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# AF5

## Advanced Diploma in Financial Planning Practice Test 6

Unit AF5 – Financial planning process

2023-2024 Revision Aid

*Based on October 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

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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.

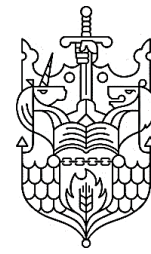
We strongly advise that you try the familiarisation test once you have received your login details and **well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

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



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## 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 Dan Field and Tara Jones recently.

PART 1: BASIC DETAILS						
	Client 1	Client 2				
Surname	Field	Jones				
First name(s)	Dan	Tara				
Address	Norfolk	Norfolk				
Date of birth	01.05.1980	11.09.1984				
Domicile	UK	UK				
Residence	UK	UK				
Place of birth	London	London				
Marital status	Single (co-habiting)	Single (co-habiting)				
State of health	Good	Good				
Family health	Good	Good				
Smoker	No	No				
Hobbies/Interests	Running, cycling	Running, swimming				
<b>Notes:</b>						
<p>Dan and Tara have recently sold their London home and moved to Norfolk. They are both web designers and have set up a new Limited Company for their business which they intend to run from their new home in Norfolk. They released a large amount of capital from the sale of their London home and have engaged your services to assist them in setting up a financial plan to meet their long-term objectives.</p>						
PART 2: FAMILY DETAILS						
<b>Children and other dependants</b>						
Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Keira	Daughter	2		Good	N/A	Yes
Erin	Daughter	2		Good	N/A	Yes
<b>Notes:</b>						
<p>Dan and Tara have twin daughters.</p>						

PART 3: EMPLOYMENT DETAILS		
Employment	Client 1	Client 2
Occupation	Web Designer	Web Designer
Job title	Director	Director
Business name		
Business address		
Year business started	June 2020*	June 2020*
<b>Remuneration</b>		
Salary	£12,500	£12,500
State Pensions		
Overtime		
<b>Benefits</b>		
Benefits-in-kind		
Pension Scheme		
Life cover		
Private Medical Insurance		
Income Protection Insurance		
<b>Self-Employment</b>		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
<b>Other Earned Income</b>		
<b>Notes:</b>		
<p>Dan and Tara have recently established a new Limited Company for their web design business, having worked previously as self-employed contractors in London. They have several long-term contracts already agreed with a predicted turnover of £80,000 in the first year.</p> <p><i>*This Fact Find was used in the October 2020 examination. For the purposes of revision, candidates should assume that the new business is still within its' first year of operation.</i></p> <p>Dan and Tara wish to review the remuneration options available to them from the company as well as the potential to set up company benefits.</p>		
<b>Previous Employment</b>		
Previous employer	Self-employed	Self-employed
Job title		
Length of service		
Pension benefits	See Part 11	See Part 11
<b>Notes:</b>		

PART 4: OTHER PROFESSIONAL ADVISERS						
	Client 1		Client 2			
Accountant	Fawsley & Co		Fawsley & Co			
Bank	Access Bank		Access Bank			
Doctor	Dr Knowles		Dr Knowles			
Financial Adviser						
Solicitor	Henson Davies LLP		Henson Davies LLP			
Stockbroker						
Other						
<b>Notes:</b>						
PART 5: INCOME AND EXPENDITURE						
Income						
	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary (gross)		12,500		12,500		
Benefits-in-kind						
Savings income (gross)		1,000		1,200		3,450
Rental (gross)						
Dividends		250		250		
<b>Notes:</b>						
<p>The savings interest is generated from their Deposit Savings Accounts and the NS&amp;I Income Bonds. Tara receives interest from her Cash ISA which is currently paid out. This is included in her interest income.</p> <p>The dividends for their stocks &amp; shares ISA holdings are reinvested into additional units. These are not included in the table above.</p>						
	Client 1		Client 2			
<b>Income Tax</b>	£		£			
Personal allowances						
Taxable income						
Tax						
National Insurance						
<b>Net Income</b>						
<b>Notes:</b>						

**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			125			
Buildings and contents insurance						260
Gas, water and electricity			165			
Telephone			60			
TV licence and satellite			70			
Property maintenance						1,200
<b>Regular Outgoings</b>						
Life assurance (see Part 8)						
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,100	600	
Petrol and fares	180	140				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)						
<b>Other Expenditure</b>						
Magazines and newspapers						400
Entertainment						
Clubs and sport			60			
Spending money	200	200				
Clothes				1,500	2,000	
Other (Holidays)						6,000
<b>Total Monthly Expenditure</b>	380	340	1,080			
<b>Total Annual Expenditure</b>	4,560	4,080	12,960	2,600	2,600	7,860
<b>Total Outgoings</b>						<b>34,660</b>

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

**Notes:**

Dan and Tara are settling into a new lifestyle in the countryside and their expenditure has dropped from its previous levels in London. They are using some of the proceeds of the recent house sale for their income needs at present.

