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# AF5

## Advanced Diploma in Financial Planning Practice Test 7

Unit AF5 – Financial planning process

2023-2024 Revision Aid

*Based on March 2021 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.ciiigroup.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 7

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Harry and Pauline Williams recently.

PART 1: BASIC DETAILS					
	Client 1	Client 2			
Surname	Williams	Williams			
First name(s)	Harry	Pauline			
Address	Warwick	Warwick			
Date of birth	14.10.1946	01.07.1947			
Domicile	UK	UK			
Residence	UK	UK			
Place of birth	London	Cardiff			
Marital status	Married	Married			
State of health	Poor	Good			
Family health	Good	Good			
Smoker	No	No			
Hobbies/Interests	Sport, walking	Swimming, walking			
<b>Notes:</b>					
<p>Harry and Pauline retired when Harry reached his 65<sup>th</sup> birthday and have always managed their finances themselves.</p> <p>Harry suffered a heart attack recently but is expected to make a good recovery. Harry wishes to review their finances to ensure that they are making best use of their assets. Harry and Pauline have appointed you to look at their financial affairs and provide advice on how they might improve their current financial position.</p>					
PART 2: FAMILY DETAILS					
<b>Children and other dependants</b>					
Name	Relationship	Age	Health	Occupation	Financially dependent?
Andrew	Son	48	Good	Researcher	No
Emily	Daughter	45	Good	Dentist	No
<b>Notes:</b>					
<p>Andrew and Emily are both married with three children each. Emily is currently separated from her husband and is considering a divorce within the next year.</p>					

PART 3: EMPLOYMENT DETAILS		
Employment	Client 1	Client 2
Occupation	Retired Engineer	Retired Training Manager
Job title		
Business name		
Business address		
Year business started		
<b>Remuneration</b>		
Salary		
State Pensions	£11,300	£9,400
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>		
Harry and Pauline retired when Harry reached his 65 <sup>th</sup> birthday.		
<b>Previous Employment</b>		
Previous employer		
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		

**Notes:**

## PART 5: INCOME AND EXPENDITURE

### Income

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions		11,300		9,400		
Pensions/Annuities	4,315		600			
Salary (gross)						
Benefits-in-kind						
Savings income (interest)		730		4,090		
Rental (gross)						
Dividends		12,200				

In addition to their State Pension income, Harry receives monthly income from his self-invested personal pension (SIPP) and his defined benefit pension. Pauline also receives income from her annuity.

Pauline's savings interest is derived from her cash accounts as well as from the income from her UK Corporate Bond fund ISA.

Harry's dividend income is derived from both his ISA and Non-ISA holdings.

	Client 1	Client 2
Income Tax	£	£
Personal allowances		
Taxable income		
Tax		
National Insurance		
Net Income		

**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			325			
Buildings and contents insurance						360
Gas, water and electricity			185			
Telephone			60			
TV licence and satellite			85			
Property maintenance						2,000
<b>Regular Outgoings</b>						
Life assurance (see Part 8)			170			
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,400	950	
Petrol and fares	200	120				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			800			
Pension contributions (see Part 11)						
<b>Other Expenditure</b>						
Magazines and newspapers	40					
Entertainment			300			
Clubs and sport				600	600	
Spending money	400	400				
Clothes				1,000	1,000	
Other (Holidays)						2,000
<b>Total Monthly Expenditure</b>	640	520	1,925			
<b>Total Annual Expenditure</b>	7,680	6,240	23,100	3,000	2,550	4,360
<b>Total Outgoings</b>						<b>46,930</b>

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

**Notes:**

Harry and Pauline do not envisage any lump sum expenditure until Harry is fully recovered from his recent heart attack.

**PART 6: ASSETS**

	Assets	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			700,000	
2.	Contents/car			65,000	
3.	Current account			15,200	
4.	Fixed-Term Deposit Savings Account	16,000	16,000		320
5.	Cash ISA – Instant Access	95,000			570
6.	Cash ISA – Fixed Term		40,000		480
7.	National Savings and Investments Premium Bonds	50,000	50,000		
8.	Individual Shareholdings – UK shares (various)	240,000			6,000
9.	Investment Trust – Global Equity	120,000			2,400
10.	Stocks and shares ISAs – UK Corporate Bond fund		115,000		3,450
11.	Stocks and shares ISAs – UK & Global Tracker funds	190,000			3,800

**Notes:**

Harry and Pauline's home is mortgage-free and owned as joint tenants.

Harry and Pauline have used their ISA allowance for the current Tax Year.

