Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 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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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:

General performance across the paper was good and many candidates had taken time to consider the Case Studies in detail and had prepared well for the examination. These candidates were able to provide detailed answers to many of the questions and achieved good marks across both Case Studies.

It was disappointing to note that a number of candidates were unfamiliar with the specific terms relating to Junior ISAs and further study would be of benefit to a number of candidates in respect of these products.

It was pleasing to note that candidates were able to recognise the vulnerable status of the client identified in Case Study 2 and were able to explain clearly the actions that should be taken to protect this client during the advice process.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require about Dan and Sara's existing financial arrangements to assess their current financial position. Most candidates performed well and were able to provide some comprehensive answers.

Part (b) focused on Dan and Sara's offset mortgage and asked candidates to explain how this operates. This mortgage was identified in the Case Study and most candidates were able to provide a good answer.

In part (c) candidates were asked to state the process that should be followed in advising Dan and Sara how to establish a suitable strategy for their savings and investments to meet their future objectives. This was very well-answered by the majority of candidates although many failed to identify the need to provide a suitability report. Otherwise, performance was excellent.

Part (d) required candidates to state five benefits and five drawbacks of Dan and Sara setting up Junior ISAs to fund their children's potential university costs. The Case Study identified their intention to invest funds for their children's future education but unfortunately some candidates were unfamiliar with the conditions relating to Junior ISAs. Many candidates believed that it was possible to withdraw monies from a Junior ISA at any point. This is not the case as these products are not accessible until the child reaches their 18th birthday. Further review of these products would be of benefit.

In part (e)(i) candidates were asked to identify the benefits and drawbacks of Sara joining her employer's group PMI scheme. Performance was good overall with the majority of candidates able to identify the key benefits and drawbacks.

Part (e)(ii) required candidates to identify the benefits of Dan and Sara establishing a family income benefit (FIB) policy for their family's protection needs. Performance was generally disappointing with many candidates believing that this policy would pay out on illness or ill health. This is a term life policy with payments only made on death of the life assured. Further study of life policies and their main features would be of benefit to a number of candidates.

In part (f) candidates were asked to recommend and justify the actions that Dan and Sara could take now to improve the tax-efficiency of their current financial arrangements. Overall performance was good with many candidates recognising how a pension contribution for Dan could lead to him regaining some of his Personal Allowance. This indicated a good level of preparation on the part of many candidates.

Question 2

In part (a) candidates were asked to explain why June should be treated as being a vulnerable client and identify the actions that a financial adviser should take due to her vulnerability during the advice process. Most candidates performed well and were able to provide very detailed answers.

Part (b) required candidates to state the further information that a financial adviser would require to enable them to identify a suitable level of ongoing income for June, following the recent death of her husband. Generally good performance overall with candidates able to identify most of the additional information required.

Part (c) tasked candidates with identifying and explaining the various methods by which June could draw benefits from Colin's pension arrangements. This question was generally well answered although very few candidates considered the continuing annuity, or Colin's State Pension. These arrangements form part of June's potential benefits but only a small number of candidates took these into consideration in their explanation.

In part (d) candidates were asked to explain to June why retaining Colin's portfolio of AIM shares may not be suitable for her. Performance was good with most candidates able to explain in sufficient detail why these shares may be unsuitable for June.

Part (e) focused on how June could generate additional capital and income from her inherited OEIC portfolio. Performance was mixed with some candidates able to provide a reasonable level of detail but many candidates failed to recognise the flexibility, or the exact tax advantages of this course of action.

In part (f) candidates were asked to state the benefits and drawbacks for June of proceeding to set up the discounted gift trust. This was identified in the Case Study as something that June and Colin had been considering prior to his sudden death. Candidate performance was slightly disappointing as candidates failed to provide sufficient detail to achieve high marks. Some candidates believed that the entire transfer into the discounted gift trust would be immediately exempt from Inheritance Tax (IHT) so further study on IHT mitigation and Trusts would be of benefit to a number of candidates.

