Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning
Practice Test 6

Unit AF5 – Financial planning process

2021-2022 Revision Aid
Based on April 2019 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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Telephone: 020 8989 8464
Fax: 020 8530 3052
Email: customer.serv@cii.co.uk

Chartered Insurance Institute

AF5 - FINANCIAL PLANNING PROCESS

FACT-FIND – Practice Test 6

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 Grant and Miss Jones recently.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Grant	Jones
First name(s)	Tom	Sally
Address	Shelby Way, Lincoln	Shelby Way, Lincoln
Date of birth	03.03.1971	05.02.1972
Domicile	UK	UK
Residence	UK	UK
Place of birth	Lincoln	Norwich
Marital status	Unmarried	Unmarried
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Rugby, Golf	Voluntary work and writing

Notes:

Tom and Sally have lived together for 22 years but have never married. They have one daughter, Hannah. Sally recently gave up her voluntary work to concentrate on her ambition of becoming a professional writer. Both are in very good health and both Tom and Sally's parents are alive and in good health.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Hannah	Daughter	19	11.01.2000	Good	Student	Yes

Notes:

Hannah is studying at university and lives at home with her parents.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Industrial Chemist	Writer
Job title	Managing Director	
Business name	Lincoln Specialist Paints Ltd	
Business address	Lincoln	
Year business started	2009	
Remuneration		
Salary	£60,000	£0
State Pensions		
Overtime		
Benefits		
Benefits-in-kind	N/A	
Pension Scheme	See Part 11	
Life cover	N/A	
Private Medical Insurance	N/A	
Critical Illness cover	N/A	
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:

Tom is the sole owner and Managing Director of Lincoln Specialist Paints Ltd which he set up in 2009. He has 10 employees and the business has been very successful. He relies heavily on his sales manager who has worked with him since he set up the company. Tom has a qualifying workplace pension scheme for his employees which meets the full auto-enrolment requirements. Tom takes ad hoc dividends from the company several times a year.

Sally has not earned any income since she gave up work in April 2012 to work in the voluntary sector. She has now stopped her voluntary work to enable her to pursue her interest in writing.

Previous Employment	Client 1	Client 2
Previous employer	Easte Chemicals	Lincoln Evening Standard
Job title	Technical Manager	Journalist
Length of service	17 years	8 years
Pension Scheme	See Part 11	See Part 11

Notes:

Tom and Sally have preserved pension benefits from their previous employers (see Part 11).

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant		
Bank	Securebank	Securebank
Doctor		
Financial Adviser		
Solicitor	Briggs LLP	Briggs 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 (gross)	5,000					
Benefits-in-kind						
Investment income (gross)		2,940				400
Rental (gross)						
Dividend (gross)		25,000				

Notes:

The investment income is earned from Tom and Sally's joint deposit account and Tom's Corporate Bond holdings. The income from the Corporate Bond holdings is reinvested back into the same funds.

The dividend income is from Tom's company.

	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			525			
Council tax						2,000
Buildings and contents insurance						560
Gas, water and electricity						980
Telephone			50			
TV licence and satellite			55			
Property maintenance						700
Regular Outgoings						
Life assurance (see Part 8)			68			
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance	150	40				
Petrol and fares	250	50				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			700			
Pension contributions (see Part 11)	200					
Other Expenditure						
Magazines and newspapers						
Entertainment						800
Clubs and sport				1,400	300	
Spending money						2,000
Clothes				600	900	
Maintenance						2,400
Other (Holidays)						3,600
Total Monthly Expenditure	600	90	1,398			
Total Annual Expenditure	7,200	1,080	16,776	2,000	1,200	13,040
Total Outgoings						**41,296**

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

Notes:

Tom and Sally provide their daughter Hannah with financial support of £2,400 per annum to cover her expenses until she graduates from university in 2021*. Hannah has taken out a student loan to pay her tuition fees and Tom and Sally have told Hannah that she must repay this herself when she starts work.

Tom and Sally are considering the purchase of a buy-to-let property in their joint names in Lincoln for Hannah to live in during her final years at university. Once Hannah has graduated, they will retain the property for the long-term as part of their investment portfolio. They do not wish to use any of their investment holdings to fund the initial purchase of this property.