Harry has built up a portfolio of individual equities over a number of years. Some of these equities are showing large capital gains. These are all held in certificated form and following his recent heart attack, Harry is now finding these difficult to manage from an administrative point of view. He has asked you to advise him on the ongoing suitability of these shareholdings and how they can be managed more efficiently. The equities are invested in a large number of both UK blue chip, mid cap and smaller companies. The dividend income is paid out to Harry from these shareholdings.

Harry also holds an Investment Trust which was originally purchased in 2001. This had an original purchase cost of £40,000. Harry has noticed that this Investment Trust is currently trading at a premium to Net Asset Value.



**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:**

Harry and Pauline 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:**

Harry and Pauline do not have any loans.

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

Harry settles his tax bill via self-assessment each year.

**PART 8: LIFE ASSURANCE POLICIES**

Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
Joint	Joint	200,000	170 per month	WOL	14.05.11	Yes	1,400

**Notes:**

Harry and Pauline have a Joint Life Last Survivor Whole of Life policy on a reviewable basis that was set up in 2011. This is due for a premium review in May 2024 and they are aware that the premium is likely to increase significantly at this point.

They have asked you to advise them on the continuing suitability of this policy for their needs.

**PART 9: HEALTH INSURANCE POLICIES**

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

**Notes:**

Harry and Pauline do not have any Health Insurance policies.

**PART 10: REGULAR SAVINGS**

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

**Notes:**

Harry and Pauline do not make any regular savings.

**PART 11: PENSION DETAILS****Occupational pension scheme**

	Client 1	Client 2
Member of employer's scheme		
Type of scheme	Defined Benefit Scheme	
Date joined	1973	
Retirement age	65	
Pension benefits	£15,780 per annum (gross)	
Death benefits	None	
Dependant's benefits	Two-thirds spouse's pension	
Contracted-in/out	Contracted-in	
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		

**Notes:**

Harry has an occupational pension from a former employer. This has been in payment since his 65<sup>th</sup> birthday and increases each year with RPI inflation. On Harry's death, Pauline would receive a spouse's pension of two-thirds of Harry's pension on the date of his death.

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

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

**Notes:**

Harry and Pauline do not have any Additional Voluntary Contribution schemes.

**Personal Pensions**

	Client 1	Client 2
Type	Self-invested personal pension (SIPP)	
Company	Assure Life	
Fund	Global Equity/UK Equity/Fixed-Interest	
Contributions		
Retirement date		
Current value	£630,000	
Date started		

**Notes:**

Harry has a SIPP from which he draws a regular income of £3,000 (gross) per month via Flexi-Access Drawdown to supplement his and Pauline's retirement income needs. Harry is concerned about the long-term sustainability of the SIPP as the growth on the plan has been poor over the past few years. Harry would like to review his income options in respect of his SIPP.

Harry has completed a nomination of beneficiary for the SIPP in favour of Pauline.

**Previous pension arrangements**

	Client 1	Client 2
Employer		
Type of scheme		Annuity
Date joined scheme		
Date left		
Current Value		N/A

**Notes:**

Pauline has a lifetime annuity which was set up on her retirement from her former employer's Group Personal Pension plan. This pays a monthly income of £600 (gross) and is on a level basis. This does not provide any spouse's benefit for Harry on Pauline's death.

**State Pension**

	Client 1	Client 2
State Pension	£11,300	£9,400

**Notes**

Harry and Pauline have been receiving their State Pension for many years.

**PART 12: INHERITANCES**

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes
<b>Notes:</b>		
Harry and Pauline have Wills. These are mirror Wills leaving all assets to each other on first death and then to the children 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		
<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 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:**

Harry and Pauline have completed a full risk-profiling assessment. They have both been identified as medium-risk investors. Harry previously considered himself to be an adventurous investor, but he is no longer comfortable with very high levels of risk following his recent health problems.

Based on their assets and their guaranteed sources of income, Harry and Pauline have a high capacity for loss.

Harry and Pauline have advised you that they are not concerned about ethical investing.

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

Date fact-find completed	28.01.21	
Client agreement issued	28.01.21	
Data Protection Act	28.01.21	
Money laundering	28.01.21	

**Consultations**

Dates of meetings	28.01.21	
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**Marketing**

Client source		
Referrals		

**Documents**

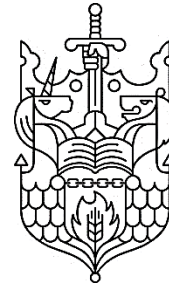
Client documents held		
Date returned		
Letters of authority requested		

**Notes:**

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**PART 15: OTHER INFORMATION**

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## Advanced Diploma in Financial Planning Practice Test 7

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 Harry and Pauline's current pension arrangements.
- To consider any financial implications resulting from Harry's recent heart attack.
- To review the suitability and tax-efficiency of their current financial arrangements.