Part (g) was a standard review question which asked candidates to state eight factors that an adviser should take into account when reviewing June's income needs at the next annual review meeting. Performance was good with most candidates achieving high marks.

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. No watches are allowed.**
- 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 tasks* ***(a), (b), (c), (d), (e)*** *and* ***(f)*** *which follow.*

Dan and Sara, both aged 48, are married and have two children, Finn, aged 11 and Emily, aged 10. All of the family are in good health.

Dan is employed as a pharmacist and receives a basic salary of £102,000 per annum gross. He will receive a bonus of £10,000 gross in the current tax year. Dan is a member of his employer's death-in-service scheme which provides a benefit of two times his basic salary in the event of his death. Dan is entitled to sick pay of 90 days' full salary with Statutory Sick Pay only, thereafter. Dan is a member of his employer's group personal pension scheme. He contributes 7% of his basic salary to the scheme and his employer contributes 11% of his basic salary.

Sara is employed as a solicitor on a part-time basis and receives a basic salary of £40,000 per annum gross. She has agreed to work on a full-time basis from January 2022 and will receive an additional £20,000 per annum gross in basic salary. Sara is a member of her employer's qualifying workplace pension scheme. She contributes 5% of her basic salary and her employer contributes 3% of her basic salary to the scheme. Her employer also provides a death-in-service benefit of £200,000 which is payable in the event of her death. In the event of illness, she will receive six weeks' basic salary as sick pay with Statutory Sick Pay only, thereafter.

Dan's group personal pension fund in his employer's scheme is invested in a range of global and UK equity funds. The current fund and transfer value is £242,000. Sara's workplace pension has a current value and transfer value of £55,000 and is invested in a cautious managed fund. Sara also has a pension fund value in a former employer's workplace pension scheme. This has a current value and transfer value of £97,000 and is invested in a UK equity index tracker fund.

Sara has been offered membership of her employer's group private medical insurance (PMI) scheme from September 2021. She is considering whether this will be of benefit to the family.

Dan and Sara live in a house which is valued at £600,000. This house is owned as joint tenants and has a mortgage of £350,000 outstanding. The mortgage is on a capital and interest basis. The mortgage interest rate is fixed at 3% until 31 March 2023, with early repayment charges applying until the same date. It is an offset mortgage.

Dan and Sara have a joint-life first event life and critical illness policy with a decreasing sum assured. This policy was arranged to protect the mortgage fully when they bought their current home. Dan has a budget private medical insurance policy in place that he set up a number of years ago.

Dan and Sara each established a stocks and shares ISA a few years ago which are invested in a UK smaller companies fund for Dan and a UK corporate bond fund for Sara. Sara inherited a portfolio of unit trusts from her father when he died last year. These holdings have remained unchanged since she received them.

Dan and Sara have decided to start to save for their children's potential university costs by using the additional salary that Sara is about to receive.

Dan and Sara consider themselves to be medium-risk investors.

Dan and Sara have the following assets:

Assets	**Ownership**	**Value (£)**
Family home	Joint	600,000
Current account	Joint	6,500
Deposit account (linked to offset mortgage)	Joint	7,500
Stocks and shares ISA – UK smaller companies fund	Dan	14,000
Stocks and shares ISA – UK corporate bond fund	Sara	13,000
Unit Trusts – UK, European and global equity funds	Sara	60,000

Dan and Sara's financial aims are to:

- ensure that their financial protection arrangements are adequate for their needs;
- arrange a suitable savings strategy to pay for their children's university costs;
- ensure that their savings and investments are appropriate for their needs.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require about Dan and Sara's existing financial arrangements, to assess their current financial position. **(15)**

(b) Explain to Dan and Sara how their current offset mortgage operates. **(8)**

(c) State the process that a financial adviser should follow in advising Dan and Sara how to establish a suitable strategy for their savings and investments to meet their future objectives. **(10)**

(d) State **five** benefits and **five** drawbacks of Dan and Sara setting up Junior ISAs to fund their children's potential university costs. **(10)**

