Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

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

Mark and Janice, both aged 53, are married with three children: Jack, Adam and Lucy. They are aged 30, 28 and 18 respectively and are all financially independent.

Mark and Janice have a repayment mortgage of £180,000 on their home which is currently valued at £230,000.

Mark is a self-employed plumber. Mark's taxable net profits are normally £45,000 per annum. Due to an illness he has been unable to work for the last 12 months. He has now recovered and expects his income to return to its normal level in the near future. As a result of Mark's illness, he and Janice have built up debts on a credit card and personal loan. The total amount of these debts is £22,000. They have also fallen into arrears recently on their mortgage and are very concerned about this. Mark and Janice have used their savings and investments to cover their expenses whilst Mark has been ill. They now only hold £5,000 in their joint bank account and have no other savings or investments.

Mark has an income protection policy which has been in force for a number of years. Despite making a claim on this policy Mark did not receive any benefits. He is now considering cancelling this policy.

Janice works part-time as a veterinary nurse and earns £15,000 per annum gross.

Mark and Janice have personal pension plans which they set up themselves some years ago with normal retirement ages of 60. They stopped their contributions into these pension plans when Mark fell ill and wish to start contributions again as soon as they have paid off their debts. Mark's pension plan has a value of £87,000 and is invested in a cautious lifestyle fund. Janice's pension has a value of £45,000 and is invested in a FTSE 100 tracker fund. Janice was enrolled into her employer's qualifying workplace pension scheme but decided to opt out of this scheme as she already had a personal pension plan.

Mark and Janice plan to continue working until they are both aged 65, although Mark does not plan to retire fully and would like to continue to work on a part-time basis later in life. Mark is considering making arrangements for Jack to run the family business in the future and Mark is considering the most suitable options for achieving this in a tax-efficient manner.

Janice's mother died earlier this year and her estate has now been wound up. Janice is due to receive a cash sum of £20,000 very shortly, in addition to her mother's home, which has a probate value of £120,000.

Mark's father is aged 85 and lives in a care home and still has full mental capacity. Mark helps him to manage his finances and personal affairs.

Mark and Janice consider themselves to be medium-risk investors.

Mark and Janice's financial aims are to:

- clear their debts as quickly as possible;
- consider the benefits to Mark of incorporating his self-employed business;
- review Mark's existing protection arrangement;
- put in place a suitable strategy for long-term retirement planning.

Questions

(a) **(i)** Explain to Mark and Janice why they should consider using Janice's inheritance to repay their mortgage arrears before repaying their personal loan and credit card. **(5)**

Janice is due to inherit her late mother's home.

(ii) State **five** benefits and **five** drawbacks for Janice of retaining this property and renting it out. **(10)**

(b) Mark has a personal income protection policy that did not pay out following his illness.

Identify **six** reasons why the insurance company may have refused to meet Mark's claim. **(6)**

(c) Mark and Janice are considering making single contributions into both of their pension plans as soon as this is affordable.

(i) Explain to Mark and Janice why it may be more suitable for them to make monthly contributions into their personal pension plans instead of lump sum contributions. **(5)**

(ii) Recommend and justify the actions that Mark and Janice should take in respect of their pension arrangements, to ensure that these are suitable to meet their long-term objectives. **(14)**

(iii) State **six** drawbacks of Mark and Janice using a socially responsible investment strategy for their personal pensions. **(6)**

(d) State the benefits for Mark of remaining self-employed rather than incorporating his business. **(6)**

QUESTIONS CONTINUE OVER THE PAGE

(e) Mark holds a Lasting Power of Attorney for property and financial affairs for his father. The paperwork for this was completed several years ago but Mark has never registered the document with the Office of the Public Guardian.

Explain to Mark the benefits of registering the Lasting Power of Attorney as soon as he is able to do so. **(10)**

(f) State **eight** factors you would discuss with Mark and Janice in respect of Janice's inheritance at your next annual review. **(8)**

Total marks available for this question: 70

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.*

Chris and Anita, aged 63 and 64, and are married with one son, Alan, aged 36. Alan is disabled and will always be financially dependent on Chris and Anita.

Chris and Anita own their own house as joint tenants and it is currently valued at £625,000. They have fully repaid their mortgage.

Chris is employed by a large engineering firm and earns a salary of £60,000 per annum gross. Chris is a deferred member of his employer's defined-benefit pension scheme which was closed seven years ago. He is a member of his employer's qualifying workplace pension scheme and pays 5% of his gross salary to this scheme and his contributions are matched by his employer. His entitlement within his employer's qualifying workplace pension scheme currently has a value of £54,000 and is invested in the provider's default fund which is a UK fixed-interest fund. He has no other pension arrangements.

Anita works part-time for her father's accountancy practice and she earns £22,000 per annum gross. Anita is a member of her employer's auto-enrolment pension scheme with National Employment Savings Trust (NEST) but wonders if it is worth remaining in this scheme. She has no other pension arrangements.

Chris and Anita are very concerned as to Alan's future should they die early. They would like to leave a lump sum to assist with a possible house purchase.

Chris and Anita both have medium attitudes to risk and are both in good health.

Chris and Anita have accumulated the following investments:

Assets	**Ownership**	**Amount (£)**
House	Joint	£625,000
Bank current account	Joint	£16,000
OEIC – emerging markets fund	Joint	£102,000
Bank deposit account	Chris	£25,000
Unit Trust – global equity fund	Chris	£284,000
OEIC – UK income fund	Anita	£74,000

Chris and Anita have both made Wills. The Wills leave everything to each other on first death and then to Alan.

Chris and Anita's financial aims are to:

- ensure they have sufficient income in retirement;
- improve the tax efficiency of their investments;
- provide financial security for Alan.

QUESTIONS CONTINUE OVER THE PAGE

Questions

(a) State the additional information you would require, in order to advise Chris and Anita on their financial aim of ensuring they have adequate income in retirement. **(15)**

(b) Explain the factors an adviser should consider when advising Anita to take out an onshore investment bond rather than retaining her open-ended investment company (OEIC). **(13)**

(c) Alan currently receives the following State benefits:

- Employment and Support Allowance and;
- Personal Independence Payment.

(i) Describe briefly how these benefits operate and state their taxation treatment. **(8)**

(ii) Describe how a Disabled Persons Trust could be set up for Alan and how it would operate. **(10)**

(d) State the Inheritance Tax implications for Chris and Anita, should they provide a lump sum to Alan by each of the following methods.

(i) In the form of an interest free loan: **(3)**

(ii) In the form of a gift. **(3)**

(e) **(i)** State **four** benefits and **four** drawbacks for Chris of his pension investment remaining in the default investment fund within his employer's qualifying workplace pension scheme. **(8)**

(ii) Explain briefly to Anita why she should remain in her employer's auto-enrolment pension scheme. **(4)**

(f) Explain to Chris and Anita how the income and capital gains on their existing OEICs are likely to be treated for tax purposes. **(8)**

(g) State the benefits of Chris retaining his current defined benefit pension scheme entitlement. **(8)**

Total marks available for this question: 80

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	2017/2018	2018/2019
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.*

	2017/2018	2018/2019
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.