Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

February 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 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 April 2021

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

Copyright © 2021 The Chartered Insurance Institute. All rights reserved.

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 30 marks.
Section B consists of two case studies worth a total of 70 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

The AF7 Pension Transfers examination is designed to test a mixture of technical knowledge and its application, and information analysis and evaluation skills that would be required by an individual advising on the transfer of safeguarded pension rights.

The examination has two sections. The first containing four short questions and the second containing two case studies with related questions.

The following comments have been made by the Senior Examiner for this examination as a guide for candidates attempting the examination in the future and should be considered carefully as part of the preparation for sitting this examination.

Question 1

Candidates performed reasonably well in this question however some did not recognise the specific issues relating to the transfer of GMP within a Section 32 Buy-Out Plan rather than a defined benefit scheme. Some candidates did not focus their answer on transferring of the GMP element and instead discussed Section 32 plans in general. It is important to ensure that questions are fully understood and that answers are focused on what is being asked to achieve a good level of marks.

Question 2

This question required a description of what an 'employer covenant' is and then an explanation of the significance of it for the given scenario. Some candidates confused the elements and therefore did not get full marks and some only had a basic understanding of it. Where a question asks for two or more elements to be answered then it is good exam practice to split the answer into the relevant parts so the answer is clear.

Question 3

Most candidates answered this question well and gained high marks. Pension death benefits are tested often within pension examinations and the area should be thoroughly understood before attempting the exam.

Question 4

Pension transfer compliance is tested in every sitting of this exam therefore candidates should have a good knowledge in this area. On this occasion many candidates did not perform well in this area and this was disappointing as the question related to new regulations that have been widely publicised.

Question 5

Factors questions are regularly asked in this examination as they allow candidates to demonstrate their analysis skills based on a given scenario. Many candidates achieved the pass standard in this question but only a few achieved high marks. Candidates should use past examination guides to practice this type of question but be careful not to just repeat answers from previous exams and must focus their answers on the question asked and information given.

Question 6

Most candidates provided a reasonable response to this question however in part (a) some just gave generic benefit and drawback responses rather than linking the answers the information provided in the case study and question. Part (b) required candidates to consider why an inflation-linked annuity or a level annuity would be appropriate based on the case study information however many just discussed generic issues surrounding annuities. Candidates must ensure they focus their answer on what is being asked to gain high marks.

Question 7

Some candidates had a good attempt at this question but did not provide enough specific detail to gain high marks such as the costs and the benefits and why it meets their objectives. Many candidates discussed Class 3 National Insurance in generic terms rather than explaining why it was appropriate for the scenario.

Question 8

Most candidates performed well in this question and seemed to have a good appreciation of the rules surrounding the contingent charging ban exemptions.

Question 9

Many candidates performed well in this question, particularly in part (a). Cashflow planning has become an important element in pension transfer advice and candidates should have a good working knowledge of the process and reasons-why it is used.

Question 10

Most candidates gained marks in this question for explaining the more generic risks that apply but did not gain high marks which would have required more specific risks for the scenario given.

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: 30 marks
- Section B: 70 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.**

- **If you are wearing headset, earphones, smart watch please take them off.**

- 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 30 marks

1. In respect of a Section 32 policy that includes Guaranteed Minimum Pension (GMP):

Outline the factors you would take into account **regarding the GMP**, when advising on a potential transfer into a personal pension plan. **(8)**

2. Rose, aged 55, has recently received a cash equivalent transfer value (CETV) in respect of her deferred membership of a previous employer's defined benefit pension scheme. The scheme is underfunded but the CETV has not been reduced due to the strength of the sponsoring employer's covenant.

Explain what is meant by employer covenant including its significance in respect of the decision to **not** reduce the CETV. **(7)**

3. Paulo, aged 55, is divorced with two young children. He is a deferred member of a defined benefit pension scheme and has recently received a cash equivalent transfer value (CETV) of £325,000.