**Longer-term objectives**

- To ensure Harry and Pauline can continue to generate sufficient income to meet their long-term needs.
- To mitigate their potential Inheritance Tax liability and ensure that their assets are passed as tax-efficiently as possible to their children.
- To protect Emily's inheritance in the event that she gets divorced.

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

1.
  - (a) Identify the additional information that you would require in order to advise Harry and Pauline on the suitability of their current savings, pensions and investment holdings. (13)
  - (b) Outline the key factors that should be taken into consideration when establishing if Harry and Pauline have sufficient funds to meet their long-term income requirements. (13)
2.
  - (a) Explain, in detail, to Harry why he should carry out a review of his existing self-invested personal pension (SIPP) before he reaches age 75.\* (10)
  - (b) Explain to Harry why purchasing a lifetime annuity may not be suitable in their current circumstances. (10)

*\*Candidates should note that this question was based on legislation in force in March 2021.*
3.
  - (a) Explain, in detail, to Harry why his portfolio of individual shares may no longer be suitable for him. (8)
  - (b) Identify the key reasons why a range of collective investment funds might be more suitable for Harry and Pauline. (11)
4. Harry and Pauline are keen to ensure that they mitigate any future Inheritance Tax (IHT) liability whilst ensuring that they have sufficient funds for their own lifetimes.
  - (a) Explain to Harry and Pauline the criteria that would have to be met for gifts out of income to be effective for IHT purposes, and the benefits of this strategy for them. (9)
  - (b) Identify the steps that must be taken to wind up Harry and Pauline's estate, and explain how their assets will be treated for Inheritance Tax purposes on second death. *No calculations are required.* (14)

5. (a) Recommend and justify why Harry should consider reducing the current income withdrawals from his self-invested personal pension (SIPP). (11)

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

- (b) Recommend and justify the actions that Harry and Pauline could take to protect Emily's inheritance as she is considering a divorce. (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. (a) Identify the key benefits for Harry and Pauline of investing some of their current cash holdings into a jointly held Onshore Investment Bond. (11)

- (b) State the key factors that Harry and Pauline should consider when deciding whether to renew their Whole of Life policy in May 2024. (7)

7. Harry and Pauline are considering a range of different investment strategies for their investment portfolio.

- (a) Recommend and justify the actions that Harry and Pauline could take to manage and dispose of Harry's individual shareholdings in a tax-efficient manner over the next few years. (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.*

- (b) Identify the key factors that an adviser should consider before recommending the sale of Harry's Investment Trust. (9)

8. (a) Identify **six** events that would trigger an **immediate** review of Harry and Pauline's financial arrangements. (6)

- (b) Explain to Harry and Pauline why they should review their Wills and pension nominations on a regular basis. (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 scored full marks for any thirteen of the following:*
- Emergency Fund requirements/they have excess cash.
  - Term of Fixed Deposit/loss of interest if they cash in early/penalty.
  - Base costs of individual shares.
  - Any dividends reinvested?
  - Have they used Capital Gains Tax (CGT) exemptions?/any losses carried forward?
  - Willingness to change ownership of assets for tax efficiency.
  - Amount of Premium to Net Asset Value (NAV) on Investment Trust?/gearing.
  - Percentage of SIPP crystallised/any remaining PCLS?
  - Percentage of Lifetime Allowance (LTA) used to date.
  - Yield/growth on funds/SIPP capital erosion/performance.
  - Asset allocation/fund choice/switching options.
  - SIPP Costs/drawdown costs/charges.
  - Any Protections in place/Fixed Protection/Individual Protection/Defined Benefit Scheme funding position.
  - IHT planning/trusts/gifts/pension contributions.
- (b)
- Emergency fund required/Income required/help for Emily/planned expenditure
  - Cost of future care/planned gifting.
  - Harry's health now/is this likely to deteriorate?/longevity.
  - High level of guaranteed income/State Pension/Defined Benefit/annuity.
  - Higher rate taxpayer (HRT) on excess SIPP withdrawals.
  - Inflation assumptions/no inflation protection on annuity/Defined Benefit and State Pensions are indexed.
  - Growth expectations based on current asset allocation/projections/poor returns from cash at present.
  - Safe withdrawal rate from SIPP/current annuity rates/willing to erode capital.
  - Downsize property/equity release.
  - Enhanced annuity based on Harry's health.
  - Market conditions/current dividend yields/outlook for future dividends.
  - They have no liabilities/no mortgage/they have a high capacity for loss/they have a medium attitude to risk.
  - Use other assets for tax-efficiency/willing to transfer assets to Pauline.

