Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning
Practice Test 4

Unit AF5 – Financial planning process

2021-2022 Revision Aid
Based on April 2018 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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Published September 2021

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AF5 - FINANCIAL PLANNING PROCESS

FACT-FIND – Practice Test 4

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 Green recently.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Green	Green
First name(s)	David	June
Address	8 Hendale Rise, Leeds	8 Hendale Rise, Leeds
Date of birth	01.06.1950	20.05.1952
Domicile	UK	UK
Residence	UK	UK
Place of birth	Leeds	Harrogate
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Cricket, Golf	Walking, Travel

Notes:

David and June have been married for three years. They are both previously divorced and each have children from their previous marriages. David has a daughter, Karen who is married with two children. June has a son, Joshua who is due to get married in the next few months. Joshua and his partner have a son. Both Karen and Joshua are financially independent.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Karen	Daughter	33	05.08.1984	Good	Engineer	No
Joshua	Son	36	15.09.1981	Good	Teacher	No

Notes:

David and June are keen to start gifting regular sums to help build up funds to pay towards university fees for their three grandchildren.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Retired	Retired
Job title		
Business name		
Business address		
Year business started		
Remuneration		
Salary		
State Pensions	Deferred	In payment
Overtime		
Benefits		
Benefits-in-kind		
Pension Scheme	See Part 11	See Part 11
Life cover	See Part 8	
Private Medical Insurance	See Part 9	See Part 9
Income Protection Insurance		
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:		

Previous Employment	Client 1	Client 2
Previous employer		
Job title		
Length of service		
Pension benefits		
Notes:		
David and June both fully retired in July 2014.		

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant		
Bank	BK Bank	BK Bank
Doctor	Dr Baines	Dr Baines
Financial Adviser		
Solicitor	Hendry LLP	Hendry LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		Client 2		Joint	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions				6,240		
Private Pensions (gross)	5,480					
Salary						
Benefits-in-kind						
Savings income (gross)		7,700		200		800
Dividend (gross)		5,100				
Investment Bond		9,000				

Notes:

David has deferred his State Pension. He receives monthly income from his self-invested personal pension (SIPP) and his defined benefit pension scheme.

	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						
Council tax			120			
Buildings and contents insurance						800
Gas, water and electricity						1,800
Telephone			50			
TV licence and satellite			70			
Property maintenance						1,500
Regular Outgoings						
Life assurance (see Part 8)	120					
Health insurance (see Part 9)	265					
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,200	900	
Petrol and fares	90	60				
Loans						
School fees						
Childcare						
Further education						
Subscriptions				110	60	
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers						
Entertainment						
Clubs and sport		50		1,400		
Spending money						
Clothes				800	1,200	
Maintenance						
Other (Holidays)						6,000
Total Monthly Expenditure	475	110	840			
Total Annual Expenditure	5,700	1,320	10,080	3,510	2,160	10,100
Total Outgoings						**32,870**
Notes:						

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

Notes:

David has received £1,400,000 from the sale of his family home in London. David and June have purchased a property in Leeds for £300,000 as joint tenants. They are planning to purchase a holiday home with part of the proceeds within the next year. This property will be for their sole use and they do not intend to rent this out. David is also planning to gift some of the monies to his daughter. David and June's former spouses have no entitlement to any future pensions or assets.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			300,000	
2.	Contents/car	60,000	25,000		
3.	Current account – BK Bank	40,000	8,000	25,000	
4.	Fixed-Rate Savings Account – BK Bank			80,000	800
5.	National Savings & Investments Income Bonds	750,000			7,500*
6.	Cash ISAs	20,000	20,000		400
7.	Stocks & Shares ISAs	200,000	25,000		
8.	Investment Trusts – Global Equity	170,000			5,100
9.	Investment Bond – Multi-Asset fund	250,000			9,000

Notes:

The residual proceeds of David's property sale are being held in National Savings & Investments Income Bonds.
**Candidates should note that the interest rate stated above was the interest rate in force at the time of the original examination in April 2018.*

David's Stocks & Shares holdings are invested in a range of UK equity income and fixed-interest collective investment funds. He bought these on the advice of his former financial adviser and has been pleased with the performance although he is unsure if these remain suitable for him since he retired. David's Stocks & Shares ISAs are invested in accumulation units.

