara's lack of existing protection arrangements combined with the establishment of their new company was a clear indication that this was a potential area of testing.

Question 5 (b)

Most candidates achieved good marks and understood why a Family Income Benefit policy would meet Dan and Tara's needs in this respect.

Question 6 (a)

Generally good performance although only a small number of candidates recognised the Capital Gains Tax treatment of commercial properties and confused this with the treatment of residential property (buy-to-let).

Question 6 (b)

Most candidates were able to explain why Tara should transfer her Cash ISA to a Stocks and Shares ISA and gave detailed reasons for this course of action.

Question 6 (c)

Slightly disappointing performance from a number of candidates who failed to recognise the benefits of using the NS&I Income Bonds. Some candidates confused these Income Bonds with Premium Bonds and hence gave a range of incorrect answers. This product was clearly identified in the Fact-Find and it was disappointing to note that some candidates had failed to recognise that an NS&I Income Bond is an entirely different product to a Premium Bond.

Question 7 (a)(i)

Very good performance was seen in this question. Most candidates were able to explain how Dan and Tara could gain exposure to gold.

Question 7 (a)(ii)

Good performance was seen in this question which asked candidates to state the benefits and the drawbacks for Dan and Tara of holding this type of investment (gold) within their portfolio. Some candidates failed to identify many drawbacks of this type of investment, but overall performance was good.

Question 7 (b)

Disappointing performance was seen in this question. This is a very topical issue but only a few well-prepared candidates were able to state the drawbacks of relying on the reinvestment of dividend income as an investment strategy.

Question 8 (a)

Some candidates performed well but others provided only limited answers and did not identify issues such as the impact of the success of the new business, as well as changing needs for the children.

Question 8 (b)

Most candidates did well and were able to identify the factors that you would consider when reviewing Dan and Tara's finances in relation to the new company.

FACT-FIND

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Dan Field and Tara Jones recently.

PART 1: BASIC DETAILS						
	Client 1			Client 2		
Surname	Field			Jones		
First name(s)	Dan			Tara		
Address	Norfolk			Norfolk		
Date of birth	01.05.1980			11.09.1984		
Domicile	UK			UK		
Residence	UK			UK		
Place of birth	London			London		
Marital status	Single (co-habiting)			Single (co-habiting)		
State of health	Good			Good		
Family health	Good			Good		
Smoker	No			No		
Hobbies/Interests	Running, cycling			Running, swimming		
Notes:						
<p>Dan and Tara have recently sold their London home and moved to Norfolk. They are both web designers and have set up a new Limited Company for their business which they intend to run from their new home in Norfolk. They released a large amount of capital from the sale of their London home and have engaged your services to assist them in setting up a financial plan to meet their long-term objectives.</p>						
PART 2: FAMILY DETAILS						
Children and other dependants						
Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Keira	Daughter	2	06.01.2018	Good	N/A	Yes
Erin	Daughter	2	06.01.2018	Good	N/A	Yes
Notes:						
<p>Dan and Tara have twin daughters.</p>						

PART 3: EMPLOYMENT DETAILS		
Employment	Client 1	Client 2
Occupation	Web Designer	Web Designer
Job title	Director	Director
Business name		
Business address		
Year business started	June 2020	June 2020
Remuneration		
Salary	£12,500	£12,500
State Pensions		
Overtime		
Benefits		
Benefits-in-kind		
Pension Scheme		
Life cover		
Private Medical Insurance		
Income Protection Insurance		
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		
Notes:		
<p>Dan and Tara have recently established a new Limited Company for their web design business, having worked previously as self-employed contractors in London. They have several long-term contracts already agreed with a predicted turnover of £80,000 in the first year.</p> <p>Dan and Tara wish to review the remuneration options available to them from the company as well as the potential to set up company benefits.</p>		
Previous Employment	Client 1	Client 2
Previous employer	Self-employed	Self-employed
Job title		
Length of service		
Pension benefits	See Part 11	See Part 11
Notes:		

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant	Fawsley & Co	Fawsley & Co
Bank	Access Bank	Access Bank
Doctor	Dr Knowles	Dr Knowles
Financial Adviser		
Solicitor	Henson Davies LLP	Henson Davies LLP
Stockbroker		
Other		

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

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary (gross)		12,500		12,500		
Benefits-in-kind						
Savings income (interest)		1,000		1,200		3,450
Rental (gross)						
Dividends		250		250		

The savings interest is generated from their Deposit Savings Accounts and the NS&I Income Bonds. Tara receives interest from her Cash ISA which is currently paid out. This is included in her interest income.

