Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the July 2021 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

R06 – Financial planning practice

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

IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

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

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

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

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your examination preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the examination.*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.
- The allocation of marks between the two case studies may vary slightly from one examination session to another.

Read the Assessment information and Examination policies

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

Two weeks before the examination

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

How should I use my time over the two-week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarizing yourself with the client details from the case studies.

How should I use the case studies to help me prepare?
- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions
Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the examination seeks to test
The examination is based on two case studies for imaginary clients whose details you will have received two weeks prior to the examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper, taking into account the financial objectives provided.
- Compare your answers against the model answers once the three hours have elapsed. The model answers will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies are available to focus on the client details and prepare yourself for the examination day.

In the examination

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. The case studies will be provided on screen in the examination. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common-sense rules:

1. **Spend your time in accordance with the number of marks given next to each question.** The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the examination is not completed, your chances of passing will be reduced considerably. Do not spend excessive time on any one question; if the time allocation for that question has been elapsed, go on to the next question and return to the incomplete question, if you have time.

2. **Take great care to answer the precise question set.**
   The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However well a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated*.

Order of answering questions
Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about.* You are able to flag questions and then go back to them.

Answering different question parts
Always read all parts of a question before starting to answer it otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it may be necessary to duplicate some of the answer.

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

Marks are not lost due to poor spelling or grammar.

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

EXAMINERS' COMMENTS

Candidates' overall performance:

The overall performance in this sitting was of a very high standard. Many candidates had prepared extremely well.

Candidates who spent sufficient time learning the subject material and preparing for the exam demonstrated good knowledge and application in this paper.

The case studies provided in the examination paper contain relevant information which should be used when constructing answers. Candidates must allow sufficient time prior to the exam to reading the case studies and identify the key factors which will then help them answer the questions set.

Candidates missed marks as they did not relate their answers to the case study. Instead, they provided generic answers and this was apparent in some candidate answers.

Question 1

In part (a) there was reasonable performance, candidates did seem to understand what additional information was needed.

There was generally good performance in part (b) although few candidates achieved high marks, mainly due to lack of detailed answers on the 'disadvantages' section.

In part (c) there was some incorrect knowledge on the difference between pension sharing and pension attachment orders. Also, some candidates struggled to relate the different methods to drawbacks for the client.

There was fairly good performance in part (d). There was some lack of knowledge in respect of the validity of Wills and in particular how a divorce may affect a Will.

In part (e)(i) candidates seemed able to consider the benefits of an AIM ISA when compared to a standard Stocks and Shares ISA.

In part (e)(ii) some candidates struggled to state the drawbacks of an AIM ISA beyond high risk and volatility.

In part (f) there was disappointing performance as many candidates mis-read the question and answered about all of Helen's assets, rather than just the portfolio of individual shares.

General good performance was observed in part (g) relating to the factors that a financial adviser should take into account when reviewing Jim and Helen's pensions at their next annual review meeting.

Question 2

Good performance was seen in part (a) about the advantages and disadvantages of Dante and Cara retaining their interest-only mortgage, rather than switching to a repayment mortgage.

Part (b)(i) saw some very good performance but some candidates had minimal understanding of this issue and obtained more limited marks.

In part (b)(ii) some weaker candidates did not do well and some believed that Dante did not have a Lifetime Allowance (LTA) problem. Poor preparation but also possibly poor technical knowledge was evident in some responses.

Part (c) saw reasonable performance from some candidates whilst others did struggle. This question tasked candidates with identifying the additional information that a financial adviser would need to obtain in respect of Cara's deferred pension in her former employer's pension scheme, before recommending a transfer of the benefits to a personal pension scheme. Most candidates understood the possible issues of safeguarded and guaranteed benefits.

Part (d)(i) saw mixed performance. Some candidates gave generic answers with no reference to Date and Cara's current arrangements. These candidates did not achieve high level marks.

Part (d)(ii) saw reasonable performance from most candidates.

Part (e) was about the key factors that Cara should take into account when setting up appropriate power of attorney arrangements for her mother. There was some good performance but many candidates gave quite limited answers.

In part (f) there was a slightly disappointing level of performance with many candidates focusing on a limited range of the clients' savings and investments.