Outline the death benefits that may be available to his children, including the Income Tax treatment, in the event of Paulo's death before benefits are crystallised **and** before his children reach the age of 18 if he:

(a) retains the defined benefit scheme; **(4)**

(b) transfers the CETV to a personal pension plan. **(5)**

4. Outline **six** factors the Financial Conduct Authority expects an adviser to take into account when providing abridged advice, as set out in COBS 19.1A. **(6)**

Total marks available for this question: 30

SECTION B

All questions in this section are compulsory and carry an overall total of 70 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.

Camillo, aged 64, is married to Benita, aged 59. The couple are both in excellent health and have a history of longevity in their families. They have a financially independent son and two grandchildren.

The couple's home is mortgage-free and valued at £650,000. They also have an investment portfolio valued at £150,000 that includes cash, fixed interest and equity investments. Their attitude to risk has recently been assessed as cautious to medium.

The couple's State pension forecasts show that Camillo can expect a State pension of £135 per week when he reaches his State pension age (SPA) of 66, and Benita can expect a full State pension when she reaches her SPA of 67.

Camillo and Benita both have deferred benefits in their previous employers' defined benefit pension schemes. These are their only private pension arrangements. The couple plan to retire when Camillo reaches the age of 65. They have each recently received retirement illustrations as follows:

	Camillo	Benita
Scheme service	May 1978 – March 2020	February 1980 – June 1990
Normal pension age (NPA)	65	60
Contracted in/out	Contracted out prior to April 2016	Contracted in prior to April 2016
Scheme pension at NPA	£31,500 per annum (gross)	£11,345 per annum (gross)
Escalation	Statutory	5% per annum
Pension commencement lump sum (PCLS)	£94,500 via commutation Commutation factor 15:1	HMRC maximum via commutation Commutation factor 20:1
Spouse's pension	50% of pre-commutation pension	2/3rds of pre-commutation pension
Cash equivalent transfer value (CETV)	£956,000	£368,000

The couple require a net inflation proofed income of £2,750 per month to cover their essential and discretionary expenditure in retirement. This figure will reduce to £2,000 per month in the event of the death of one of them. They also feel that they will need around £10,000 per annum to cover additional ad-hoc expenditure on holidays in the early years of retirement.

The couple would like to ensure that essential and discretionary expenditure is covered from secure sources once they reach SPA. They would like advice on whether they should transfer the benefits from one of the defined benefit pension schemes into a personal pension plan so that they can access the benefits flexibly and have the potential to leave a legacy for their son and grandchildren.

Questions

5. Following your analysis you have determined that transferring one of the defined benefit pension schemes will allow Camillo and Benita to meet their objectives. An immediate scheme pension will be taken from the second scheme.

Based on the information provided in the case study, explain the factors you would take into account when deciding whether it is Camillo or Benita's defined benefit pension scheme that should be transferred. **(15)**

6. One strategy you are considering is recommending that Camillo transfers the benefits from his defined benefit pension scheme into a personal pension plan and, that Benita takes the full scheme pension from her defined benefit pension scheme at the age of 60.

Within this strategy you would recommend that part of the transferred fund is used to purchase a single life lifetime annuity of £8,000 per annum, which will be sufficient to meet the couple's income shortfall at SPA.

(a) Based on the information provided in the case study, outline **four** benefits and **four** drawbacks of using part of the transferred fund to purchase a lifetime annuity, rather than placing the entire fund into flexi-access drawdown. **(8)**

Your research shows that the best annuity rate for a level annuity is 4.7% and the best annuity rate for an annuity that escalates in line with Retail Price Index is 2.8%.

(b) Explain the factors that you would take into account when deciding which annuity basis should be recommended for the partial annuitisation. **(8)**

7. Explain, giving your reasons, why you have recommended that Camillo makes Class 3 National Insurance Contributions to top up his State pension. **(7)**

Total marks available for this question: 38

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.

Jenny, aged 55, is married to Ruth, aged 42. The couple, who are both in excellent health, have two children aged 18 months and three years.

Ruth is taking time out from employment to look after the children. The intention is that she will return to work once the youngest starts school in September 2023. She hopes her earnings will be around £30,000 in today's terms. Ruth has a personal pension plan valued at £145,000 and needs a further 13 years of National Insurance Contributions (NICs) to gain a full State pension.