June holds a Stocks & Shares ISA which is invested in a UK multi-manager fund which was recommended to her by her bank. She has never reviewed the performance of this fund since it was purchased but believes it has performed well. The Stocks & Shares ISA is invested in accumulation units.

David's Investment Trust holdings were inherited from an uncle a few years ago. These holdings had a probate value of £140,000 when David inherited them. They are invested in a range of global equity trusts and David is keen to learn more about these holdings.

David purchased his Investment Bond ten years ago and has utilised the full 5% withdrawal facility each year since inception.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see Part 8)			

Notes:
David and June have no outstanding mortgages.

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

Notes:
David and June have no outstanding loans.

Other Liabilities (e.g. tax)

Notes:
David and June have no other liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	David	David	250,000	120	25 years	1996*	No	N/A

Notes:

David has a level term life assurance policy which was set up to support the original mortgage on the family home that has now been sold. This was originally in joint names with his former wife but as part of their divorce settlement, the policy was assigned to David's sole name.

**Candidates should assume that this policy remains in force. Fact Find details are based on the April 2018 examination.*

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £
Private Medical Insurance	Joint					265 p.m.

Notes:

David has a comprehensive Private Medical Insurance which covers himself and June.

PART 10: REGULAR SAVINGS

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

Notes:

David and June do not currently have any regular savings plans.

PART 11: PENSION DETAILS

Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme	Yes	
Type of scheme	Defined benefit	
Date joined	1980	
Retirement age	60	
Pension benefits	3/60ths	
Death benefits		
Dependant's benefits	50% pension	
Contracted-in/out	Out	
Contribution Level (employee)	N/A	
Contribution Level (employer)	N/A	
Fund type	N/A	
Fund value	N/A	

Notes:
David's defined benefit pension is already in payment. He receives a monthly income of £2,480 (gross) which is index-linked. David has updated his nomination in favour of June. David's ex-spouse has no entitlement to this pension.

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

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

Notes:
David and June do not have any Additional Voluntary Contribution schemes.

Personal Pensions

	Client 1	Client 2
Type	Self-invested personal pension	
Company	ACM Life	
Fund	See notes below	
Contributions		
Retirement date	2010	
Current value	£295,000	
Date started	2008	
Notes:		

David has a self-invested personal pension from which he started to draw a monthly income of £3,000 (gross) in June 2010. This is invested in a range of UK and global equity funds.

Previous pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		Personal Pension
Date joined scheme		1992
Fund		UK Equity (50%)/UK Fixed-Interest (50%)
Retirement date		65
Current Value		£85,000
Notes:		

June has a personal pension from her former employer. She has not drawn any benefits from this plan.

State Pension

	Client 1	Client 2
State Pension	Deferred	£120 per week
Total		
Notes		

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes
Notes:		
David and June set up new Wills when they married. Their Wills leave all assets to each other on first death and then to their respective children on second death. David and June wish to review these Wills to ensure that they will meet their objectives.		

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	£50,000	

Notes:
David gave his daughter, Karen, a gift of £50,000 following the sale of the family home in May 2017. He intends to make a larger gift to Karen as soon as the purchase of the holiday home is completed.

Inheritances	Client 1	Client 2
Give details of any inheritances expected	None	None
Notes:		

PART 13: ATTITUDE TO RISK

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

Notes:
David and June have completed individual risk profiling assessments which confirm their attitudes to risk. David is a high-risk investor. June is a cautious investor. Neither David nor June have any ethical investing preferences.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.04.2018	
Client agreement issued	01.04.2018	
Data Protection Act	01.04.2018	
Money laundering	01.04.2018	
Consultations		
Dates of meetings	01.04.2018	
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

Chartered Insurance Institute

AF5

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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 tax-efficiency of David and June’s current pensions and investments.
- To purchase a holiday home within the next year.
- To gift a lump sum of £400,000 to David’s daughter.