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

If you are sitting via remote invigilation 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.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- This paper consists of **two** case studies and carries a total of 150 marks.
- You are advised to spend approximately 90 minutes on the questions for each case study. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g. **1a**
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing a headset, earphones, smart watch please take them off.**
- Please familiarise yourself with **all** questions before starting the exam.

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

Attempt ALL questions for each case study

Time: 3 hours

Case Study 1

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

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

Jim and Helen, both aged 62, are living together and planning to get married in the next few years. Helen is in the process of getting divorced from her husband, Bob. Jim is a widower with two adult children. Helen has no children. Helen has moved into Jim's home which is worth £800,000 and is unencumbered. Helen and Bob rented their former home. Bob has taken over the rental agreement although Helen continues to pay him a monthly maintenance payment of £800, as he has not worked for the past ten years. The financial arrangements in respect of their divorce are currently being discussed through their respective solicitors.

Jim and Helen are both planning to retire at age 65 and are hoping to maintain their current lifestyle in retirement. Both Jim and Helen are in good health.

Jim inherited all of his late wife's assets with the exception of her 50% share of the family home, which was placed into an Immediate Post-Death Interest Trust (IPDI), via her Will. This is held in trust for Jim's children but Jim can remain in the property throughout his lifetime. Jim's share of the property is worth £400,000. Jim is receiving the spouse's pension from his late wife's defined benefit pension scheme.

Jim is the managing director and sole shareholder of his own company and he draws a salary of £30,000 per annum gross. He also receives dividends which vary depending on the company's performance. His dividends for the last tax year were £45,000 gross and it is expected that the dividends will continue at a similar level this tax year. Helen is also the sole director and shareholder of her own company and she draws a salary of £30,000 per annum gross. Her company has not performed well over the past few years due to difficult trading conditions, so Helen has not taken any dividends for some time.

Jim has a small self-administered pension scheme (SSAS) with a current value of £650,000. This is invested in a range of collective funds and individual equities. He is unsure whether this scheme currently meets his retirement planning objectives.

Helen has a personal pension with a current fund value of £500,000. This has a guaranteed annuity rate of 8.6% per annum on a joint-life basis when she reaches age 65. Helen's husband, Bob, wishes to claim a portion of Helen's pension as part of the divorce settlement. Helen is considering both a pension attachment order and a pension sharing order and has asked for your advice on this matter.

Neither Jim nor Helen have reviewed their Wills for over ten years. Both of them are planning to do so in the near future and have asked for your advice on the most appropriate way of ensuring that Jim's children will be protected in the event of their future marriage. They also wish to ensure that Helen will have sufficient funds to maintain her lifestyle, should Jim predecease her.

Jim and Helen both have a high attitude to risk and are happy to invest in a wide range of assets. They have stated that they do not require any socially responsible investments.

Jim and Helen have the following assets:

Assets	**Ownership**	**Value (£)**
Current account	Joint	8,000
AIM ISA – UK Equities	Jim	50,000
Stocks and shares ISA – UK equity and global equity funds	Jim	180,000
Stocks and shares ISA – Emerging markets equity funds	Helen	230,000
Individual equities – UK banks and UK insurance companies	Helen	40,000
Deposit account – fixed-term savings account	Helen	200,000

Jim and Helen's financial aims are to:

- ensure that they can generate an adequate income in retirement;
- mitigate Jim's future Inheritance Tax liability;
- ensure that the surviving partner is financially secure in the event of death.

Questions

(a) State the additional information a financial adviser would need to obtain to advise Jim and Helen on their retirement planning. **(12)**

(b) State **four** advantages and **four** disadvantages for Jim of retaining his SSAS, rather than transferring this arrangement into a new personal pension. **(8)**

(c) Explain to Helen the drawbacks of her being subject to any form of pension sharing order or attachment order, as part of her divorce settlement with Bob. **(10)**

(d) Explain to Jim and Helen why it is important to ensure that they write new Wills. **(12)**

(e) **(i)** Outline the benefits for Jim of transferring part of the value held in his stocks and shares ISA into his AIM ISA. **(10)**

(ii) State **six** drawbacks to Jim of him retaining his AIM ISA. **(6)**

(f) Identify the **key** issues that a financial adviser should discuss with Helen when advising her on the ongoing suitability of her portfolio of individual shares. **(8)**

(g) State **eight** factors that a financial adviser should take into account when reviewing Jim and Helen's pensions at their next annual review meeting. **(8)**

Total marks available for this question: 74

Case Study 2

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

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

Dante and Cara, both aged 53, are married and have two children, Paolo, aged 14 and Laura, aged 13. All of the family are in good health.

