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# AF5

## Advanced Diploma in Financial Planning Practice Test 1

Unit AF5 – Financial planning process

2021-2022 Revision Aid

*Based on October 2016 examination*

### SPECIAL NOTICES

These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.

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

# AF5 – Financial planning process

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## AF5 - FINANCIAL PLANNING PROCESS



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## FACT-FIND – Practice Test 1

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Mr and Mrs Porter recently.

PART 1: BASIC DETAILS		
	Client 1	Client 2
Surname	Porter	Porter
First name(s)	Hans	Eileen
Address	6 Queens Fort Drive, Worthing	6 Queens Fort Drive, Worthing
Date of birth	01.11.1951	03.04.1954
Domicile	UK	UK
Residence	UK	UK
Place of birth	UK	UK
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Golf	Horse riding

**Notes:**

Hans and Eileen have been married for 25 years. Eileen retired on her 62<sup>nd</sup> birthday to help look after her grandchildren and Hans is retiring on his 65<sup>th</sup> birthday\*.

*\*Candidates should assume that Hans will reach his 65<sup>th</sup> birthday next month.*

**PART 2: FAMILY DETAILS****Children and other dependants**

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependant?
Damon	Son	35	15.07.1981	Good	Accountant	No
Justin	Son	32	10.06.1984	Good	Sales Executive	No
Dominic	Son	30	15.11.1985	Good	Builder	No

**Notes:**

The children are Eileen's from her first marriage. Her first husband died in 1986 when they were still married.

Her sons are married and each of them has two children. Hans has no children but is close to his sister and her two children.

<b>PART 3: EMPLOYMENT DETAILS</b>		
	<b>Client 1</b>	<b>Client 2</b>
<b>Employment</b>		
Occupation	Director	Retired
Job title	Technical Director	
Business name	Groots Engineering Ltd	
Business address	Church Street, London	
<b>Remuneration</b>		
Salary	£100,000	Nil
State Pensions	Nil	Nil
Overtime	Nil	Nil
<b>Benefits</b>		
Benefits-in-kind	£1,000	No
Pension scheme (see Part 11)	Yes	No
Life cover	2 times salary	No
Private Medical Insurance	Yes	No
Permanent Health Insurance	No	No
<b>Self Employment</b>		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
<b>Other Earned Income</b>		
<b>Notes:</b>		
<p>Hans is retiring on his 65<sup>th</sup> birthday. He will then start work as a self-employed consultant for his current employer on a part-time basis. Hans expects to earn £20,000 per annum over the next three years from his consultancy work. Hans does not own any shares in the company.</p> <p>Eileen retired on 3 April 2016 and has not worked since then.</p>		
	<b>Client 1</b>	<b>Client 2</b>
<b>Previous Employment</b>		
Previous employer	Wills Engineering	Worthing Chemicals
Job title	Engineer	Administrator
Length of service	9 years	20 years
Pension benefits (see Part 11)	No	Yes
<b>Notes:</b>		
<p>Hans has worked for his current employer for 30 years. Wills Engineering went into liquidation in 1986.</p> <p>Eileen has worked for a number of companies and took time off work to bring up her three children. Eileen has preserved pension benefits from her previous employments (see Part 11).</p>		

**PART 4: OTHER PROFESSIONAL ADVISERS**

	Client 1	Client 2
Accountant	Poole & Co	Poole & Co
Bank	Access Bank	Access Bank
Building Society		
Doctor	Dr Foster	Dr Foster
Solicitor	Davis LLP	Davis LLP
Stockbroker		
Other		

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

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary	8,333					
Benefits-in-kind		1,000				
Investment income (gross)		500		150		3,000
Rental (gross)						
Dividend payments		10,655		200		

**Notes:**

The figure of £3,000 under investment income is derived from the investment bond (see Part 6).

