Chartered Insurance Institute

AF5

Advanced Diploma in Financial Planning
Practice Test 3

Unit AF5 – Financial planning process

2021-2022 Revision Aid
Based on October 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

Contents

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AF5 - FINANCIAL PLANNING PROCESS

FACT-FIND – Practice Test 3

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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 Carter recently.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Carter	Carter
First name(s)	Alan	Kim
Address	47 Oak Avenue, Birmingham	47 Oak Avenue, Birmingham
Date of birth	11.08.1978	15.06.1980
Domicile	British	British
Residence	UK	UK
Place of birth	Birmingham	Coventry
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Rugby	Swimming and Tennis

Notes:

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Helen	Daughter	5		Good	N/A	Yes
Joe	Son	2		Good	N/A	Yes

Notes:

Helen has recently started primary school and Joe will start school in September 2021.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Manager	Manager
Job title	Purchasing Manager	Office Manager
Business name	Aston Products	
Business address		
Year business started		
Remuneration		
Salary	£60,000	Nil
State Pensions		
Overtime		
Benefits		
Benefits-in-kind	See Notes below	
Pension Scheme	See Part 11	
Life cover	3 times salary (Death in Service)	
Private Medical Insurance	No	
Income Protection Insurance	No	
Self Employment		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
Other Earned Income		

Notes:

Alan has recently joined a new employer on a starting salary of £60,000. Alan is entitled to a range of benefits from his new employer, including a contributory group personal pension scheme (see Part 11), and death in service cover.

Kim left First Services Ltd in 2012 when Helen was born. She is hoping to return to work at First Services Ltd in September 2021 when Joe starts primary school. She will work on a part-time basis initially and return to full-time work in September 2022.

Previous Employment	Client 1	Client 2
Previous employer	ATK Products	First Services Ltd
Job title	Purchasing Manager	Office Manager
Length of service	10 years	8 years
Pension benefits	See Part 11	See Part 11

Notes:

Alan has recently left his previous employer and has built up benefits under his former employer's group personal pension scheme (see Part 11).

Kim has pension benefits in the First Services Ltd group personal pension scheme from her service in the company (see Part 11).

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant		
Bank	BK Bank	BK Bank
Building Society		
Doctor		
Solicitor	Phipps LLP	Phipps 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		60,000				
Benefits-in-kind						
Savings income (gross)		54		54		140
Rental (gross)						
Dividend paid (gross)				950		

Notes:

Alan and Kim's savings income is derived from their Cash ISA holdings and their Fixed Rate Savings Bond.

Their dividend income is derived from Kim's Global Equity fund.

	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			1,124			
Council tax			175			
Buildings and contents insurance						630
Gas, water and electricity			120			
Telephone			30			
TV licence and satellite			50			
Property maintenance						750
Regular Outgoings						
Life assurance (see Part 8)			25			
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance						1,000
Petrol and fares						1,500
Loans (see Note 1)						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			750			
Pension contributions (see Part 11)	200					
Other Expenditure						
Magazines and newspapers						250
Entertainment						
Clubs and sport						
Spending money						1,500
Clothes				600	500	
Maintenance						
Other (Holidays)						3,000
Total Monthly Expenditure	200		2,274			
Total Annual Expenditure	2,400		27,288	600	500	8,630
Total Outgoings						39,418

Notes:

Alan and Kim have only recently moved into their own property. They previously lived in rented accommodation.

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

Notes:

Alan and Kim do not foresee any major expenditure in the next two years.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			315,000	
2.	Contents/car	25,000	12,000	15,000	
3.	Current account – BK Bank	2,500	1,200		
4.	Fixed-Rate Savings Account – BK Bank			14,000	140
5.	Cash ISAs	6,000	6,000		108
6.	Stocks & Shares ISAs – UK Index-Tracker funds (accumulation units)	16,000	16,000		
7.	Unit Trusts – Global Equity fund (accumulation units)		38,000		950

Notes:

Alan and Kim have recently purchased their first property after living in rented accommodation for a number of years. Alan's elderly father gifted the sum of £100,000 in June 2017 to provide them with the deposit on the property.