Dante is employed as the group chief executive for a multi-school academy trust and receives a basic salary of £205,000 per annum gross. He is a member of his employer's death-in-service scheme which provides a benefit of three times his basic salary. He has been a continuous member of his employer's defined benefit pension scheme since he was aged 21. Dante is entitled to sick pay of 100 days' full salary followed by 100 days' half salary.

Cara is employed as an accounts manager and receives a basic salary of £40,000 per annum gross. Cara is a member of her employer's workplace pension scheme. She contributes 7% of her basic salary to the scheme and her employer contributes 5% of her basic salary. Her employer also provides a death-in-service benefit of £100,000. In the event of illness, Cara will receive four weeks' basic salary as sick pay then statutory sick pay only.

The trustees of Dante's employer's defined benefit scheme have just provided an annual pension statement showing that in the 2020/2021 tax year, Dante's total pension input amount was £71,000. The statement also confirms that his annual pension at age 67, which is the scheme's normal retirement age, is currently projected to be £52,736 gross per annum, plus a pension commencement lump sum of £124,750.

Cara's current workplace pension fund value is £110,000 and it is invested in a balanced managed fund. Cara also has a deferred pension entitlement in her former employer's group personal pension scheme. This scheme was established in 1990 when she was employed by her family's small engineering company. The fund value is £240,000 and it is invested in an emerging markets equity fund and a traditional with-profits fund.

Dante and Cara live in a detached house valued at £750,000. This house is owned jointly and has an outstanding mortgage of £250,000. The mortgage is held on an interest-only basis with 15 years remaining on the mortgage term. They intend to repay this mortgage at the end of its term by using some of the proceeds of their investment portfolio. They also jointly own a mortgage-free rental property which is valued at £200,000. They receive £750 per month, gross, as rental income.

Dante and Cara have a joint-life first event life and critical illness policy with a sum assured of £100,000. This policy was arranged to protect the mortgage on their former home. Dante has an income protection insurance policy in place, which was arranged ten years ago.

Cara's mother gave Cara £300,000 five years ago following the sale of her home. Her mother, aged 85, now lives with Dante and Cara as she suffered a stroke last year. She still has mental capacity although she has mobility issues. Cara is considering arranging for her mother to move permanently into a local care home. Cara is keen to ensure that her mother's interests are appropriately protected. At present no formal legal arrangements are in place.

Dante and Cara consider themselves to be medium to high-risk investors.

Dante and Cara have the following assets:

Assets	Ownership	Value (£)
Current account	Joint	3,500
Deposit account	Joint	42,500
Rental property	Joint	200,000
Stocks and shares ISA – Commercial property fund	Dante	54,000
Stocks and shares ISA – Strategic bond fund	Cara	70,000
Unit Trusts – Global bond fund and corporate bond fund	Cara	120,000

Dante and Cara's financial aims are to:

- ensure that they have adequate financial protection arrangements in place;
- arrange a suitable strategy to repay their interest-only mortgage;
- ensure that their pensions and investments are appropriate to their needs.

Questions

(a) State **five** advantages and **five** disadvantages of Dante and Cara retaining their interest-only mortgage, rather than switching to a repayment mortgage. **(10)**

(b) **(i)** Explain to Dante how his Annual Allowance for pension purposes would be calculated in respect of the tax year 2020/2021. *No calculations are required.* **(8)**

(ii) Explain to Dante how the Lifetime Allowance for pension purposes would be applied to his pension benefits at the scheme retirement age. *No calculations are required.* **(8)**

(c) State the additional information that a financial adviser would need to obtain in respect of Cara's deferred pension in her former employer's pension scheme, before recommending a transfer of the benefits to a personal pension scheme. **(10)**

(d) Dante and Cara are reviewing their protection arrangements.