Longer-term objectives

- To ensure that David and June’s estates pass to their intended beneficiaries on second death.
- To mitigate any potential Inheritance Tax liability.
- To set-up a suitable savings strategy to assist with university costs for their grandchildren.

Attempt ALL tasks

Time: 3 hours

1. **(a)** Identify the additional information a financial adviser would require to advise David and June on the suitability of their current pension arrangement. **(14)**

(b) Explain to David why his holding in National Savings & Investments Income Bonds is suitable for the proceeds of the sale of his property in the short-term. **(8)**

2. In respect of David and June's pension arrangements:

(a) **(i)** Recommend and justify why David should consider reducing the monthly income withdrawals from his self-invested personal pension. **(10)**

(ii) Explain to David how his pension benefits will be tested against the lifetime allowance and how they may be taxed when he reaches age 75. (No calculation is required). **(7)**

(b) Recommend and justify why David should consider drawing his State Pension now. **(8)**

(c) Explain briefly to June why she should consider using her personal pension plan to purchase a lifetime annuity on a single life basis. **(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. Recommend and justify why David should consider retaining his existing level term life assurance policy. **(8)**

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

4. With regard to David's Investment Bond:

(a) Explain to David why the Multi-Asset Fund may be suitable for his attitude to risk. **(8)**

(b) Recommend and justify why David should retain the Investment Bond for the foreseeable future. **(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.

5. David holds a portfolio of Global Equity Investment Trusts which he inherited from a late uncle.

State **six** benefits and **six** drawbacks for David if he retains the Investment Trust portfolio. **(12)**

6. **(a)** Explain briefly to David and June:

(i) the reasons why their existing Wills may be unsuitable; **(5)**

(ii) the key duties of an executor of a Will. **(7)**

(b) Recommend and justify a range of actions that David and June could take to mitigate their potential Inheritance Tax liability and to ensure that their estates pass to their intended beneficiaries.
(Candidates should assume that no changes are made to the current ownership of their home). sufficient income in retirement. **(14)**

(c) David is considering gifting £400,000 to his daughter in the near future.

Recommend and justify how David could use a gift inter vivos policy to mitigate any potential Inheritance Tax liability on this gift. **(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.

7. David and June wish to set up regular payments into Junior ISAs for their grandchildren to help to fund their future university fees.

(a) State how the Junior ISAs must be set up in the first instance. **(5)**

(b) Explain in detail to David and June why using a range of UK Equity Income funds could be suitable to generate a lump sum at age 18 for both grandchildren. **(10)**

(c) Comment briefly on the drawbacks for David and June if they choose to invest in Junior ISAs for their grandchildren. **(5)**

8. State **seven** issues that an adviser should discuss with David and June in respect of Inheritance Tax planning at their next review meeting. **(7)**

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)
- Amount of income required/capital needs/planned expenditure.
- Amount of State Pension for David/June's entitlement on David's death.
- Financial strength of David's defined benefit scheme/solvency.
- Indexation/escalation on defined benefit scheme.
- % of Lifetime Allowance used/any lifetime allowance protection in place.
- Self-invested personal pension scheme (SIPP) fully crystallised?
- Asset allocation/fund choice/switching options/match attitude to risk.
- Performance of pension fund investments.
- Any guaranteed benefits under June's Defined Contribution scheme.
- Flexi-access drawdown/uncrystallised funds pension lump sum (UFPLS) available under June's Defined Contribution scheme.
- Current annuity rates.
- Nominations updated/spousal bypass trusts.
- Costs/charges.
- Capacity for Loss.

(b)
- Can invest up to £1,000,000.
- No investment risk/safe.
- Fully guaranteed by UK Treasury.
- Provides monthly income.
- Simple to understand.
- Can be held in joint names/Can use June's Personal Savings Allowance.
- Ease of administration/all held in one account/no £85,000 Financial Services Compensation Scheme (FSCS) restriction.
- Easy access/2-3 days/no exit penalty/proceeds easily available for purchase of holiday home/gift to Karen.

