R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2018 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2018/2019, 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.

Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper.

- This paper consists of **two** case studies and carries a total of 150 marks.

- You are advised to spend approximately 90 minutes on the questions for each case study. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

- 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 bring a calculator into the examination room, 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 provided at the back of this question paper.

- Answer each question on a new page and leave six lines blank after each question part.

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.

Attempt ALL questions for each case study

Time: 3 hours

Case study 1

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d)** and **(e)** which follow.*

Tamir and Nahla, both aged 49, are married with two children. Their son, Nadim, aged 21, is in his final year at university and their daughter, Lila, aged 17, is due to start university next year. Tamir and Nahla are both in good health.

Tamir is employed as a marketing director and receives a basic salary of £70,000 per annum gross. He is a member of his employer's death-in-service scheme which provides three times his basic salary in the event of his death and he is a member of his employer's qualifying workplace pension scheme, to which both he and his employer contribute 5% of his basic salary. This pension plan is invested in the default investment fund, which is a target date fund, based on a planned retirement age of 60.

Nahla is employed as a production manager and receives a basic salary of £58,000 per annum gross. Nahla is a member of her employer's qualifying workplace pension scheme. She contributes 8% of her basic salary to the scheme and this contribution level is matched by her employer. Nahla's pension fund is invested in a global equity fund. Her employer does not provide any other benefits.

Tamir and Nahla own their home, valued at £400,000, and they have an outstanding interest-only mortgage of £350,000. They plan to repay this mortgage using their cash Individual Savings Accounts (ISAs), into which they save £500 per month each. Tamir and Nahla are concerned that these cash ISAs may not be a suitable vehicle to repay their mortgage before their planned retirement age of 60. They have a joint life mortgage protection policy in place to cover their mortgage, with a current sum assured of £220,000. This policy was originally set up to cover the mortgage on their previous home and expires on Tamir's 55 birthday.

Tamir has a personal income protection insurance policy which was set up a number of years ago. He is concerned that this policy may no longer be suitable for his needs.

Nadim is keen to start saving for a deposit to purchase a property and Tamir and Nahla intend to help both of their children with deposits to buy their first homes. They are considering using the proceeds of Tamir's unit trust as a source of funds for these deposits. Tamir and Nahla are keen to ensure that they can access the unit trust as tax efficiently as possible in future years. The unit trust was purchased in 2009, with a lump sum contribution of £40,000.

Tamir and Nahla consider themselves to be medium to high risk investors. They have not received financial advice previously and wish to understand the benefits of doing so.

Tamir and Nahla have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint Tenants	400,000
Current account	Joint	30,000
Cash ISA	Tamir	60,000
Unit Trust – UK smaller companies fund	Tamir	75,000
Cash ISA	Nahla	60,000

Tamir and Nahla's financial aims are to:

- ensure that they have adequate financial protection arrangements;
- put in place a suitable investment strategy to fund their retirement;
- assist their children with deposits for their first homes.

Questions

(a) State the process that a financial adviser should follow when providing appropriate financial advice to Tamir and Nahla. **(8)**

(b) **(i)** State the reasons why Tamir and Nahla's existing mortgage protection policy may be unsuitable to meet their needs. **(7)**

(ii) Recommend and justify the actions that Tamir and Nahla could take to improve their existing mortgage protection arrangements. **(12)**

(c) In respect of Tamir and Nahla's qualifying workplace pension schemes:

(i) Identify the key reasons why their existing pension fund investment choices are likely to be suitable to meet their longer-term objectives. **(10)**

(ii) State the reasons why Tamir and Nahla should consider increasing their personal contributions into their respective employers' pension schemes. **(10)**

(d) Identify the key information that you would need to obtain about Tamir's existing income protection insurance policy to assess its suitability for his circumstances. **(10)**

(e) **(i)** Explain in detail the actions Tamir and Nahla could take to ensure that Tamir's unit trust can provide tax-efficient lump sums to help with the house deposits for both children. **(7)**

(ii) Identify the key **drawbacks** for Nadim of using a Lifetime ISA to save for his house deposit. **(8)**

Total marks available for this question: 72

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

Read the following carefully, and then carry out ***ALL*** *of the tasks* ***(a), (b), (c), (d), (e), (f)*** *and* ***(g)*** *which follow.*

Rick, aged 57, is engaged to Sarah, aged 58. Sarah is currently in the process of finalising a divorce and Rick and Sarah plan to marry early next year. Rick was widowed five years ago. He inherited all of his late wife's estate. Rick has one adult son, Tom, who is married with two young children. Sarah does not have any children. Both Rick and Sarah are in good health.

Rick is employed as a finance manager and receives a salary of £40,000 per annum gross. He is a member of his employer's defined benefit pension scheme and receives no other employee benefits.

Sarah is a director in a small limited company. She owns 50% of the company's shares and her sister owns the other 50%. Sarah receives a salary of £1,000 per month gross and has received dividends in the 2018/19 tax year of £180,000. She will not receive any further dividends. Sarah and her sister have agreed to sell the business and this sale will complete in December 2018. Sarah plans to retire once the business is sold.

Rick and Sarah live in a house which is owned solely by Rick. The house is mortgage-free. Sarah owns a buy to let investment property in her sole name, which she purchased fifteen years ago for £150,000. She receives rental income of £1,450 per month gross, before agent's fees are deducted. There is an interest-only mortgage outstanding of £100,000 on the property which has 10 years remaining.

