Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2020 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, and then carry out **ALL** of the tasks **(a), (b), (c), (d), (e), (f)** and **(g)** which follow.*

Tom and Lisa, both aged 36, are married with two children, Sam and Ellie, aged 8 and 5. Tom is employed as a pharmacist and Lisa has recently returned to full-time work as a business manager for a large supermarket chain, as Ellie has now started school. Tom and Lisa are both in good health.

Tom and Lisa have an interest-only mortgage on their home of £250,000, which is currently valued at £320,000. The mortgage is on a fixed rate of 3% per annum for the next two years.

Tom earns a gross salary of £65,000 per annum and is a member of his employer's qualifying workplace pension scheme. He makes a personal contribution of 5% of his gross salary and this is matched by his employer. Tom has the option of setting up a salary sacrifice arrangement on the pension scheme if he wishes to do so.

Tom is also a member of his employer's death-in-service scheme which offers a benefit of three times basic salary.

Lisa earns £58,000 per annum gross and is a member of her employer's qualifying workplace pension scheme. She makes a personal contribution of 6% of gross salary which is matched by her employer. Lisa is also a member of her employer's death-in-service scheme which offers a benefit of four times basic salary.

Tom's pension plan has a value of £68,000 and is invested in a UK commercial property fund. Lisa's pension plan has a value of £26,000 and is invested in a money market cash fund.

Tom and Lisa have a range of ISA and investment holdings which they plan to use to repay their mortgage in 20 years' time. They currently save £100 each per month into their ISAs. They are keen to increase the level of ISA contributions now that Lisa has returned to full-time work.

Tom has a standalone critical illness policy with a sum assured of £120,000 that he set up when he was aged 21. This has a guaranteed premium and runs to his planned retirement age of 60. Tom and Lisa do not have any other personal protection arrangements in place and wish to ensure that their family is protected in the event of either death.

Lisa has recently received an inheritance of £100,000 from her grandfather and is considering how best to use these funds. The funds are currently held in a cash deposit savings account earning interest of 1.5% per annum gross.

Tom and Lisa have set up mirror Wills leaving all of their assets to each other on first death and into trust for their children on second death, if this occurs whilst the children are below age 18.

Tom and Lisa consider themselves to be high-risk investors.

Tom and Lisa have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint	320,000
Current account	Joint	5,000
Deposit account	Lisa	100,000
Stocks & shares ISA – UK Fixed-Interest fund	Lisa	37,000
Stocks & shares ISA – Global Equity fund	Tom	42,000
OEIC – UK FTSE-100 Equity Tracker fund	Tom	80,000

Tom and Lisa's financial aims are to:

- ensure adequate protection is in place for their family;
- ensure that their current investment holdings are suitable and tax-efficient;
- ensure they can repay their mortgage in 20 years' time.

Questions

(a) Recommend and justify the actions that Tom and Lisa could take to improve the tax-efficiency of their existing savings and investments. **(12)**

(b) **(i)** State **four** benefits and **four** drawbacks of using Lisa's inheritance to repay some of their mortgage. **(8)**

(ii) Explain, in detail, to Tom and Lisa why a stocks & shares ISA may be a suitable investment vehicle to enable them to build up funds to repay their mortgage. **(10)**

(c) Identify the key factors that a financial adviser should take into consideration to ensure that Tom and Lisa's financial protection needs are met. **(7)**

(d) Explain to Tom and Lisa why their existing employer death-in-service schemes may **not** be suitable to meet their long-term protection needs. **(6)**

QUESTIONS CONTINUE OVER THE PAGE

(e) Tom and Lisa are reviewing their current protection arrangements.

(i) Explain to Tom why he should consider retaining his existing critical illness policy. **(8)**

(ii) Describe why a level term assurance policy would be more suitable than a family income benefit policy for Tom and Lisa's current circumstances. **(6)**

(f) State **four** benefits and **four** drawbacks for Tom of taking up the option of salary sacrifice in respect of his employer's qualifying workplace pension scheme. **(8)**

(g) Explain in detail to Tom and Lisa why their existing pension fund choices may not be suitable to meet their long-term retirement objectives. **(8)**

Total marks available for this question: 73

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

Case Study 2

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e)** and **(f)** which follow.*

Manuel and Susan, both aged 62, are married with one son, Artai, who is financially independent. Artai is married and has three children. Manuel and Susan are both in good health and plan to retire within the next twelve months.

Manuel works for a fibre optic company as a marketing director. His basic salary is £140,000 per annum gross and he usually receives a bonus of 15% per annum, which is based on company performance. This year he expects to receive the 15% bonus in full. He has a self-invested personal pension (SIPP) into which he contributes £1,000 per month net. His employer matches this contribution and the current value of the SIPP is £420,000 and it is invested in global equity growth and emerging market funds.

Susan is employed as an information technology manager and earns £98,000 per annum gross. Susan is a member of her employer's defined benefit pension scheme. At the last scheme valuation the scheme was in deficit.

Manuel and Susan's home is mortgage-free and valued at £750,000.

Susan's father, who was a widower, died nine months ago leaving her his entire estate of £310,000 which she has now received. Part of the inheritance was an AIM share portfolio valued at £110,000 and the balance was cash of £200,000 which is currently held in a joint savings account. No further inheritances are expected by either Manuel or Susan. Manuel and Susan have up-to-date Wills.

It has been established that both of them are high risk investors.

Manuel and Susan have the following assets:

Assets	**Ownership**	**Value (£)**
Main residence	Joint Tenants	750,000
Current account	Joint	60,000
Savings account	Joint	200,000
AIM share Portfolio	Susan	110,000
Stocks & shares ISA – Multi Asset funds	Susan	270,000
Stocks & shares ISA – Global Equity fund	Manuel	320,000

Manuel and Susan's financial aims are to:

- ensure that their estates are passed to their intended beneficiaries in a tax efficient manner;
- assess the suitability and tax-efficiency of their current pensions and investments;
- ensure they have adequate income in retirement.

Questions

(a) Identify the additional information a financial adviser would require to advise Manuel and Susan on the suitability of their current pension arrangements. **(14)**

(b) **(i)** Describe, in detail, the process a financial adviser would follow, to determine whether Manuel is subject to a reduced (tapered) annual allowance.
No calculations are required. **(7)**

(ii) State the benefits and drawbacks of Manuel retaining his global equity growth and emerging market funds within his SIPP. **(10)**

(c) **(i)** Explain to Susan how her pension benefits would be treated under the Pension Protection Fund should her employer's defined benefit pension scheme become insolvent. **(8)**

(ii) Susan is considering transferring her benefits to a personal pension.

Explain to Susan the reasons she should remain in her employer's defined benefit scheme. **(9)**

(d) **(i)** Explain briefly to Manuel and Susan why retaining the AIM share portfolio could be suitable for them. **(6)**

(ii) Identify the options available to Manuel and Susan to immediately reduce their potential Inheritance Tax liability. **(6)**

(e) Manuel and Susan are considering setting up a deed of variation in favour of Artai in respect of Susan's recent inheritance.

Describe how this deed of variation should be established. **(9)**

(f) State the factors a financial adviser should consider when reviewing Manuel and Susan's potential liability to Inheritance Tax, and associated estate planning, at their next annual review. **(8)**

Total marks available for this question: 77

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

BLANK PAGE