The dividends for their stocks & shares ISA holdings are reinvested into additional units. These are not included in the table above.

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

Notes:

Expenditure

Household Expenditure	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent						
Council tax			125			
Buildings and contents insurance						260
Gas, water and electricity			165			
Telephone			60			
TV licence and satellite			70			
Property maintenance						1,200
Regular Outgoings						
Life assurance (see Part 8)						
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,100	600	
Petrol and fares	180	140				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers						400
Entertainment						
Clubs and sport			60			
Spending money	200	200				
Clothes				1,500	2,000	
Other (Holidays)						6,000
Total Monthly Expenditure	380	340	1,080			
Total Annual Expenditure	4,560	4,080	12,960	2,600	2,600	7,860
Total Outgoings						34,660

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

Notes:

Dan and Tara are settling into a new lifestyle in the countryside and their expenditure has dropped from its previous levels in London. They are using some of the proceeds of the recent house sale for their income needs at present.

They are planning to send the twins to private school at age 11 and wish to set aside funds for this.

PART 6: ASSETS

	Assets	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			350,000	
2.	Contents/car			75,000	
3.	Current account	10,000	10,000		
4.	Deposit Savings Account	150,000	150,000		2,000
5.	Cash ISA		40,000		200
6.	NS&I Premium Bonds	50,000	50,000		
7.	NS&I Income Bonds			300,000	3,450
8.	Unit Trust – UK Equity Income fund			20,000	500
9.	Stocks and shares ISAs – UK Equity Income Fund	30,000	30,000		1,500

Notes:

Dan and Tara own their home as joint tenants. This is mortgage free.

Dan and Tara are holding the proceeds of their recent house sale in their Deposit Savings Accounts, NS&I Premium Bonds and NS&I Income Bonds. They wish to invest the majority of these monies as quickly as possible.

They have not used their ISA allowances on a regular basis and have a full allowance available to each of them for the current tax year.

The dividend income from their Unit Trust and ISA holdings is reinvested in the holdings.

Dan and Tara wish to invest their cash funds in an appropriate manner to provide future financial security. They are happy to consider different investment strategies and have expressed an interest in commodities.

Dan and Tara have noticed a range of small commercial property units for sale in their new local area and believe these may be a suitable long-term investment for some of the proceeds of their house sale.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see Part 8)			

Notes:

Dan and Tara do not have a mortgage.

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

Notes:

Dan and Tara have no other loans.

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

Dan and Tara have outstanding tax liabilities following the cessation of their self-employed consultancy. These will be £10,000 each and will be settled in full in January 2021.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £

Notes:

Dan and Tara have no current life cover. They wish to put cover in place as soon as possible to protect the twins in the event of either death.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £

Notes:

Dan and Tara have no health insurance policies.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

Notes:

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

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		

Notes:

Dan and Tara have no occupational pension schemes.

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

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

Notes:

Dan and Tara have no Additional Voluntary Contribution schemes.

Personal Pensions

	Client 1	Client 2
Type	Personal Pension	Personal Pension
Company	UK Life Ltd	UK Life Ltd
Fund	UK Equity	Global Equity
Contributions		
Retirement date		
Current value	£82,000	£65,000
Date started		

Notes:

Dan and Tara stopped their contributions into their personal pension plans when they left London. They wish to start contributing into pensions again as soon as their business can support this. Dan and Tara have completed nominations on their pension plans in favour of each other.

Dan and Tara are aware that their pension arrangements are currently limited and wish to review these arrangements to ensure they will have adequate income in retirement.

Previous pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		
Date joined scheme		
Date left		
Current Value		

Notes:**State Pension**

	Client 1	Client 2
State Pension		
Total		

Notes

Dan and Tara have never checked their State Pension benefits.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	No	No

Notes:

Dan and Tara have recently considered the need to make a Will to ensure future financial security for each other and the twins. They do not intend to marry.

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

Notes:

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

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances expected	None	None

Notes:

Both Dan and Tara’s parents are in excellent health and they do not expect to receive any inheritances for many years.