	Client 1	Client 2
<b>Income Tax</b>	<b>£</b>	<b>£</b>
Personal allowances		
Taxable income		
Tax		
National Insurance		
<b>Net Income</b>		

**Notes:**

**Expenditure**

	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
<b>Household Expenditure</b>						
Mortgage/Rent			125			
Council tax			365			
Buildings and contents insurance						850
Gas, water and electricity						1,800
Telephone						600
TV licence and satellite						650
Property maintenance						1,500
<b>Regular Outgoings</b>						
Life assurance (see Part 8)			120			
Health insurance (see Part 9)						
Savings Plans (see Part 10)	500	500				
Car tax, insurance and maintenance				1,300	700	
Petrol and fares				1,600	500	
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping						8,000
Pension contributions (see Part 11)	833					
<b>Other Expenditure</b>						
Magazines and newspapers			45			
Entertainment						800
Clubs and sport				720		
Spending money						6,000
Clothes				650	800	
Maintenance						
Other (Holidays)						4,000
<b>Total Monthly Expenditure</b>	1,333	500	655			
<b>Total Annual Expenditure</b>	15,996	6,000	7,860	4,270	2,000	24,200
<b>Total Outgoings</b>						60,326
<b>Notes:</b>						

**PART 6: ASSETS**

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			1,250,000	
2.	Contents/car			100,000	
3.	Current account – Access Bank	3,500	1,500	5,000	
4.	Deposit Savings Account – Access Bank	120,000	10,000		650
5.	Unit Trusts & OEICs - UK Equity tracker	87,000	8,000		2,375
6.	Unit Trusts & OEICs - UK Growth funds	160,000			2,880
7.	Unit Trusts & OEICs - UK Equity Income funds	140,000			5,600
8.	Stocks & Shares ISAs – UK Equity tracker funds	128,000	76,000		
9.	UK Onshore Investment Bond			58,000	3,000

**Notes:**

Their house is owned as joint tenants.

The UK Onshore Investment Bond is invested in a cautious managed fund. They have taken 5% per annum withdrawals based on the initial investment on a monthly basis since inception.

They have both used their maximum ISA allowance for the tax year 2020/2021. Their ISAs are invested in accumulation units.

The Unit Trusts and OEICs are all held in income units/shares. This income, together with the withdrawals from their UK Onshore Investment Bond is used to partially fund Hans and Eileen's annual ISA allowances.

**PART 7: LIABILITIES**

Mortgage Details	Client 1	Client 2	Joint
Lender			Access Bank
Type of mortgage			Interest only
Amount outstanding			£50,000
Start date			December 1996
Term/maturity			December 2021
Monthly payment			£125
Interest rate			3%
Life policies (see Part 8)			Yes

**Notes:**

Hans and Eileen are due to redeem their mortgage in December 2021 but want to repay this when Hans retires.

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

**Notes:**

Hans and Eileen do not have any loans.

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



**PART 8: LIFE ASSURANCE POLICIES**

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	Joint (First death)	Joint	50,000	120 p.m.	25 years	1996	No	35,000

**Notes:**

When Hans and Eileen took out their mortgage, they set up a low cost endowment policy to cover this.

This policy is invested in a balanced managed fund and there is a shortfall in the policy which is estimated to have an eventual maturity value of around £36,000.

**PART 9: HEALTH INSURANCE POLICIES**

Type	Life Covered	Benefit level £	Start Date	Term/ Review	Deferred Period	Premium £
Private Medical Insurance	Joint	Comprehensive		Annually		See notes below

**Notes:**

The taxable benefit-in-kind for this policy is £1,000 per annum.

**PART 10: REGULAR SAVINGS**

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
ISA	Access Bank	Hans	UK Equity tracker	500 p.m.	N/A	N/A	128,000
ISA	Access Bank	Eileen	UK Equity tracker	500 p.m.	N/A	N/A	76,000

**Notes:**

Hans and Eileen both save £500 per month into their ISAs each year and top up these regular savings with ad-hoc lump sum amounts to fully utilise their ISA allowances. These lump sums come partly from their investment income (see Part 6).