Kim's Unit Trust is invested in a single Global Equity fund. This was recommended to her by her father some years ago, but Kim has never reviewed this investment since it was purchased although she is aware that it has performed very well.

Alan and Kim have not used their ISA allowances for the current tax year 2021/2022 but are keen to do so.

Their Stocks & Shares ISA holdings are in UK Index-Tracker funds, but both would like to consider a more diversified portfolio, with a view to providing long-term growth for their retirement.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			SecureBank
Type of mortgage			Repayment
Amount outstanding			£215,000
Start date			July 2017
Term/maturity			25 years
Monthly payment			£1,124
Interest rate			3.9% (Variable)
Life policies (see Part 8)			

Notes:
Alan and Kim have set up a mortgage on their new property on a repayment basis. They are keen to put in place a life policy to cover the full mortgage in the event of either death.

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

Notes:
Alan and Kim have no outstanding loans.

Other Liabilities (e.g. tax)

Notes:
Alan and Kim have no other liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	Alan/Kim	Joint	£75,000	£25 per month	18 years	August 2012	No	Nil

Notes:

Alan and Kim set up a joint life first death level term policy when Helen was born. This was intended to meet childcare costs for Helen until she reached age 18. Alan and Kim now believe that this policy is inadequate for their needs and wish to review it.

Alan has a death in service cover of three times basic salary. This is nominated for Kim (see Part 3).

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £

Notes:

Alan and Kim have no health insurance policies.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

Notes:

Alan and Kim do not have any regular savings plans although they are keen to start a savings plan as soon as possible to build up their savings for retirement.

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:
Alan and Kim do not have any Occupational pension schemes.

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

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

Notes:
Alan and Kim do not have any Additional Voluntary Contribution schemes.

Personal Pensions

	Client 1	Client 1
Type	Group Personal Pension	
Company	Secure Life	
Fund	Balanced Managed (Default)	
Contributions	5% Employer/5% Employee	
Retirement date	65	
Current value	£1,250	
Date started	August 2017	

Notes:

Alan has joined his new employer's group personal pension scheme. He receives a 5% employer contribution based on his basic salary and makes a personal contribution of 5% of basic salary. Alan has completed a nomination in favour of Kim on the Secure Life pension.

The contribution is invested in the scheme default fund but Alan would like to select his own investment funds. The scheme offers a wide range of collective funds investing across a range of different asset classes.

Previous pension arrangements

	Client 1	Client 2
Employer	ATK Products	First Services Ltd
Type of scheme	Group personal pension	Group personal pension
Date joined scheme	January 2007	May 2004
Date left	August 2017	June 2012
Preserved benefits	£62,000	£28,000

Notes:

Kim is happy to retain her holdings within the First Services Ltd group scheme as she would like to return to the company in 2021 when Joe starts full-time primary school.

Alan wishes to review his holding in the ATK Products scheme as he would like to consider transferring this into his new employer's scheme to reduce administration and paperwork. Alan's ATK Products pension is currently invested in a UK Commercial Property fund and a UK Smaller Companies fund.

Nominations have not been completed on either the First Services Ltd or the ATK Products schemes.

State Pension

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

Notes

Alan and Kim have not checked their entitlement to State Pensions.

PART 12: INHERITANCES

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

Notes:

Alan and Kim set up new Wills following the birth of Joe. They leave all of their assets to the survivor and on second death, to the two children in equal shares. They have a guardianship agreement in place with Kim's sister for the two children in the event that both Alan and Kim die before the children reach age 18.

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

Notes:

Gifts	Client 1	Client 2
Give details of gifts made and received	£100,000	

Notes:

Alan received a gift of £100,000 in June 2017 from his elderly father. This gift was to assist Alan and Kim with the purchase of their first property. Alan has received no other gifts from his father or any other sources.

Kim's father wishes to make regular gifts for Kim to help her to build up her long-term retirement savings. Kim's father intends to make these annual gifts to Kim for at least the next ten years.

Inheritances	Client 1	Client 2
Give details of any inheritances expected	£300,000	

Notes:

Alan is the sole beneficiary for his elderly father and he expects to receive approximately £300,000. Alan is the executor of his father's Will. His mother died a number of years ago and used her full Nil Rate Band at that time.

