Chartered Insurance Institute

AF5

Advanced Diploma in Financial Planning Practice Test 2

Unit AF5 – Financial planning process

2021-2022 Revision Aid
Based on April 2017 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

FACT-FIND – Practice Test 2

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FACT FIND

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

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Blyth	Blyth
First name(s)	Paul	Karen
Address	10 Milton Road, Nottingham	10 Milton Road, Nottingham
Date of birth	01.03.1976	03.02.1978
Domicile	UK	UK
Residence	UK	UK
Place of birth	Nottingham	Nottingham
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Running, canoeing	Running, cycling

Notes:

Paul's father has recently died, aged 76, leaving a range of assets to Paul in his Will. Paul's mother is alive and healthy and has inherited the residual estate from her late husband.

Paul and his mother are keen to ensure that he is able to assist her with her financial affairs in future years.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
James	Son	8	02.03.2009	Good	N/A	Yes
Olivia	Daughter	5	10.11.2011	Good	N/A	Yes
Emma	Daughter	3	21.09.2013	Good	N/A	Yes

Notes:

PART 3: EMPLOYMENT DETAILS		
	Client 1	**Client 2**
Employment		
Occupation	Supermarket Manager	Part-time Teacher
Job title	Manager	Music Teacher
Business name	Midland Markets	
Business address		
Year business started		
Remuneration		
Salary	£55,000 (basic salary)	
State Pensions		
Overtime		
Benefits		
Benefits-in-kind		
Pension scheme (see Part 11)	Yes	
Life cover (see Part 8)	4 times basic salary	
Private Medical Insurance		
Permanent Health Insurance		
Self Employment		
Net relevant earnings		£6,000
Accounting date		December
Partnership/Sole trader		Sole trader
Other Earned Income		

Notes:

Paul has worked for Midland Markets since he left school. Karen works from home part-time as a music teacher and she intends to return to teaching music full-time on a self-employed basis when Emma starts school at age five.

	Client 1	**Client 2**
Previous Employment		
Previous employer		
Job title		Supply Teacher
Length of service		8 years
Pension benefits		(see Part 11)

Notes:

Karen used to work full-time as a music supply teacher through an agency on a self-employed basis.

Karen set up a personal pension plan to which she contributed whilst she was working full-time but has not contributed to this since James was born in 2009 (see Part 11).

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant		
Bank	SecureBank	SecureBank
Building Society		
Doctor	Dr Knowles	Dr Knowles
Estate Agent		
Financial Adviser		
Insurance Agent		
Solicitor	Hendry Davies LLP	Hendry Davies LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		**Client 2**		**Joint**	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions						
Private Pensions						
Salary		55,000		6,000		
Benefits-in-kind						
Savings income (gross)		390		264		
Rental (gross)						
Dividends paid		7,220		115		

Notes:

Paul's dividend income is derived from his unit trust and ISA holdings, along with the estimated dividends that he is due to receive from his inherited investment portfolio. Paul's savings income is derived from interest paid on the bank account along with interest on the corporate bond holdings.

Karen's income comes from interest from the bank account and corporate bond funds and dividends from her ISA holdings.

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

Expenditure

	Monthly £			Annually £		
Household Expenditure	**Client 1**	**Client 2**	**Joint**	**Client 1**	**Client 2**	**Joint**
Mortgage/Rent			375			
Council tax			150			
Buildings and contents insurance						450
Gas, water and electricity						2,000
Telephone			25			
TV licence and satellite			60			
Property maintenance						1,200
Regular Outgoings						
Life assurance (see Part 8)			85			
Health insurance (see Part 9)	30					
Savings Plans (see Part 10)			200			
Car tax, insurance and maintenance				1,200	750	
Petrol and fares	200	100				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)	110					
Other Expenditure						
Magazines and newspapers						
Entertainment			250			
Clubs and sport				300	200	
Spending money	200	100				
Clothes						1,000
Maintenance						
Other (Holidays)						2,500
Total Monthly Expenditure	540	200	1,745			
Total Annual Expenditure	6,480	2,400	20,940	1,500	950	7,150
Total Outgoings						39,420

Notes:

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

Notes:

Paul and Karen are keen to purchase a buy-to-let property in the next few months as there is a thriving rental market in their local area catering for the student population.