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

	Client 1	Client 2
Member of employer's scheme	Groots Engineering Ltd	N/A
Type of scheme	Defined benefit	
Date joined	1986	
Retirement age	65	
Pension benefits	80 <sup>ths</sup>	
Death benefits	2 times death-in-service plus return of member contributions	
Dependant's benefits	50% pension	
Contracted-in/out	Contracted-in since April 2016	
Contribution Level (employee)	10%	
Contribution Level (employer)	Not known	
Fund type	Defined benefit	
Fund value	N/A	

**Notes:**

Hans will receive a pension commencement lump sum of £112,500 (3/80<sup>ths</sup> of his pensionable salary) and a pension of £37,500 per annum (1/80<sup>th</sup> for each year of service).

Hans has recently learned that the scheme is currently under-funded and this is due to be discussed by the trustees in the near future.

Hans has nominated Eileen as the beneficiary under the pension scheme.

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

	Client 1	Client 2
Type	None	None
Company		
Fund		
Contribution		
Retirement age		
Current value		
Date started		

**Notes:**

Hans and Eileen do not have additional voluntary contributions.

**Personal Pensions**

	Client 1	Client 2
Type	None	Group Personal Pension
Company		Welsh Life
Fund		Cautious Managed
Contributions		None
Retirement age		65
Current value		£45,000
Date started		2007

**Notes:**

Eileen stopped paying into this scheme when she retired from Worthing Chemicals in April 2016.

Eileen has not drawn any benefits to date and has not completed a nomination form.

**Previous pension arrangements**

	Client 1	Client 2
Employer	None	Two previous employers
Type of scheme		Personal Pensions
Preserved benefits		See notes below

**Notes:**

Eileen also has two paid up policies from her previous employment prior to Worthing Chemicals. One is valued at approximately £8,000 and the other at £7,000.

**State Pension**

	Client 1	Client 2
Basic Pension/Flat rate	£122 per week (Flat rate)	
SERPS/S2P		
Graduated Pension		
<b>Total</b>		

**Notes**

Hans will receive his State Pension on his 65<sup>th</sup> birthday.

Eileen will receive her State Pension entitlement from her State Pension age. Eileen has completed a BR19 form and been advised that she is not entitled to the full flat rate pension.

**PART 12: INHERITANCES**

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes

**Notes:**

The Wills were set up shortly after Hans and Eileen married and leave everything to the surviving spouse.

Hans and Eileen are keen to ensure that on second death both Eileen's three sons and Hans' sister benefit from their estate.

Hans and Eileen are concerned that their current Wills do not reflect their wishes on second death and would like to review this.

Hans previously held a Power of Attorney for his mother whilst she was still alive and has enquired about him and Eileen possibly setting up similar arrangements.

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

**Notes:**

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

**Notes:**

Hans and Eileen want to give her son, Dominic, £30,000 to help him with his business.

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

**Notes:**

Hans and Eileen do not expect to receive any future inheritances.

**PART 13: ATTITUDE TO RISK**

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

**Notes:**

A risk-profile questionnaire has been completed to confirm the clients' attitudes to risk.

Hans has a cautious to medium attitude to risk.

Eileen has a cautious attitude to risk.

**PART 14: BUSINESS RECORDS**

<b>Compliance</b>		
Date fact-find completed	01.10.2016	
Client agreement issued	01.10.2016	
Data Protection Act	01.10.2016	
Money laundering	01.10.2016	
<b>Consultations</b>		
Dates of meetings	01.10.2016	
<b>Marketing</b>		
Client source		
Referrals		
<b>Documents</b>		
Client documents held		
Date returned		
Letters of authority requested	03.10.2016	

**Notes:****PART 15: OTHER INFORMATION**



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### Unit AF5 – Financial planning process

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

## Unit AF5 – Financial planning process

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf, and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you use a calculator, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are permitted to be used for this paper and all questions are based on the current tax year 2021/2022.
- Answer each task on a new page and leave six lines blank after each task.