Kim's parents are both alive and well and she does not believe she will receive any significant inheritance from her parents or from any other source in the foreseeable future.

PART 13: ATTITUDE TO RISK

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

Notes:

Alan and Kim have recently completed a full risk profiling assessment and have been identified as having different risk profiles.

Alan is a high risk investor.

Kim is a moderate risk investor.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	20.09.2017	
Client agreement issued	20.09.2017	
Data Protection Act	20.09.2017	
Money laundering	20.09.2017	
Consultations		
Dates of meetings	20.09.2017	
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

Chartered Insurance Institute

AF5

Advanced Diploma in Financial Planning Practice Test 3

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 clients have the following financial objectives:

Immediate objectives

- To ensure that the family has sufficient financial protection in place to repay the mortgage in the event of the death or serious illness of either Alan or Kim.
- To review the suitability of their current pensions and investments.
- To maximise the tax-efficiency of their current savings.

Longer-term objectives

- To implement a suitable and tax-efficient strategy for their longer-term retirement savings.
- To provide financial security for the family until the children are financially independent.

Attempt ALL tasks

Time: 3 hours

1. **(a)** Identify the additional information that you would require to enable you to advise Alan and Kim on the suitability of their current non-pension savings and investments. **(12)**

(b) Describe in detail the process an adviser would follow to ensure that Alan and Kim's existing pensions and investments are on target to provide their desired level of income when Alan reaches his planned retirement age. **(12)**

2. Alan and Kim are keen to put in place suitable protection policies to meet their immediate and longer-term objectives.

(a) Explain briefly to Alan and Kim the issues that should be considered before making any changes to their existing joint life first death level term policy. **(6)**

(b) Describe briefly **five** benefits and **five** drawbacks to Alan and Kim of using a decreasing term assurance policy to provide protection in the event of either death during the term of the mortgage. **(10)**

(c) Recommend and justify a suitable protection policy that will provide Alan with a regular income payment to cover childcare costs in the event of Kim's death. **(10)**

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. Alan's company offers the option of making his pension contributions via salary sacrifice.

Explain in detail to Alan how a salary sacrifice arrangement would operate in respect of his pension contributions and the tax benefits this would provide for him. **(9)**

4. **(a)** Explain in detail to Alan and Kim how the gift of £100,000 from Alan's father would be treated for Inheritance Tax purposes if Alan's father died within the next seven years. *No calculations are required*. **(8)**

(b) Kim's father wishes to make annual pension contributions to a personal pension for Kim to help her to build up adequate retirement savings.

(i) Comment on the tax treatment of the proposed contributions for both Kim and her father. **(8)**

(ii) Explain the key drawbacks for Kim and her father of setting up these proposed pension contributions. **(5)**

5. Alan and Kim are considering setting up new Lifetime ISAs to save for retirement.

(a) Explain in detail to Alan and Kim how the Lifetime ISA will operate. **(12)**

(b) Recommend and justify why increasing his personal pension contributions to his group personal pension plan may be a more suitable option to assist Alan in his objective of generating sufficient income in retirement. **(14)**

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

6. In respect of Alan's pension benefits:

(a) Comment briefly on the factors that Alan should take into consideration when deciding on whether to transfer his previous pension arrangement (ATK Products) into his new employer's scheme. **(8)**

(b) Outline the key factors that Alan should consider when building a diversified investment portfolio within his pension fund. **(10)**

(c) Explain in detail to Alan the key risks of investing in a UK commercial property fund within his pension plan. **(8)**

7. With regard to Kim's existing unit trust and ISA holdings:

(a) Identify **four** benefits and **four** drawbacks of using a UK index tracking fund for her long-term savings. **(8)**

(b) State the information you would require, to calculate the Capital Gains Tax liability on the sale of the unit trust holding. *No calculation is required.* **(7)**

(c) Explain to Kim the benefits of purchasing a Stocks and Shares ISA using a fund platform. **(7)**

8. Identify **six** issues that you should discuss with Alan and Kim in respect of Alan's new employer pension scheme at your next financial review meeting. *Candidates should assume that there have been no changes in either Alan or Kim's personal circumstances.* **(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)
- Objectives/income/capital required/timeframe/earmarked for specific objectives.
- Emergency fund required.
- Fund choices/asset allocation/switching options.
- Willingness to switch/sell Kim's global fund/sentimental value.
- Fund performance.
- Charges.
- Platform/Wrap/directly held.
- Term of fixed-rate cash account/early exit penalties.
- Base cost of unit trust/global fund/gain on global fund.
- Carry forward losses/any gains realised/use of Capital Gains Tax exemption.
- Ethical preferences.
- Capacity for loss.

