Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2018 Examination Guide

SPECIAL NOTICES

Candidates entered for the January 2019 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

R06 – Financial planning practice

Contents

Published January 2019

Telephone: 020 8989 8464
Fax: 020 8530 3052
Email: customer.serv@cii.co.uk

IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Read the Diploma in Regulated Financial Planning information for candidates and important notes for candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Financial Planning Information for Candidates and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely

It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide

This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that 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.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of each examination paper and the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.
- The allocation of marks between the two case studies may vary slightly from one session to another.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

Two weeks before the examination

What will I receive?
Case studies will contain client information, which will form the basis of the exam questions.

How should I use my time over the two week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarizing yourself with the client details from the case studies.

How should I use the case studies to help me prepare?
- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions
Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the exam seeks to test
The examination is based on two case studies for imaginary clients whose details you will have received two weeks prior to the exam date. The case studies will enable you to familiarise yourself with the clients circumstances. The questions will only be supplied in the actual examination.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper taking into account the financial objectives provided.
- Compare your answers against the model answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies arrive to focus on the client details and prepare yourself for the examination day.

In the examination

What will I receive?

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. You will be issued with an identical fresh copy. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common sense rules:

1. **Spend your time in accordance with the allocation of marks as indicated on the paper.** The maximum marks allocated to each question and its constituent parts are given on the paper. The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably. Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and only return to the incomplete question after you have completed the rest of the paper, if you have time.

2. **Take great care to answer the precise question set.** The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However brilliantly a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated.* Many candidates leave the examination room confident that they have written a 'good' paper, only to be mystified when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.

Order of tackling questions
Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted, but *remember not to spend excessive time on the questions you are most confident about.*

Answering different question parts
Always read all parts of a question before starting to answer it, otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it would be necessary to duplicate much of what has already been written. The examiners will normally only give credit for an answer if it is contained within its correct question part.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance:

Overall, candidates performed well on this paper. The candidates who had prepared well and studied past papers for guidance have succeeded with better results and higher marks achieved.

The paper tested a wide range of issues which advisers will need to understand in order to provide good financial planning advice. It was in keeping with similar papers set in the past and continued to test key areas such as protection, pension planning, investments and the taxation of savings and investments which are a very important aspect of financial planning.

Question 1

Part (a) This was well answered and tested the process that a financial adviser will follow with clients when providing financial advice. Most candidates scored six or seven marks from a total of eight.

Part (b)(i) This was a question looking for candidates to recognise why the client's life assurance policy may be unsuitable for their needs. Many recognised the defects in the policy from the case study and so scored well. This however was not answered as well as some other protection questions have been in previous sittings.

Part (b)(ii) This was a recommend and justify mortgage life assurance protection question, which saw some candidates misinterpret the question and incorrectly discuss different mortgage types. There was slightly disappointing performance from a number of candidates who did not focus on the 'protection' arrangements and instead, made a range of suggestions as to how the couple could reduce their outstanding mortgage. Although this may have been a reasonable strategy, this did not answer the question which related directly to the life assurance protection arrangements.

Part (c)(i) Some candidates did not answer the question that was asked and discussed pension planning generally. Some good performance was seen in this question although a number of candidates had not researched target date funds and instead provided incorrect detail on 'lifestyle' funds. This aspect of the clients' pension funds was clearly signposted in the Case Study so indicates a lack of adequate preparation for some candidates.

Part (c)(ii) This was again answered well by some and less well by others. There are clear benefits from increasing pension contributions and obvious marks were missed in many answers.

Part (d) This was very well answered and although some candidates have struggled with this type of question before, it was well signposted in the case study so many candidates scored a high level of marks.

Part (e)(i) This was well answered by just a few candidates. The tax efficiency of the unit trusts needed to be considered and improved. This was accessible and should have been answered to a higher level by candidates.

Part (e)(ii) Given the information provided in the Case Study, this was a clear potential area for testing. Well-prepared candidates scored good marks but a large number of candidates achieved only a few marks and clearly some knew very little about Lifetime ISAs.

Overall, some candidates scored really well on both parts and demonstrated a good understanding. Other candidates really struggled and achieved less than four marks for each part.

Question 2

Part (a) This was a typical fact-find question and was well signposted. The only candidates who struggled to score well were those who provided generic retirement planning answers rather than specific answers related to the defined-benefit scheme.

