Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 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.*

Mary, aged 69, has been recently widowed. Her late husband, Ken, died in December 2018 following a long illness. Mary has three adult children and five grandchildren. Mary is in good health and coping well following the loss of her husband.

Probate has been granted and Mary has inherited all of her late husband's assets, including the family home which was held on a joint-tenancy basis. The house is valued at £500,000 and is mortgage free. The mortgage was repaid several years ago. As a result of Ken's death, Mary has received £250,000 from a life assurance policy which she is holding in her current account.

Mary is in receipt of her State Pension and also receives a small monthly lifetime pension annuity. She is now receiving the spouse's pension from Ken's defined benefit pension scheme. Her total pension income from all sources is £48,000 per annum gross.

Mary has inherited a number of investment funds and individual equities from her late husband. Ken had an extensive Individual Savings Account (ISA) portfolio held on a platform and Mary is keen to ensure that the tax-efficiency of this portfolio is maintained. Ken's portfolio of directly-held individual equities is comprised of a range of UK companies. These are not held on a platform.

Ken held a private medical insurance (PMI) policy which also covered Mary. This policy has now transferred to Mary and is due for renewal next month. Mary has been notified that the current premium level will increase substantially on renewal.

Mary is concerned about long-term care costs. Although she is in good health, she is keen to ensure that she can afford to pay for her long-term care requirements in the future, should this be necessary. As a result of this, Mary does not plan to make any significant gifts to her children during her lifetime. Mary has updated her Will following Ken's death.

Mary is a medium-risk investor and has the following assets:

Assets	**Value (£)**
Main residence	500,000
Current account	280,000
Deposit account	50,000
Stocks & shares ISA – UK Fixed-Interest Unit Trusts	120,000
Stocks & shares ISA – (Ken's ISA) – Global Equity OEIC's	150,000
Portfolio of individual UK Equities (Ken's)	90,000

Mary's financial aims are to:

- generate a sustainable income in retirement;
- protect the tax-efficiency of her late husband's investment portfolio;
- review the investment holdings that she has inherited from her late husband;
- ensure she has sufficient funds to meet any potential long-term care costs.

Questions

(a) State the additional information a financial adviser would require to advise Mary on how she can generate a sustainable income following Ken's death. **(12)**

(b) Mary has not taken any action in respect of Ken's ISA.

State how Ken's ISA will currently be treated for tax purposes and explain to Mary how she can ensure that its tax-favoured status is retained, including the options available to her in respect of this ISA. **(10)**

(c) Mary has received the proceeds of the life assurance policy following the death of her husband.

State **six** key drawbacks for Mary of continuing to hold this sum in her current account. **(6)**

(d) State **five** benefits and **five** drawbacks for Mary if she chooses to retain Ken's portfolio of individual UK Equities. **(10)**

(e) Mary is considering cancelling the Private Medical Insurance policy on its renewal date.

State the key factors she should consider before making this decision. **(10)**

(f) **(i)** Explain, in detail, how Mary could use an onshore investment bond to provide her with a tax-efficient regular income and access to capital in future. **(11)**

(ii) State **six** reasons why Mary could consider investing in a range of Multi-Manager funds within the onshore investment bond. **(6)**

(g) Explain the process that must be followed by Mary's executors to calculate and settle any Inheritance Tax due on her death. *No calculations are required.* **(10)**

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.*

Tom and Laura, both aged 38, are married with two children, Sam aged ten and Jack aged five. Tom and Laura are both in good health. Tom is employed as production director for a television company and receives a basic salary of £110,000 per annum gross. Tom will receive a bonus of £4,000 gross this tax year. Last tax year his bonus was £40,000 gross. He hopes that the bonus will increase in the next tax year.

Tom is entitled to death-in-service cover of four times his basic salary. He is a member of his employer's group personal pension plan, to which he contributes 6% of his basic salary and his employer contributes 10% of his basic salary. This pension plan is invested in a balanced lifestyle tracker fund. The fund value is £32,000. Tom also holds a personal pension from his former employment with a fund value of £142,500 which is invested in a UK Equity fund.

Laura is employed as a marketing manager and receives a basic salary of £68,000 per annum gross. Laura is a member of her employer's group personal pension plan. She contributes 5% of her basic salary to the scheme and her employer contributes 12% of her basic salary. Laura's pension fund is invested in a global equity fund. The current fund value is £127,000. Her employer provides three times her basic salary as death-in-service cover.

