

Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning Practice Test 2

Unit AF5 – Financial planning process

2020-2021 Revision Aid

Based on April 2016 examination

SPECIAL NOTICES

These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF5 – Financial planning process

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AF5 - FINANCIAL PLANNING PROCESS



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FACT-FIND – Practice Test 2

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Sue White recently.

PART 1: BASIC DETAILS		
	Client 1	Client 2
Surname	White	White (deceased)
First name(s)	Sue	David
Address	1 Crescent Way, Bolton	
Date of birth	15.09.1951	01.08.1949
Domicile	UK	UK
Residence	UK	UK
Place of birth	Leeds	Bolton
Marital status	Widowed	Deceased
State of health	Good	
Family health	Good	
Smoker	No	
Hobbies/Interests	Walking, cycling	
Notes:		
<p>For ease of reference, the late David White's relevant details are included as Client 2, although you are advising Sue White solely.</p> <p>Sue White has been referred to you by her solicitor who is the executor of her late husband's estate.</p> <p>David White died in January 2016 following a sudden illness. His Will left all of his assets to his wife and probate has recently been granted. The executors of his Will are preparing to distribute his full estate to Mrs White, his sole beneficiary.</p>		

PART 2: FAMILY DETAILS						
Children and other dependants						
Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Karen	Daughter	42	01.03.1974	Good	Teacher	No
Peter	Son	39	25.02.1977	Good	Surveyor	No
Notes:						
Sue has two grandchildren who are aged 10 and 15.						

PART 3: EMPLOYMENT DETAILS		
	Client 1	Client 2
Employment		
Occupation	Retired Secretary	
Job title	Secretary	
Business name		
Business address		
Year business started		
Remuneration		
Salary		
State Pensions	£6,029	
Overtime		
Benefits		
Benefits-in-kind		
Pension scheme (see Part 11)		
Life cover (see Part 8)		
Private Medical Insurance	N/A	
Income Protection	N/A	
Self Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		
Notes:		
	Client 1	Client 2
Previous Employment		
Previous employer	N/A	N/A
Job title		
Length of service		
Pension benefits (see Part 11)		
Notes:		
<p>Both Sue and David retired several years ago and have drawn benefits from all of their pension schemes (see Part 11).</p> <p>Sue has applied to the State Pension Service for the transfer of any additional entitlement to State Pension following David's death.</p>		

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	Client 2
Accountant		
Bank	Access Bank	
Building Society		
Doctor	Dr Knowles	
Solicitor	Hendry Davies LLP	
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE						
Income						
	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions		6,029				
Private Pensions		7,500				
Salary						
Benefits-in-kind						
Investment income (gross)		1,200				
ISA income		2,800		6,000		
Dividend				1,550		
Notes:						
<p>David was drawing £24,000 per annum (gross) from his pension plan. This income ceased on his death.</p> <p>Sue's investment income is derived from the cash deposit account which was previously held jointly with David. On his death, this was automatically transferred in full to Sue. She also receives income from her corporate bond holdings in her ISA portfolio to the value of £2,800 per annum.</p> <p>David's remaining personal investments are in the process of being transferred 'in specie' to Sue by the executors of David's estate. This process should be completed in the next few weeks. The dividend income from these holdings is currently paid to David's executors.</p>						
	Client 1		Client 2			
Income Tax	£		£			
Personal allowances						
Taxable income						
Tax						
National Insurance						
Net Income						
Notes:						

Expenditure						
	Monthly £			Annually £		
Household Expenditure	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent						
Council tax				1,500		
Buildings and contents insurance				750		
Gas, water and electricity				800		
Telephone				500		
TV licence and satellite				300		
Property maintenance				1,000		
Regular Outgoings						
Life assurance (see Part 8)	120					
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,000		
Petrol and fares				950		
Loans						
Hire purchase						
School fees						
Childcare						
Further education						
Subscriptions	25					
Food, drink, general housekeeping	650					
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers	35					
Entertainment	150					
Clubs and sport						
Spending money				3,000		
Clothes				800		
Maintenance						
Other (Holidays)				1,000		
Total Monthly Expenditure	980					
Total Annual Expenditure	11,760			11,600		
Total Outgoings				23,360		

Notes:

Sue has provided the above analysis to the best of her knowledge. Sue has never dealt with the family finances before and is quite anxious to ensure that she will have sufficient income to cover her expenditure in the future. Sue does not expect any significant change in her expenditure following David's death.