(b) *Candidates would have gained full marks for any twelve of the following:*
- Establish income required/target level of benefits at assumed retirement age.
- Other assets to be used/ISA.
- BR19/State Pension forecast.
- Inflation assumptions/tax status in retirement.
- Growth rate.
- Fund choice based on attitude to risk/growth rates/(FCA guidelines etc).
- Projections of existing funds/pensions.
- Include current/ongoing contributions.
- Consider longevity/term of income required/guaranteed lifetime income from annuity.
- Establish withdrawal rates/annuity rates.
- Calculate fund required (to meet target)/calculate shortfall.
- Calculate contributions/lump sum required to meet shortfall.
- Ongoing reviews.

Model answer for Question 2

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

- Establish level of cover required/term required.
- Sum assured too low on existing policy.
- Term too short on existing policy.
- No critical illness cover on existing policy.
- Health/lifestyle/was existing policy rated?
- Comparison with new policy e.g. cost/features.
- Can existing policy be amended/guaranteed insurability.
- Continuous cover/should not cancel existing policy until replacement policy is fully in force.

(b) **Benefits:**

- Cheaper premiums/affordability.
- Sum assured matches decreasing mortgage balance/mortgage repaid in event of death.
- Not paying for unnecessary cover.
- Simple to understand.
- Currently in good health/no adverse underwriting.

Drawbacks:

- No additional funds available on death.
- No Critical Illness Cover.
- Health may deteriorate/cheaper to buy higher cover now.
- Cover maybe insufficient/may not be able to increase sum assured/cannot be amended.
- No investment content/no surrender value.

(c)

- Family Income Benefit on Kim's life/Kim as life assured.
- Alan as policy owner/life of another/in trust.
- Avoids probate/speedy payment/known beneficiaries.
- Provides tax free income.
- Sum assured to meet childcare costs/nursery costs.
- Term to age when both children are independent/16 years minimum.
- Terminal illness cover/Total and Permanent Disability Insurance included.
- Guaranteed premiums for affordability/known cost.
- Indexation to keep pace with inflation/childcare costs.
- Guaranteed insurability option/in event of additional children.

Model answer for Question 3

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

- Agreement with employer/in writing.
- Employer reduces Alan's gross salary by agreed amount.
- Net pay unchanged.
- No administration for Alan.
- Treated as employer contributions/count for annual allowance purposes.
- Reduces Income Tax.
- Reduced National Insurance (NI) contributions for Alan as lower salary.
- Employer saves NI and may add this saving to Alan's pension.
- Reduced salary for Child Tax benefit purposes.
- Increased pension for Inheritance Tax benefits.

Model answer for Question 4

(a)
- Gift is a potentially exempt transfer.
- No immediate charge to Inheritance Tax.
- Remains part of father's estate for seven years.
- Must be reported to HM Revenue & Customs on death of father.
- All previous gifts must be taken into consideration.
- Can deduct
- annual exemption if unused.
- Reduces nil rate band.
- If Inheritance Tax is due it will be paid by Alan as recipient.

(b) **(i)**
- Maximum contribution is £3,600 gross/paid net £2,880.
- Father can use annual gift exemption/£3,000/Gifts out of normal expenditure.
- No impact on father's annual allowance/he can make own contributions.
- Contribution will count towards Kim's annual allowance.
- No Income Tax relief for Kim's father.
- Kim receives 20% /basic rate tax relief.
- Kim has no earned income/she is a house person.
- Pension provider claims tax relief/paid by HM Revenue & Customs.