PART 13: ATTITUDE TO RISK

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

Notes:
Dan and Tara have completed a full risk-profiling assessment. Both of them are high risk investors.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.10.20	
Client agreement issued	01.10.20	
Data Protection Act	01.10.20	
Money laundering	01.10.20	
Consultations		
Dates of meetings	01.10.20	
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

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Unit AF5 – Financial planning process

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.
- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are also provided and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task 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 after the fact-find.
- The fact-find 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. in the correct answer space.**
- 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.

CLIENTS' FINANCIAL OBJECTIVES

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

Immediate objectives

- To set up an appropriate remuneration strategy from Dan and Tara's new company.
- To arrange suitable protection for the children in the event of either Dan or Tara's death.
- To consider the purchase of a commercial property unit.

Longer-term objectives

- To arrange a suitable investment strategy for the proceeds of their house sale.
- To establish a suitable strategy to ensure that the school fees can be met.
- To ensure that Dan and Tara are able to generate an adequate and tax-efficient income in retirement.

Attempt ALL tasks

Time: 3 hours

1.
 - (a) Outline the key client-specific issues that you would consider when advising Dan and Tara on the investment of the house sale proceeds. **(12)**
 - (b) Identify the key information that you would require in respect of Dan and Tara's existing pension plans when reviewing their suitability for their future retirement planning. **(8)**

2. Dan and Tara have recently set up a new company for their website consulting business.
 - (a) Outline the key benefits for Dan and Tara of using a combination of salary and dividends for their future income from their new company. **(8)**
 - (b) Explain in detail to Dan and Tara the benefits of making employer pension contributions for themselves from their new company. **(12)**

3.
 - (a) Explain in detail to Dan and Tara why it is important to write Wills without delay. **(10)**
 - (b) Recommend and justify why setting up a Bereaved Minors trust in their Wills can ensure that the twins will be financially protected if both Dan and Tara die. **(9)**

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

4. Dan and Tara are intending to set up an investment for the twins for future private school fees from age 11 onwards.
 - (a) Outline the key issues that they should consider if they decide to invest a single lump sum of £100,000 to meet their school fees objective. **(9)**
 - (b) Outline the main drawbacks of using a lump sum for this purpose rather than saving from their regular income. **(7)**

5. (a) Explain to Dan and Tara the benefits of setting up protection policies via their new company instead of on a personal basis. (7)
- (b) Recommend and justify a suitable protection policy for Dan and Tara to provide a regular income to ensure funds are available to meet any childcare costs in the event of either of them dying whilst the children are still in school. (10)
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.*
6. (a) State **ten** drawbacks for Dan and Tara of purchasing a commercial property unit as part of their future investment portfolio. (10)
- (b) Explain to Tara why she should consider transferring her cash ISA to a stocks and shares ISA which invests in an equity-based fund. (11)
- (c) Explain to Dan and Tara why it may be beneficial to move the cash deposits in their Deposit Savings Accounts into their existing National Savings & Investments Income Bonds in the short-term. (10)
7. Dan and Tara are considering a range of different investment strategies for their investment portfolio.
- (a) (i) Explain to Dan and Tara how they could gain exposure to gold as an investment in their portfolio. (4)
- (ii) Outline **five** benefits and **five** drawbacks of holding this type of investment within their portfolio. (10)
- (b) Dan and Tara have invested in UK Equity Income funds within their unit trusts and ISAs as they believe that reinvested dividend income plays a key role in long-term returns.
- State the drawbacks for Dan and Tara of relying solely on the reinvestment of dividend income as an investment strategy in the current economic environment. (8)
8. (a) Explain to Dan and Tara the importance of reviewing their attitudes to risk on a regular basis. (8)
- (b) State **seven** factors that you should consider when reviewing Dan and Tara's finances in relation to their new company at the next annual review. (7)

NOTE ON MODEL ANSWERS

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

Model answer for Question 1

- (a)
- Income needs/planned expenditure/emergency funds/how much to invest/investment needed into new business.
 - Projected business profits.
 - Cash fully protected for 12 months/£1m Financial Services Compensation Scheme cover.
 - Capacity for Loss/they have no debts.
 - Ethical considerations/Environmental Social Governance (ESG) concerns.
 - Timeframe/investment term/liquidity/need for access.
 - Use of Tax wrappers/tax efficiency.
 - In whose name/use of trusts.
 - Pension contributions/carry forward.
 - Inflation/Growth expectations/current market conditions.
 - They are high risk investors/limited investment experience.
 - Lack of protection/no life cover/not married/no Wills.
- (b)
- Charges/cost of fund switching.
 - Fund options/range of funds available/asset allocation.
 - Contribution history/carry forward.
 - Death benefits options/any life cover included?
 - Target retirement income and age.
 - Any guaranteed benefits/protected Pension Commencement Lump Sum (PCLS).
 - Platform/on-line access.
 - Fund performance/projections.