They are planning to send the twins to private school at age 11 and wish to set aside funds for this.

**PART 6: ASSETS**

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			350,000	
2.	Contents/car			75,000	
3.	Current account	10,000	10,000		
4.	Deposit Savings Account	150,000	150,000		2,000
5.	Cash ISA		40,000		200
6.	NS&I Premium Bonds	50,000	50,000		
7.	NS&I Income Bonds			300,000	3,450*
8.	Unit Trust – UK Equity Income fund			20,000	500
9.	Stocks and shares ISAs – UK Equity Income Fund	30,000	30,000		1,500

**Notes:**

Dan and Tara own their home as joint tenants. This is mortgage free.

Dan and Tara are holding the proceeds of their recent house sale in their Deposit Savings Accounts, NS&I Premium Bonds and NS&I Income Bonds. They wish to invest the majority of these monies as quickly as possible.

*\*Candidates should note that the level of interest quoted on the NS&I Income Bonds was the rate in force at the time of the examination in October 2020.*

They have not used their ISA allowances on a regular basis and have a full allowance available to each of them for the current tax year.

The dividend income from their Unit Trust and ISA holdings is reinvested in the holdings.

Dan and Tara wish to invest their cash funds in an appropriate manner to provide future financial security. They are happy to consider different investment strategies and have expressed an interest in commodities.

Dan and Tara have noticed a range of small commercial property units for sale in their new local area and believe these may be a suitable long-term investment for some of the proceeds of their house sale.



**PART 7: LIABILITIES**

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

**Notes:**

Dan and Tara do not have a 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:**

Dan and Tara have no other loans.

**Other Liabilities (e.g. tax)****Notes:**

Dan and Tara have outstanding tax liabilities following the cessation of their self-employed consultancy. These will be £10,000 each and will be settled in full in January 2024.

**PART 8: LIFE ASSURANCE POLICIES**

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

**Notes:**

Dan and Tara have no current life cover. They wish to put cover in place as soon as possible to protect the twins in the event of either death.

**PART 9: HEALTH INSURANCE POLICIES**

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

**Notes:**

Dan and Tara have no health insurance policies.

**PART 10: REGULAR SAVINGS**

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

**Notes:**

**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:**

Dan and Tara have no 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:**

Dan and Tara have no Additional Voluntary Contribution schemes.

**Personal Pensions**

	Client 1	Client 2
Type	Personal Pension	Personal Pension
Company	UK Life Ltd	UK Life Ltd
Fund	UK Equity	Global Equity
Contributions		
Retirement age		
Current value	£82,000	£65,000
Date started		

**Notes:**

Dan and Tara stopped their contributions into their personal pension plans when they left London. They wish to start contributing into pensions again as soon as their business can support this. Dan and Tara have completed nominations on their pension plans in favour of each other.

Dan and Tara are aware that their pension arrangements are currently limited and wish to review these arrangements to ensure they will have adequate income in retirement.

**Previous pension arrangements**

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

**Notes:****State Pension**

	Client 1	Client 2
Basic Pension		
<b>Total</b>		

**Notes**

Dan and Tara have never checked their State Pension benefits.

**PART 12: INHERITANCES**

Wills	Client 1	Client 2
Do you have a current Will?	No	No
<b>Notes:</b>		
Dan and Tara have recently considered the need to make a Will to ensure future financial security for each other and the twins. They do not intend to marry.		
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	None	None

<b>Notes:</b>		
Inheritances	Client 1	Client 2
Give details of any inheritances (see below)	None	None
<b>Notes:</b>		
Both Dan and Tara's parents are in excellent health and they do not expect to receive any inheritances for many years.		

**PART 13: ATTITUDE TO RISK**

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

**Notes:**

Dan and Tara have completed a full risk-profiling assessment. Both of them are high risk investors.

