Chartered Insurance Institute

AF5

Advanced Diploma in Financial Planning
Practice Test 5

Unit AF5 – Financial planning process

2023-2024 Revision Aid
Based on July 2020 examination

SPECIAL NOTICES

These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF5 – Financial planning process

Contents

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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.ciigroup.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 5

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 Finch recently.

PART 1: BASIC DETAILS		
	Client 1	**Client 2**
Surname	Finch	Finch
First name(s)	Tim	Kathy
Address	Worcester	Worcester
Date of birth	20.02.1959	31.01.1959
Domicile	UK	UK
Residence	UK	UK
Place of birth	Worcester	Stafford
Marital status	Married	Married
State of health	Good	Recovering from injury
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Cricket, Sport	Theatre, Cinema

Notes:

Tim and Kathy retired a few months ago after Kathy suffered an accident at work.

Kathy is due to receive a compensation payment of £100,000 in the next few weeks after her former employer's insurer accepted liability for her accident. Kathy has recovered well following treatment paid for by the company private medical insurance plan and expects to make a full recovery over the next twelve months although her mobility may continue to be affected for a number of years.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Amy	Daughter	34		Good	Teacher	No
Sophie	Daughter	32		Good	Dentist	No

Notes:

Tim and Kathy have two daughters, Amy and Sophie who are both married with two children each, aged between seven and three.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Retired Management Consultant	Retired Operations Manager
Job title	Management Consultant	Operations Manager
Business name		
Business address		
Year business started		
Remuneration		
Salary		
State Pensions		
Overtime		
Benefits		
Benefits-in-kind	N/A	N/A
Pension Scheme	See Part 11	See Part 11
Life cover	N/A	N/A
Private Medical Insurance	See Part 9	See Part 9
Income Protection Insurance	N/A	N/A
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		

Notes:

As a result of Kathy's accident, Tim and Kathy both retired early.

Neither intend to return to work in future.

Previous Employment	Client 1	Client 2
Previous employer	BDE Consultants	Kinem Logistics Ltd
Job title	Management Consultant	Operations Manager
Length of service	30 years	28 years
Pension benefits	See Part 11	See Part 11

Notes:

Tim and Kathy spent most of their working life with one employer.

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant		
Bank	Access Bank	Access Bank
Doctor	Dr Knowles	Dr Knowles
Financial Adviser		
Solicitor	Henson Davies LLP	Henson Davies LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary (gross)						
Benefits-in-kind						
Savings income (gross)		234		338		525
Rental (gross)						
Dividends		8,300		1,800		

Notes:

The savings income is derived from Tim and Kathy's Cash ISAs and Deposit Savings account.

The dividend income is derived from Tim and Kathy's ISA holdings and Tim's OEICs and Investment Trusts.

	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			216			
Buildings and contents insurance						600
Gas, water and electricity			200			
Telephone			70			
TV licence and satellite			90			
Property maintenance						3,000
Regular Outgoings						
Life assurance (see Part 8)						
Health insurance (see Part 9)						5,200
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,200	1,000	
Petrol and fares	210	120				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers				120	60	
Entertainment			400			
Clubs and sport		60		1,400		
Spending money	400	200				
Clothes				1,800	3,000	
Financial support for Harry						2,000
Other (Holidays)	610	380	1,576			
Total Monthly Expenditure	7,320	4,560	18,912	4,520	4,060	10,800
Total Annual Expenditure						**50,172**
Total Outgoings						
Do you foresee any major/lump sum expenditure in the next two years?						
Notes:						
Tim and Kathy have been using their cash savings to fund their current expenditure since they retired.						