Jenny started a new role in January 2020 as an IT consultant earning £65,000 per annum. Due to the COVID-19 pandemic, she was furloughed in March 2020 and then made redundant in October 2020. The lack of suitable jobs has led to her setting up as a self-employed IT consultant. She is starting to get some work and is hopeful that she will have a net income of around £40,000 by the end of 2021 and hopes this will have increased to between £50,000 - £60,000 by the end of 2022.

At the end of 2019, the couple spent a significant amount of their savings on home improvements. As a result of this expenditure, Jenny's furlough and then redundancy in 2020, the couple now have no savings left and have recently started using credit cards to cover some of their bills. So far, they have not missed any payments for any of their bills, but they realise that they may start to miss payments in the next few months.

Jenny's only pension benefits are held in her previous employer's contracted-in defined benefit pension scheme:

Pension at date of leaving	£27,000 per annum
Normal Retirement Age	60 (early retirement factor at 55 = 0.865)
Revaluation in deferment	All benefits at 5% per annum fixed
Escalation in payment	Pre 2005 benefits: RPI capped at 5% Post 2005 benefits: CPI capped at 2.5%
PCLS commutation rate (at 55)	23:1
Cash equivalent transfer value (CETV)	£1,010,000

Jenny will have a full entitlement to the State pension if she makes a further two years of NICs.

Jenny and Ruth have £205,000 outstanding on their mortgage, which is costing them £1,300 per month. They have built-up credit card debts of £7,000 on which they are making minimum payments. They calculate their expenditure needs are £2,500 - £3,000 per month, assuming they pay off the mortgage and credit cards, and reduce their discretionary expenditure on holidays and hobbies.

Jenny has no firm plans for when she will retire but thinks it is unlikely to be before State pension age. She believes their essential income needs will remain broadly the same in today's terms until the children leave home.

Questions

8. You have explained to Jenny that you are unable to offer her the option of contingent charging.

Explain, in detail, why Jenny does not qualify for either of the exemptions to the contingent charging ban introduced on 1 October 2020. **(8)**

9. You have prepared cash flow forecasts for Jenny and Ruth. The aim of these is to help them understand the impact of immediately drawing the benefits from Jenny's defined benefit pension scheme, or alternatively transferring the scheme to a contract offering flexible benefits and drawing just the pension commencement lump sum (PCLS).

(a) Outline the Financial Conduct Authority requirements when using a cash flow as part of the appropriate pension transfer analysis. **(6)**

(b) Based on the circumstances set out in the case study, explain why it will be important to regularly review and revise the cash flow modelling for Jenny and Ruth. **(8)**

10. One of the various options you are considering is recommending that Jenny should accept the cash equivalent transfer value (CETV) and then immediately withdraw the full pension commencement lump sum (PCLS) and repay the mortgage and credit cards debt in full. The balance of the PCLS should be placed into a deposit account as an emergency fund.

Based on the circumstances set out in the case study, explain the risks that you would highlight to Jenny in your suitability report if this is the recommendation that you would make. **(10)**

Total marks available for this question: 32

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

- The provider guarantees to pay equivalent benefits to the GMP promised by the original defined benefit scheme at the age of 60 for women and 65 for men even if the fund value is insufficient.
- The proportion of the fund relating to the GMP.
- Post-88 GMP will escalate & Pre-88 will remain level.
- GMP is usually lost on transferring to a personal pension.
- No access to PCLS from GMP funds.
- 50% spouse's pension will be payable from the GMP.

Model answer for Question 2

- It is an employer's legal and financial responsibility to fund the scheme on an ongoing basis.
- It indicates an employer's ability to continue to fund the scheme and to reduce the deficit therefore the remaining members of the scheme are unlikely to be disadvantaged.

Model answer for Question 3

(a)
- Children's pension payable for the remaining dependency period taxable by PAYE on the children.
- Return of contributions as a lump sum payable tax-free.