**PART 14: BUSINESS RECORDS****Compliance**

Date fact-find completed	01.10.2020	
Client agreement issued	01.10.2020	
Data Protection Act	01.10.2020	
Money laundering	01.10.2020	

**Consultations**

Dates of meetings	01.10.2020	
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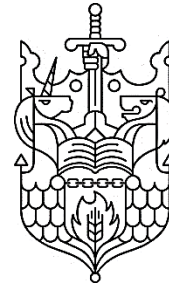
**Marketing**

Client source		
Referrals		

**Documents**

Client documents held		
Date returned		
Letters of authority requested		

**Notes:****PART 15: OTHER INFORMATION**



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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 set up an appropriate remuneration strategy from Dan and Tara's new company.
- To arrange suitable protection for the children in the event of either Dan or Tara's death.
- To consider the purchase of a commercial property unit.

**Longer-term objectives**

- To arrange a suitable investment strategy for the proceeds of their house sale.
- To establish a suitable strategy to ensure that the school fees can be met.
- To ensure that Dan and Tara are able to generate an adequate and tax-efficient income in retirement.

**Attempt ALL tasks****Time: 3 hours**

1.
  - (a) Outline the key client-specific issues that you would consider when advising Dan and Tara on the investment of the house sale proceeds. (12)
  - (b) Identify the key information that you would require in respect of Dan and Tara's existing pension plans when reviewing their suitability for their future retirement planning. (8)
2. Dan and Tara have recently set up a new company for their website consulting business.
  - (a) Outline the key benefits for Dan and Tara of using a combination of salary and dividends for their future income from their new company. (8)
  - (b) Explain in detail to Dan and Tara the benefits of making employer pension contributions for themselves from their new company. (12)
3.
  - (a) Explain in detail to Dan and Tara why it is important to write Wills without delay. (10)
  - (b) Recommend and justify why setting up a Bereaved Minors trust in their Wills can ensure that the twins will be financially protected if both Dan and Tara die. (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.*
4. Dan and Tara are intending to set up an investment for the twins for future private school fees from age 11 onwards.
  - (a) Outline the key issues that they should consider if they decide to invest a single lump sum of £100,000 to meet their school fees objective. (9)
  - (b) Outline the main drawbacks of using a lump sum for this purpose rather than saving from their regular income. (7)

5. (a) Explain to Dan and Tara the benefits of setting up protection policies via their new company instead of on a personal basis. (7)
- (b) Recommend and justify a suitable protection policy for Dan and Tara to provide a regular income to ensure funds are available to meet any childcare costs in the event of either of them dying whilst the children are still in school. (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.*
6. (a) State **ten** drawbacks for Dan and Tara of purchasing a commercial property unit as part of their future investment portfolio. (10)
- (b) Explain to Tara why she should consider transferring her cash ISA to a stocks and shares ISA which invests in an equity-based fund. (11)
- (c) Explain to Dan and Tara why it may be beneficial to move the cash deposits in their Deposit Savings Accounts into their existing National Savings & Investments Income Bonds in the short-term. (10)
7. Dan and Tara are considering a range of different investment strategies for their investment portfolio.
- (a) (i) Explain to Dan and Tara how they could gain exposure to gold as an investment in their portfolio. (4)
- (ii) Outline **five** benefits and **five** drawbacks of holding this type of investment within their portfolio. (10)
- (b) Dan and Tara have invested in UK Equity Income funds within their unit trusts and ISAs as they believe that reinvested dividend income plays a key role in long-term returns.
- State the drawbacks for Dan and Tara of relying solely on the reinvestment of dividend income as an investment strategy in the current economic environment. (8)
8. (a) Explain to Dan and Tara the importance of reviewing their attitudes to risk on a regular basis. (8)
- (b) State **seven** factors that you should consider when reviewing Dan and Tara's finances in relation to their new company at the next annual 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**

- (a)
- Income needs/planned expenditure/emergency funds/how much to invest/investment needed into new business.
  - Projected business profits.
  - Cash fully protected for 6 months/£1m Financial Services Compensation Scheme cover (proceeds of property sale).
  - Capacity for Loss/they have no debts.
  - Ethical considerations/Environmental Social Governance (ESG) concerns.
  - Timeframe/investment term/liquidity/need for access.
  - Use of Tax wrappers/tax efficiency.
  - In whose name/use of trusts.
  - Pension contributions/carry forward.
  - Inflation/Growth expectations/current market conditions.
  - They are high risk investors/limited investment experience.
  - Lack of protection/no life cover/not married/no Wills.
- (b)
- Charges/cost of fund switching.
  - Fund options/range of funds available/asset allocation.
  - Contribution history/carry forward.
  - Death benefits options/any life cover included?
  - Target retirement income and age.
  - Any guaranteed benefits/protected Pension Commencement Lump Sum (PCLS).
  - Platform/on-line access.
  - Fund performance/projections.