Part (b) This was a two part question, with part (b)(i) on a strategy for investments and savings and some struggled with this. In part (b)(ii) there was a need to consider the suitability of fixed interest investments and the current portfolio. As a result, a number of candidates did not achieve high marks in this second part as they struggled to consider the different aspects of fixed interest investments.

Part (c) This was related to pension sharing orders and again this was signposted in the case study. As a result, many candidates had prepared well and secured high marks. Some less well prepared candidates struggled with the disadvantages for the pension sharing and did not appear to have a good understanding of this topic which is covered by the syllabus.

Part (d) was very well answered with many candidates obtaining maximum marks and although this type of question has not been asked before, this was well signposted. A small number of candidates were unaware of the additional Capital Gains Tax surcharge on residential property, but overall, most candidates achieved good marks.

Part (e) This was in relation to Inheritance Tax mitigation and some candidates answered it well, but not many scored high marks. A lot of candidates provided answers on all solutions rather than just those that would provide an immediate Inheritance Tax benefit, as the question asked.

Part (f) This was related to flexi access drawdown and was answered very well. This is very encouraging to see, given the importance of pension freedoms in the advice planning process.

Part (g) This was the standard review question and although many did score well, few scored maximum marks. The only point that was often missed was the specific one in relation to the sale of the business or the pension sharing order being concluded.

Chartered Insurance Institute

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

Case study 2

*Read the following carefully, 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

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)

- Establish/define relationship/confirm scope of service/fees.
- Fact-find/obtain goals and objectives/confirm capacity for loss/attitude to risk.
- Analyse current situation/existing investments/identify shortfalls.
- Develop financial plan/research.
- Present financial plan/recommendation/discuss.
- Provide Key Information Documents (KID)/suitability report.
- Implement plan/obtain client agreement.
- Monitor/review.

(b)(i)

- Term does not match mortgage term.
- Cover decreases.
- Mortgage debt remains level/interest-only.
- Sum assured does not match mortgage.
- Unlikely to contain critical illness cover/waiver of premium.
- No residual value after claim/no cover for survivor's other needs.
- May be expensive/premium unknown.

(b)(ii) *Candidates would have gained full marks for any twelve of the following:*

- Level Term Assurance.
- Joint life first death/2 x single life.
- Sum assured of £350K minimum.
- Critical illness cover (if affordable).
- Term to match planned repayment date/age 60/10/11 years.
- Guarantees repayment of mortgage in case of either death.
- Low cost/cheap life cover.
- Guaranteed premium.
- Known cost/affordability.
- Waiver of premium.
- Pays premiums in the event of sickness or disability.
- Cancel existing policy when new policy in force.
- Ensures no break in cover.

(c)(i)
Tamir

- Diversification/range of asset classes.
- Likely to be heavily invested in equities at outset.
- Matches planned retirement at 60.
- Fund manager controls investment decisions/no need for Tamir to monitor/actively managed/de-risk.
- Reduces risk towards approaching retirement.

Nahla

- Global Equity matches attitude to risk.
- Geographical diversification.

Both/either

- Potential for growth/currency.
- Low charges.
- Pound cost averaging.

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

- 40% tax relief.
- Salary sacrifice may be available.
- Can reduce National Insurance (NI) costs/employer may share NI savings/employer match?
- Tax-efficient fund/no Capital Gains Tax (CGT) or Income Tax/pension commencement lump sum available.
- Potential for growth.
- Greater income in retirement/reduces reliance on other assets in retirement/they have limited other assets.
- No administration/deducted from salary.
- Low charges.
- Discipline/pound cost averaging.
- Flexible options at retirement.
- Inheritance Tax (IHT) efficient/fund not liable to IHT/flexible death benefits.

(d)

- Benefit level.
- Current premium.
- Reviewable/guaranteed.
- Deferred period.
- Occupation basis - own/any/has occupation changed?
- Is policy indexed?
- Conditions covered/any exclusions/rated.
- Term of policy/expiry date.
- Proportionate/rehabilitation benefit.
- Quality of service/financial strength.

(e)(i) *Candidates would have gained full marks for any seven of the following:*

- Calculate current capital gain/£35K.
- Transfer Unit Trust into joint names.
- Using interspousal transfer/no CGT charge.
- Use of CGT exemptions/£11,700/register previous losses.
- Sell units over 2 tax years to remove potential CGT liability.
- Cannot reinvest in same fund for 30 days.
- Could Bed & ISA.
- ISA allows tax-free withdrawals/growth.