(ii)
- Limited contributions permitted/£3,600 gross.
- Kim cannot access before retirement age.
- Only 25% pension commencement lump sum/75% balance taxable.
- Uses Kim's father's annual gift exemptions/Inheritance Tax allowances.
- Ongoing affordability for Kim's father.

Model answer for Question 5

(a)
- Maximum contribution is £4,000 per annum.
- Part of normal ISA allowance/not in addition.
- Tax free.
- 25% Government bonus (based on contribution)/£1,000 max.
- Lump sum bonus added to plan at end of tax year.
- Bonus added monthly after April 2018/from May 2018.
- Penalty free access from age 60;
- otherwise penalty of 25%.
- Earlier access without penalty on terminal illness/Additional Permitted Subscription available.
- Eligible as both under 40*.
- After age 50 no further contributions permitted/no further bonus after age 50.
- Choice of stocks and shares or cash.

Candidates should note that this Fact Find was used in the October 2017 examination when both clients were below age 40.

(b)
- Higher contributions allowed/up to annual allowance/100% salary.
- Can use carry forward.
- 40% tax relief.
- Can use salary sacrifice/saves employee National Insurance/employer may match.
- No tax relief on Lifetime ISA (LISA) contributions/25% bonus.
- Ease of administration/employer scheme.
- Wider choice of funds/providers/limited LISA providers.
- Longer-term contributions permitted/beyond age 50.
- Does not form part of estate/Inheritance Tax purposes.
- Improved death benefits.
- Pension contribution reduces Child Benefit Tax charge.
- Access from age 55/LISA access at age 60.
- Pension protected from creditors/LISA is not protected.
- Lower charges as employer scheme.

Model answer for Question 6

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

- Charges on new and existing scheme.
- Cost of advice/initial cost.
- Any transfer penalties.
- Any guarantees in previous scheme/flexible benefits in new scheme e.g flexi-access drawdown.
- Fund choice within both plans.
- Ease of administration of both schemes/online access.
- Future career changes planned.
- Will new scheme accept transfers.
- Liquidity (property fund).
- Out of market during transfer.

(b)

- Use of different asset classes.
- Uncorrelated/non-correlation/negative correlation.
- Attitude to risk/capacity for loss/timescale.
- Assess current market conditions.
- Geographical spread.
- Cost/fund charges.
- Liquidity of assets.
- Currency risk/hedging.
- Passive versus active/ethical investment.
- Personal control/time/administration/monitoring.

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

- Liquidity risk.
- Bid/offer switch on pricing/reduced returns.
- Value of property not guaranteed/valuers' opinion.
- Forced sale of properties reduces fund value.
- Cash holdings dilute returns within fund.
- High ongoing charges/transaction costs.
- Income returns not guaranteed/rental yields can reduce/systematic risk.
- Lack of geographical diversification/UK only.
- Taxation risk.

Model answer for Question 7

(a) **Benefits:**
- Low cost.
- Simple to understand.
- No human error/no active management.
- Tracks market/potential for growth.

Drawbacks:
- Underperforms index/no ability to outperform/no Alpha.
- Tracking error/impact of charges.
- Will follow market down in downturn/market risk.
- Lack of diversification/may not match attitude to risk.

(b)
- Base cost.
- Current value.
- Sales since original purchase/transaction costs.
- Any dividend income reinvested.
- Kim's taxable income for the current tax year/her tax status/10% Capital Gains Tax.
- Carried forward losses from previous tax years/registered with HM Revenue & Customs.
- Annual exemption available.

(c)
- Ease of administration/monitoring/online access/accessibility.
- Wide fund choice/ease of fund switching/rebalancing.
- Low charges.
- Cash option normally available.
- Access to platform research.
- Can switch platforms/in specie transfer.
- Can use discretionary fund managers/model portfolio/Fund of Funds/specialist funds.

Model answer for Question 8

- Change in finances/tax status/salary/affordability.
- Asset allocation/fund performance/attitude to risk/capacity for loss/fund range available.
- Economic/market conditions/pension legislation changes.
- Salary sacrifice used/made additional contributions over 5%.
- Has he transferred old scheme?
- Change in target retirement date/plans/on track to meet objectives.

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	2020/2021	2021/2022
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%