**Model answer for Question 2**

- (a) *Candidates would have scored full marks for any eight of the following:*
- Salary uses Personal Allowance/£12,570/no Income tax due.
  - Still entitled to State Benefits/State Pension.
  - Retains starting rate band for savings/Personal Savings Allowance (PSA).
  - Employment allowance on National Insurance (NI)/can pay up to Primary Threshold.
  - Salary reduces Corporation Tax liability.
  - Dividends can be stopped/increased in line with profits/salary can continue if company makes a loss.
  - Can use Dividend Allowances of £1,000
  - Dividends taxed at lower rate than Income Tax for Basic Rate Taxpayers/8.75%.
  - No NI on Dividends.

- (b)
- Pension contributions are company expense/wholly and exclusively.
  - Lower Corporation Tax/tax-efficient extraction of profits from company.
  - No National Insurance Contributions (NICs) on employer contributions/no NICs for Dan and Tara.
  - Not a P11D benefit/not a taxable benefit for Dan/Tara.
  - Contributions not linked to salary/earnings/use £60,000 Annual Allowance
  - Contributions can be flexible/based on company performance.
  - Greater pension fund/currently inadequate.
  - Tax-efficient growth.
  - Flexible Death benefits/Flexi-Access Drawdown/lump sum/annuity.
  - IHT-efficient/tax free before 75.
  - Not married so pension can pass to survivor Inheritance Tax (IHT) free/nomination for survivor.
  - Pension is protected from bankruptcy.

### Model answer for Question 3

- (a)
- They will die intestate.
  - They will only inherit jointly-held assets.
  - They are unmarried.
  - All monies in single names pass (in Trust) for the children.
  - Reduces costs/reduces admin/simpler/no delays.
  - Company shares pass to the children (in Trust)/depends on articles of association.
  - Survivor may have to claim for financial support.
  - Wills ensure correct distribution of assets/appoint executors/appoint Trustees/meets their wishes/protects survivor.
  - Trustees can be appointed for children's money.
  - Guardians of choice/court decides custody if no guardian.
- (b)
- Simple/clear process/reduced admin/reduced cost.
  - Can use Residential Nil Rate Band if property is in Trust/IHT efficient.
  - Children inherit automatically at age 18.
  - Monies can be used for education/schooling/maintenance.
  - Trustees of choice can be appointed by Dan and Tara.
  - Letter of wishes in Will/assets managed for benefit of children.
  - Not taxed at trustee rates/effectively taxed at children's rates.
  - No periodic/exit charges.
  - Trustees can amend Trust at 18/transfer to new Trust (18 - 25).

**Model answer for Question 4**

(a) *Candidates would have scored full marks for any nine of the following:*

- Estimated costs.
- (School fee) inflation assumptions.
- Investment term/duration of school fees/university?
- Attitude to risk/priority of objective.
- In whose name/use of trusts.
- Grandparents contributing?
- Willing to use ISA allowance for this purpose/use tax allowances.
- Accessibility/liquidity.
- Growth assumptions/is £100,000 sufficient?
- Market timing risk/current volatility.

- (b)
- Risk of capital loss.
  - Market timing risk.
  - Loss of liquidity/ties up capital/regular contributions can be budgeted.
  - No option for pound cost averaging;
  - to benefit from volatile investments/to reduce volatility/risk.
  - Cannot use annual ISA allowance for £100,000/£40,000 max.
  - Could generate taxable income/dividends/tax burden.

**Model answer for Question 5**

(a) *Candidates would have scored full marks for any seven of the following:*

- Premiums may be deductible for Corporation Tax purposes/allowable business expense.
- Personal policies paid from net income/disposable income/saves National Insurance.
- Higher cover/not linked to earnings.
- Key-person cover available/protects company.
- PHI can protect both salaries/dividends/pension contributions.
- Relevant life cover/Death in Service (DIS).
- Relevant life/DIS set up under Trust/tax free.
- Relevant life/DIS/Executive Income Protection is not a benefit in kind.

- (b)
- Family Income Benefit (FIB).
  - Joint life first death/two single lives/life of another.
  - Sum assured to meet annual childcare costs.
  - Indexed to protect against inflation.
  - Pays out regular income tax-free.
  - Term covers children's need/to start private school.
  - Guaranteed premiums for affordability/known cost.
  - Both are in good health/young.
  - Simple underwriting process/cheap premiums.
  - Can be written in Trust/joint policy pays to survivor.