Candidates should note that this Fact Find was used in the April 2019 examination. For the purposes of revision, candidates should assume that Hannah is still in her first year of University.

PART 6: ASSETS					
	Asset	**Client 1 £**	**Client 2 £**	**Joint £**	**Income (Gross) £**
1.	Main residence			850,000	
2.	Contents/car			90,000	
3.	Current account - Securebank	6,000	2,000		
4.	Deposit Savings Account - Securebank			40,000	400
5.	Cash ISAs	25,000	25,000		
6.	Stocks and shares ISAs - Tom	170,000			
7.	Stocks and shares ISAs - Sally		130,000		
8.	Unit Trusts - Sterling Corporate Bond funds	98,000			2,940

Notes:

Tom and Sally own their main residence as joint tenants.

Tom and Sally have Cash ISAs but they do not know the current rates of interest on these accounts.

Tom and Sally have stocks and shares ISAs invested in a range of UK and Global Equity funds held in accumulation units. Although their ISA funds have performed well, Tom and Sally have asked you to confirm that these funds are suitable for them moving forwards. Tom and Sally have not used their full ISA allowances for the current tax year.

Tom has also purchased several Sterling Corporate Bond funds in 2011 for £76,000. He believed these would offer good growth potential over the long-term. He has reinvested the income generated by these holdings back into the funds.

Tom has not made any withdrawals from the Sterling Corporate Bond funds.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			Securebank
Type of mortgage			Interest-only
Amount outstanding			£350,000
Start date			2002
Term/maturity			25 years
Monthly payment			£525
Interest rate			1.8%
Life policies (see Part 8)			

Notes:

Tom and Sally have a joint interest-only mortgage with Securebank for £350,000. They intend to repay this using a combination of their pensions and investments.

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

Notes:

Tom and Sally have no outstanding loans.

Other Liabilities (e.g. tax)

Notes:

Tom's accountant estimates that he will have an Income Tax liability of approximately £8,000 to be paid in January 2020*. Tom is keen to explore ways of mitigating his tax liability.
**Candidates should note that this Fact Find was used in the April 2019 examination. For the purposes of revision, candidates should assume that Tom will pay his tax bill in January 2022.*

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust ?	Surrender Values £
1.	Joint	Joint	350,000	68 per month	25 years	2002	No	N/A

Notes:

Tom and Sally have a joint life first death level term policy to cover their mortgage with Securebank.

PART 9: HEALTH INSURANCE POLICIES

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

Notes:

Tom and Sally do not have any Health Insurance policies.

PART 10: REGULAR SAVINGS

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

Notes:

Tom and Sally do not make any regular savings but instead make ad hoc investments into their stocks and shares ISAs.

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:
Tom and Sally 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:
Tom and Sally do not have any Additional Voluntary Contribution schemes.

Personal Pensions

	Client 1	Client 2
Type	Group Personal Pension Scheme	
Company	Monarch Life	
Fund	Global Equity Tracker fund	
Contributions	5% employee/5% employer	
Retirement date	65	
Current value	£110,000	
Date started	2009	

Notes:

Tom is a member of the qualifying workplace pension scheme. This meets auto-enrolment requirements and both he and the company make 5% monthly contributions to the scheme. Tom is considering increasing his employer contribution in the near future. This plan is nominated for Sally.

Previous pension arrangements

	Client 1	Client 2
Employer	Easte Chemicals	Lincoln Evening Standard
Type of scheme	Group Personal Pension	Group Personal Pension
Date joined scheme	September 1992	August 2004
Date left	January 2009	April 2012
Current value	£78,000	£47,000

Notes:

Tom and Sally have pension plans from their previous employments. Both of these plans are defined contribution personal pension plans.

Tom's plan is invested in a UK Tracker fund and Sally's plan is invested in the default Fixed-Interest fund. Tom and Sally have nominated each other to receive the benefits of their respective plans in the event of death.

State Pension

	Client 1	Client 2
Basic Pension		
Total		

Notes

Neither Tom nor Sally have checked their State Pension entitlement. Sally may not have a full entitlement to the State Pension as she took extended maternity leave when Hannah was born and has had no earnings for the past seven years.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	No	No
Notes:		
Tom and Sally are planning to write Wills in the near future. They do not have any Lasting Powers of Attorney in place.		