They are planning to purchase a property with a value of £180,000 and are considering various options for funding this purchase.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			185,000	
2.	Contents/car	28,000	10,000	18,000	
3.	Current account – SecureBank	4,000	3,000		
4.	Easy Access Savings Account – SecureBank	15,000			150
5.	Easy Access Savings Account – SecureBank		2,400		24
6.	Unit trust holdings – equity funds	140,000			5,600
7.	OEICs – corporate bonds			12,000	480
8.	Individual shares – UK equities	60,000			1,500
9.	Stocks & Shares ISAs – UK recovery fund	8,000			120
10.	Stocks & Shares ISAs – UK smaller companies fund		9,000		115

Notes:

Paul has recently inherited a portfolio valued at £200,000 from his late father. This portfolio is invested in a range of unit trusts along with a number of individual shares. The unit trusts are invested in a range of emerging market equity income funds and UK smaller companies funds. They are held with a number of different fund managers. The portfolio of individual shares was built up by Paul's father over many years and holds a range of UK blue chip and UK smaller companies.

Paul has not had an opportunity to review any of these inherited holdings but is keen to do so to ensure that they are suitable for his needs.

Paul and Karen invest on a monthly basis into an open-ended investment company (OEIC) investing in corporate bonds. They plan to repay their mortgage using this holding. If this portfolio performs well, they would like to repay the mortgage before the maturity date in 2029.

Paul and Karen's Stocks & Shares ISA's are invested in a UK recovery fund and a UK smaller companies fund. These ISA holdings are intended to supplement their retirement income and Paul and Karen contribute to these on an ad-hoc basis but have not made any contributions in the tax year 2020/2021.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			SecureBank
Type of mortgage			Interest-only
Amount outstanding			£150,000
Start date			April 2004
Term/maturity			April 2029
Monthly payment			£375
Interest rate			3%
Life policies (see part 8)			Yes

Notes:

Paul and Karen have an interest rate fixed at 3% per annum until 2021 when their mortgage reverts to the standard variable rate.

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

Notes:

Paul and Karen have no other loans.

Other Liabilities (e.g. tax)

Notes:

Paul and Karen have no other outstanding liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	Joint	Joint	150,000	85 p.m.	25 years	April 2004	No	0

Notes:

Paul and Karen took out a joint life first death level term assurance policy to cover their mortgage when they set it up.

Paul has a death-in-service scheme funded by his employer which is linked to the company pension scheme. This pays 4 times basic salary whilst Paul is employed by Midland Markets. Paul has not completed a nomination of beneficiary in favour of Karen for the death-in-service scheme.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £
Critical illness	Paul	50,000	January 2010	20 years	N/A	30 p.m.

Notes:

Paul took out a critical illness policy in 2010 with a view to providing a lump sum to support the family in the event of him suffering a serious illness. He has not reviewed this policy since he purchased it.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Monthly Amount £	Sum Assured	Maturity Date	Current Value £
OEIC	SecureTrust	Joint	Corporate bond	200	N/A	N/A	12,000

Notes:

Paul and Karen invest £200 per month into an OEIC with SecureTrust with a view to building up a fund to repay their mortgage when it matures in April 2029.

They have made lump sum payments into this when Karen was still working full-time but have not been able to afford to do this in recent years.

PART 11: PENSION DETAILS

Occupational pension scheme

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

Notes:
Paul and Karen do not have any occupational pension scheme entitlements.

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

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

Notes:
Paul and Karen do not have any additional voluntary contribution schemes.

Personal Pensions

	Client 1	Client 2
Type	Group Personal Pension	Personal Pension
Company	ACM Life	ACM Life
Fund	Cautious Managed	Balanced Lifestyle
Contributions	5% employer/3% employee	Nil
Retirement age	65	60
Current value	£58,000	£28,000
Date started	1998	2001

Notes:

Paul is a member of his employer's Group Personal Pension scheme and receives a 5% employer contribution. His employer will match Paul's contribution up to a maximum of 7% of basic salary. Paul's employer has confirmed that their scheme meets the auto-enrolment requirements.