(i) Identify the additional information that a financial adviser would need to obtain in respect of Dante and Cara's current protection arrangements, to be able to advise them on their suitability. **(14)**

(ii) Explain to Dante **three** advantages and **three** disadvantages of him effecting a new personal income protection policy, rather than a critical illness policy, to provide long-term protection should he become ill. **(6)**

(e) Identify the **key** factors that Cara should take into account when setting up appropriate power of attorney arrangements for her mother. **(10)**

(f) Explain to Dante and Cara why their existing savings, investments and rental property may **not** be suited to their current circumstances. **(10)**

Total marks available for this question: 76

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) *Candidates would have gained full marks for any twelve of the following:*

- Income/capital required in retirement.
- Asset allocation/fund choice.
- Charges/cost of switching/costs of small self-administered pension scheme (SSAS).
- State Pension entitlement/BR19.
- Current contributions/carry forward available.
- Defined Benefit (DB) scheme annuity value/will Jim retain late wife's pension on remarriage?
- Indexation (Guaranteed Annuity Rate (GAR)/DB).
- Any other members of SSAS/any loans within SSAS.
- Guarantees/protected pension commencement lump sum (PCLS)/safeguarded benefits.
- Nomination of beneficiary updated.
- Use of other assets/inheritances/plans for businesses/value of businesses.
- Capacity for loss.
- Settlement amount for Bob/does GAR transfer to Jim?
- Affordability/budget.

(b) *Candidates would have gained four marks for any four of the following:*

Advantages

- Ability to borrow.
- Wider investment choice/commercial property.
- Greater control/can choose Trustees/no changes needed to current pension/greater control of death benefits.
- Can invest in own company shares (5%)/can make loan to company.
- No cost of advice to transfer.

Candidates would have gained four marks for any four of the following:

Disadvantages

- Annual accounts required.
- Increased reporting requirements/Trustee responsibilities/complexity/admin/Trustee disputes.
- Higher costs/Trustee costs.
- Limited online access/not widely available on platforms/limited choice of trustees.
- No privacy/pooled investments/limited retirement options.

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

- Loss of pension.
- Complex admin/costs.
- Loss of full GAR.
- Pension does not form part of her estate for Inheritance Tax (IHT) purposes.
- Loss of spouse's pension for Jim.
- Helen has other assets for divorce settlement/offset is better.
- Limited time to replace lost pension fund.
- Reduced flexibility/loss of control.
- Clean break better/attachment order retains link with Bob.
- Bob could claim higher income in future (i.e. fund growth/longevity).
- Attachment order taxed on Helen/part of Helen's Lifetime Allowance (LTA).

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

- Recent change of circumstances.
- Complex family arrangements.
- Can leave assets to each other/Jim's children currently inherit all Jim's assets.
- Will can be made in anticipation of marriage.
- Any existing Wills are invalidated on marriage.
- Ensures their wishes are met (on death).
- Helen's divorce does not revoke existing Will.
- Bob could still currently inherit.
- Choose executors.
- Intestacy rules may apply.
- Helen may be unable to remain in home if Jim dies.
- Can make arrangements to protect Helen's interests/survivor.
- Can protect children's interests/create trusts.
- IHT planning/Jim can use late wife's Nil Rate Bank (NRB).
- Confirms Business Relief applies to businesses.

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

- AIM ISA offers IHT benefits.
- IHT-free if held for 2 years.
- Matches attitude to risk.
- Matches objectives.
- Possible higher growth/increased diversification.
- Possible dividends/income.
- IHT benefits can be maintained on death/Helen could use Additional Permitted Subscription (APS) when married.
- Retain control of assets/no need to gift.
- Relatively liquid/accessible.
- Cost effective IHT planning solution.
- Experienced investor/can choose specialist companies.
- Tax free/maintains ISA status.

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

- Capital risk/loss of capital/volatility/high risk.
- Geographic risk/all UK listed.
- Higher charges.
- Complex/needs monitoring/lack of liquidity.
- Tax rules could change/minimum holding period applies.
- Lack of diversification.
- Lower dividends than existing portfolio.
- Limited range of qualifying companies.

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

- Lack of diversification/all UK financial holdings/state of the economy.
- Complex admin for shares /all individual holdings.
- Held on a platform?/certificated?/nominee?.
- Subject to Capital Gains Tax (CGT)/10% CGT over exemption.
- Base costs?/identify gain.
- Dividends - taxable/7.5% tax rate.
- Has she used her ISA allowance?/can she Bed & ISA?/not in ISA.
- High risk/meets attitude to risk.
- Dividend allowance available/dividend payments due.

(g)

- Personal circumstances/changes/health/divorce issues.
- Budget/affordability/income required in retirement/BR19.
- Attitude to risk/capacity for loss.
- Investment returns/growth.
- Pension input/contributions made.
- Charges.
- Changes to legislation/taxation.
- Changes to current plans/SSAS/business sale?