**Model answer for Question 2**

- (a)\*
- Benefit Crystallisation Event (BCE5) at age 75/LTA test at age 75.
  - Growth in self-invested personal pension (SIPP)/uncrystallised SIPP may have LTA charge.
  - May wish to take additional income/reduce growth.
  - Calculate remaining LTA/tested against remaining LTA.
  - Pension taxable on beneficiary on death after age 75/tax free before 75.
  - Could take remaining pension commencement lump sum (PCLS) otherwise taxable on beneficiaries on death (after age 75).
  - Could avoid LTA charge/25%/55%.
  - Update nominations to include children/improve their benefit options on his death.
  - His attitude to risk has changed/capital erosion/high level of withdrawals/reducing IHT efficiency.
  - Can make £3,600 (gross)/£2,880 (net) contribution.

*\* Candidates should note that this question was based on legislation in force in March 2021. 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 6th April 2024.*

- (b)
- Enhancement may be limited due to joint life/Harry is recovering.
  - Pauline is in good health.
  - Not flexible/cannot adjust income/no Income Tax planning opportunities.
  - Reduces death benefits/purchase of annuity uses IHT-efficient pension fund.
  - Annuity rates are low/annuity rates may improve/poor value.
  - Income taxed at Harry's marginal rate/subject to higher rate tax.
  - Annuity does not match attitude to risk.
  - No potential for investment growth.
  - Guarantees/index linking etc. are expensive.
  - Additional income is not needed/other assets available.

**Model answer for Question 3**

- (a)
- Medium risk/his attitude to risk has changed/does not match attitude to risk.
  - Adequate capital so no need to take high risk.
  - Regular monitoring/ongoing administration/need for simplification/need for tax reporting/certificated/harder to sell.
  - Recent reduction in dividend payments (UK economy)/current economic conditions/dividends are not guaranteed.
  - Lack of asset diversification/single companies/equities.
  - All UK based/lack of geographic diversification.
  - Exceeds Dividend Allowance/taxable at 33.75%.
  - Cost of selling/liquidity of small company shares.
- (b)
- Diversification.
  - Reduces risk/volatility.
  - Professional management/expertise.
  - No CGT on internal fund changes (within OEIC).
  - Cost effective.
  - Funds can match attitude to risk.
  - Wide choice of funds/passives/active/Discretionary Fund Management/multi-asset.
  - More predictable income stream – can choose monthly/quarterly withdrawals.
  - Simple tax reporting/can calculate gains/use CGT exemption.
  - Less administration/can be held on platform/easier to sell/fund switch/rebalancing/easier to reinvest dividends.
  - Easier to use ISA/Bed & ISA.

**Model answer for Question 4**

- (a)
- Gifts must be from excess income.
  - Cannot be funded from capital.
  - Immediately IHT exempt/no 7-year rule.
  - In addition to annual gifting exemptions.
  - Must show regular pattern of gifting.
  - Must not impact standard of living/can vary each year.
  - Accurate records must be kept.
  - Can be challenged by HM Revenue & Customs post death/not guaranteed.
  - Gift must be outright/no retained value/covers whole of life premiums/can see family enjoy the gifts.
- (b) *Candidates would have scored full marks for any fourteen of the following:*
- Estate would be valued (on second death).
  - Two Nil-Rate bands (NRB) available
  - Assets passed to spouse under Will/no IHT on first death.
  - Value all debts/liabilities/tax bill/identify all gifts in last 7 years.
  - Send death certificate/notify all relevant parties/banks etc.
  - Apply for probate/use transferable Nil Rate Band/Residential Nil Rate Band/IHT forms.
  - RNRB applies as home passes to children.
  - IHT at 40%.
  - IHT must be paid before estate can be distributed.
  - Net estate passes to beneficiaries.
  - Whole of Life policy is in Trust so not part of estate/can be used to pay IHT due on estate.
  - SIPP passes to nominated beneficiaries.
  - Pensions are not subject to IHT.
  - Identify any AIM shares/may not be subject to IHT
  - All other savings and investments liable to IHT/in estate.
  - State Pension/Defined Benefit pension/annuity ceases on death/no value.

**Model answer for Question 5**

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

- Harry does not need additional income.
- If SIPP is not fully crystallised can take remaining Pension Commencement Lump Sum.
- Currently paying Higher Rate Tax (HRT)/40% tax.
- Could become Basic Rate Taxpayer/10% CGT/8.75% dividend tax/PSA £1,000.
- IHT-free asset.
- Other tax-efficient income sources available/cash available.
- Recent SIPP performance has been poor.
- Pound cost ravaging/sequencing risk/exceeds Safe Withdrawal Rate (SWR).
- Flexible death benefits/No need for Probate.
- Protected in event of Emily's divorce/controlled by Trustees.
- Tax-free growth in SIPP/excess income in estate/taxable.
- SIPP offers flexible income in future/can stop/start.