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:
Tom and Sally have not made any gifts.

Inheritances	Client 1	Client 2
Give details of any inheritances (see below)	None	None
Notes:		
Both Tom and Sally's parents are in good health and they have no expectation of receiving any inheritance for many years.		

PART 13: ATTITUDE TO RISK

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

Notes:
Tom and Sally are both adventurous investors. This has been discussed and verified by the recent completion of an attitude to risk questionnaire. Neither Tom nor Sally have any particular concerns about ethical or socially responsible investments.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.04.19	
Client agreement issued	01.04.19	
Data Protection Act	01.04.19	
Money laundering	01.04.19	
Consultations		
Dates of meetings		
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 of Tom and Sally's current savings and investments.
- To establish a strategy to protect the long-term financial security of Tom's business.
- To mitigate Tom's current Income Tax liabilities.

Longer-term objectives

- To ensure they are able to generate sufficient income in retirement.
- To construct a long-term investment strategy to meet all of their objectives.
- To evaluate the benefits of purchasing a buy-to-let property.

Attempt ALL tasks

Time: 3 hours

1. Identify the additional information that you would require to enable you to assess the suitability of Tom's and Sally's existing pension arrangements to meet their retirement objectives. **(14)**

2. In respect of Tom and Sally's pension arrangements:

(a) Identify **twelve** benefits for Tom and his company if his employer pension contributions are increased. **(12)**

(b) Explain in detail to Tom and Sally why it may not be suitable to use Tom's two existing personal pension plans as a vehicle to repay their mortgage. **(10)**

(c) Recommend and justify the actions that Sally should take to ensure that she can maximise her income in retirement in respect of her:

(i) State Pension entitlement. **(7)**

(ii) Existing personal pension plan. **(9)**

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. In respect of Tom and Sally's current savings and investments:

(a) Explain in detail to Tom and Sally why Tom's existing Corporate Bond holdings may not be suitable to meet their long-term objectives. **(11)**

(b) Outline the process you would follow to enable you to review the performance of Tom and Sally's existing stocks and shares ISAs. **(12)**

(c) Identify the factors that you would take into consideration when constructing an investment portfolio to enable Tom and Sally to repay their mortgage when it matures. **(11)**

4. In respect of Tom's company:

(a) Explain in detail to Tom how a key person protection policy could be set up and used to protect his company in the event of serious illness or death of the sales manager at Lincoln Specialist Paints Ltd. **(10)**

(b) Identify **five** drawbacks for Tom and his company of setting up the key person protection policy. **(5)**

5. Explain in detail to Tom how he could use an Enterprise Investment Scheme to potentially mitigate his Income Tax liability and state the long-term benefits of using such a scheme. **(14)**

6. Tom and Sally are considering the purchase of a buy-to-let property.

(a) Recommend and justify a suitable and tax-efficient strategy to enable Tom and Sally to purchase a buy-to-let property, minimising the use of their existing savings and investments. *Candidates should assume that Tom and Sally do not re-mortgage their main residence.* **(12)**

(b) Identify **six** benefits for Tom and Sally of purchasing a buy-to-let property. **(6)**

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. **(a)** Explain to Tom and Sally how their assets will be distributed and treated for Inheritance Tax purposes in the event of either death before they complete their Wills. *No calculations are required.* **(12)**

(b) Outline how setting up Wills would improve the financial situation of the survivor in the event of death of either Tom or Sally. **(8)**

8. State **seven** factors you should consider when reviewing Tom and Sally's mortgage repayment strategy for their main residence at your next annual review. *Candidates should assume that there have been no changes to their personal circumstances since the last review.* **(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

- Target retirement date and income/capital required.
- Inflation rates.
- State Pension forecasts/BR19.
- Identify/purchase voluntary National Insurance contributions for Sally.
- Expected growth rates/fund performance/projections.
- Asset allocation/fund choice.
- Any guaranteed/protected benefits under deferred schemes.
- Charges.
- Amount of additional employer contributions for Tom.
- Contribution history for Tom/carry forward available.
- Willingness to maximise pension contributions for Sally/£3,600 maximum.
- Future earnings for Tom/Sally.
- Capacity for Loss/other assets.
- When do they plan to repay mortgage/date?

