Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 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

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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 obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

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 client's 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:

General candidate performance was good overall. The majority of candidates demonstrated good evidence of having prepared well for the examination.

Performance was good across both Case Studies and well-prepared candidates had no difficulty in achieving good marks.

There was some evidence of poor knowledge in respect of Investment Bonds (Case Study 1, question (f)(i)). This area of financial planning often causes problems for candidates and they would benefit from a detailed review of the tax treatment of all mainstream investment products when preparing for examinations.

Candidates should ensure they read the questions carefully before answering them. They should also ensure they allow sufficient time to answer them in accordance with the marks which are available.

Question 1

Part (a) Candidates demonstrated good performance overall. Most candidates were able to demonstrate a good awareness of the information they would require and applied this directly to the Case Study.

Part (b) Very good performance from the majority of candidates. Most candidates had clearly reviewed the Case Study and identified the importance for Mary of maintaining the tax-efficiency of Ken's Individual Savings Account (ISA).

Part (c) Good performance. This is a relatively straightforward topic and caused no issues for candidates.

Part (d) Many candidates performed well although some candidates focused purely on the tax issues so did not achieve high marks as they ignored more general issues such as diversification and growth potential.

Part (e) This question saw a wide range of performance from candidates. Few candidates recognised the fact that Mary could easily afford to pay for private medical cover herself. Better prepared candidates were able to identify most of the key factors that Mary should take into consideration although few candidates achieved high marks as they did not consider issues such as the current cost of the cover.

Part (f)(i) Overall candidates did not perform well in this question. Many candidates demonstrated a lack of knowledge in respect of taxation of an Investment Bond. This product is a mainstream financial product and candidates should be familiar with this type of product and how tax is applied to Investment Bonds.

Part (f)(ii) Most candidates encountered no problems answering this question part. All candidates were able to identify most of the reasons why this type of fund might be suitable for Mary.

Part (g) Most candidates performed very well on this question. The majority of the candidates understood the process of calculating Inheritance Tax and how the various allowances and exemptions would be applied.

Question 2

Part (a) Most candidates performed reasonably well hand were able to list the key factors that should be considered when advising Tom and Laura on funding their retirement planning strategy.

Part (b) This question did not cause any problems for the majority of candidates. This is a very straightforward financial planning topic and was well answered.

Part (c) This question required candidates to explain to Tom how his new business would be taxed if he set up as self-employed or a limited company. The majority of candidates achieved high marks. However, a small number of candidates failed to achieve high marks as they focused only on National Insurance contributions and ignored issues relating to Income Tax and Dividend Tax.

Part (d) Most candidates performed reasonably well although it was slightly disappointing to note that a number of candidates did not provide tax rates or identify the fact that both Tom and Laura are higher-rate taxpayers at present. Some candidates recommended a range of actions but omitted to provide adequate justification for these actions. General performance was good overall.

Part (e)(i) Most candidates were able to achieve at least half marks in this question which required candidates to demonstrate the process a financial adviser should follow to calculate Tom's maximum tax-relievable pension contribution in the current tax year.

Part (e)(ii) This was answered well by most candidates. Candidates were required to 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.

Part (e)(iii) Mixed performance as many candidates focused on general factors rather than specifically considering the suitability of the fund for Tom and his personal circumstances.

Part (f) Good performance from the majority of candidates in this question which required candidates to state eight issues that an adviser should take into consideration when reviewing Tom and Laura's pension arrangements at their next annual review.

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

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

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

- Current income needs/capital needs/expenditure/emergency fund/disposable income.
- Use of tax allowances/Individual Savings Account (ISA)/Capital Tax Gain (CGT).
- Mary's State Pension/has Mary inherited any of Ken's State Pension?
- Additional Permitted Subscription (APS) registered for Ken's ISA?
- Interest rate on bank accounts/income yield on Fixed-Interest/dividend yield on equity portfolio
- Indexation on Defined Benefit (DB) scheme/financial security of DB scheme.
- Investment experience/ethical.
- Plans to downsize/use of other capital/inheritances expected/priority of objective.
- Mary's wish to leave a legacy for children.
- Charges.
- Annuity options/indexation/capital guarantee.
- Anticipated cost of long-term care/Private Medical Insurance (PMI) renewal cost.
- Capacity for loss.

