Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2019 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2019/2020, 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.*

John and his partner Emily, both aged 63, have recently moved into a new home together following John's divorce. The house is valued at £400,000 and was purchased on a joint tenancy basis. There is no mortgage outstanding. Emily is a widow with one daughter and three grandchildren. John has three adult children but does not have any grandchildren. John and Emily do not plan to marry. John has already paid a financial settlement to his ex-wife and she has no further claim on any of his financial arrangements.

Emily's husband died two years ago, aged 64, and left all of his assets to Emily. This included the marital home valued at £300,000, which was sold last year, and a pension scheme valued at £600,000. The pension was crystallised and was held in a flexi-access drawdown (FAD) arrangement when he died. Emily has continued with this FAD arrangement and she draws an income of £1,000 per month from this plan. The plan is managed by a discretionary fund manager. Emily has not worked since the death of her husband.

John is employed as an engineer for a telecommunications company and earns £75,000 per annum gross. John is a member of his employer's qualifying workplace pension scheme and both he and his employer pay 10% of his gross salary into the scheme. John's pension plan has a value of £320,000 and is invested in a range of UK fixed-interest funds.

John also has a personal pension which offers a guaranteed annuity rate at age 65, on a single life, level basis. The annuity rate is 11.3%, with a five-year guarantee period but it does not offer any spouse or dependants' benefits in payment. This pension is invested in a unitised with-profits fund with a current value of £56,000 and a transfer value of £65,000. John and Emily are both entitled to a full State Pension. John plans to retire at age 65.

Emily inherited her late husband's individual savings account (ISA) portfolio using the Additional Permitted Subscription (APS). Emily wishes to review her ISA holdings as she now holds a large cash balance, following the transfer of the APS into her own stocks and shares ISA. The APS had a value of £280,000. This cash balance from the APS is in addition to her own ISA fund of £98,000, which is invested in corporate bond funds.

John wishes to ensure that his estate can pass as tax-efficiently as possible to his three children on his death. John and Emily have agreed that he will leave his entire estate, except their jointly owned home, to his children on his death. Emily will inherit their home as the joint tenant. Neither John nor Emily have updated their Wills since John's divorce and the death of Emily's husband.

John is a cautious investor and Emily is a medium risk investor.

John and Emily have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint	400,000
Current account	Joint	10,000
Deposit account	John	100,000
Stocks and shares ISA – cautious managed funds	John	190,000
Deposit account	Emily	80,000
Stocks and shares ISA – UK Corporate Bond funds	Emily	98,000
Stocks and shares ISA (APS) – held in cash	Emily	280,000

John and Emily's financial aims are to:

- generate an adequate income in retirement;
- ensure that their current investment holdings are suitable and tax-efficient;
- ensure that John's estate can be passed as tax-efficiently as possible to his children.

Questions

(a) Explain in detail to John, why he should consider increasing his pension contributions into his employer's qualifying workplace pension scheme. **(10)**

(b) In respect of John's personal pension plan:

(i) state **five** benefits and **five** drawbacks for John of accepting the guaranteed annuity rate at age 65; **(10)**

(ii) explain briefly to John the likely reason why the transfer value of this pension plan is higher than the current value at present and why it is important to keep this plan under review. **(6)**

(c) John and Emily are now considering their retirement plans in anticipation of John's retirement in a few years' time.

Identify the factors that a financial adviser should consider when reviewing John and Emily's financial arrangements, to determine an adequate level of annual income for their retirement. **(10)**

(d) Emily would like to review her stocks and shares ISAs and the investment funds she holds within them.

Explain to Emily why she could consider moving some of the cash held in the ISA into a range of actively managed UK and global equity funds. **(8)**

QUESTIONS CONTINUE OVER THE PAGE

(e) Recommend and justify the actions that John could take now, to ensure that his estate passes as tax-efficiently as possible to his children on his death. **(12)**

(f) Explain to John and Emily the importance of ensuring that their Wills and death benefit nominations are reviewed and are fully up-to-date. **(8)**

(g) Explain to John the factors he should take into consideration when deciding whether to utilise a series of uncrystallised funds pension lump sums (UFPLS) to provide retirement benefits from his employer's qualifying workplace pension scheme. **(10)**

Total marks available for this question: 74

Case Study 2 and questions can be found on pages 8 - 9

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.*

Rafa aged 60 and Lara aged 53, are married with two children. They have a son, Marco aged 30, and a daughter, Maria, aged 21. Marco and Maria are both financially independent. Rafa and Lara are both in good health and plan to retire in three years' time.

Rafa is employed as a marketing consultant and receives a basic salary of £98,000 per annum gross. He is a member of his employer's death-in-service scheme which provides cover of £300,000. Rafa's employer has offered him the chance to join its newly established group private medical insurance scheme.

Rafa is a member of his employer's group personal pension scheme, to which both he and his employer contribute 8% of his basic gross salary. This pension plan is invested in a UK equity fund.

Rafa also has a Section 32 Buyout pension plan in respect of a transfer from his former employer's pension scheme. The current transfer value is £220,000.

