R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2019 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)**, **(e)**, **(f)** and **(g)** which follow.*

Mario and Dianne, both aged 52, are married with one son, Gianluca. Mario and Dianne are both in good health. Gianluca, aged 22, lives with his parents and works in his father's business.

Mario owns a restaurant as a sole proprietor and his taxable net profits are £70,000 per annum which he takes as drawings. He has a personal pension into which he contributes £1,000 per month net. The current value of the personal pension is £440,000 and the monies are invested in a range of passive equity tracker funds.

Dianne is employed as a human resources manager and earns a salary of £48,000 per annum gross. Dianne is a member of her employer's defined benefit pension scheme. Her employer does not provide any other employee benefits.

Mario and Dianne own their home as joint tenants which is valued at £350,000 and they have an outstanding mortgage of £90,000 on an interest-only basis. This is a tracker-based mortgage and the current interest rate is 1.29%. The mortgage has a remaining term of eight years. They have a joint life level term assurance policy in place to cover this mortgage.

Dianne's father died three years ago when he was aged 78. Dianne inherited his self-invested personal pension (SIPP) which, at the time of his death, was valued at £525,000. The current value of the SIPP is £673,000. The fund is managed by a discretionary fund manager and includes a wide range of asset classes.

Mario inherited an open-ended investment company (OEIC) portfolio from his aunt two years ago when it was worth £150,000. The current value is £190,000.

Mario is a high-risk investor and Dianne's attitude to risk is low to medium. Neither Mario nor Dianne have any ethical preferences.

Mario and Dianne have the following assets:

Assets	**Ownership**	**Value (£)**
Main residence	Joint Tenants	350,000
Current account	Joint	20,000
Deposit account	Joint	80,000
Cash ISA	Dianne	20,000
Restaurant premises	Mario	300,000
Stocks and Shares ISA – UK Equity fund	Mario	30,000
OEIC – Global Equity fund	Mario	190,000
Venture Capital Trust	Mario	15,000

Mario and Dianne's financial aims are to:

- ensure that they have adequate income in retirement;
- ensure that they have adequate financial protection arrangements;
- ensure that their pensions and investments are suitable for their needs.

Questions

(a) Identify the additional information an adviser would require to advise them on the suitability of their current pensions. **(13)**

(b) Identify the factors that would typically influence Mario and Dianne's tolerance for risk. **(7)**

(c) **(i)** Explain to Mario why a range of passive equity tracker funds within his personal pension are likely to be suitable for him. **(6)**

(ii) Explain to Mario the advantages of continuing to fund his personal pension rather than using a stocks and shares ISA for his retirement planning. **(5)**

(d) **(i)** Identify the additional information you would require, in respect of Mario and Dianne's joint life level term assurance policy, to assess its suitability. **(8)**

(ii) State the factors that Mario and Dianne should be aware of if they decide to repay their mortgage now using some of Mario's open-ended investment company. **(10)**

(e) Explain why Dianne should consider retaining the inherited self-invested personal pension (SIPP) for the long-term. **(7)**

(f) State **four** benefits and **four** drawbacks for Dianne of retaining the services of the discretionary fund manager to look after her SIPP investments. **(8)**

(g) **(i)** Outline the tax treatment of the Venture Capital Trust (VCT) held by Mario. **(5)**

(ii) Explain why an Enterprise Investment Scheme may be a more suitable investment vehicle for Mario than a VCT. **(6)**

Total marks available for this question: 75

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)** and **(f)** which follow.*

Geoff and Katy, both aged 64, are married with one son, Samuel. Geoff and Katy are both in good health. They are planning to retire in six months' time by which they will both be aged 65. Samuel is married with three children and is financially independent.

Geoff is employed as a design engineer and earns a salary of £52,000 per annum gross. He is a member of his employer's qualifying workplace pension scheme and he contributes 5% of his basic salary to this scheme. This contribution level is matched by his employer. The pension plan is invested in a UK-based cautious managed fund. His fund has a current value of £110,000.

Katy is employed as a retail manager and earns a salary of £30,000 per annum gross. Katy is a member of her employer's qualifying workplace pension scheme to which both she and her employer contribute 3% of her basic salary. This pension plan is invested in a global equity fund and a global tracker fund. Her fund has a current value of £100,000.

Geoff and Katy have no other pension benefits but expect to receive a full new State Pension at their respective State Pension ages.

Geoff and Katy own their home as joint tenants valued at £650,000 and they have fully repaid their mortgage. They do not have any protection policies other than a death-in-service cover offered by Katy's employer which provides three times her basic salary whilst she remains in service. Geoff is the nominated beneficiary of this scheme.

Geoff and Katy have an investment portfolio which includes stocks and shares ISAs. These are currently held in money market funds. They have not used their ISA allowances for the current tax year. Geoff has a portfolio of individual UK smaller company shares which is held on a platform. These shares provide a total dividend yield of £1,000 per annum. Katy also holds a portfolio of open-ended investment companies (OEICs) which are invested in a range of global growth funds. These generate annual dividends of approximately £3,500.

Geoff and Katy are concerned about their potential Inheritance Tax liability and have in place a reviewable joint life last survivor whole of life policy, which is in trust, with a sum assured of £100,000. This policy is due to reach its first ten-year anniversary in May 2019. They have been advised that the premium will rise significantly on this anniversary and have asked for your advice in respect of this policy. Their Wills were made several years ago, and they are planning to review these in the near future.

Geoff and Katy consider themselves to be high-risk investors.

Geoff and Katy have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint Tenants	650,000
Current account	Joint	10,000
Savings account	Joint	80,000
Stocks and shares ISA – Money Market fund	Katy	45,000
OEIC portfolio – Global Growth Funds	Katy	175,000
Portfolio of Individual Equities	Geoff	130,000
Stocks and shares ISA – Money Market fund	Geoff	68,000

Geoff and Katy's financial aims are to:

- generate a sustainable income for their joint lifetimes;
- assess the suitability and tax-efficiency of their current pensions and investments;
- ensure their estates pass to their intended beneficiaries on second death.

Questions

(a) **(i)** Comment on the suitability and tax-efficiency of Geoff and Katy's existing pensions and personal investment holdings. **(15)**

(ii) Recommend and justify the actions that Katy could take to improve the tax-efficiency of her existing portfolio of OEICs. **(6)**

(b) **(i)** Explain to Geoff why he should consider switching the money market fund in his stocks and shares ISA into another investment fund. **(8)**

(ii) State the main drawbacks for Geoff of retaining his portfolio of individual UK smaller company shares. **(8)**

(c) In respect of Katy's qualifying workplace pension scheme:

(i) Explain to Katy why using flexi-access drawdown may be a suitable option for her in retirement. **(8)**

(ii) State **eight** benefits to Katy of using her pension fund to purchase a joint-life annuity once she retires. **(8)**

(d) Identify and explain the range of options available to Geoff and Katy in respect of their reviewable whole of life policy when it reaches its ten-year anniversary. **(9)**

QUESTIONS CONTINUE OVER THE PAGE

(e) Outline the actions that Geoff and Katy should take to ensure that their estates are passed to their intended beneficiaries on second death. **(5)**

(f) State **eight** factors that an adviser should consider in respect of Geoff and Katy's income requirements at their next annual review. **(8)**

Total marks available for this question: 75

The tax tables can be found on pages 10 – 18

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% first year	18% reducing balance	8% 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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