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

- Additional Permitted Subscription/continuing account.
- Ken died after April 2018/new rules apply.
- Obtain value of ISA at date of death/Probate value/date of transfer.
- Claim/apply/register the Additional Permitted Subscription (APS)/ continuing account.
- APS protects the ISA wrapper/ensures ongoing tax efficiency.
- APS available as Mary was married to Ken/living together on date of death.
- Can still use her own ISA allowance each year.
- APS can be used up to three years from date of death/to date of estate wind-up/date of closure of continuing account.
- She can transfer existing holdings in specie/she can retain existing investments/she can switch to cash ISA.
- Mary can invest in line with her attitude to risk.
- She can sell the holdings/transfer personal cash to the ISA.

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

- Inflation risk/losing value in real terms.
- No/low interest generated/no growth potential.
- Financial Services Compensation Scheme (FSCS) limit for six months is £1 million.
- FSCS limit of £85,000/default risk.
- Does not meet her attitude to risk/medium risk.
- Mary holds too much cash/lack of diversification.
- Not using ISA/not tax-efficient.

(d) **Benefits**

- Potential for growth.
- Can use her CGT exemption in future.
- No currency risk.
- Will provide dividend income/can use her dividend allowance.
- Diversification/equity holding.

Drawbacks

- Does not meet Mary's attitude to risk/high risk/shortfall risk/capital loss.
- Lack of geographical diversification.
- Difficult to administer/monitor/may need advice.
- Lack of liquidity/may be illiquid.
- Dividend income taxable/not held in ISA/may be liable to CGT.

(e)

- Current premium/new premium?
- Premiums are likely to continue to increase.
- Type of plan/budget/standard/comprehensive plan?
- Availability of other insurers/re-broke/cost of alternative policy/consider budget plan/increased excess.
- Mary has sufficient funds to pay privately/willing to pay privately/she can self-insure.
- Mary can cancel plan to save ongoing premiums/increased disposable income.
- Views on National Health Insurance (NHS) care.
- Increased choice over private hospital treatment.
- Excess/exclusions.
- Mary may not make a claim/premium are wasted.

(f) **(i)**

- Bond is taxed internally/basic rate tax equivalent
- She can withdraw up to 5% tax-deferred of original sum invested
- This is cumulative.
- Mary is a higher rate taxpayer.
- Any excess over cumulative 5% withdrawals will be added to her other income.
- Tax only due on chargeable event.
- Taxed for Mary at 20% as she is a higher rate taxpayer.
- Mary can adjust income to meet her needs/can withdraw capital sums when required/provides flexibility of income for Mary.
- Bond is made up of individual segments/policies/can encash entire segments/policies if required.
- Could use a loan trust.
- Bond is usually exempt from long-term care assessment.

(ii)

- Diversification/multi-asset.
- Mary can match her attitude to risk.
- Actively managed/management expertise/range of fund manager specialisms/style.
- Potential for growth/Alpha/can outperform index.
- Global exposure.
- Can access specialist investments/institutional funds.

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

- Notify HM Revenue & Customs of death/obtain Inheritance Tax reference number.
- Calculate value of assets at date of death.
- Chargeable Lifetime Transfer (CLT)/Potentially Exempt Transfer (PET) made in the last seven years added back/taper applied if available.
- Outstanding loans added back to estate.
- Liabilities/debts deducted/funeral costs deducted.
- Charitable donations in Will reduce liability.
- Nil Rate Band (NRB) applied/£325,000.
- Residence Nil Rate Band (RNRB) applied based on property value/£125,000.
- Claim transferable NRB/RNRB from Ken.
- Home must be left to direct descendant to claim RNRB.
- Inheritance Tax applied at 40%.
- Apply/obtain probate/submit IHT paperwork.
- Pay Inheritance Tax (IHT) due to HM Revenue and Customs.