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

**CLIENTS' FINANCIAL OBJECTIVES**

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

**Immediate objectives**

- To generate sufficient income in retirement from their pensions and investments.
- To establish suitable methods for Hans and Eileen to draw benefits from their existing pension arrangements.
- To repay their outstanding mortgage.
- To provide funding of £30,000 to Dominic for his business use.

**Longer-term objectives**

- To improve the ongoing suitability and tax-efficiency of their savings and investments.
- To ensure Hans and Eileen's affairs can be managed by their appointed attorneys in the future, should this be required.
- To mitigate their Inheritance Tax liability whilst ensuring their estates pass to their intended beneficiaries.



**Attempt ALL tasks****Time: 3 hours**

1. As Hans and Eileen have not sought financial advice for a number of years, they have some questions on fees and other issues relating to the financial planning process.
  - (a) With regard to the payment of fees, explain **four** benefits and **four** drawbacks to Hans and Eileen of:
    - (i) payment of hourly fees directly; (8)
    - (ii) payment by fund based fees being deducted from the investments. (8)
  - (b) Identify the client-specific factors that would typically influence Hans and Eileen's attitude to investment risk. (8)
  
2. Identify the additional information you would need to discuss with Hans and Eileen in order to advise them on how to meet their financial objectives of:
  - (a) repaying their mortgage on Hans' retirement; (6)
  - (b) mitigating their Inheritance Tax liability whilst ensuring their estates pass to their intended beneficiaries. (7)
  
3. With regard to Hans and Eileen's longer-term financial objectives for their investments. *Exclude any pension arrangements in your answer.*
  - (a)
    - (i) Evaluate the Income Tax efficiency of their current savings and investments. (16)
    - (ii) Comment briefly on the diversification within their current savings and investment portfolio and identify whether the portfolio meets their risk profiles. (6)
  - (b) Explain in detail the Capital Gains Tax (CGT) implications of transferring the Unit Trusts and OEICs held by Hans to Eileen and the improved CGT efficiency that this action will provide. (6)

4. With regard to Hans and Eileen's pension entitlement:
- (a) Recommend and justify why Eileen should consider paying Class 3 voluntary National Insurance contributions to increase her State Pension entitlement. (6)
  - (b) Explain to Eileen how the benefits under her Welsh Life Group Personal Pension policy could be taken tax-efficiently as a series of ad-hoc lump sums using uncrystallised fund pension lump sum (UFPLS). (7)
  - (c) Explain to Eileen the 'small pots' rules that allow her to take her preserved personal pension policies immediately and the tax implications of this course of action. (8)
  - (d) Describe how Hans' pension income under the Groots Engineering Ltd pension scheme would be affected if the pension scheme entered the Pension Protection Fund after he had retired. *Assume Hans started drawing his benefits at his normal retirement date.* (6)

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

5. With regard to Hans and Eileen's longer-term financial objectives:
- (a) Identify **five** benefits and **five** drawbacks for Hans and Eileen of transferring their existing UK Onshore Investment Bond to a discounted gift trust under a discretionary trust.
  - (b) (i) Recommend and justify why Hans and Eileen should set up a suitable life assurance policy to cover their current and future Inheritance Tax liability. (12)
  - (ii) Explain briefly to Hans and Eileen **five** key drawbacks of the recommendation made in part (b)(i) above. (5)

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

6. (a) Recommend and justify the actions that Hans and Eileen could take to ensure that, in the event of their deaths, their estates can be paid to their intended beneficiaries. *Assume that no new investments or life policies are set up.* (15)

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

- (b) Explain the financial planning considerations for Hans and Eileen if they were to **lend** £30,000 to Eileen's son, Dominic, for his business use. (8)

7. Hans and Eileen are considering arranging a Lasting Power of Attorney.

- (a) Describe the **benefits** to Hans and Eileen of each of them setting up a Lasting Power of Attorney. (8)

- (b) Identify **four** common financial transactions an Attorney could make on behalf of Hans or Eileen if property and financial affairs Lasting Powers of Attorney are set up. (4)

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

8. Identify **six** key benefits the clients will derive from having regular reviews and contact with their financial adviser. (6)

**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 Task 1****(a) (i) Hourly rate****Benefits**

- Familiar/same as other professions.
- Easy to understand/compare/transparent.
- Based on actual work undertaken/amount invested is irrelevant/cheaper for larger sums.
- Fee cap can apply.