Tom and Laura own their home as joint tenants which is valued at £350,000. They have an outstanding mortgage of £200,000. This is a capital and interest mortgage with a term of 20-years remaining. They are on a lifetime tracker rate of 1% over the Bank of England base rate and no early repayment charges apply. This is a flexible offset mortgage. They have a joint-life first death mortgage protection policy in place to cover their mortgage, with a current sum assured of £230,000. Tom also has a personal loan for £10,000 to which he pays £300 per month.

Tom was previously a shareholder and director in a media consultancy business. He sold his shares in the 2016/2017 tax year. As a result, he received £100,000 net of taxes for the shares. He has already settled the tax due from the sale of these shares. Tom is planning to set up a new media consultancy business and work on a part-time basis alongside his employed position. This new business will start trading in August 2019. He is likely to make a very small net profit in his first trading year but hopes that a net profit of around £20,000 will be possible in subsequent years.

Tom and Laura are planning to retire at age 55 and are keen to increase their pension funding. They are both medium to high-risk investors and have made Wills leaving their assets to each other and on second death, to their children in equal shares.

Tom and Laura have the following assets:

Assets	**Ownership**	**Value (£)**
Main residence	Joint Tenants	350,000
Current account (linked to offset mortgage)	Joint	4,000
Deposit account	Tom	119,000
Shares in a UK PLC bank	Tom	45,000
Cash ISA	Laura	60,000

Tom and Laura's financial aims are to:

- consider a suitable structure for Tom's new business venture;
- put in place a suitable investment strategy to fund their retirement;
- consider the early repayment of their mortgage.

Questions

(a) List the key factors that a financial adviser would need to consider when advising Tom and Laura on funding their retirement planning strategy. **(12)**

(b) Tom and Laura are considering making overpayments to their mortgage.

State the key benefits for them of making such overpayments. **(7)**

(c) Tom is considering the taxation and National Insurance liabilities that will arise in respect of his planned new business. Explain to Tom how this new business would be taxed if it operates as:

(i) self-employment; **(4)**

(ii) a limited company. **(4)**

(d) Recommend and justify the actions that Tom and Laura could take to improve the tax-efficiency of their current financial arrangements. **(14)**

(e) **(i)** State the process a financial adviser should follow to calculate Tom's maximum tax-relievable pension contribution in the current tax year. *No calculations are required.* **(9)**

(ii) Explain to Tom the benefits of him making additional contributions to his employer's group personal pension plan rather than paying into a new personal pension plan. **(7)**

(iii) State the factors that Tom should consider when deciding whether to retain his existing balanced lifestyle tracker fund or switch to a different fund choice, within his group personal pension scheme. **(10)**

(f) State **eight** issues an adviser should take into consideration when reviewing Tom and Laura's pension arrangements at their next annual review. **(8)**

Total marks available for this question: 75

The tax tables can be found on pages 9 – 17

INCOME TAX

RATES OF TAX	2017/2018	2018/2019
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£33,500	£34,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

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

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

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

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

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

NATIONAL INSURANCE CONTRIBUTIONS

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

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

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 162.00**	Nil
162.01 – 892	13.8%
Excess over 892.00	13.8%

*** Secondary earnings threshold.*

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

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000

LIFETIME ALLOWANCE CHARGE

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

ANNUAL ALLOWANCE

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

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

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

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

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

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

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

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

INHERITANCE TAX

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

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

MAIN EXEMPTIONS		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£100,000	£125,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

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

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

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

CAR BENEFIT FOR EMPLOYEES

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

For 2018/2019:

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

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

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

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

PRIVATE VEHICLES USED FOR WORK

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

MAIN CAPITAL AND OTHER ALLOWANCES

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

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

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

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2017/2018	2018/2019
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.70	17.20
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.65	Up to 110.75
Attendance Allowance	Lower rate	55.65	57.30
	Higher rate	83.10	85.60
basic State Pension	Single	122.30	125.95
	Married	195.60	201.45
new State Pension	Single	159.55	164.35
Pension Credit	Single person standard minimum guarantee	159.35	163.00
	Married couple standard minimum guarantee	243.25	248.80
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
Bereavement Support Payment**	Higher rate - First payment	3,500.00	3,500.00
	Higher rate - monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		140.98	145.18

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

CORPORATION TAX

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

VALUE ADDED TAX

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

STAMP DUTY LAND TAX

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

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

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

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

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

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