Karen set up her own personal pension when she started supply teaching. She has not contributed to this plan since she ceased full-time work when James was born.

Nominations have not been completed for either of these schemes.

Other pension arrangements

	Client 1	Client 2
Type	Self-invested personal pension	
Company	RGP Life	
Fund	See notes below	
Current Value	£225,000	

Notes:

Paul has inherited his late father's self-invested personal pension (SIPP) as he was nominated as the sole beneficiary with the full agreement of his mother. This SIPP was in capped drawdown on his father's death last year at age 76. The SIPP is invested in a range of individual equities, commercial property funds and UK equity income funds.

Paul has contacted the trustees of the pension and advised them that he wishes to move this plan into nominee flexi-access drawdown with immediate effect. Paul has not yet nominated a successor on this scheme.

State Pension

	Client 1	Client 2
Basic Pension		
SERPS/S2P		
Graduated Pension		
Total		

Notes

Paul and Karen have not checked their entitlement to State Pension.

PART 12: INHERITANCES

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

Notes:
Paul and Karen set up new Wills following the recent death of his father. Their Wills leave all assets to each other on first death and then to the children in equal shares on second death.

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

Notes:

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

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected	£200,000	None
Further inheritance from Paul's mother	£750,000	

Notes:

Paul has recently received an inheritance of £200,000 from his father who died at age 76. This was in the form of an 'in specie' transfer of unit trust holdings as well as a portfolio of individual shares. Paul also received his late father's SIPP plan with a value of £225,000 as the nominated beneficiary. Paul's father's remaining assets passed to Paul's mother under joint ownership.

Paul is expecting a further inheritance from his mother of approximately £750,000 in future years.

His mother is in good health and Paul is not expecting to receive this inheritance for a number of years.

Paul's late father was the sole Attorney for his mother under her registered Lasting Power of Attorney.

Paul is an only child and is the sole beneficiary for his mother's Will.

PART 13: ATTITUDE TO RISK

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

Notes:

Paul believes that he is a medium-risk investor but has little experience in selecting or monitoring investments.

Karen is a cautious investor and is keen to take as little risk as possible with their finances.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.04.2017	
Client agreement issued	01.04.2017	
Data Protection Act	01.04.2017	
Money laundering	01.04.2017	
Consultations		
Dates of meetings	01.04.2017	
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

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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 clients have the following financial objectives:

Immediate objectives

- To review the suitability and tax-efficiency of the investments that Paul has recently inherited.
- To ensure that the family has sufficient protection in place should Paul be unable to work due to illness.
- To purchase a buy-to-let property.

Longer-term objectives

- To implement a suitable strategy to repay the mortgage on their main residence.
- To ensure they are able to generate an adequate income in retirement.
- To assess the family cashflow position in relation to their objectives.
- To ensure that Paul is able to manage his mother's affairs if necessary in the future.

Attempt ALL tasks

Time: 3 hours

1. As Paul and Karen wish to ensure that they are able to generate an adequate income in retirement:

(a) Identify the additional information you would require to enable you to advise Paul and Karen on this objective. **(14)**

(b) Describe **seven** key benefits for Paul of increasing his personal pension contribution to his employer's group personal pension scheme. **(7)**

2. With regard to the investment portfolio of £200,000 that Paul has recently inherited:

(a) **(i)** Evaluate the suitability of the inherited investment portfolio for Paul. **(5)**

(ii) Evaluate the tax-efficiency of the inherited investment portfolio for Paul. **(4)**

(b) Recommend and justify any changes that you would make to the inherited investment portfolio to ensure it is suitable and tax-efficient. **(13)**

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

3. Paul and Karen have stated that they wish to purchase a buy-to-let property.

(a) Identify **nine** key drawbacks of using a buy-to-let property as part of their retirement planning strategy. **(9)**