**Drawbacks**

- Perceived as inefficient/possibly 'run up the clock'.
- May put off clients making contact/asking for advice.
- Paid from personal funds/net earnings/write a cheque.
- Unknown total cost.

**(ii) Benefits**

- Negotiate lower fees.
- Payment via provider/not from personal funds.
- Incentive to grow funds.
- Attractive for lower amounts/lower fees for lower amounts.

**Drawbacks**

- Difficult to predict year to year.
- Fee may be excessive/not reflecting time spent/larger portfolios not generally harder to administer.
- Extra charges may apply for other services/further work undertaken.
- Reduces investment growth/taken from tax efficient investment e.g. ISA.

- (b) *Candidates would have gained full marks for any eight of the following:*
- Hans retires next month/timescale\*.
  - Health/age.
  - They have disposable income/existing assets/How much do they wish to invest?/adequate emergency fund.
  - Guaranteed pension income for Hans/State Pension for either.
  - Investment experience/knowledge.
  - Objectives/priorities/need for capital/income/growth.
  - Client thoughts on economic environment/market conditions.
  - Tolerance for loss/risk versus reward.
  - Capacity for loss.

***\*Candidates should note that this Fact Find was used in the October 2016 exam paper. For the purposes of revision, candidates should assume that Hans will be retiring next month when he reaches age 65.***

### Model answer for Task 2

- (a) **Repaying their mortgage:**
- Any early redemption charges/interest rate fixed or variable.
  - Surrender value/penalty on endowment/notice period on deposit account/tax implications of sale of investments.
  - Need for emergency fund.
  - Source of repayment/use of other assets/downsize/willing to use pension commercial lump sum.
  - Any other planned expenditure/gifts to children/priority?
  - Need for life cover on endowment.
- (b)
- To whom assets should be paid/split of assets between beneficiaries.
  - Priority of objective.
  - Set up new Wills/willing to leave assets to others on first death.
  - Willingness to use trusts/make outright gifts.
  - Willingness to change ownership of assets between spouses.
  - Use nominations/spousal bypass trust/pension contributions.
  - Any inherited Nil Rate Band (NRB/RNRB) from previous spouse.

**Model answer for Task 3**

- (a) (i)
- Utilising ISAs is tax efficient.
  - Investing in Hans' name is not tax efficient/more tax efficient in Eileen's name.
  - Should be held in Eileen's name as a non-taxpayer.
  - Interest will be paid gross.
  - Interest in excess of £500 (PSA) is taxed at 40% for Hans.
  - Eileen has a £5,000 starting rate band/£1,000 PSA.
  - First £2,000 of dividends/dividend allowance is tax free.
  - Excess dividends taxed at 32.5% for Hans.
  - Eileen has unused dividend allowance.
  - Eileen would only pay 7.5% on excess dividend.
  - Bond held jointly.
  - Bond taxed internally/covers BRT liability/20% in bond.
  - Eileen cannot reclaim tax deducted within bond.
  - Utilising 5% per annum tax deferred withdrawals/is not tax efficient longer term.
  - On chargeable event further tax for Hans/no further tax for Eileen/top slicing relief.
  - Low cost endowment is qualifying policy/proceeds are tax free.
- (ii)
- Combined cash holding is suitable/matches attitude to risk.
  - Lack of diversification of asset classes.
  - Lack of geographical diversification/only UK.
  - Eileen is cautious so equity funds unsuitable.
  - Default risk with cash/exceeds FSCS limits.
  - Onshore bond/endowment match attitude to risk.
- (b) **Unit Trust & OEICs**
- Inter-spousal transfer rules apply.
  - No loss no gain basis/no Capital Gains Tax/spouse receives the investment at initial base cost.
  - Capital Gains Tax is chargeable on disposal/sale.
  - Capital Gains Tax charged at 10% not 20%/saving 10%.
  - £12,300 Capital Gains Tax annual exemption available.
  - Retain sufficient investments for Hans to use his Capital Gains Tax exemption.