Model answer for Question 2

(a) Benefits:

- Builds up pension savings/greater pension commencement lump sum (PCLS).
- No Capital Gains Tax/Income Tax within fund/tax-efficient growth.
- Income tax-efficient death benefits.
- Inheritance Tax (IHT) efficient as they are not married/only asset Sally can receive IHT free.
- Nominations in place for Sally.
- Not a P11D benefit/not taxable on Tom.
- Tax-free extraction of profit from company.
- Higher Carry Forward available.

- Reduced Corporation Tax/allowable business expense.
- National Insurance contribution (NIC's) saving.
- Employer contributions not limited by income.
- In Trust so protected against bankruptcy.

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

- Cannot access until age 55/57 at earliest/based on proposed changes to legislation.
- Mortgage due to be repaid at age 56/2027.
- Only 25% PCLS available so £1,400,000 pot needed to repay.
- PCLS/pensions will not be enough to repay £350,000 mortgage/£268,275* max due to lifetime allowance (£).
- Investment risk.
- Reduced pension benefits in retirement.
- Reduces flexibility of income if all PCLS used/cannot use uncrystallised funds pension lump sum (UFPLS)/phased.
- Withdrawals in excess of PCLS are taxable at Tom's marginal rate.
- More interest paid over term/mortgage term extended.
- Reduction in flexible/Income tax-efficient death benefits.
- Loss of Inheritance Tax efficient fund.

**Based on Lifetime Allowance in current Tax Year 2021/2022.*

(c) **(i)**

- Obtain State Pension forecast/BR19.
- To identify shortfall in National Insurance record/any home responsibilities/ needs 35 years.
- Voluntary Class 3 NICs/purchase additional years/buy back.
- Can go back up to six years.
- Make ongoing voluntary Class 3 contributions.
- Class 3 is affordable for Sally/value for money.
- Provides guaranteed and index-linked income in retirement.

(ii)

- Contribute maximum £3,600 per annum/£2,880 per annum.
- She is a non-taxpayer/she has no earned income.
- Switch existing funds for growth/equities.
- Current funds do not match attitude to risk.
- Review past performance.
- Review charges.
- Any guaranteed benefits?
- Transfer to alternative provider if uncompetitive/poor performance/better fund choice etc.
- Ongoing reviews.

Model answer for Question 3

(a)
- Limited growth potential/main return is from income.
- Inflation risk/credit risk.
- Likely rise in interest rates will lead to;
- reduced capital value.
- Lack of asset class diversification.
- Limited global exposure/lack of geographical diversification/UK only.
- Does not match attitude to risk.
- Not held in ISA.
- 20% Capital Gains Tax (CGT) on sale.
- 40% tax on income.
- Not using Sally's lower rates of tax/her personal savings allowance.

(b)
- Letter of authority/obtain plan details.
- Confirm date of purchase.
- Base cost/any further investments/withdrawals/fund switches.
- Identify reinvested income.
- Calculate gain/performance history.
- Assess asset allocation.
- Identify suitable benchmark.
- Identify Alpha/compare against benchmark.
- Review charges.
- Comparison with risk-free return/risk adjusted return.
- Review volatility/risk rating of fund.
- Assess funds against attitude to risk/capacity for loss.

(c) *Candidates would have gained full marks for any eleven of the following:*
- Mortgage matures in 2027/.
- Existing funds already earmarked/ISAs/Unit Trust/PCLS.
- Affordability/budget/planned expenditure.
- They have an adventurous attitude to risk/capacity for loss.
- Charges/early redemption penalties.
- Growth required/growth assumptions.
- Pound cost averaging/monthly investment.
- Tax efficiency/use of ISA and pension allowances.
- Use of Sally's lower tax status/hold investments in Sally's name.
- Use of different asset classes/geographical.
- They have sufficient life cover/no need for additional life cover.
- Is mortgage interest rate fixed or variable?/future interest rate expectations/cost of repayment mortgage.