Model answer for Question 2

(a) (i)

- He does not need the income.
- Income taxable at highest marginal rate/saves 40% tax.
- Flexible death benefits/Karen/June.
- Preserves IHT-free assets/tax free on death before 75.
- Income tax-efficient growth in SIPP/currently moving funds into a taxable environment for Income Tax and Capital Gains Tax (CGT).
- Unsustainable income/fund depletion/12% per annum excessive.
- Larger fund may offer reduced charges.
- Reduces risk of poor market timing/sequencing risk.
- David's State Pension/other income sources available;
- which are more tax-efficient (Income & CGT)?

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

- Benefit Crystallisation Event (BCE).
- Value any uncrystallised benefits.
- Excludes State Pension.
- Defined benefit scheme and SIPP had previous BCE.
- Percentage of lifetime allowance used.
- Is any lifetime allowance protection in place?
- Lifetime allowance index linked/tested against lifetime allowance on 75th birthday.
- Taxed at 25% on income withdrawal.
- Scheme can pay/calculate growth in SIPP from first BCE.

(b)

- No death benefits for Karen/lost on second death.
- Pre April 2016-rules apply.
- Uplift of 10.4% per annum/1% per five weeks/lump sum option.
- Enables lower withdrawals from SIPP/Improves SIPP growth.
- Leave SIPP for children/Inheritance Tax efficient.
- No investment risk with State Pension.
- Guaranteed lifetime income from State Pension.
- Triple lock applies/inflation linked.

(c)

- Matches June's attitude to risk/cautious investor/no Investment risk.
- Provides guaranteed income for lifetime.
- June in good health so value for money/long payment period.
- No costs/need for ongoing advice/simple administration.
- She has unused Personal Allowance.
- Can purchase capital protection/guarantee period.
- May offer a higher annuity rate as no spouse's pension.
- Single Life as David has sufficient income/June has limited income.
- Can purchase escalation.
- Can stagger purchase of annuities/rates may improve.

Model answer for Question 3

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

- No other life cover in place.
- Can be put in Trust to provide Inheritance Tax cover/outside of estate/known beneficiaries/to protect residential nil rate band.
- No surrender value/loss of premiums paid.
- Replacement cover likely to be more expensive/current premium is affordable.
- May pay out on terminal illness.
- Guaranteed cover if health deteriorates until maturity.
- No adviser cost for setting up new policy.
- No inconvenience/medical underwriting.
- David will receive proceeds if ex-wife dies.

Model answer for Question 4

(a)
- Diversification across all asset classes/geographical spread.
- Potential for growth.
- Correlation of assets controlled/non-correlation.
- Reduces volatility/risk.
- Actively managed/professional management.
- Rebalances regularly.
- Risk rated to match attitude to risk.
- Access to specialist investments e.g. exchange traded fund (ETF), derivatives, etc.

(b) *Candidates would have gained full marks for any twelve of the following:*
- Good performance.
- Tax-deferred income.
- Can vary income level;
- to extend tax-efficient term/for tax-efficiency.
- Onshore – taxed internally at 20%/offshore -gross roll up.
- Income Tax implications on surrender for David.
- Liable to 20% on full surrender/40% if offshore bond.
- Could assign to June/Karen/trust.
- Assignment is not a chargeable event.
- Tax liability transfers to recipient.
- Fund switches in Bond do not incur tax liability.
- Invested in line with his attitude to risk.
- Potentially excluded from long-term care assessments in future.

Model answer for Question 5

Benefits

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

- May be able to sell at premium to Net Asset Value/growth potential.
- Can use gearing/borrowing/leveraging.
- Liquidity/can deal/sell immediately/real time dealing.
- May include warrants.
- Active management/matches his attitude to risk.
- Global diversification/wide range of permitted holdings.
- Can Bed & ISA/uses his dividend allowance/can use CGT exemption/no CGT within fund.