Sarah is a member of a small self-administered pension scheme (SSAS) which was established in 1998. Sarah and her sister are the only members. The scheme is invested in a range of collective investments and Sarah's transfer value is £600,000. They plan to wind-up the scheme once the business is sold.

As a result of her divorce, Sarah will become entitled to receive 50% of her ex-husband's defined benefit pension scheme. Her ex-husband's cash equivalent transfer value is currently valued at £1 million. She is considering her options in respect of this pension entitlement.

Rick and Sarah have the following assets:

Assets	**Ownership**	**Amount (£)**
Main residence	Rick	500,000
Unit Trust – UK high yield bond fund	Rick	40,000
Stocks and Shares ISA – Global fixed interest	Rick	55,000
Buy to let: investment property	Sarah	350,000
Savings account	Sarah	55,000
OEIC – UK long dated gilt fund	Sarah	95,000
Stocks and Shares ISA – UK corporate bond fund	Sarah	60,000
Current account	Joint	20,000

Rick and Sarah have a medium to high attitude to investment risk and they are keen to preserve as much of their capital as possible for Rick's son and grandchildren.

Rick and Sarah both made Wills a few years ago, before they met.

Rick and Sarah's financial aims are to:

- generate a sustainable retirement income;
- preserve capital for their intended beneficiaries;
- minimise their potential liability to Inheritance Tax;
- improve the suitability and tax-efficiency of their current pensions and investments.

Questions

(a) Identify the additional information a financial adviser would require regarding Rick's defined benefit pension scheme, to be able to advise Rick on his retirement planning. **(13)**

(b) **(i)** Outline the key factors that a financial adviser should consider, when recommending a suitable strategy for Rick and Sarah's existing savings and investment holdings, as part of their retirement planning. **(10)**

(ii) Comment on the suitability of Rick and Sarah continuing to hold their fixed-interest investments. **(10)**

(c) Sarah is considering how to deal with the pension benefits she is to receive from her ex-husband's pension scheme on their divorce.

State the advantages and disadvantages of Sarah using a pension sharing order rather than an earmarking order. **(10)**

(d) Explain to Sarah how the rental income and any potential sale proceeds from her buy to let investment property will be taxed. *No calculations are required.* **(7)**

(e) Recommend and justify the actions that Rick and Sarah could take to immediately reduce their potential Inheritance Tax liability. **(8)**

(f) State **six** advantages and **six** disadvantages of Sarah using flexi-access drawdown, rather than an annuity, to arrange her retirement income when she crystallises her small self-administered pension scheme (SSAS). **(12)**

(g) State **eight** factors an adviser should take into consideration when reviewing Rick and Sarah's pension arrangements at their next annual review. **(8)**

Total marks available for this question: 78

The tax tables can be found on pages 9 – 17

INCOME TAX

RATES OF TAX	2017/2018	2018/2019
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	£33,500	£34,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

**not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,500	£11,850
Married/civil partners (minimum) at 10% †	£3,260	£3,360
Married/civil partners at 10% †	£8,445	£8,695
Transferable tax allowance for married couples/civil partners	£1,150	£1,190
Income limit for Married couple's allowance†	£28,000	£28,900
Rent a Room relief	£7,500	£7,500
Blind Person's Allowance	£2,320	£2,390
Enterprise Investment Scheme relief limit on £1,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.
*** maximum for 'standard' investment but for 'knowledge intensive' investment, the limit is £2,000,000.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£116
Primary threshold	£162
Upper Earnings Limit (UEL)	£892

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 162.00*	Nil
162.01 – 892.00	12%
Above 892.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 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 162.00**	Nil
162.01 – 892	13.8%
Excess over 892.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.95 where profits exceed £6,205 per annum.
Class 3 (voluntary)	Flat rate per week £14.65.
Class 4 (self-employed)	9% on profits between £8,424 - £46,350. 2% on profits above £46,350.

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	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2017/2018	2018/2019
	£4,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2017/2018	2018/2019
Individuals, estates etc	£11,300	£11,700
Trusts generally	£5,650	£5,850
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2017/2018	2018/2019
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

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*	£100,000	£125,000
- 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
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:					
- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:					
- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2018/2019:

- The percentage charge is 13% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 16%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 19%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 20% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 190g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£23,400 for 2018/2019) e.g. car emission 90g/km = 19% on car benefit scale. 19% of £23,400 = £4,446.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2017/2018 Rates	2018/2019 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2017/2018	2018/2019
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2017/2018	2018/2019
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.70	17.20
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.65	Up to 110.75
Attendance Allowance	Lower rate	55.65	57.30
	Higher rate	83.10	85.60
basic State Pension	Single	122.30	125.95
	Married	195.60	201.45
new State Pension	Single	159.55	164.35
Pension Credit	Single person standard minimum guarantee	159.35	163.00
	Married couple standard minimum guarantee	243.25	248.80
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
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
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		140.98	145.18

**Only applicable where spouse or civil partner died before 6 April 2017.*
*** Only applicable where spouse or civil partner died on or after 6 April 2017.*

CORPORATION TAX

	2017/2018	2018/2019
Standard rate	19%	19%

VALUE ADDED TAX

	2017/2018	2018/2019
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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