Model answer for Question 4

(a)
- Life cover and critical illness cover.
- Calculate their value to the company/Identify appropriate sum assured/loss of profits/multiple of salary.
- Term to planned retirement age/five year/renewable.
- Indexation/guaranteed premiums.
- Key person is underwritten.
- Company is the policyholder and pays premiums.
- Key person is the life assured.
- Premiums may be an allowable business expense.
- Policy pays proceeds to the company/for benefit of business.
- Treated as a trading receipt so subject to Corporation Tax.

(b) **Drawbacks:**
- Cost of premiums.
- Key person may have medical conditions/policy may be rated/underwriting restrictions.
- Lump sum will be taxed to Corporation Tax/trading receipt.
- Lump sum may be insufficient/key person may become more valuable/change in company circumstances/key person may leave.
- Policy has no surrender value/no claim = loss of premiums.

Model answer for Question 5

- 30% Income Tax Relief on contributions;
- Tax Relief limited to total income tax paid in the tax year.
- Tom has £8,000 tax bill so invest up to £26,666 to mitigate.
- Must be held for three years for Income Tax;
- otherwise tax relief is clawed back.
- Can carry back contribution to previous tax year.
- Tom is likely to have a tax bill from previous tax year.
- Losses on encashment can be set against Income Tax.

- CGT deferral available on investment/reinvestment relief.
- CGT deferral available for gains made in previous three tax years/following tax year.
- CGT free if held for three years.

- Business Relief/Inheritance Tax relief available if held for two years/must hold on death.

- High risk investment suits his attitude to risk/he has sufficient capacity for loss.
- Diversification/growth potential.

Model answer for Question 6

(a)
- Use cash as liquid asset for deposit/use Unit trust as does not match attitude to risk.
- No market timing for deposit/tax issues for cash/limited volatility in Corporate Bonds/Unit trust not tax-efficient.
- Use (buy-to-let) mortgage on interest-only basis.
- Interest rates currently low.
- Rental income can be used to repay capital/interest.
- Make full use of annual ISA/pension allowances;
- provides tax-efficient growth (to repay lump sums from mortgage).
- Purchase property as joint tenants/as unmarried.
- Tom would be taxed at 40%/higher rate tax on rental income.
- Interest payments can be set against income up to basic rate tax/based on new rules from April 2020.
- Sally has unused personal allowance/reduces tax on rental income.
- Can use two CGT exemptions in future/buy in Sally’s name as non-taxpayer.

(b)
- Potential for capital growth/property normally keeps pace with inflation/real asset.
- Diversification.
- Rental income can be used to repay capital/interest.
- Can use rental income to supplement pension income.
- Tax-efficient for Sally.
- Provides accommodation for Hannah at university.

Model answer for Question 7

(a)
- Rules of intestacy apply.
- They are unmarried.
- Sally/Tom has no legal right to each other’s assets.
- Assets held jointly will pass to survivor.
- Sally can claim financial dependency on Tom if he dies.
- No guarantee that Sally receives any monies from Court.
- Hannah is sole beneficiary under rules of intestacy.
- Life policy will pay proceeds to survivor.
- Inheritance Tax would be due on first death if estate exceeds £325,000/no Residential Nil Rate Band (RNRB)/no transferable Nil Rate Band.
- Pensions should pass to survivor as nominations in place.
- Shares in business may pass to Hannah/depends on Articles of Association.
- No Additional Permitted Subscription (APS) on ISA.

(b)
- Avoids time delays due to intestacy/laws of intestacy do not apply.
- Reduces cost/no administrative stress/simplicity.
- Guaranteed destination of assets.
- Survivor would be worse off/protects Sally as she has limited income/assets.
- Protects Tom’s company/protects Sally’s interest in company.
- Assets pass to surviving partner then to Hannah on second death.
- Establish Will Trust.
- Enables future tax-efficiency.

Model answer for Question 8

- Change in income/capital needs/ new money available/strength of Tom's business/ affordability.
- Current level of mortgage/any capital repayments made/early repayment charges.
- Current interest rate on mortgage/still competitive.
- Fund values/performance/rates/rebalancing/attitude to risk/capacity for loss.
- Shortfall based on expected growth/on target to repay.
- Use of tax allowances.
- New products available/legislation/taxation/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%