Model answer for Question 2

- (a) *Candidates would have scored full marks for any eight of the following:*
- Salary uses Personal Allowance/£12,500/no Income tax due.
 - Still entitled to State Benefits/State Pension.
 - Retains starting rate band for savings/Personal Savings Allowance (PSA).
 - Employment allowance on National Insurance (NI)/can pay up to Primary Threshold.
 - Salary reduces Corporation Tax liability.
 - Dividends can be stopped/increased in line with profits/salary can continue if company makes a loss.
 - Can use Dividend Allowances of £2,000/£1,750 unused.
 - Dividends taxed at lower rate than Income Tax for Basic Rate Taxpayers/7.5%.
 - No NI on Dividends.

- (b)
- Pension contributions are company expense/wholly and exclusively.
 - Lower Corporation Tax/tax-efficient extraction of profits from company.
 - No National Insurance Contributions (NICs) on employer contributions/no NICs for Dan and Tara.
 - Not a P11D benefit/not a taxable benefit for Dan/Tara.
 - Contributions not linked to salary/earnings/use £40,000 Annual Allowance
 - Contributions can be flexible/based on company performance.
 - Greater pension fund/currently inadequate.
 - Tax-efficient growth.
 - Flexible Death benefits/Flexi-Access Drawdown/lump sum/annuity.
 - IHT-efficient/tax free before 75.
 - Not married so pension can pass to survivor Inheritance Tax (IHT) free/nomination for survivor.
 - Pension is protected from bankruptcy.

Model answer for Question 3

- (a)
- They will die intestate.
 - They will only inherit jointly-held assets.
 - They are unmarried.
 - All monies in single names pass (in Trust) for the children.
 - Reduces costs/reduces admin/simpler/no delays.
 - Company shares pass to the children (in Trust)/depends on articles of association.
 - Survivor may have to claim for financial support.
 - Wills ensure correct distribution of assets/appoint executors/appoint Trustees/meets their wishes/protects survivor.
 - Trustees can be appointed for children's money.
 - Guardians of choice/court decides custody if no guardian.
- (b)
- Simple/clear process/reduced admin/reduced cost.
 - Can use Residential Nil Rate Band if property is in Trust/IHT efficient.
 - Children inherit automatically at age 18.
 - Monies can be used for education/schooling/maintenance.
 - Trustees of choice can be appointed by Dan and Tara.
 - Letter of wishes in Will/assets managed for benefit of children.
 - Not taxed at trustee rates/effectively taxed at children's rates.
 - No periodic/exit charges.
 - Trustees can amend Trust at 18/transfer to new Trust (18 - 25).

Model answer for Question 4

(a) *Candidates would have scored full marks for any nine of the following:*

- Estimated costs.
- (School fee) inflation assumptions.
- Investment term/duration of school fees/university?
- Attitude to risk/priority of objective.
- In whose name/use of trusts.
- Grandparents contributing?
- Willing to use ISA allowance for this purpose/use tax allowances.
- Accessibility/liquidity.
- Growth assumptions/is £100,000 sufficient?
- Market timing risk/current volatility.

- (b)**
- Risk of capital loss.
 - Market timing risk.
 - Loss of liquidity/ties up capital/regular contributions can be budgeted.
 - No option for pound cost averaging;
 - to benefit from volatile investments/to reduce volatility/risk.
 - Cannot use annual ISA allowance for £100,000/£40,000 max.
 - Could generate taxable income/dividends/tax burden.

Model answer for Question 5

(a) *Candidates would have scored full marks for any seven of the following:*

- Premiums may be deductible for Corporation Tax purposes/allowable business expense.
- Personal policies paid from net income/disposable income/saves National Insurance.
- Higher cover/not linked to earnings.
- Key-person cover available/protects company.
- PHI can protect both salaries/dividends/pension contributions.
- Relevant life cover/Death in Service (DIS).
- Relevant life/DIS set up under Trust/tax free.
- Relevant life/DIS/Executive Income Protection is not a benefit in kind.