Do you foresee any major/lump sum expenditure in the next two years?**Notes:**

As David has died recently, Sue is very unsure as to her plans for the future.

PART 6: ASSETS				
	Asset	Client 1 £	Client 2 £	Income (Gross) £
1.	Main residence	500,000		
2.	Contents/car	65,000		
3.	Current account – Access Bank	110,000		
4.	Easy Access Savings Account – Access Bank	80,000		1,200
5.	OEIC/Unit Trust holdings – Global Index Trackers		55,000	300
6.	OEIC/Unit Trust holdings – UK Commercial Property		45,000	1,250
7.	Stocks & Shares ISAs	80,000	200,000	8,800
8.	Individual AIM Shares		90,000	

Notes:

The family home was transferred to Sue's sole name on David's death as this was jointly held. This is mortgage-free.

Sue's current account and Easy Access Savings Account were jointly held with David and these were transferred to her sole name on his death.

Sue's ISA portfolio is held in a range of collective funds investing in UK corporate bonds from which she draws the annual income of £2,800 (gross).

David's Stocks and Shares ISA holdings are held in a range of collective funds investing in global equities and UK equities. David was a keen investor and selected his own portfolio without taking advice.

David's portfolio of Unit Trusts and OEICs is held in a range of Global Index-Tracker funds and UK commercial property funds. David has held these funds for a number of years.

David purchased a range of individual AIM shares after reading about their benefits.

Sue will inherit all of David's investment holdings and the executors of David's estate are in the process of distributing his assets to Sue following the grant of probate.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see Part 8)			

Notes:

Sue and David had no outstanding mortgages.

Other Loans	Client 1	Client 2	Joint
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			

Notes:

Sue and David had no outstanding loans.

Other Liabilities (e.g. tax)**Notes:**

David's final Income Tax bill has been settled by his executors prior to distribution of his estate.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	Joint	Joint	120,000	120 p.m.	Whole of life	2012	Unknown	Unknown

Notes:

Sue and David purchased a joint life last-survivor policy in 2012 with a view to covering their Inheritance Tax liability. They did not take advice on this policy.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £

Notes:

Sue does not have any health insurance policies.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

Notes:

Sue does not make any regular savings.

PART 11: PENSION DETAILS**Occupational pension scheme**

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		
Notes:		
Sue and David do not have any occupational pension scheme entitlements.		

Additional Voluntary Contributions (including free standing additional voluntary contributions)

	Client 1	Client 2
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		
Notes:		
Sue and David do not have any additional voluntary contribution schemes.		

Personal Pensions

	Client 1	Client 2
Type of scheme	Lifetime Annuity (in payment)	Self-invested personal pension (SIPP)
Company	UK Life Ltd	UK Life Ltd
Fund		Global Equity/UK Equity collective funds/cash
Contributions		
Retirement date	January 2013	January 2013
Fund value		£400,000
Date started		

Notes:

Sue has a lifetime annuity which was purchased in January 2013 and which increases each year in line with the Retail Prices Index. The current payment level is £7,500 per annum (gross).

David's SIPP was in capped drawdown. Sue is the sole nominated beneficiary on this plan. The trustees have been notified of David's death and have written to Sue asking her how she wishes to deal with this plan*. The SIPP holds £30,000 in the SIPP bank account with the remainder invested in a range of collective equity OEICs and Unit Trusts.

**Candidates should assume that David died within the past two years. Please note that this Fact Find was used in the April 2016 examination.*

Previous pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		
Date joined scheme		
Date left		
Preserved benefits		

Notes:**State Pension**

	Client 1	Client 2
Basic pension	£6,029	
SERPS/S2P		
Graduated pension		
Total	£6,029	

Notes

Sue is awaiting notification from the State Pension Service of the transfer of any additional benefits from David's State Pension following his death.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	

Notes:

Sue's Will was made several years ago and names David as her sole beneficiary.

Trusts	Client 1	Client 2
Are you a beneficiary under a trust?	No	
If yes, give details		
Are you a trustee?	No	
If yes, give details		

Notes:

Gifts	Client 1	Client 2
Give details of gifts made and received	None	None

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected		

Notes:

Sue has inherited David's full estate under the terms of his Will. The executors are due to transfer the investment holdings to Sue 'in specie' in the near future (see Parts 5 & 6).