(e)(ii)

- Limited contribution/£4,000 per annum.
- Penalty on withdrawal/25% of value.
- Must hold for 1 year.
- Restricted use/must meet exact criteria/must use mortgage.
- Property price must not exceed £450K.
- Charges/investment risk.
- Limited providers at present.
- Additional administration/may need to set up standard ISA as well.

Case study 2

Model answer for Question 2

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

- Scheme retirement date.
- Definition of salary.
- Accrual rate/current/projected pension entitlement.
- Years of service to date.
- His contribution level?
- Commutation factor/pension commencement lump sum.
- Spouse's pension/definition of spouse/DIS/nominations/death benefits.
- Early retirement factor.
- Deferment terms if he leaves/revaluation.
- Indexation levels (in retirement).
- Scheme deficits/solvency/employer solvency/plans for closure of scheme.
- Availability of AVC's/options to boost scheme.
- Cash Equivalent Transfer Value/any enhanced terms to transfer/transfer value.
- Level term assurance value/protection.

(b)(i)

- Objectives/income or growth/inheritances/any new money due?/use of other savings and investments.
- Diversification/correlation/asset allocation.
- Timescale/when will Rick retire.
- Emergency fund.
- Ethical.
- Capacity for loss/attitude to risk/previous investment experience.
- Charges/performance.
- Willingness to change ownership of assets/use of trusts.
- Planned use of tax wrappers/use of tax allowances/base costs/their tax status.
- Plans for buy to let house/value of her business.

(b)(ii)

- Not suited to their attitude to risks.
- Too much reliance on fixed interest/not diversified.
- Vulnerable to interest rate movements/change in economic environment.
- High-yield bond/corporate bond can be volatile holdings.
- Would be better to Bed and ISA.
- Limited growth potential/potential for growth.
- Could provide income.
- Risk of capital loss/currency risk/inflation risk.
- Income taxed as savings income/uses personal savings allowance.
- Spread of risk (within the sector).

(c)

Advantages

- She has control of investments.
- She can decide the retirement date.
- Pension not lost on her remarriage/ex-husband's death.
- Can decide on retirement strategy/ flexi access drawdown annuity.
- Clean break.

Disadvantages

- Taxable as her income/she may be Higher taxpayer than him.
- Will take her pensions over Lifetime Allowance (of £1.03m).
- Loses guarantees.
- Needs to receive advice/advice costs/transfer costs.
- Investment risks.

(d) *Candidates would have gained full marks for any seven of the following:*

- Rental income taxed as income tax.
- Mortgage interest relief available;
- reducing to basic rate (by 2020).
- Can offset ongoing costs.
- CGT on sale.
- Less costs (e.g. legal/capital costs)/Private Residence Relief allowance may be available/use of previous losses.
- CGT allowance available.
- Balance charged at 18%/28%.

(e) *Candidates would have gained full marks for any eight of the following:*

- Use gift allowances/small gifts.
- Makes gifts out of normal expenditure/income.
- Charity gifts/political donations.
- Removes money from estate.
- Discounted Gift Trust.
- Immediately reduces estate.
- Make pension contributions.
- Pension is IHT free.
- Make Wills/use Will Trust.

(f)

Benefits

- Potential growth/stay invested.
- Flexible income.
- Tax efficient income.
- IHT free/outside of estate.
- Annuity rates may improve/no mortality drag.
- Choice of successor/flexible death benefits.

Drawbacks

- Increased fees/charges.
- Investment risk/loss of mortality gain.
- May fritter funds/deplete funds before she dies.
- Need advice/complexity/reviews.
- Income not guaranteed.
- Triggers Money purchase annual allowance.

(g)

- Personal circumstances/objectives/health/marital status/nominations.
- Income requirements/change in income/tax status/inheritances.
- Investment performance/valuation/rebalance/asset allocation/defined benefit scheme changes/solvency.
- Attitude to risk/capacity for loss.
- Use of allowances/contribution history.
- Economy changes/market changes.
- Legislative changes/tax changes/new products.
- Business sale/pension and divorce/Small Self-Administered Scheme (SSAS).

October 2018 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the January 2019 paper will be based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise and should be answered accordingly.

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.