R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 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.

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.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the right-hand side of the interface.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

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.*

Seth, aged 64 and Kaitlyn, aged 68, married recently and have just moved into their new home. The house, which is mortgage free, is valued at £950,000 and was purchased by Seth and Kaitlyn as tenants in common. Both of them own equal shares in the house. Kaitlyn's late husband died five years ago at the age of 76. She has two financially independent daughters and two grandchildren. Seth's late wife died seven years ago, and he has two financially independent sons and no grandchildren. Both Seth and Kaitlyn inherited all of their respective spouse's estates, including their share of their respective family homes which were subsequently sold to fund the purchase of their current home. Both Seth and Kaitlyn are in good health.

Kaitlyn's late husband had a crystallised pension scheme which was held in a capped drawdown arrangement when he died. The fund is now held in a flexi-access drawdown scheme and is invested in UK and US equity funds. The current fund value is £417,000. Kaitlyn draws an income of £1,500 per month gross from this plan. Kaitlyn deferred her state pension when she attained state pension age in 2014. Kaitlyn was entitled to a full basic State Pension at that time and has not started to draw this pension yet.

Seth is a self-employed accountant working as a sole trader. He has net profits of £145,000 per annum gross in the current tax year. His earnings have been very similar for the last few years. Seth has a personal pension plan with a fund value of £1,220,000. The plan is invested in both UK and global equity funds. Seth has not made any pension contributions for the last five years.

Seth plans to retire in a few months' time at the age of 65 and has never applied for any form of transitional protection in respect of his Lifetime Allowance for pension purposes.

Seth arranged an offshore bond six years ago following his wife's death, when he invested £200,000. His intention was to look at assigning the bond into a trust as part of his Inheritance Tax planning, but he has not assigned the bond or arranged a trust at this stage. He has wondered recently if this investment was appropriate for his needs, as the investment performance has been quite volatile. The current fund value is £237,000 and the bond is invested in emerging markets and Asian equity funds. No withdrawals have been made from the bond.

Seth and Kaitlyn both wish to ensure that their respective estates can pass as tax-efficiently as possible to their children on their deaths. They wish to ensure that all of their individual assets pass to their respective children and that their home is left for their children under trust on second death. Both Seth and Kaitlyn made Wills three years ago to confirm these intentions.

Seth and Kaitlyn both believe that they have medium to high risk profiles.

Seth and Kaitlyn have the following assets:

Assets	Owner	Value (£)
Main residence	Tenants in common	950,000
Current account	Joint	8,000
Deposit account	Seth	140,000
Stocks & shares ISA – UK fixed interest fund	Seth	127,000
Offshore bond – Emerging markets and Asian equity funds	Seth	237,000
Deposit account	Kaitlyn	120,000
Stocks & shares ISA – Global property fund	Kaitlyn	60,000

Seth and Kaitlyn's financial aims are to:

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

QUESTIONS CONTINUE OVER THE PAGE

Questions

(a) State the additional information that a financial adviser would need, to recommend a strategy to ensure that Seth and Kaitlyn can receive an adequate income in retirement. **(10)**

(b) Identify, in respect of Seth's and Kaitlyn's state pensions:

(i) the benefits that Kaitlyn will be accruing from her state pension deferral; **(4)**

(ii) the factors that Seth should consider before deciding whether to defer his state pension. **(4)**

(c) Explain to Seth how he is affected by the Lifetime Allowance for pension purposes and the factors that he should consider in relation to this position, prior to retiring. **(7)**

(d) Seth and Kaitlyn are currently considering their estate and Inheritance Tax planning.

(i) State how Seth's estate would currently be dealt with, and distributed, should Seth die in the near future. *No calculations are required.* **(8)**

(ii) Recommend and justify the actions that Seth and Kaitlyn could take now, to ensure that they each reduce the potential Inheritance Tax liability that would apply on their deaths, whilst ensuring that their respective assets pass to their children. **(12)**

(e) State **five** benefits and **five** drawbacks for Seth, of encashing his offshore bond and investing the proceeds into a range of unit trusts. **(10)**

(f) State **four** benefits and **four** drawbacks for Seth and Kaitlyn of investing in an Enterprise Investment Scheme. **(8)**

(g) State **eight** factors that an adviser should take into account when reviewing Seth and Kaitlyn's investments at their next annual review meeting. **(8)**

Total marks available for this question: 71

Case Study 2 and questions can be found on pages 8 - 10

Case Study 2

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

Mita, aged 52 and her husband Harish, aged 54, have two children, aged 14 and 16. They own their own home as joint tenants and have an outstanding repayment mortgage of £160,000. The property has a current value of £400,000. Harish also owns a buy-to-let property with an interest-only mortgage of £80,000 outstanding. This property was his former home and has a current value of £125,000. Both Mita and Harish are in good health.