(e) **(i)** State **five** benefits and **five** drawbacks of Sara joining her employer's group PMI scheme. **(10)**

(ii) Identify the benefits of Dan and Sara establishing a family income benefit (FIB) policy for their family's protection needs. **(10)**

(f) Recommend and justify the actions that Dan and Sara could take now to improve the tax efficiency of their current financial arrangements. **(11)**

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 tasks **(a), (b), (c), (d), (e), (f)** and **(g)** which follow.*

June is aged 71. Her husband, Colin, aged 72, died recently following a sudden heart attack. June has a long-term heart condition which requires ongoing treatment. June has two children and four grandchildren. Her children Emily and Andrew are both married. Colin's estate is being transferred into June's name by their solicitor and this should be completed within the next two months. June will inherit all of Colin's assets.

June is aware that she may need long-term care in the future and is considering selling the family home and moving into a retirement village where she could rent a suitable property at a cost of £1,000 per month. Her current home is valued at £450,000 and is mortgage-free.

June's income consists of her own State Pension, and 50% spouse's pension from a pension annuity which was previously held by Colin. This income is not sufficient to meet her needs. She is spending capital from her deposit account and is concerned that she will run out of cash funds in the near future.

Colin had a self-invested personal pension (SIPP) which is invested in a range of individual equities and collective investment funds. It has a current value of £320,000. The SIPP was fully crystallised and was held in a flexi-access drawdown arrangement at the time of Colin's death.

Colin held a range of AIM shares and open-ended investment companies (OEICs), valued at £250,000 in total. These are still held in Colin's name. Colin also held an ISA portfolio valued at £300,000. June holds a range of cash ISAs which are all on fixed rates with varying terms of between two and five years. She also has a stocks and shares ISA.

June is keen to ensure that she mitigates any future Inheritance Tax liability so that she can maximise her estate for the benefit of her children and grandchildren.

Colin and June had been looking into the possibility of setting up a discounted gift trust. June is keen to understand if such an arrangement would be suitable for her now that Colin has died.

June is a medium-risk investor and is happy to consider a wide range of investments, but she does not want to spend a great deal of time monitoring these investments in the future.

June has entitlement to the following assets:

Assets	Current holder	Value (£)
Family home	June	450,000
Current account	June	2,000
Deposit account	June	15,000
Cash ISAs – various fixed terms	June	80,000
Stocks and shares ISA – UK corporate bond fund	June	120,000
Stocks and shares ISA – emerging markets fund	Colin (deceased)	300,000
OEICs – UK mid-cap and UK fixed interest funds	Colin (deceased)	150,000
AIM shares	Colin (deceased)	100,000
Self-invested personal pension (SIPP)	Colin (deceased)	320,000

June's financial aims are to ensure that:

- she has sufficient income throughout retirement;
- her investments meet her ongoing needs;
- her estate is passed to her children in an Inheritance Tax efficient manner.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Explain why June should be treated as being a vulnerable client and identify the actions that a financial adviser should take due to her vulnerability during the advice process. **(10)**

(b) State the further information that a financial adviser would require to enable them to identify a suitable level of ongoing income for June, following the recent death of her husband. **(12)**

(c) Identify and explain the various methods by which June could draw benefits from Colin's pension arrangements. **(12)**

(d) Explain to June why retaining Colin's portfolio of AIM shares may not be suitable for her. **(10)**

(e) Explain to June why she could consider using a combination of income and capital withdrawals from her inherited OEIC portfolio to provide her with additional income. **(10)**

(f) State **seven** benefits and **seven** drawbacks for June of proceeding to set up a discounted gift trust. **(14)**

(g) State **eight** factors that an adviser should take into account when reviewing June's income needs at the next annual review meeting. **(8)**

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)
- Mortgage term/early repayment charges.
- BR19/State Pension entitlement.
- Any other savings/investments/pensions/inheritance expected/any other liabilities.
- Carry forward available/employer matching/salary sacrifice.
- Probate value of unit trusts/base cost.
- ISA allowance used this tax year?
- Current sum assured on life policy.
- Term of current life policy.
- Premiums for current protection plans/Private Medical Insurance (PMI)/life policy.
- Details of budget PMI/what is covered under PMI/Critical Illness Cover (CIC)?
- Asset allocation.
- Pension nominations/life policy under trust/Wills in place?
- Current expenditure/affordability.
- Priority of objectives/ protection versus savings.
- Charges/are funds held on platform?