(b) If Paul and Karen decide to withdraw money from Paul's inherited self-invested personal pension scheme to fund the buy-to-let property, explain the tax implications that would arise in respect of:

(i) Income Tax; **(5)**

(ii) Capital Gains Tax; **(2)**

(iii) Inheritance Tax. **(2)**

(c) Identify **seven** key benefits of using a buy-to-let mortgage to fund this purchase. **(7)**

4. Paul and his mother are keen to ensure that Paul can assist with her financial affairs in the future and she also wants to ensure that her estate passes to Paul as tax-efficiently as possible on her death.

(a) Explain to Paul and his mother the impact of her husband's death on her Lasting Power of Attorney and the process she must follow to enable her to continue to have the protection of a Lasting Power of Attorney. **(6)**

(b) **(i)** Explain to Paul how his recent inheritance will affect his late father's transferable Nil Rate Band. **(5)**

(ii) State briefly how the transferable Nil Rate Band can be claimed to mitigate any Inheritance Tax liability on his mother's estate in future. **(3)**

5. Paul and Karen have heard about cashflow modelling and would like to use this to plan their financial future.

(a) Identify the main factors and assumptions that you should discuss with Paul and Karen when formulating a cashflow model. **(9)**

(b) Explain briefly to Paul and Karen the risks of relying solely on cashflow modelling to help them to meet their financial objectives. **(6)**

6. With regard to Paul and Karen's intended mortgage repayment strategy:

(a) Explain briefly to Paul and Karen why their existing savings plan may be unsuitable to repay their mortgage. **(7)**

(b) Recommend and justify the actions that Paul and Karen could take to increase the probability of repaying their mortgage at the end of the term**.** *Candidates should assume that they will retain their existing interest-only mortgage.* **(12)**

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

(c) Explain briefly why Paul and Karen might consider switching to a repayment mortgage. **(6)**

7. With regard to Paul and Karen's financial protection:

(a) Comment briefly on any weaknesses in Paul and Karen's current protection arrangements. **(10)**

(b) Identify the additional information you would require regarding Paul's existing critical illness policy to enable you to advise Paul on the continuing suitability of this policy. **(10)**

(c) Recommend and justify a suitable insurance policy to provide a regular income to protect the family's lifestyle in the event of Paul suffering a long-term illness and being unable to continue to work. **(12)**

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

8. Identify **six** issues that you should discuss in detail with Paul at the next financial review in respect of his inherited self-invested personal pension scheme. *Candidates should assume that there are no changes in their personal circumstances or financial position at this review.* **(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 Question 1

(a)
- Planned retirement date and how much income/capital/expenditure in retirement.
- Inflation expectations/in today's terms.
- State Pension entitlement/BR19.
- Willing to increase pension contributions to get employer match/up to 7%?
- Affordability/budget/cashflow/salary sacrifice.
- Use other assets/use buy-to-let/plans to use father's SIPP/use ISA.
- Asset allocation in pension funds/fund performance/fund switch.
- Fund charges/plan charges.
- Projections to retirement/ benefit statement.
- Nominations completed on pensions/death-in-service.
- Karen's expected salary when she returns to full-time employment.
- Planned career changes/changes to Paul's salary.
- Ethical preferences.
- Capacity for loss/assess his attitude to risk.

(b)
- 40% tax relief/tax free growth.
- Higher income in retirement/higher Pension Commencement Lump Sum (PCLS)/could retire earlier.
- May be lower charges.
- Receives extra 2% employer contribution/up to 7%.
- Reduces higher income tax charge on child benefit.
- Income Tax free if dies before 75/Inheritance Tax free (IHT).
- Reduced administration/taken from salary.

Model answer for Question 2

(a) (i)
- Individual shares/emerging markets do not meet attitude to risk.
- Lacks diversification/all equities/no cash or bonds/mainly UK.
- Smaller companies can be less liquid/bid-offer spread.
- Administration/time to monitor performance/Paul is an inexperienced investor.
- Not tax efficient.