**Model answer for Question 6**

- (a)
- Costs of maintenance.
  - Legal costs/Stamp Duty/VAT.
  - Void periods/no rental income.
  - Tenant creating difficulties/damage/time consuming.
  - Value is a matter of opinion/difficult to value.
  - Rental income fully taxable/cannot be held in ISA.
  - Chargeable to Capital Gains Tax on sale at 10/20%.
  - Cannot partially sell.
  - Illiquid.
  - Value subject to economic conditions/volatile/lack of diversification.
- (b)
- They have sufficient/excess cash holdings.
  - Equities match her attitude to risk/cash does not match her attitude to risk.
  - Cash exposed to inflation risk.
  - Interest rates currently low/interest rate risk.
  - No growth potential on cash/potential for growth on equities.
  - Transfer maintains ISA wrapper/transfer does not use current year ISA.
  - Wide fund choice/hold on platform/active/passive.
  - Suitable for long-term investment.
  - Personal Savings Allowance covers interest on cash ISA/ISA wrapper is wasted on cash.
  - Increase diversification.
  - Equities generally outperform other assets.
- (c)
- Income Bonds are joint holding/deposit accounts in sole names.
  - Not married.
  - On death, survivor will receive nothing (deposit accounts).
  - No Wills in place/would die intestate.
  - Easy access/no penalty on access.
  - Interest rate competitive/poor interest rates in general/rate drops in November 2020\*.
  - Security/backed by UK Treasury.
  - Deposit accounts not covered in full by Financial Services Compensation Scheme/£85,000 max.
  - Generates monthly interest/help meet living costs.
  - Reduces admin/1 account rather than 3.

*\*Candidates should note that this examination was sat by candidates in October 2020 and this answer refers to interest rates in force on NS&I Income Bonds at this time.*

**Model answer for Question 7**

- (a) (i)
- Can be held as a physical asset/bars/coins/jewellery.
  - Can be held as an Exchange Traded fund/Exchange Traded Commodity.
  - Collective fund/OEIC.
  - Individual shares in gold mining companies.

(ii) **Benefits**

- Diversification.
- Safe haven asset.
- Non-correlation with equities/other assets.
- Potential for long-term growth/inflation hedge.
- Collective/Exchange Traded Fund/shares/are liquid.

**Drawbacks**

- Storage costs for physical asset/security/insurance cost for physical asset.
- No dividend from physical asset/low yield on Exchange Traded Fund.
- Physical asset may be hard to sell/illiquid.
- Performs poorly in rising interest rate environment/ when US dollar is strong/currency risk.
- Can lose value/can depreciate/volatile.

(b) *Candidates would have scored full marks for any eight of the following:*

- Companies can cut/reduce dividends/dividends not guaranteed.
- Higher yielding stocks most likely to cut dividends.
- Reduced dividends will affect long-term capital growth.
- Growth stocks offer better growth prospects (e.g. technology)/dividend stocks offer limited capital growth.
- Regulators can insist that dividend income be stopped.
- Dividend Allowance is low/£1,000/could affect their company dividends.
- Dividend income is taxable.
- Taxation of dividends could change.
- Lack of diversification.



**Model answer for Question 8**

- (a) *Candidates would have scored full marks for any eight of the following:*
- Attitude to risk (ATR) differs for different objectives/school fees/retirement.
  - Changes based on investment experience/knowledge.
  - Changes based on personal circumstances/health.
  - Changes based on income/ business profit/inheritance.
  - Changes as they get older/changes over time/term of investment.
  - Children's needs may change so ATR may need to be adjusted.
  - Fund performance/market performance/to ensure investments match ATR.
  - How much risk do they need to take/how much risk can they afford to take/what if target is achieved?
- (b)
- Company Tax Year end/Corporation Tax due.
  - Company profits/turnover/company debts/their remuneration.
  - Reviewing pension scheme/Level of pension contributions/scope to increase.
  - Taken on employees/workplace pension requirements.
  - Reviewing any company protection benefits/Income Protection/Critical Illness/Death in Service/Private Medical Insurance.
  - Future contracts/cashflow forecasts/company value.
  - Changes in taxation/legislation/new products.

**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

<b>Class 3 (voluntary)</b>	Flat rate per week £17.45.
<b>Class 4 (self-employed)</b>	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%