PART 6: ASSETS					
	Asset	**Client 1 £**	**Client 2 £**	**Joint £**	**Income (Gross) £**
1.	Main residence			600,000	
2.	Contents/car			65,000	
3.	Current account			15,000	
4.	Deposit Savings Account – Instant Access			35,000	525
5.	Cash ISA	18,000			234
6.	Cash ISA		26,000		338
7.	Stocks and shares ISAs – UK Smaller Companies funds	180,000			900
8.	Stocks and shares ISAs – Multi-Asset Growth funds		120,000		1,800
9.	OEICs – Global Equity funds	290,000			5,800
10.	Investment Trusts – Emerging Markets	160,000			1,600

Notes:

Tim and Kathy have invested regularly into their stocks and shares ISAs but are unsure if their chosen investment funds remain suitable now they are retired. They have maximised their ISA allowance for the current tax year.

Tim and Kathy are concerned that the dividend yields on their ISAs, OEICs and Investment Trusts are currently insufficient to meet their longer-term income needs and would like to review these holdings.

Tim purchased the OEICs and Investment Trusts several years ago. He invested a sum of £200,000 into the Global Equity fund OEICs and a sum of £80,000 into the Investment Trusts.

Tim and Kathy are planning to hold the compensation payment from Kathy's employer in their deposit savings account pending future investment.

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			

Notes:
Tim and Kathy have repaid their mortgage.

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

Notes:
Tim and Kathy have no outstanding loans.

Other Liabilities (e.g. tax)

Notes:
Tim and Kathy have no other liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust ?	Surrender Values £

Notes:

Tim and Kathy were members of their respective employer's death-in-service schemes but since retiring, these benefits are no longer available to them.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
Private Medical Insurance	Kathy	N/A	N/A	Annual Review	N/A	5,200 per annum

Notes:

Kathy was offered the option of continuing with the private medical insurance which was previously available through her employer. This was offered on the same basis as whilst she was employed.

Kathy accepted this and now pays the premium on a personal basis.

PART 10: REGULAR SAVINGS

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

Notes:

Tim and Kathy are not making any regular savings since they retired. They are keen to set up regular savings plans for their grandchildren once they have settled into retirement.

PART 11: PENSION DETAILS

Occupational pension scheme

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

Notes:
Tim and Kathy do not have any occupational pension benefits.

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

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

Notes:
Tim and Kathy do not have any additional voluntary contributions plans.

Personal Pensions

	Client 1	Client 2
Type	Self-Invested Personal Pension	Personal Pension
Company	Assure SIPP Ltd	UK Life Ltd
Fund	Global Equity, UK Equity and Commercial Property funds	UK Managed fund
Contributions		
Retirement age		
Current value	£670,000	£575,000
Date started		

Notes:

These fund values include benefits that were transferred in from previous pension schemes.

Tim and Kathy have stopped all contributions into their pensions following retirement.

Tim and Kathy wish to look at how to generate a regular and sustainable income from these pension plans throughout retirement.

Tim wishes to diversify his current investments within his SIPP and is considering investing into a range of Exchange Traded Funds.

Previous pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		
Date joined scheme		
Date left		
Current Value		

Notes:

All previous pension arrangements were transferred into their current plans.

State Pension

	Client 1	Client 2
Basic Pension		
Total		

Notes

Tim and Kathy have not yet checked their State Pension entitlement.

PART 12: INHERITANCES

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

Notes:

Tim and Kathy have up-to-date Wills which leave everything to each other on first death and then to their two daughters in equal shares on second death.

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

Notes:

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

Notes:

Tim and Kathy are concerned about a future Inheritance Tax liability on their estate on second death and are considering options to mitigate this.

Inheritances	Client 1	Client 2
Give details of any inheritances (see below)	None	None

Notes:

Both Tim and Kathy's parents are in good health and neither expect to receive any inheritances in the future.

PART 13: ATTITUDE TO RISK

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

Notes:

Tim and Kathy have completed a full risk-profiling assessment. Tim has been identified as a high-risk investor and Kathy is a medium-risk investor.

Neither Tim nor Kathy have any ethical preferences.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.04.2020	
Client agreement issued	01.04.2020	
Data Protection Act	01.04.2020	
Money laundering	01.04.2020	
Consultations		
Dates of meetings	01.04.2020	
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 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 and suitability of Tim and Kathy's current pensions and investments.
- To establish a suitable investment strategy for Kathy's compensation payment.
- To ensure they have sufficient income throughout retirement.