**Model answer for Task 4**

- (a) *Candidates would have gained full marks for any six of the following:*
- Not entitled to full State Pension/insufficient qualifying years/gap in National Insurance contributions (NICs) record.
  - Purchasing additional State Pension entitlement represents good value for money.
  - Benefits are guaranteed for her lifetime/secure.
  - Pension payments increase each year/under the 'triple lock' guarantee.
  - In line with the higher Retail Prices Index, average earnings growth or 2.5%.
  - It matches Eileen's attitude to risk/no investment risk.
  - Limited pension benefits in her name/she is reliant on Hans' pension.
- (b) *Candidates would have gained full marks for any seven of the following:*
- 25% tax free.
  - 75%/balance taxed at marginal rate.
  - Take income up to personal allowance/tax efficient income.
  - Eileen can reclaim any overpaid tax.
  - Unlimited withdrawals available/can take over multiple tax years.
  - Balance remains invested/potential for growth.
  - Balance grows tax free.
  - Inheritance Tax (IHT) efficient/tax efficient death benefits.
- (c)
- Up to three policies/both her policies.
  - Maximum £10,000 value each.
  - Not a BCE/not tested against LTA/other pension policies ignored.
  - Minimum age 55.
  - 25% tax free.
  - Balance taxed at source at 20%/marginal rate.
  - Can reclaim overpaid tax.
  - Both pension pots must be fully encashed/does not trigger Money Purchase Annual Allowance (MPAA).
- (d) *Candidates would have gained full marks for any six of the following:*
- 100% compensation.
  - No cap.
  - Pensionable service/benefits accrued post April 1997 increase.
  - In line with inflation.
  - Maximum 2.5% per annum.
  - No increase for pensionable service/benefits accrued pre April 1997.
  - Spouse's pension also protected.

**Model answer for Task 5****(a) Benefits:**

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

- Supports Inheritance Tax (IHT) planning objective.
- No IHT/under NRB.
- Discount on IHT/both in good health so discount should be larger.
- Existing withdrawals/5% withdrawals can continue.
- No immediate Income Tax liability/non income producing asset/no tax return for trustees.
- Growth is outside estate.
- Inheritance Tax free after seven years.
- Flexibility of beneficiary/retain control as trustees.

**Drawbacks:**

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

- Loss of capital/access.
- Cost/administration.
- On first death survivor could change beneficiaries/may not be paid to desired beneficiaries.
- Unsure of future income requirements/cannot vary income.
- Total withdrawals to date from bond unknown/remaining 5% allowance unknown/may incur tax charge once 5% exhausted.
- May be too young/irrevocable decision/cannot be changed.

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

- Whole of life/Joint Life Last Survivor in trust.
- Inheritance Tax liability falls due on second death.
- Spousal exemption on first death.
- Benefit outside of the estate/no probate/paid quickly.
- Sum assured to meet current Inheritance Tax liability.
- Keep control of assets/no need to gift/assets do not need to be sold.
- Indexed to keep pace with rising value of assets/estate/inflation.
- Guaranteed insurability options.
- Increasing cover available.
- No further underwriting/health may deteriorate/currently in good health.
- Premiums out of normal expenditure/premiums could be paid by children.
- Premiums can be guaranteed for ongoing affordability/reviewable premiums for low initial cost.
- Term assurance to cover DGT/gift to Dominic.

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

- Cover may be insufficient.
- Estate may increase quicker than inflation/tax rates may change.
- Estate may decrease/over insured.
- IHT liability is still payable.
- Could reduce disposable income in retirement.
- If reviewable premiums, may become unaffordable/increase.