Drawbacks

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

- Higher volatility/Gearing may magnify losses.
- May trade at a discount to Net Asset Value.
- May pay stockbroker charges on sale.
- Cannot always be held on platform/wrap.
- Currency risk/market risk.
- Complex investment/extra administration.
- May incur CGT charge on sale/excess dividends taxed at (32.5%).

Model answer for Question 6

(a) **(i)**

- Mirror Will leaves assets outright to each other.
- No Will Trust.
- On first death, survivor can re-write Will/could remarry.
- No guarantee of beneficiary on second death/survivor can disinherit Karen or Joshua.
- Does not match their aims and objectives/wishes.

(ii)

- Administer deceased's affairs/Obtain most up to date copy of Will.
- Obtain full details of all assets/liabilities/settle debts.
- Complete Inheritance Tax (IHT) return/pay IHT.
- Obtain/apply for probate.
- Distribute estate in accordance with Will/inform beneficiaries of their entitlements.
- Complete Income Tax/Capital Gains Tax return.
- Prepare estate accounts.

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

- Re-write Will/mutual Wills.
- Ensures estate distributed as per wishes/includes spouse and both children/agree split of assets between Karen and Joshua.
- Otherwise surviving spouse could disinherit children/remarry.
- Assets placed in Trust for survivor (as life tenant)/Immediate Post Death Interest Trust.
- Survivor can take income/capital as loan.
- Loan repayable to trust on death/children are remaindermen.
- Use annual exemptions/gifts out of normal expenditure as immediately exempt.
- Make potentially exempt transfers (PET's)/chargeable lifetime transfers/use Trust during lifetime/assign bond to Karen as outside estate after seven years.
- Use discounted gift trust for immediate discount.
- Nominations updated on pensions to include children/spousal bypass trust.
- Retain pensions as they are IHT-efficient/better death benefits.
- Whole of Life Joint Life Last Survivor in Trust.
- Whole of Life policy provides Lump Sum to pay IHT (on second death).
- Existing Life policy in trust.
- Protects Residential Nil Rate Band as assets are below £2,000,000.
- Enterprise Investment Scheme (EIS)/Alternative Investment Market (AIM) /Business Relief qualifying investments as outside estate after two years.

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

- Gift is a potentially exempt transfer (PET).
- No immediate liability to Inheritance Tax (IHT) on gift (of £400,000).
- Potential liability includes previous gift (of £50,000).
- As gift exceeds Nil Rate Band/£325,000.
- Life policy should be held in trust.
- Term of seven years to cover potential IHT liability on death.
- Reduction from year three (to year seven).
- Sliding scale of 80%/60%/40%/20% to 0%.
- Policy aligns with reduction in IHT liability/not paying for excess cover.
- Beneficiary of gift is liable to IHT/not estate.
- Karen is beneficiary/in trust for Karen.

Model answer for Question 7

(a)

- Must be set up by parent/guardian.
- Set up in child's name/owned by child.
- Parent selects ISA/funds.
- Not taxable on parent/no £100 parental income rule.
- Anyone can contribute/up to £9,000.

(b)
- Growth potential/inflation protection.
- High yield/increasing dividends.
- Exposure to large UK companies/diversified.
- Dividend income can be reinvested.
- Tax-free.
- No currency risk/hedged.
- No political risk/good corporate governance.
- Long-term timescale for investment/can accept volatility.
- Actively managed/different management styles.
- Can switch funds easily/liquidity.

(c)
- Loss of control for David and June/parents control funds.
- Loss of access to capital.
- Child controls investment at age 16.
- Child gains full access at age 18.
- May not use for University funding/child could use for any purpose at age 18.

Model answer for Question 8

- Change in personal circumstances – health/divorce/death etc.
- Change in their financial objectives/circumstances – IHT liability/asset values/ income/capital needs/tax status/affordability etc.
- Attitude to risk/capacity for loss/need for rebalancing.
- Wills updated/nominations updated on pensions.
- Use of IHT allowances/gift made to Karen/use of Business Relief qualifying investments.
- Change in legislation/taxation.
- New products available/market economic conditions.

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.*

	2020/2021	2021/2022
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%