Harish is the sole director of a small printing company. He draws a salary of £60,000 gross per annum and has received dividends of £70,000 per annum for the last two years. He has a self-invested personal pension (SIPP) which was established in 2002, which has a current value of £600,000. Harish has not made any contributions to this pension scheme for several years. The SIPP is partly invested in a range of fixed interest, corporate bond and high yield bond collective investment funds. Also, Harish has used this scheme to purchase a commercial property from which his company operates.

Mita is employed as an office manager and is a member of her employer's qualifying workplace pension scheme. She earns £62,000 gross per annum and her employer pays 5% of her basic salary into the pension scheme. Mita also contributes 5% of her basic salary gross. Her employer will match her contributions up to a maximum of 7% of her basic salary. Her pension fund is invested in a target date retirement fund and she has a current fund value of £40,000. Mita is also a deferred member of her former employer's defined benefit pension scheme and has recently received a cash equivalent transfer value (CETV) of £190,000 from the scheme trustees. The pension from this scheme is projected to pay £8,000 per annum gross at age 65.

Mita has been contributing to her current employer's Share Incentive Plan (SIP) for almost five years. The cash value of the investment in this plan is currently £16,000. This plan is due to mature in the next two months.

Harish's mother has recently moved into a care home. She is in poor health and Harish holds an Enduring Power of Attorney for her, although this has not yet been registered. Harish's father died some years ago. Harish is keen to ensure that he can manage his mother's assets in future, should she lose mental capacity.

Mita and Harish wish to set up a new monthly savings plan to repay their children's student loans in the future, should they choose to go to university. The children have not yet decided if they will take up university places, so Mita and Harish wish to retain flexibility in respect of this new savings plan.

Mita and Harish are medium-risk investors and both plan to retire in ten years' time.

Mita and Harish have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint tenants	400,000
Current account	Joint	12,000
Deposit account	Joint	120,000
Buy-to-let property	Harish	125,000
Stocks & shares ISA – UK fixed-interest fund	Harish	40,000
Stocks & shares ISA – Multi-asset managed fund	Mita	60,000

Mita and Harish's financial aims are to:

- ensure their existing pension arrangements are on target to meet their retirement aims;
- repay Harish's buy-to-let mortgage before he retires;
- build up funds to assist the children with future university fees and to repay any student loans;
- ensure Harish can manage his mother's financial affairs.

QUESTIONS CONTINUE OVER THE PAGE

Questions

(a) Identify the key issues that a financial adviser should consider in relation to Harish and Mita's existing pension arrangements, when assessing their suitability. **(13)**

(b) Harish has been considering various financial protection arrangements.

State the reasons why an income protection insurance policy may be more suitable for him than a critical illness insurance policy. **(6)**

(c) Explain how Mita's Share Incentive Plan (SIP) operates and the options available to her when the SIP matures. **(12)**

(d) **(i)** State the benefits of Harish and Mita increasing their existing pension contributions. **(10)**

(ii) Explain to Harish why the investments held in his SIPP may be **unsuitable** for his long-term retirement planning objectives. **(8)**

(e) State **five** benefits and **five** drawbacks for Harish of using the joint deposit savings account proceeds to repay his buy-to-let mortgage. **(10)**

(f) Outline the reasons why Mita and Harish should consider investing on a monthly basis into an equity-based open-ended investment company (OEIC), to build up funds to repay any student loans that their children may take. **(10)**

(g) Explain to Harish how the Enduring Power of Attorney that he holds for his mother operates and how this can be used to manage his mother's affairs both now and, in the future, if she were to lose her mental capacity. **(10)**

Total marks available for this question: 79

The tax tables can be found on pages 12 - 20

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

	2018/2019	2019/2020
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*

	2018/2019	2019/2020
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%	18%	6%
	first year	reducing balance	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%

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