**Model answer for Task 6**

- (a) *Candidates would have gained full marks for any 15 of the following:*
- Agree how Hans and Eileen wish their assets to be split on second death/how much and to whom.
  - Update/create new Wills.
  - Has Eileen inherited her late husband's NRB/RNRB/remaining NRB/RNRB?
  - Ascertain details of late husband's estate.
  - Eileen to set up discretionary Will trust;
  - to protect late husband's NRB.
  - Eileen to set up nominations/bypass trust for her pension policies.
  - Instruct trustees for payment of benefits.
  - Use of trusts.
  - Make IHT exempt gifts/use of PET/CLT.
  - To protect Eileen's children/Hans's sister/intended beneficiaries.
  - Change ownership of house to tenants in common.
  - Set up Will trust for property.
  - Interest in possession/life interest trust/IPDI trust.
  - Trust owns half of property.
  - Allow surviving spouse to remain in property/life interest/life tenant.
  - Pass to beneficiaries on spouse's death.
- (b)
- Loss of capital.
  - Loss of growth/income/interest.
  - Capital needs repaying.
  - Loan agreement/term of loan/do they wish to insure the debt/secured against business assets?
  - Dominic may not be able to afford to repay the loan.
  - Interest could be charged/taxable on Hans/Eileen.
  - Who is making loan/source of loan monies?
  - On death, loan is a debt to the estate/part of the estate.

**Model answer for Task 7**

- (a)
- Provides peace of mind/personal wishes known/avoids disputes.
  - Appoint trusted person/each other/family as attorney/replacement attorney.
  - Property and Financial Affairs LPA to control their financial affairs.
  - Property and Financial Affairs can be used whilst they still have capacity/convenience.
  - Health & Welfare LPA to deal with health matters.
  - Less complex than Court of Protection.
  - Quicker than Court of Protection.
  - Cheaper than Court of Protection.
- (b) *Candidates would have gained full marks for any four of the following:*
- Pay bills/tax return.
  - Claim benefits/pensions.
  - Operate bank account/savings.
  - Buy or sell investments/property.
  - Make gifts within restrictions.

**Model answer for Task 8**

- Change in personal circumstances/objectives.
- Change in financial circumstances/tax status/income/expenditure/new monies.
- Ensure plans/advice are up-to-date/on track/suitable.
- Builds a long-term relationship/ongoing questions/advice.
- New products/economic/legislative changes/use of tax allowances.
- Review performance/rebalancing/attitude to risk/asset allocation.

**The Tax Tables which follow are applicable to the examinations during  
September 2021 to August 2022.**

## INCOME TAX

RATES OF TAX	2020/2021	2021/2022
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	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:

1% of benefit per £100 of adjusted net income between £50,000 – £60,000

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

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

### MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance †	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
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)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 184.00*	Nil
184.00 – 967.00	12%
Above 967.00	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 £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*\*\*Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £3.05 where profits exceed £6,515 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £15.40.
<b>Class 4 (self-employed)</b>	9% on profits between £9,568 - £50,270. 2% on profits above £50,270.

## 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 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 & 2021/2022	£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 – 2021/2022	£40,000*

~ increased to £80,000 for pension input between 6 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.

\*reducing 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	2020/2021	2021/2022
	£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	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£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%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	10%	10%
	£1,000,000	£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	2020/2021	2021/2022
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*	£175,000	£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

	2020/2021 Rates	2021/2022 Rates
<b>Cars</b>		
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
<b>Motorcycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
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%
<b>Motor cars:</b> Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)		
CO <sub>2</sub> emissions of g/km:	50 or less*	51-110
		111 or more
Capital allowance:	100%	18%
	first year	reducing balance
		6%
		reducing balance

\*If new

## MAIN SOCIAL SECURITY BENEFITS

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	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	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

**CORPORATION TAX**

	2020/2021	2021/2022
Standard rate	19%	19%

**VALUE ADDED TAX**

	2020/2021	2021/2022
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 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

**Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:**

- For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.
- For purchases above £250,000, the band rates above apply as normal.
- For purchases from 1 October 2021, 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%