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# AF5

## Advanced Diploma in Financial Planning Practice Test 1

Unit AF5 – Financial planning process

2023-2024 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

### Contents

Useful tips as you prepare for the AF5 exam.....	3
Fact Find.....	4
Question paper.....	15
Model answers.....	21
Tax tables.....	28

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## Useful tips as you prepare for the AF5 exam

1. **Schedule sufficient revision time** to use your notes and learning and support materials to refresh your learning and consider how what you have learned applies to the case studies.
2. **Familiarise** yourself with the format and the navigation options navigation of an onscreen written exam:

### Familiarisation Test

The familiarisation test:

- Allows you to experience using the assessment platform before your exam.
- Is for the purpose of familiarisation with the assessment platform only.
- Is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam.

Please note, although the familiarisation test is modelled on AF1, the example is relevant for every candidate preparing to sit on-screen written exams by remote invigilation. Whilst there might be slight differences in layout, it will make you familiar with the platform.

Follow these instructions to take the Familiarisation Test.

- Click [here](#) to access the Familiarisation Test.
- Once the test is open, click 'start'.
- Explore the platform to practice navigation and general functionality.

We strongly advise that you try the familiarisation test once you have received your login details and **well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

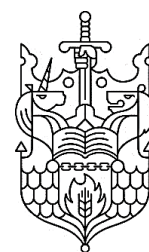
If completing your exam via remote invigilation, you are strongly advised **NOT** to use a laptop provided by your employer.

- Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software.
- You should also **AVOID** using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

3. Visit the [Assessment Information - Before the exam](#) area of the CII website, which has important further practical information and support.
4. **Prepare exam technique** using the support of the Exam Guides on the AF5 unit page <https://shop.ciiigroup.org/financial-planning-process-af5-af5.html> which include examiner guidance and time-saving tips such as abbreviations.

## AF5 - FINANCIAL PLANNING PROCESS

## FACT-FIND – Practice Test 1



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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 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				
<b>Notes:</b>						
<p>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.</p>						
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
<b>Notes:</b>						
<p>David and June are keen to start gifting regular sums to help build up funds to pay towards university fees for their three grandchildren.</p>						

PART 3: EMPLOYMENT DETAILS		
Employment	Client 1	Client 2
Occupation	Retired	Retired
Job title		
Business name		
Business address		
Year business started		
<b>Remuneration</b>		
Salary		
State Pensions	Deferred	In payment
Overtime		
<b>Benefits</b>		
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		
<b>Self Employment</b>		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
<b>Other Earned Income</b>		
<b>Notes:</b>		
<b>Previous Employment</b>	<b>Client 1</b>	<b>Client 2</b>
Previous employer		
Job title		
Length of service		
Pension benefits		
<b>Notes:</b>		
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
<b>Income Tax</b>	<b>£</b>	<b>£</b>
Personal allowances		
Taxable income		
Tax		
National Insurance		
<b>Net Income</b>		

**Notes:**

**Expenditure**

	Monthly £			Annually £		
<b>Household Expenditure</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>
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
<b>Regular Outgoings</b>						
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)						
<b>Other Expenditure</b>						
Magazines and newspapers						
Entertainment						
Clubs and sport		50		1,400		
Spending money						
Clothes				800	1,200	
Maintenance						
Other (Holidays)						6,000
<b>Total Monthly Expenditure</b>	<b>475</b>	<b>110</b>	<b>840</b>			
<b>Total Annual Expenditure</b>	<b>5,700</b>	<b>1,320</b>	<b>10,080</b>	<b>3,510</b>	<b>2,160</b>	<b>10,100</b>
<b>Total Outgoings</b>						<b>32,870</b>

**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**

<b>Mortgage Details</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>
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.

<b>Other Loans</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>
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	
<b>Notes:</b>		
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
<b>Notes:</b>		
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
<b>Total</b>		
<b>Notes</b>		

**PART 12: INHERITANCES**

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes
<b>Notes:</b>		
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		
<b>Notes:</b>		
Gifts	Client 1	Client 2
Give details of gifts made and received	£50,000	

<b>Notes:</b>		
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
<b>Notes:</b>		

**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	
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**Marketing**

Client source		
Referrals		

**Documents**

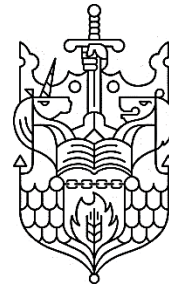
Client documents held		
Date returned		
Letters of authority requested		

**Notes:**

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**PART 15: OTHER INFORMATION**

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## Advanced Diploma in Financial Planning Practice Test 1

Unit AF5 – Financial planning process

### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, 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.
- 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)

*\*Candidates should note that this question was based on legislation in force in April 2018. No further tax charges will be applied under the Lifetime Allowance following the Spring Budget of 2023 although the Lifetime Allowance checks must still be carried out until 6<sup>th</sup> April 2024.*

- (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 should note that this question was based on legislation in force in April 2018. Although Lifetime Allowance tests will still be carried until April 2024, no tax charges will be applied under the Lifetime Allowance which will be completely removed after 6<sup>th</sup> April 2024.*

*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 (33.75%).

### 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 2023 to August 2024.**

## INCOME TAX

RATES OF TAX	2022/2023	2023/2024
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	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£125,140
High income 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.*

Personal savings allowance (for savings income):

Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil

Dividend Allowance	£2,000	£1,000
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Dividend tax rates

Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%

Trusts

Standard rate band	£1,000	£1,000
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Rate applicable to trusts

- dividends	39.35%	39.35%
- other income	45%	45%

### MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,640	£4,010
Married/civil partners at 10% †	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance †	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 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)	£2,935	£3,235
- family element	£545	£545

Threshold for tapered withdrawal of CTC	£17,005	£18,725
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## NATIONAL INSURANCE CONTRIBUTIONS

### Class 1 Employee

### Weekly

Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

### Total earnings £ per week

### CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 242.00*	Nil
242.00 – 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 £123 per week. This £123 to £242 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 175.00**	Nil
Over £175.00	13.8%

*\*\* Secondary threshold.*

### CLASS 2 (self-employed)

Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

### Class 3 (voluntary)

Flat rate per week £17.45.

### Class 4 (self-employed)

9% on profits between £12,570 and up to £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 – 2023/2024*	£1,073,100

*\*Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE	
TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

*\*From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual will be reduced 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.*

*\*\*Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

### 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.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

## CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
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:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	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				2022/2023	2023/2024
Transfers made on death					
- Up to £325,000				Nil	Nil
- Excess over £325,000				40%*	40%*
- Reduced rate (where appropriate charitable contributions are made)				36%	36%
Transfers					
- Lifetime transfers to and from certain trusts				20%	20%
MAIN EXEMPTION					
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
<i>*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.</i>					
Lifetime transfers					
- Annual exemption per donor				£3,000	£3,000
- Annual small gifts exemption per donor				£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%



## MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimum guarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	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	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

*\*If a claim has begun before 3<sup>rd</sup> April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

## CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

## VALUE ADDED TAX

	2022/2023	2023/2024
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 £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

### Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *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.*
- *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.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%