Sue does not expect to receive any further inheritances.

PART 13: ATTITUDE TO RISK

What level of risk are you prepared to take to achieve your financial objectives?

Notes:

Sue is a medium-risk investor but has little experience as she relied on David to make investment decisions.

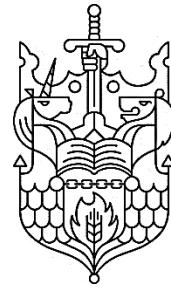
David was a high-risk investor who made investment decisions without seeking advice.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.04.2016	
Client agreement issued	01.04.2016	
Data Protection Act	01.04.2016	
Money laundering	01.04.2016	
Consultations		
Dates of meetings	01.04.2016	
Marketing		
Client source	Solicitor	
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		
Notes:		

PART 15: OTHER INFORMATION

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SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2020/2021, 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 AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf, and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer.
- 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 use a calculator, 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 permitted to be used for this paper and all questions are based on the current tax year 2020/2021.
- Answer each task on a new page and leave six lines blank after each task.

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.

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your client has the following financial objectives:

Immediate objectives

- To generate sufficient income for Sue's immediate and future needs whilst maximising tax efficiency.
- To establish a suitable method for Sue to draw benefits from her late husband's pension arrangements.
- To assess the suitability of the investment portfolio that Sue will inherit.

Longer-term objectives

- To maximise the estate for the benefit of Sue's children.
- To improve the tax-efficiency of Sue's investment portfolio.

Attempt ALL tasks**Time: 3 hours**

1. Identify the key additional information required to enable you to advise Sue on how she could meet the following immediate financial objectives:
 - (a) establish a suitable method for Sue to draw benefits from David's pension arrangement; (8)
 - (b) assess the suitability of the investment portfolio that Sue will inherit. (12)

2.
 - (a) Explain briefly why Sue should be classified at present as a 'vulnerable' client. (3)
 - (b) Describe briefly the actions you should take to provide Sue with an appropriate level of service to reflect her current 'vulnerable' client status. (7)

3. Explain in detail Sue's entitlement to her late husband's ISA portfolio and the actions that need to be taken to maintain the tax-efficiency of this portfolio. (12)

4. In respect of Sue's longer-term financial objective to mitigate Inheritance Tax (IHT).

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

 - (a) Comment on the IHT efficiency of Sue's financial position. (14)
 - (b) Recommend and justify a suitable trust arrangement to enable Sue to achieve an **immediate** reduction in the value of her estate whilst retaining entitlement to a regular tax-efficient income. (15)

5. David and Sue purchased a joint life last-survivor life policy to cover their potential Inheritance Tax liability four years ago. Sue has asked whether she should retain this policy or cancel it.

Describe briefly the key policy details that you would consider in order to advise Sue on the suitability of this life policy. (12)

6. In respect of David's self-invested personal pension (SIPP).

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

(a) Explain briefly to Sue the **three** main options available with this plan to provide her with an income, including any Income Tax and IHT implications for each of these options. (14)

(b) If Sue retains the SIPP plan, recommend and justify how Sue could use this to meet her stated financial objective of maximising her estate for the benefit of her children. (7)

7. In respect of the investments that Sue will inherit from David.

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

(a) Explain in detail to Sue why the investments may not be suitable for her. (10)

(b) Recommend and justify the changes that should be made to Sue's cash deposits and the investments that she will shortly inherit to ensure that these meet her stated financial objectives. (16)

(c) Identify and explain briefly to Sue the key investment risks that are associated with a portfolio of AIM shares. *Excluding systematic and non-systematic risk.* (10)

(d) Describe **six** benefits and **six** drawbacks of the 'index-tracking' OEICs and Unit Trusts that Sue will shortly inherit. (12)

8. Identify **eight** financial planning issues that you should discuss with Sue at your next review meeting, taking into consideration her recent change of circumstances. (8)