Longer-term objectives

- To mitigate any potential Inheritance Tax liability.
- To provide financial security for the survivor on first death.
- To set up a regular savings strategy to provide funds for their grandchildren.

Attempt ALL tasks

Time: 3 hours

1. **(a)** Identify the additional information you would require to enable you to establish if Tim and Kathy's current savings, pensions and investments are suitable to meet their needs now they are retired. **(13)**

(b) Describe, in detail, the process an adviser would follow to establish if Tim and Kathy's existing pensions and investments are likely to be sustainable throughout their retirement. **(10)**

(c) Identify and explain the key client-specific factors that apply to Tim and Kathy that you should consider when assessing their capacity for loss. **(10)**

2. **(a)** Explain to Tim and Kathy the key issues that they should take into consideration when setting up fixed monthly withdrawals from the OEIC portfolio, instead of continuing to draw the natural dividend income. **(10)**

(b) Explain why Kathy's compensation payment should be paid free of tax. **(4)**

3. Tim and Kathy are keen to identify the most suitable and sustainable sources of income in retirement.

(a) Describe the benefits of using a portion of Kathy's pension plan to purchase a 5-year fixed-term annuity to provide them with an income to cover their essential expenditure. **(10)**

(b) **(i)** Recommend and justify a suitable and tax-efficient strategy to enable Tim to draw a regular flexible monthly income payment from his self-invested personal pension (SIPP). **(7)**

(ii) Explain why your recommended strategy in **part (b)(i)** above would benefit both Kathy and their children, on Tim's death. **(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.

4. Tim is considering the investment strategy within his existing self-invested personal pension (SIPP).

(a) Explain to Tim why a range of Exchange Traded Funds may be a suitable investment for his SIPP. **(10)**

(b) Explain to Tim the key reasons why the issue of liquidity should be considered when reviewing the investments held within his SIPP portfolio. **(8)**

5. **(a)** Explain in detail to Tim and Kathy the benefits of continuing to make personal pension contributions now they are retired. **(10)**

(b) Recommend and justify the actions that Tim and Kathy can take to improve the tax-efficiency of their current savings and investments. **(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.

6. Tim and Kathy are concerned about the potential Inheritance Tax liability on their estates on second death.

(a) Explain in detail to Tim and Kathy why setting up a whole of life policy with a reviewable premium may be a suitable option to assist them in their Inheritance Tax planning objective. **(11)**

(b) Recommend and justify a suitable Trust arrangement to enable Tim and Kathy to begin to mitigate any future Inheritance Tax liability, whilst retaining full and immediate access to their capital. **(14)**

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

7. Tim and Kathy are planning to set up regular savings plans for their grandchildren.

(a) Identify the key benefits of making regular savings into a pension plan for their grandchildren, rather than into a Junior ISA. **(8)**

(b) State the reasons why a personal pension plan may be more suitable for this purpose than a Stakeholder pension plan. **(5)**

(c) Identify the key reasons why a global equity-based investment strategy might be appropriate for this objective. **(8)**

8. Explain to Tim and Kathy why they should review their investment portfolio more than once a year. **(8)**

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) *Candidates would have gained full marks for any thirteen of the following:*

- Income needs/capital/expenditure/emergency fund required.
- BR19/State Pension entitlement/State benefits for Kathy.
- Asset allocation/Fund choice/held on platform.
- Fund performance/expected investment return.
- Costs/charges/penalties.
- Nominations completed on pensions.
- Are flexible death benefits available?
- Flexi-Access Drawdown (FAD)/Uncrystallised Fund Pension Lump Sum (UFPLS) available under Kathy's pension.
- Any protected Pension Commencement Lump Sum (PCLS).
- Willingness to change ownership of assets for tax-efficiency.
- Is commercial property fund currently gated/suspended?
- Amount of gifting for grandchildren/Budget for Inheritance Tax (IHT) mitigation?
- Inflation/market expectations.
- Capacity for loss/plans to downsize.