Case Study 2

(a) Advantages

- Potential growth on investments.
- Reduced outgoings (to lender)/more disposable income.
- May repay early.
- Can access investments if needed/flexibility.
- Tax efficient investments available/matches attitude to risk.

Disadvantages

- Investment risk/increased total interest costs/interest rate risk.
- Shortfall risk/no guarantee of repayment.
- Temptation to withdraw funds.
- Needs advice/monitoring/fees and charges.
- May be harder to arrange a re-mortgage/complexity of this type of mortgage /limited choice of lenders.

(b) (i)

- His threshold income is above £200,000.
- Annual allowance (AA) is £40,000.
- Calculate adjusted income;
- which is total income plus Pension Input.
- If adjusted income exceeds £240,000;
- AA is reduced by £1 for every £2 over £240,000.
- Minimum AA is £4,000
- Carry forward can be used if available
- Income tax charge at 45%/marginal rate (for excess over £4,000).

(ii)

- LTA is £1,073,100.
- His pension is multiplied by 20 times.
- His PCLS is added to this sum.
- His pension is likely in excess of this LTA.
- Lump sum is charged on excess at 55%.
- 25% charge on excess income.
- LTA charge applies on crystallisation/drawing benefits.
- and age 75/death.
- LTA protection may be available.

(c)

- Is there a protected PCLS?/safeguarded rights.
- Any guaranteed annuity rates?/any guaranteed bonus/returns.
- What is the current bonus rate on the with profits fund?
- Any Market Value Adjustment (MVA)?/penalty?/any MVR free dates?
- Charges/projection of benefits.
- Asset allocation.
- Death benefits - return of fund?/return of contributions?
- Fund range/switching options.
- Financial strength.
- Online access?/retirement options available.

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

IPI

- Benefit on IPI?/percentage of salary covered.
- Indexation applies?
- What actual occupation is stated on the policy?
- Deferred period?
- Proportionate benefit/rehabilitation benefit available?
- Own/any occupation applying?

CIC

- Range of illnesses covered/total permanent disability (TPD)?
- Children's cover?/buy-back?
- Level or decreasing cover?
- Waiver of Premium (WOP) applies?
- Trust?

Both

- Guaranteed or reviewable premium?
- Term?
- Premium level?
- Exclusions/underwriting terms?/state of health?/any claims made?
- Death benefits nominations in place?

(ii) Advantages

- Multiple claims.
- Wider cover/greater chance of claim.
- Can be tailored to his employment terms.

Disadvantages

- Cover terms may change if job changes/claims are underwritten for earnings.
- Lump sum may be of more use.
- No life cover/less rider benefits.

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

- Lasting Power of Attorney (LPA) property and financial affairs.
- LPA health and welfare.
- Cara could be attorney/recommend two attorneys/choice of attorney.
- Mother must have mental capacity to arrange.
- Health and welfare only usable once mother loses capacity.
- Property and financial can be used at any time/now.
- Property and financial may have restricted powers included.
- Register now with office of the Public Guardian (OPG).
- Can use solicitor/use OPG forms/arrange online.
- Attorney must keep records and act in best interests of mother.
- No fees may be charged unless professional attorney.

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

- Potential tax liability on unit trusts/rental property.
- Unit trusts could be part transferred to Dante/not using Dante's CGT allowance.
- Savings/rental property more tax efficient in Cara's name/Dante has no Personal Savings Allowance (PSA).
- Not suited to attitude to risk.
- Lack of equities/not well diversified/too much cash.
- More could be in ISA/not tax efficient/not using Dividend Allowance.
- Property funds may be 'gated'
- Exposed to interest rate risk/inflation risk on cash.
- Exposed to currency risk/investment risk.
- Lack of potential growth on cash/bond funds/currently interest rates are low.
- Void problems on rental property.
- Rental property illiquid.

April 2021 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

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

INCOME TAX

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

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

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

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

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 183.00*****	Nil
183.00 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £183 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,475 per annum.
Class 3 (voluntary)	Flat rate per week £15.30.
Class 4 (self-employed)	9% on profits between £9,500 - £50,000. 2% on profits above £50,000.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021	£1,073,100

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£40,000*
2020/2021	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£4,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS	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%