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 Task 1

- (a) *Candidates would have gained full marks for any eight of the following:*
- Income/capital requirement/expenditure.
 - Asset allocation.
 - Need for guaranteed/flexible/escalating income?
 - Death benefits for children/priority of Inheritance Tax objective.
 - Self-invested personal pension (SIPP) charges/willingness to pay fees/cost of advice.
 - Investment options/fund choice.
 - Willing to draw income from investments/other assets/downsize/inherited State Pension from David.
 - Capacity for loss.
 - Need for simplicity.
- (b) *Candidates would have gained full marks for any twelve of the following:*
- Asset allocation/diversification/geographical split.
 - Liquidity/commercial property/AIM/sale restrictions.
 - Fund performance.
 - Fund charges/exit penalties.
 - Held on platform/directly held?
 - Date of purchase of AIM shares/held for at least two years/Business Property Relief.
 - Capacity for loss/attitude to risk.
 - Value of investments on date of David's death.
 - Objective/income/growth/timescale.
 - Ethical preferences.
 - Use of ISA allowance/Capital Gains Tax exemption.
 - Willingness to make changes to portfolio/sentimental reasons.
 - Type of service required/Discretionary Fund Management/Advisory etc.

Model Answer for Task 2

- (a)
- Recent change of circumstances/recently widowed.
 - Lack of financial knowledge/experience.
 - Anxious/need for decision-making by Sue.
- (b) *Candidates would have gained full marks for any seven of the following:*
- Family member/trusted friend present at meetings.
 - Clarity of explanation/no jargon/check her understanding.
 - Set out explanations in writing.
 - Give sufficient time to consider decisions/Ensure no 'undue influence' exerted over Sue by others.
 - Flexible outcomes required/her position is changing.
 - Record 'difficult' information/no need to repeat this.
 - Strict confidentiality for information revealed.
 - Fact-finding/compliance/recommendations/reviews.

Model Answer for Task 3

- ISA wrapper ceases for David on death/becomes Continuing ISA/tax-efficiency can be retained.
- Obtain value of David's ISA on date of his death/value of ISA on date of wind-up of estate.
- Additional Permitted Subscription (APS).
- Protects the ISA wrapper/tax efficiency.
- Can use her own ISA allowance/£20,000.
- Growth/income post death is tax-free/received by Sue.
- Sue must register her Additional Permitted Subscription (APS) with a provider/death certificate.
- Can transfer holdings 'in specie'/can retain existing investments.
- Can sell holdings and transfer cash to ISA/can invest personal cash up to value of APS.
- Additional Permitted Subscription can be used up to 3 years from date of death.
- Or up to 180 days after estate is wound up whichever date is later.

Model Answer for Task 4

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

- No Inheritance Tax (IHT) liability, spousal exemption.
- Sue has inherited an IHT inefficient portfolio.
- Sue has David's nil rate band/2 x nil rate band/£650,000/plus residential nil rate band.
- IHT @ 40% on excess.

- David's self-invested personal pension is tax free/IHT efficient.
- Sue should nominate children/beneficiaries/successors.
- Will pass to them IHT/tax free on Sue's death.

- AIM shares might offer Business Property Relief/IHT free.
- Business Property Relief gives IHT-relief after two years/if qualifying/she inherits his holding period.

- Sue has Whole of Life Cover/£120,000.
- This policy may not be in trust/unknown/may increase estate.
- Whole of Life policy does not cover full IHT liability.

- Not used her annual gift allowances/small gifts/out of income/can make gifts of £6,000.
- Can use trusts/lifetime gifts/Potentially Exempt Transfers/Chargeable Lifetime Transfers/not used presently.

- Will is out of date/needs updating.

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

- Discounted gift trust.
- Discount on amount invested/reduces value of estate immediately/Sue loses access to capital.
- Calculated on her age/health/underwritten.
- Sue is in good health/larger discount/greater IHT saving.
- Capital growth is outside estate.
- Provides fixed income/known at outset.
- Can use investment bond.
- Tax-efficient/5% withdrawals/non income producing asset.
- Investment Bond reduces administration for trustees.
- Held in discretionary/flexible trust.
- For benefit of children/grandchildren/offers flexibility to change.
- Discounted Gift Trust is a Chargeable Lifetime Transfer.
- Will be IHT free after seven years.
- If gift into Discounted Gift Trust is below Nil Rate Band, no 20% tax charge due.
- Periodic or exit charges may apply.
- On Sue's death, fund passes to beneficiaries.