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

- Review Will/current Will is not suitable.
- Set up Discretionary Trust;
- so Emily has no absolute right to monies/so protected from divorce.
- Emily's share of estate to pass into Trust.
- Nominate Trustees who understand their wishes/Emily can be a Trustee.
- No gifting to Emily until divorce is complete.
- Include Emily's children in Will.
- Emily's husband can currently claim share of inheritance.
- Pension nomination for Emily's children.



**Model answer for Question 6**

- (a) *Candidates would have scored full marks for any eight of the following:*
- They have excess cash holdings.
  - Tax-deferred income available of up to 5% per annum of original capital.
  - Cumulative withdrawals.
  - Equivalent of Basic Rate Tax deducted within Bond/top slicing/no tax due until chargeable event occurs.
  - Tax-efficient income for Harry as he is Higher Rate taxpayer.
  - Can assign to Pauline as she is a Basic Rate taxpayer/no further tax liability for Pauline.
  - Wide choice of investments/diversification/fund switches.
  - Growth potential/inflation protection.
  - Matches attitude to risk/cash does not match attitude to risk.
  - Jointly-held so Bond continues on first death/no tax on first death.
  - Can assign segments/can set up in Trust.
  - Not considered in long-term care assessments.
- (b)
- Revised premium level/Is it affordable?
  - Options to amend sum assured (SA)/reduce SA to retain existing premium.
  - Estimate of IHT/SA is too low/Policy is in Trust so outside estate.
  - Any plans for gifting/spending to reduce estate/premium is treated as a gift out of normal expenditure.
  - State of health/no underwriting/guaranteed insurability.
  - Frequency of future reviews/is SA indexed?
  - Rebroke/more competitive premiums elsewhere/is alternative cover possible?

**Model answer for Question 7**

- (a)
- Transfer to platform or nominee to simplify administration.
  - Transfer shares from Harry to Pauline.
  - Interspousal transfer/no Capital Gains Tax (CGT) implications/Pauline inherits his base cost.
  - Pauline has unused Dividend Allowance (DA)/use both DAs.
  - Dividend Tax is 8.75% (Basic Rate Tax) and 33.75% (Higher Rate Tax)/saves 25%
  - Reduce Harry's taxable income from SIPP to become Basic rate taxpayer;
  - to reduce Harry's CGT/Dividend Tax/increases Personal Savings Allowance (PSA).
  - Use CGT exemption of £6,000.
  - Monitor gains on regular basis/values change daily.
  - Register CGT losses with HM Revenue & Customs.
  - Harry pays 20% CGT/Pauline pays 10% CGT.
  - Bed & ISA/reinvest in ISA for tax efficiency.
- (b) *Candidates would have scored full marks for any eight of the following:*
- Capital Gain chargeable at 20% CGT.
  - Availability of CGT exemption.
  - Any losses to carry forward/losses to offset.
  - Transfer to Pauline to use her allowances.
  - What is current Premium to Net Asset Value (NAV)?/Gearing/any warrants?
  - Does this indicate good growth prospects?/past performance/it has performed well to date/Why is it trading at a premium?
  - Does it match his attitude to risk?
  - Provides additional income/Dividend Yield.
  - Provides diversification.

**Model answer for Question 8**

- (a)
- Death/marriage/divorce/loss of mental capacity/change in health.
  - Need for income/capital/windfall.
  - Either of them going into long-term care.
  - Severe market turmoil/good market conditions/take profits.
  - Change in tax regulations/pension legislation/emergency budget/change in nominations required.
  - Age 75 pension review/Benefit Crystallisation Event (BCE).\*
  - \* Candidates should note that this question was based on legislation in force in March 2021. 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 6th April 2024.
- (b)
- Harry is recovering from illness/any health issues?/both have mental capacity.
  - Ensures Trustees/executors are in place and able to act.
  - IHT efficiency/IHT planning/change in legislation.
  - Considers family circumstances/divorce/can change beneficiaries/new grandchildren/ensures wishes are reflected.
  - Ensures Residential Nil Rate Band (RNRB) can be used if left to direct descendants.
  - Can afford to leave more to children on first death/financial position may have changed.
  - Nominate children or grandchildren to improve SIPP benefit options.
  - Reduce risk of family conflict/dispute.

**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
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%