Lara is a director and is the sole shareholder of a design company. She receives a salary of £19,000 per annum gross and has also received dividends of £30,000 in the 2019/20 tax year. She has just agreed to sell the business for £1.5 million and will receive the sale proceeds in January 2020. After the sale completes, Lara plans to work for the new owner of the business for three years before she retires. Rafa and Lara are considering settling some of the business sale proceeds into a suitable trust to assist with their Inheritance Tax planning in the future.

Lara is a member of a self-invested personal pension plan (SIPP) with a transfer value of £600,000. The assets in the plan include the business premises from which her company operates. The balance is invested in a range of collective investment funds.

Rafa and Lara own their home, valued at £700,000, and they have an outstanding repayment mortgage of £100,000. They also own a holiday cottage in Wales, which is valued at £300,000, and is a furnished holiday let. They hold an interest-only mortgage of £150,000 on the holiday cottage. They are unsure as to whether they should sell the cottage when they retire in three years' time or whether they will move permanently to Wales and live in the cottage. Rafa and Lara have a joint-life first event life and critical illness insurance policy.

Rafa and Lara consider themselves to be adventurous investors.

Rafa and Lara have the following assets:

Assets	Ownership	Amount (£)
Main residence	Joint Tenants	700,000
Holiday home	Joint Tenants	300,000
Current account	Joint	10,000
Unit Trust – commercial property fund	Joint	45,000
Stocks and shares ISA – multi-asset fund	Rafa	80,000
Stocks and shares ISA – multi-asset fund	Lara	80,000

Rafa and Lara 's financial aims are to:

- ensure that their mortgages are repaid before they retire;
- put in place a suitable investment strategy to fund their retirement;
- ensure that their investments are held as tax-efficiently as possible.

Questions

(a) Identify the additional information a financial adviser would require, regarding Lara's SIPP, to advise Lara on her retirement planning. **(8)**

(b) **(i)** Identify the key information required in respect of Rafa and Lara's current protection policy to enable a financial adviser to assess its suitability. **(10)**

(ii) State **five** advantages and **five** disadvantages of Rafa joining his employer's group private medical insurance scheme. **(10)**

(c) In respect of Rafa and Lara's holiday cottage:

(i) state the factors that Rafa and Lara should be aware of if they choose to use some of the sale proceeds of Lara's business to repay the mortgage secured on the cottage; **(8)**

(ii) explain to Rafa and Lara how the current rental income from their holiday home is taxed and how the sale proceeds may be taxed if they decide to sell the cottage in a few years' time. **(9)**

(d) In respect of Rafa and Lara's ISAs and unit trust, state **three** benefits and **three** drawbacks of them retaining their current investment funds. **(6)**

(e) Explain in detail to Rafa and Lara how a discounted gift trust would operate, should they wish to consider such an option in respect of their Inheritance Tax planning. **(8)**

(f) State the process that a financial adviser should follow in advising Rafa in respect of his pension arrangements. **(9)**

(g) State **eight** factors that a financial adviser should take into account when advising Rafa and Lara on their investments at their next annual review meeting. **(8)**

Total marks available for this question: 76

The tax tables can be found on pages 11 – 19

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
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 of £5,000.*

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)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance†	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,390	£2,450
Enterprise Investment Scheme relief limit on £2,000,000 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.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 166.00*	Nil
166.01 – 962.00	12%
Above 962.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £118 per week. This £118 to £166 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 166.00**	Nil
166.01 – 962	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.00 where profits exceed £6,365 per annum.
Class 3 (voluntary)	Flat rate per week £15.00.
Class 4 (self-employed)	9% on profits between £8,632 - £50,000. 2% on profits above £50,000.

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
2019/2020	£1,055,000

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
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£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	2018/2019	2019/2020
	£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	2018/2019	2019/2020
Individuals, estates etc	£11,700	£12,000
Trusts generally	£5,850	£6,000
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 (2018/2019), two years (2019/2020).*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2018/2019	2019/2020
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*	£125,000	£150,000
- 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 2019/2020:

- The percentage charge is 16% 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 19%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 22%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 23% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 165g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro 6 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 (£24,100 for 2019/2020) e.g. car emission 90g/km = 22% on car benefit scale. 22% of £24,100 = £5,302.

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

	2018/2019 Rates	2019/2020 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

	2018/2019	2019/2020
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£1,000,000
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%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	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	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2018/2019	2019/2020
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	17.20	17.60
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 110.75	Up to 111.65
Attendance Allowance	Lower rate	57.30	58.70
	Higher rate	85.60	87.65
Basic State Pension	Single	125.95	129.20
	Married	201.45	201.45
Single Tier State Pension	Single	164.35	168.60
Pension Credit	Single person standard minimum guarantee	163.00	167.25
	Married couple standard minimum guarantee	248.80	255.25
	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
Jobseeker's Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		145.18	148.68

**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

	2018/2019	2019/2020
Standard rate	19%	19%

VALUE ADDED TAX

	2018/2019	2019/2020
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.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%

BLANK PAGE

BLANK PAGE