(b)
- Lump sum.
- Dependant's lifetime annuity.
- Dependant's drawdown.
- All paid tax-free if death occurs before age 75 and benefits designated within two years.

Model answer for Question 4

- That a pension transfer is unlikely to be suitable.
- The client's intentions for accessing pension benefits.
- The client's attitude to transfer risk.
- The client's realistic retirement income needs.
- The client's attitude to, and understanding of, investment risk.
- Alternative ways to achieve the client's objectives instead of the pension transfer.

Model answer for Question 5

- They want an inflation-linked income, and they are both in excellent health with a family history of longevity.
- Part of Camillo's scheme will be level in payment and Benita's scheme escalates at 5% per annum therefore Benita's scheme will be more valuable over the longer term.
- Camillo's scheme plus both State pensions will meet their secure income requirements
- If Camillo's scheme is transferred there would be a secure income shortfall but withdrawals from the transferred fund to meet this shortfall would likely be within a safe withdrawal rate or an annuity could be purchased to cover the shortfall.
- They would like to leave a legacy to their son and grandchildren and transferring Camillo's pension would likely leave a larger legacy fund.
- Benita's scheme offers a two-thirds spouse pension.
- They have a cautious to medium attitude to risk.
- Partial transfer will mean they have good have capacity for loss which may be more in line with a transfer of Benita's smaller CETV.
- They have investment experience, and they have capacity for loss.

Model answer for Question 6

(a) Benefits

- It would be line with their attitude to risk.
- It would provide a secure income.
- It would reduce longevity risk as it is payable for life.
- It would reduce sequencing risk as funds not being withdrawn from the find.

Drawbacks

- It would reduce the children's legacy.
- The income would cease on Camillo's death.
- There will still be a shortfall of secure income on first death.
- It is irreversible and inflexible once purchased.

(b)

- The amount of the fund that would need to be crystalised for each annuity and the impact this will have on the children's legacy.
- They want an inflation proofed income which the RPI annuity would provide however they also have an investment portfolio that could be used to provide the inflation proofing.
- Camillo is in good health with a history of longevity in his family therefore the value over his lifetime could be much greater if he selects and RPI linked annuity.

Model answer for Question 7

- They are good value for money. Class 3 NICs will currently provide a pension of £260.30 per annum guaranteed for life, in return for a one-off cost of £795.60 per year of contribution credit purchased.
- The State pension is increased in payment by the 'Triple Lock Guarantee' which mean their objective of an inflation proofed income.
- It will reduce the amount of lifetime annuity that would need to be purchased to cover the secure income shortfall and in turn this will increase the potential legacy for the children.

Model answer for Question 8

- She is in excellent health and therefore does not qualify under the 'serious ill health' exemption.
- Although she is struggling financially, she does not qualify under the 'serious financial difficulty' exemption as she has not missed any payments on her mortgage, credit cards or utility bills in any three of the last six calendar months.

Model answer for Question 9

(a)
- Use CPI set out in Financial Conduct Authority COBS currently 2%.
- Assumptions used for tax bands are reasonable.
- Consider all relevant tax charges in the ceding arrangement and the proposed arrangements.
- Stress testing must be included.

(b)
- There is uncertainty over their income in future years and their future expenditure.
- There is uncertainty over when they will retire and how much income they will require in retirement.
- To reflect changes in asset values and tax rules.
- To review attitude to risk.
- To update future assumptions.
- To update stress tests based on any changes made.

Model answer for Question 10

- Loss of guarantees and index-linked income.
- Subject to investment risk and longevity risk.
- If continue to live beyond her means and run debts up again which results in withdrawals or ad hoc lump sums being required which will trigger the Money Purchase Annual Allowance which will limit pension funding and may reduce pension income in the future.
- The decision cannot be reversed if circumstances change.
- No more PCLS will be available in the future and all withdrawals will be taxable.

All questions in the April 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 February 2021 and April 2021 examinations.

INCOME TAX

RATES OF TAX	2019/2020	2020/2021
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance†	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ 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

	2019/2020	2020/2021
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.*

	2019/2020	2020/2021
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%