(ii)
- Not in ISA/tax wrapper so not tax-efficient.
- Dividends exceed £2,000 allowance and excess taxable at 32.5%/gains liable at 20%.
- In Paul's sole name so not using Karen's tax allowances.
- Capital Gains Tax (CGT) base cost is value on father's death/probate value.

(b)
- Use ISAs as they are Income Tax/Capital Gains Tax free/tax-efficient.
- ISAs can be passed on to surviving spouse.
- Transfer some unit trusts/shares to Karen.
- Interspousal exemption/no Capital Gains Tax/Karen inherits Paul's base cost.
- Can use Capital Gains Tax exemption£12,300.
- Transfer to Karen saves 10% Capital Gains Tax.
- Karen can use her £2,000 dividend allowance.
- On excess over £2,000 she pays 7.5%/he pays 32.5%.
- Reduces Child Benefit tax charge.
- Rebalance for improved diversification.
- Rebalance portfolio to match ATR/too high risk.
- Use platform/wrap/discretionary fund manager.
- For ease of administration/cost savings/ability to switch/professional fund management.

Model answer for Question 3

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

Drawbacks
- No tax relief on initial investment/cannot be held within a tax wrapper.
- Rental income is taxable.
- Capital Gains Tax will apply on sale/no private residence relief/28%/18%.
- Illiquid/cannot sell part of property.
- Lack of diversification.
- Void periods/no guaranteed income.
- Maintenance/repair costs/regulatory costs for landlords/time/administration/ upfront costs/solicitor fees.
- Interest rates could rise (if funded by mortgage).
- Higher rate tax relief reducing on mortgage interest.
- Higher Stamp Duty/extra 3% for buy-to-let.

(b) **(i)**
- Father was over age 75 on death.
- No Pension Commencement Lump Sum (PCLS) available.
- All withdrawals taxable at Paul's marginal rate/Higher Rate Tax/40%.
- Could incur additional rate tax/45%/loss of Personal Allowance.
- Rental income on property is liable to Income Tax.

(ii)
- Self-invested personal pension (SIPP) is Capital Gains Tax free.
- Buy to let property liable to Capital Gains Tax at 28% for Paul/18% for Karen/Capital Gains Tax exemption available.

(iii)
- Self-invested personal pension is Inheritance Tax free.
- Withdrawals from self-invested personal pension (SIPP) become liable to Inheritance Tax on death/form part of estate.

(c)
- Mortgage interest can be set against Income Tax.
- Interest rates currently low/competitive.
- Rental income can cover mortgage payments.
- No sale of investments so avoids poor market timing/Capital Gains Tax issues.
- Retain investments for other purposes.
- Retain tax-efficient investments/self-invested personal pension/ISA.
- Retain diversified portfolio/potential for capital growth/borrowing can increase investment returns.

Model answer for Question 4

(a)
- Lasting Power of Attorney ends on death of sole Attorney/invalid.
- Paul's mother has capacity/sound mind.
- Complete new lasting power of attorney paperwork/signed/witnessed.
- Appoint new Attorney/Paul/Replacement Attorneys.
- Property and financial affairs.
- Register with Office of the Public Guardian/pay lasting power of attorney fee.

(b) **(i)** *Candidates would have gained full marks for any five of the following:*
- Transfer on death has used some/percentage of father's Nil Rate Band/no impact on RNRB.
- Includes £200,000 investment portfolio transferred to Paul.
- Excludes self-invested personal pension.
- Excludes assets transferred to spouse/spousal exemption.
- Based on percentage of Nil Rate Band;
- on mother's death.

(ii)
- Claimed/used on mother's death.
- By executors/personal representatives.
- Must be claimed within two years of mother's death.

Model answer for Question 5

(a)
- Target/how much for each objective/future expenditure.
- Term of investment/expected longevity/Normal Retirement Date (NRD)/mortgage repaid.
- Budget/affordability/current expenditure/current income levels/inheritance.
- Level of risk/attitude to risk.
- Capacity for loss.
- Expected growth rate (for investments).
- Assumptions for charges/fees.
- Inflation rates/earnings growth.
- Use of tax-efficient wrappers/allowances (Pension/ISA)/future tax rates.