(b) *Candidates would have gained four marks for any eight of the following:*
- Interest is not paid on savings.
- Interest rate is fixed.
- Mortgage account benefits from savings interest.
- Capital reduces more quickly/capital balance reduces.
- Monthly payments could reduce.
- No tax is payable on interest received/potential tax saving for Dan.
- Easy access.
- No penalties applied at end of fixed rate period.
- Pay less interest overall.

(c)
- Establish client relationship/provide initial disclosure documentation.
- Fact-find.
- Assess risk profile/capacity for loss (CFL).
- Establish affordability.
- Analyse current savings and investments.
- Research/formulate recommendations.
- Making recommendations.
- Suitability report.
- Implementation.
- Review.

(d) Benefits

- Tax efficient/potential for growth.
- Does not use own allowances/no £100 parental rule/anyone can contribute.
- Range of funds/cash and stocks and shares.
- £9,000 allowance is likely to be sufficient.
- Flexible/can vary contributions/lump sum or regular.

Drawbacks

- Children can choose funds from 16.
- No access if needed earlier than 18.
- Children may not use funds for university.
- Investment risk/low deposit rates/inflation risk on cash.
- Charges/need for advice.

(e) (i) Benefits

- Choice of hospital/doctor.
- Faster treatment/return to work.
- May be able to cancel Dan's PMI plan/may provide cover for family.
- Likely to be cheaper than personal cover/employer pays the premiums.
- May be better underwriting than personal/moratorium basis.

Drawbacks

- Taxable as benefit in kind (BIK)
- Higher rate tax (HRT) charged on premiums when salary increases
- May not have choice on cover/provider/underwriting.
- Could lose cover if leave employer.
- May not cover family/additional costs to cover family.

(e) (ii)

- Low-cost cover/cheap.
- Tax free income.
- Premiums can be guaranteed.
- Can target the amount needed/to protect lifestyle/outgoings.
- Benefit can be indexed.
- Term set to needs (e.g. children aged 21/22).
- Can be placed under Trust.
- Simple/peace of mind.
- Simple underwriting/unlikely to be loaded.
- Client can cancel without penalty/insurer cannot cancel.

(f)
- Increase pension contributions for tax relief/tax-free growth.
- Regains some/all of Personal Allowance (PA) for Dan.
- Interspousal transfer of 50% of unit trusts.
- Use Capital Gains Tax (CGT) exemptions.
- Use dividend allowances/Dan has unused dividend allowance.
- Make ISA contributions/BED & ISA.
- Use Junior ISA (JISA).
- Tax free growth/income.
- Hold more cash in linked offset deposit account.
- No tax on interest.
- Pension nominations/Death-in Service (DIS) nominations/life policy in Trust.

Case Study 2

(a) *Candidates would have gained four marks for any ten of the following:*
- Poor health/heart condition/age.
- Recent bereavement.
- Limited income/financial distress/update firm records regarding the vulnerability.
- Circumstances changing/potential sale of property/inheritance due.
- Provide clear information/in writing/no jargon.
- Invite family member/trusted friend to attend meeting.
- June may have limited financial knowledge/check understanding.
- Allow additional time for meetings.
- Allow June time to make decisions/no immediate action.
- All decisions to be flexible/she may change her mind.
- No fixed-term investments until she has adjusted to loss of Colin.