Model answer for Question 2

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

- Planned target income.
- State Pension age/BR19.
- Asset allocation of funds.
- Use of pension annual allowances/tapered annual allowance for Tom/salary sacrifice available/employer-matching.
- Use of tax allowances/ISA/CGT.
- Charges.
- Budget/affordability/mortgage outstanding on retirement.
- Use of other assets/inheritances for retirement.
- Potential earnings from new business venture/future sale of business.
- Plans to repay debt/early repayment charges on loan.
- Priority of objectives.
- Ethical issues.
- Capacity for loss.

(b) **Key benefits**

- Reduces interest charges.
- Increases equity in house/reduces debt.
- Peace of mind.
- More disposable income.
- Could repay mortgage earlier/reduce mortgage term/more likely to be repaid by 55.
- No investment risk.
- Could improve credit rating.

(c) **(i)** **Self employed**

- Profit subject to Income Tax;
- Tax at Tom's highest marginal rate.
- The balance above (£114,000) continues to lose personal allowance.
- National Insurance (NI) contributions may be due on profit at class 2 and class 4.

(ii) **Limited company**

- Corporation Tax/19%.
- Can pay salary which is taxed at highest marginal rate/at 40%/45%.
- Can pay dividends which will be taxed at 32.5%/38.1%.
- NI contributions paid only on salary/no NI on dividends.

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

- Both are higher rate taxpayers/Tom may be an additional rate taxpayer in future.
- Make additional pension contributions.
- 40% tax relief for both.
- For Tom this may recover some Personal Allowance (PA).
- Hold more cash in Laura's name.
- Reduces tax/helps recover Tom's Personal Allowance/uses Laura's personal savings allowance.
- Both make ISA contributions.
- Tax free growth on ISA.
- Use savings account linked to offset mortgage.
- Effectively 'tax free' interest.
- Transfer some shares to Laura/interspousal transfer.
- Uses Laura's dividend allowance/CGT exemption/can use two CGT exemptions.
- Enterprise Investment Scheme (EIS)/ Venture Capital Trust (VCT).
- Provides 30% Income Tax relief for Tom/matches his attitude to risk.

(e) **(i)**

- This year's annual allowance of £40,000.
- Tapered annual allowance last year due to bonus and pension.
- Annual allowance will be tapered if adjusted income is over £150,000.
- Lose £1 for every £2 over £150,000.
- Calculate prior three years available annual allowance /contribution history.
- Gives total contribution available.
- Maximum contribution would be this year's earnings.
- Use this year's annual allowance first.
- Then previous year's annual allowances in order.

(ii) **Benefits**

- (Full) tax relief is provided at source.
- Salary sacrifice may be available.
- Can reduce National Insurance costs.
- Employer may share National Insurance savings.
- Employer may match.
- No administration/deducted from salary.
- Lower charges.

Candidates would have gained full marks for any ten of the following:

(iii)
- No potential for human error/managed by computer.
- Offers balanced risk/range of asset classes/diversification.
- Potential for growth.
- Lifestyle fund is automatically de-risked pre normal retirement age (NRA).
- No action/input required from Tom.
- Charges/cost of fund switches.
- May not suit Tom's early retirement plans/NRA/his plans may change/is life- styling set to 55.
- Capacity for Loss (CFL).
- Lifestyle fund may not be suited to flexi-access drawdown (FAD)/Tom's plans in retirement/FAD/Uncrystallised funds pension lump sum (UFPLS)/Tom may not purchase annuity.
- Lifestyle fund misses out on possible growth near retirement.
- Lifestyle fund does not take account of market timing.
- Other funds available?
- Current Fund may not match attitude to risk.

(f)
- Personal circumstances/priorities/objectives/change in retirement date.
- Income changes/target changes/new money to invest/affordability.
- Use of allowances/ISA/Pension/CGT.
- Performance/rebalance/charges.
- Market changes/economy.
- Attitude to risk/capacity for loss.
- Legislation/taxation changes/new products/political.
- New business venture.

July 2019 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 October 2019 paper will be based on English law and practice applicable in the tax year 2019/2020, 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% 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.