(b)

- Establish income required/expenditure/cashflow model.
- Establish guaranteed sources of income/State Pension/annuity?
- Inflation assumption.
- Growth assumption based on their attitude to risk/asset allocation.
- Consider longevity/term of income required/investment term.
- Current annuity rates/safe withdrawal rates/sustainable income.
- Calculate fund required/identify shortfalls/projections.
- Charges/willingness to deplete assets/tax considerations.
- Ongoing review/monitoring.
- Stress-test/higher income needs/care costs.

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

- They have a high level of assets/adequate emergency fund;
- so they are able to tolerate loss/volatility.
- Limited earning ability/now retired.
- Medium/high attitude to risk.
- Level of income/capital/expenditure.
- They have no liabilities/debts.
- Due to receive compensation payment/£100,000.
- They have no financial dependants.
- Kathy is recovering from injury/cost for Private Medical Insurance (PMI)/life expectancy.
- No inheritances expected.
- State Pension due at age 66/in 5 years.
- They have investment experience/knowledge.

Model answer for Question 2

(a)

- Pound cost ravaging/sequencing risk/market timing.
- Capital erosion.
- Capital withdrawals could be liable to Capital Gains Tax (CGT).
- They are not using Kathy's exemptions.
- CGT is complicated to calculate each month/complex/fees.
- Reduces natural dividend income.
- Known level of monthly income.
- Dividend income fluctuates/not guaranteed.
- Cash reserves/other assets available to them.
- Capital withdrawals reduce future fund growth/investment returns could exceed fixed withdrawals.

(b)

- Payment for compensation for injury/accident.
- Kathy was injured at work.
- Employer accepted liability/liability was agreed with insurer.
- Payment for loss of income or earnings is taxable.

Model answer for Question 3

(a)
- Guaranteed/secure income.
- Can review pension options in future/Retains flexible income options within Personal Pension Plan (PPP).
- Bridges income gap until State Pension age.
- Can benefit if annuity rates rise in future/enhanced annuity.
- Potential for capital growth on residual fund/can increase risk.
- IHT benefits from residual fund.
- Low-cost option/low admin.
- Spouses pension/Value protection.
- Escalation to protect against inflation.
- No investment risk.
- (Annuity) uses Kathy's Personal Allowance.

(b) **(i)**
- Flexi-Access Drawdown (FAD).
- Income payments can change/can match expenditure.
- Can utilise Personal Allowance/Provides tax planning opportunities
- Phasing/can use Pension Commencement Lump Sum (PCLS) on a monthly basis.
- Matches attitude to risk.
- Potential for capital growth.
- No Income or CGT on growth/IHT efficient.

(ii)
- IHT-efficient.
- Can nominate children.
- Flexi-Access Drawdown/lump sum/flexible death benefits.
- For Kathy and children.
- Tax-free if he dies before 75.
- Retention of tax-free pension wrapper (on future growth).

Model answer for Question 4

(a)
- Offers wide diversification.
- Able to invest in commodities/specialist investments.
- Potential for growth.
- Liquid/easily traded/traded as a share.
- Low-cost option.
- No Stamp Duty.
- Known price/Real time pricing.
- Easy to monitor/available on platform.
- Different management styles/active/passive/index tracking.
- Matches his attitude to risk/he is an experienced investor.

(b)
- Applies to commercial property/equity funds are normally liquid.
- Property Fund can be gated/suspended.
- Delays in payment of income/restriction in access to lump sum / Pension Commencement Lump Sum (PCLS).
- Unable to switch funds/providers.
- Newly retired so income needs are unknown/need for flexibility.
- May result in forced sale/lower values/bid basis.
- Unable to value Self-Invested Personal Pension (SIPP) accurately.
- SIPP is a major asset/reliant on SIPP.