(b)
- Current monthly expenditure.
- Capital needs/lump sum needs/additional costs for rental property.
- Emergency fund requirement.
- Any costs for care at present?/anticipated future care costs?
- June's State Pension amount?/inherited State Pension from Colin?
- Details of other income/investment/annuity income.
- Is annuity indexed?
- Is she willing to erode her capital?/give up access to capital.
- Any inheritances expected?
- Entitled to state benefits/heart condition.
- Anticipated longevity due to heart condition/enhanced annuity available.
- Has she registered Additional Permitted Subscription (APS) for Colin's ISAs?/self-invested personal pension (SIPP) Trustees notified of Colin's death?

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

- Could take income from SIPP/beneficiary drawdown/flexi access drawdown (FAD).
- Pension annuity option (from SIPP).
- June may be eligible for enhanced annuity due to her poor health.
- Lump sum option.
- All SIPP options are Income Tax-free;
- if June takes action within 2 years of Colin's death.
- Colin died before age 75.
- FAD offers flexibility/lump sum option loses pension wrapper/annuity cannot be passed on.
- Pension is Inheritance Tax (IHT) free.
- Colin's annuity will continue to be paid.
- Colin's annuity will be tax-free.
- June may be entitled to some of Colin's State Pension.
- June must notify Pension Service of his death to claim entitlement.

(d)

- Do not match her attitude to risk (ATR)/June is not an experienced investor/unsuitable holding.
- High risk/volatile.
- Ongoing monitoring/complex.
- Shares can lose qualifying status/tax status confirmed on June's death only.
- Cost of advice/charges.
- Can be illiquid.
- May provide limited income/June needs more income.
- Tax benefits of AIM shares/legislation may change.
- Lack of diversification.
- Not held in ISA/not tax efficient.

(e)

- Potential for growth/provides diversification.
- BED & ISA/use ISA.
- Can draw natural income in form of dividends/can take dividends.
- Can use Dividend Allowance/£2,000.
- Fixed interest uses PSA/£1,000.
- Can use CGT exemption/£12,300.
- Can offset losses.
- Can draw capital when needed/can adjust capital withdrawals at any time/to reflect market conditions/ open-ended investment companies (OEIC) funds are generally liquid/easy access.
- Monthly capital withdrawal provides known monthly income.
- Retains IHT efficient investments elsewhere (SIPP/AIM shares)/reduces IHT liability.

(f) Benefits

- Immediate reduction in value of estate.
- Known level of income from outset/income remains unchanged for 20 years.
- Income is tax-deferred.
- Growth is outside estate/full value outside estate after 7 years.
- Can be set up in Discretionary Trust/known beneficiary.
- Can change beneficiaries if circumstances change.
- Investment choice/she retains control of investment fund.

Drawbacks

- Income limited to 5% of capital per annum.
- Inflexible/irrevocable/loss of capital.
- June must survive 7 years.
- Poor health/likely low discount at outset.
- Charges/complexity.
- Her circumstances are changing/income needs are uncertain.
- Fund can be exhausted/not guaranteed for life.

(g)

- State of health/change in family circumstances/need for long-term care.
- Current level of income/expenditure/new inheritance.
- Any SIPP benefits drawn/has she claimed Colin's State Pension?
- Attitude to Risk (ATR)/Capacity for Loss (CFL).
- Investment performance/dividend income/yield/charges.
- Use of annual allowances/ISA/gifting/was Discounted Gift Trust (DGT) set up?
- Market conditions/economic conditions.
- Regulatory changes/legislation changes/new products.

July 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 September 2021 paper will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

INCOME TAX

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

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

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

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

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

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

NATIONAL INSURANCE CONTRIBUTIONS

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

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

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

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

*** Secondary earnings threshold.*

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

PENSIONS

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

LIFETIME ALLOWANCE CHARGE

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

ANNUAL ALLOWANCE

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

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

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

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

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

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

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

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

INHERITANCE TAX

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

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

MAIN EXEMPTIONS		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£150,000	£175,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2019/2020	2020/2021
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	57.90	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20

CORPORATION TAX

	2019/2020	2020/2021
Standard rate	19%	19%

VALUE ADDED TAX

	2019/2020	2020/2021
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Important note: For residential properties purchased between 8th July 2020 and 31st March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.

Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%