- (b)**
- Family Income Benefit (FIB).
 - Joint life first death/two single lives/life of another.
 - Sum assured to meet annual childcare costs.
 - Indexed to protect against inflation.
 - Pays out regular income tax-free.
 - Term covers children's need/to start private school.
 - Guaranteed premiums for affordability/known cost.
 - Both are in good health/young.
 - Simple underwriting process/cheap premiums.
 - Can be written in Trust/joint policy pays to survivor.

Model answer for Question 6

- (a)
- Costs of maintenance.
 - Legal costs/Stamp Duty/VAT.
 - Void periods/no rental income.
 - Tenant creating difficulties/damage/time consuming.
 - Value is a matter of opinion/difficult to value.
 - Rental income fully taxable/cannot be held in ISA.
 - Chargeable to Capital Gains Tax on sale at 10/20%.
 - Cannot partially sell.
 - Illiquid.
 - Value subject to economic conditions/volatile/lack of diversification.
- (b)
- They have sufficient/excess cash holdings.
 - Equities match her attitude to risk/cash does not match her attitude to risk.
 - Cash exposed to inflation risk.
 - Interest rates currently low/interest rate risk.
 - No growth potential on cash/potential for growth on equities.
 - Transfer maintains ISA wrapper/transfer does not use current year ISA.
 - Wide fund choice/hold on platform/active/passive.
 - Suitable for long-term investment.
 - Personal Savings Allowance covers interest on cash ISA/ISA wrapper is wasted on cash.
 - Increase diversification.
 - Equities generally outperform other assets.
- (c)
- Income Bonds are joint holding/deposit accounts in sole names.
 - Not married.
 - On death, survivor will receive nothing (deposit accounts).
 - No Wills in place/would die intestate.
 - Easy access/no penalty on access.
 - Interest rate competitive/poor interest rates in general/rate drops in November 2020.
 - Security/backed by UK Treasury.
 - Deposit accounts not covered in full by Financial Services Compensation Scheme/£85,000 max.
 - Generates monthly interest/help meet living costs.
 - Reduces admin/1 account rather than 3.

Model answer for Question 7

- (a)(i)**
- Can be held as a physical asset/bars/coins/jewellery.
 - Can be held as an Exchange Traded fund/Exchange Traded Commodity.
 - Collective fund/OEIC.
 - Individual shares in gold mining companies.

(a)(ii) Benefits

- Diversification.
- Safe haven asset.
- Non-correlation with equities/other assets.
- Potential for long-term growth/inflation hedge.
- Collective/Exchange Traded Fund/shares/are liquid.

Drawbacks

- Storage costs for physical asset/security/insurance cost for physical asset.
- No dividend from physical asset/low yield on Exchange Traded Fund.
- Physical asset may be hard to sell/illiquid.
- Performs poorly in rising interest rate environment/ when US dollar is strong/currency risk.
- Can lose value/can depreciate/volatile.

(b) *Candidates would have scored full marks for any eight of the following:*

- Companies can cut/reduce dividends/dividends not guaranteed.
- Higher yielding stocks most likely to cut dividends.
- Reduced dividends will affect long-term capital growth.
- Growth stocks offer better growth prospects (e.g. technology)/dividend stocks offer limited capital growth.
- Regulators can insist that dividend income be stopped.
- Dividend Allowance is low/£2,000/could affect their company dividends.
- Dividend income is taxable.
- Taxation of dividends could change.
- Lack of diversification.

Model answer for Question 8

- (a)** *Candidates would have scored full marks for any eight of the following:*
- Attitude to risk (ATR) differs for different objectives/school fees/retirement.
 - Changes based on investment experience/knowledge.
 - Changes based on personal circumstances/health.
 - Changes based on income/ business profit/inheritance.
 - Changes as they get older/changes over time/term of investment.
 - Children's needs may change so ATR may need to be adjusted.
 - Fund performance/market performance/to ensure investments match ATR.
 - How much risk do they need to take/how much risk can they afford to take/what if target is achieved?
- (b)**
- Company Tax Year end/Corporation Tax due.
 - Company profits/turnover/company debts/their remuneration.
 - Reviewing pension scheme/Level of pension contributions/scope to increase.
 - Taken on employees/workplace pension requirements.
 - Reviewing any company protection benefits/Income Protection/Critical Illness/Death in Service/Private Medical Insurance.
 - Future contracts/cashflow forecasts/company value.
 - Changes in taxation/legislation/new products.

All questions in the March 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 which follow are applicable to the October 2020 and March 2020 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%	18%
	first year	reducing balance
		reducing balance

*If new

MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Age 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%