Model answer for Question 5

(a)
- £3,600 (gross)/£2,880 (net) maximum/20% tax relief.
- Contribution not linked to earnings/they are non-earners.
- Available to age 75.
- Tax-efficient growth.
- IHT-free fund.
- 25% Pension Commencement Lump Sum (PCLS) available in future.
- Can match attitude to risk.
- Can benefit from pound cost averaging.
- Flexible death benefits/tax-free on death before 75.
- Flexible Income options/future tax-efficient income.

(b)
- Use future ISA allowance for Capital Gains Tax and Income Tax efficiency.
- Transfer Open-Ended Investment Company (OEIC)/Investment Trust into joint names/Kathy's name.
- Using interspousal exemption/no CGT/no gain no loss/base cost retained.
- Uses Kathy's dividend allowance/£1,000.
- Saves dividend tax of 8.75%.
- Use both CGT exemptions/register any losses.
- Make pension contributions.
- Enterprise Investment Scheme (EIS)/AIM shares for IHT efficiency.

Model answer for Question 6

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

- Set up on 2nd death basis.
- Set up in discretionary/flexible Trust.
- Discretionary Trust offers flexibility of beneficiary.
- Can appoint children/executor as Trustees.
- Proceeds do not form part of estate/no Probate.
- Sum assured to match current IHT liability.
- Can be indexed to match increase in estate.
- Simple underwriting/both young/no further underwriting.
- Premium will be cheaper/affordability.
- Premiums out of normal income/IHT exempt.
- Premium guaranteed for maximum 5/10 years.
- Policy can be cancelled at any time/flexibility/may not be needed in future/gives Tim and Kathy time to set up alternative plans/gifting.
- Retains access to existing funds.

(b)

- Loan Trust.
- Discretionary Trust.
- Trustees should be Tim and Kathy/and the children.
- Trustees retain control/flexible beneficiaries.
- Protects against divorce/bankruptcy of beneficiary.
- Use Investment Bond as a non-income producing asset/administrative efficiency.
- Draw up to 5% income from Investment bond.
- No immediate tax implications/return of capital for up to 20 years/tax-deferred.
- Not a Potentially Exempt Transfer (PET) or Chargeable Lifetime Transfer (CLT)/not a gift.
- No Inheritance Tax charge on entry.
- Can draw income or lump sums at any time/repayable on demand.
- Growth on invested fund is free of IHT immediately.
- Sums withdrawn should be spent or gifted.
- On 2nd death loan returns to the estate/subject to IHT.

Model answer for Question 7

(a)

- 20% tax relief on contributions/£720.
- Pension is Inheritance Tax free.
- Long investment horizon/longer timescale.
- Can use higher risk investments/more equity.
- No access until 57/no risk of squandering money at age 18.
- Education for the grandchildren in long-term investing.
- They can continue contributing beyond age 18.
- Grandparents can set up pension/they can control/not controlled by parents.

(b)
- Wider investment choice.
- Wider provider choice/available on platforms.
- Can be cheaper.
- Invest in real funds/not mirror funds.
- Greater flexibility in retirement options.

(c)
- Potential for growth/improved returns/larger pot on retirement.
- Equities tend to outperform other assets.
- Long investment timeframe;
- pound cost averaging;
- which reduces risk/smooth volatility/benefit from volatility.
- Reinvested dividend income.
- Inflation protection.
- Geographic/currency diversification.

Model answer for Question 8

- Recently retired and income and capital needs unclear.
- Attitude to risk/capacity for loss may change in retirement/rebalance/performance/charges.
- Personal circumstances may change.
- Compensation payment received?
- Have they set up fixed monthly withdrawals from OEIC/level of natural dividend income.
- Investment trust/OEIC/Exchange Traded Fund (ETF)/require ongoing monitoring (these are high risk investments).
- Political/economic/legislative/taxation changes/new products.
- Use of annual tax allowances.

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
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
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

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

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- 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 minimumguarantee - 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 3rd 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%