(b)
- Assumptions can be incorrect.
- Provides estimate only/requires regular review.
- Personal objectives/circumstances can change.
- Cashflow model returns are linear.
- Tax rules/rates may change/not all systems account for tax wrappers.
- Market risk/systematic risk/political risk.
- Does not consider liquidity of assets/investments/liquidity risk.

Model answer for Question 6

(a)
- Limited potential for capital growth/income maybe paid out.
- Shortfall risk/low monthly saving.
- Not tax-efficient as not in an ISA.
- Held in joint names so interest could be taxable to 40% on Paul.
- Personal Savings Allowance for Paul is £500.
- Does not match attitude to risk.
- Lack of diversification.

(b) *Candidates would have gained full marks for any five of the following:*
- Reduce mortgage capital/overpay.
- Reduces interest paid.
- Switch to higher risk/growth funds for greater growth potential.
- Diversify holdings to reduce risk/volatility/to match attitude to risk.
- Use ISA's/pensions for tax-efficiency.
- Hold taxable investments in Karen's name to use her allowances/to take account of her tax status.
- Increase monthly contributions/invest lump sums.
- Switch out of poor performing funds/rebalance.
- Use platform/wrap.
- Reduce charges/greater fund choice/ease of switching.
- Re-mortgage at end of fixed-rate term/2021.
- Reduced mortgage interest rate/provides more disposable income.

(c)
- Guaranteed repayment/no shortfall risk/peace of mind/easy to understand.
- Matches Karen's attitude to risk/no investment risk/interest only does not match attitude to risk.
- Open-ended investment company (OEIC) available for other purposes.
- Pay less interest.
- Reduces debt/builds up equity in property/reduced loan to value/could re-mortgage at lower interest rate.
- They can afford it/within their budget.

Model answer for Question 7

(a)
- No life cover for Karen (other than mortgage).
- Paul is main breadwinner and has insufficient life cover.
- Loss of Death in Service if he leaves employer.
- Mortgage term policy is for death only.
- No Income Protection.
- No Private Mortgage Insurance (PMI).
- No critical illness cover for Karen.
- Paul's critical illness cover is inadequate sum assured/term.
- Minimal State Benefits.
- No nomination for death-in-service/pensions/self-invested personal pension.

(b)
- Is life cover included?
- Medical conditions covered/definition of conditions.
- Exclusions/underwritten/is premium rated?
- Any new medical conditions since policy was taken out.
- Survival/deferred period.
- Premiums guaranteed/reviewable.
- Additional benefits/total permanent disability/child cover/waiver of premium.
- Indexation/escalating/increasing.
- Option to increase cover.
- Claims history of insurer.

(c)
- Income Protection/payment health insurance (PHI).
- Provides regular income to maintain lifestyle/Paul is main breadwinner.
- Income is tax free.
- Sum assured – maximum permitted/50 -75% of earnings.
- Term to retirement/age 65/State Pension Age.
- Own occupation basis to provide maximum chance of pay-out.
- Deferred period minimum three months for reduced premium/they have sufficient assets to cover/deferred period matches sick pay.
- Guaranteed premiums for affordability/known cost.
- Indexation to keep pace with inflation/maintain spending power.
- Partial payment/rehabilitation payment.
- To enable Paul to return to some form of work/part-time.
- Multiple claims/insurer cannot cancel.

Model answer for Question 8

- Investment performance/attitude to risk/ capacity for loss/rebalance portfolio/asset allocation.
- Change in economy/market conditions.
- Change in regulation/legislation/tax rules/pension allowances.
- Income/lump sums drawn/planned from self invested personal pension.
- Successor nominated on self invested personal pension/future generations nominated.
- Self invested personal pension charges/new products.

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.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	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:	10%	10%
Lifetime limit	£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
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
Motorcycles	24p per mile	24p per mile
Bicycles	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%

Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 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

		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%