Model Answer for Task 5

- Premiums guaranteed or reviewable.
- Frequency of premium review/When is next premium review?
- Was premium rated?
- Cost of replacement cover.
- Maximum/standard/balanced/guaranteed basis.
- Is sum assured index-linked?
- Option to increase sum assured/guaranteed insurability.
- Any additional benefits e.g. Waiver of Premium/Critical Illness.
- Is policy in trust?/trust details.
- Surrender value/performance of funds.
- Current fund/fund options under plan.
- Financial strength of provider.

Model Answer for Task 6

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

- David died before age 75.
- Two-year period to select option/otherwise taxable.

Option 1:

- Take a lump sum of full fund value.
- Tax-free.
- Invest this for income which is taxable.
- Capital forms part of her estate.

Option 2:

- Purchase annuity.
- Income would be tax-free.
- Capital not in estate/any capital guarantee would be IHT free.

Option 3:

- Flexi access drawdown/capped drawdown no longer applies.
- Income would be tax-free.
- Potential for investment growth/tax-efficient.
- Sue must nominate successors.
- Pension fund is outside her estate/IHT efficient.
- If Sue dies pre 75 income can be taken tax free/post 75 taxable.

- (b)
- Flexi-access drawdown.
 - Fund grows tax free/potential for investment growth.
 - Can invest to suit attitude to risk/SIPP offers range of investment options.
 - Does not form part of her estate/IHT-efficient.
 - Use other assets (as SIPP is IHT free).
 - Can nominate any beneficiaries/skip generations.
 - Two-year period to select Flexi access drawdown/otherwise taxable.

Model Answer for Task 7

- (a)
- High risk investment strategy.
 - Does not suit her attitude to risk.
 - Inexperienced investor/low capacity for loss at present.
 - Funds are invested for growth/funds provide low level of income.
 - Lack of liquidity – commercial property funds/AIM shares.
 - Not all funds are tax-efficient/ISA-wrapped/no use of NS&I.
 - OEICs/ISAs are not Inheritance Tax (IHT) efficient.
 - Difficult to administer/complex portfolio.
 - Limited Financial Services Compensation Scheme protection for investments.
 - Lack of diversification within self-invested personal pension plan.
- (b)
- Make full use of ISA allowance/tax free NS&I.
 - Use full value of Additional Permitted Subscription – protected ISA allowance.
 - For tax-efficiency.
 - Move cash deposits to a new bank.
 - Do not exceed £85,000 Financial Services Compensation Scheme limit per institution.
 - Move current account to interest bearing account.
 - Earning low interest/improve returns.
 - Rebalance/increase diversification/sell as does not match attitude to risk/too high risk/reduce risk.
 - Switch to income funds/consider taking income from portfolio.
 - Reduce exposure to commercial property/AIM as can be illiquid/she may need capital/reduce risk.
 - Use annual Capital Gains Tax exemption.
 - Move investment holdings to platform arrangement.
 - Simpler administration/online access/ease of switching.
 - Consider use of Discretionary Fund Manager/multi-asset funds.
 - Limited investment experience/make decisions for Sue.
 - Use SIPP to provide tax efficient income/IHT efficiency.
- (c)
- Liquidity risk**
- May be difficult to sell/small trading volumes.
- Diversification risk**
- Invested in one asset class/small companies/single shares.
- Event Risk**
- Company affected by specific event/retirement/loss of Director.
- Regulatory Risk**
- Lower level of regulation/lower reporting standards/fraud.
- Taxation/Legislation Risk**
- Business Property Relief/IHT relief may be removed/reduced/company no longer qualifies for BPR/leaves AIM market.

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

Benefits:

- Low cost/cost effective.
- Run by computer system/no human judgement.
- Potential for growth.
- Perform in line with the index.
- Exposure to different asset classes.
- Geographical diversification/global.
- Can track any index/wide range of indices to track.
- Simple to understand/ease of access to markets/ease for Sue.

Drawbacks:

- Will underperform the market due to charges.
- Tracking error/will never match market exactly.
- Perform poorly in falling market.
- No active management/no Alpha.
- Currency risk due to global index-trackers.
- Lack of control over underlying assets.

Model Answer for Task 8

- Change in circumstances/objectives/health/moving house/tax status.
- Attitude to risk/capacity for loss/rebalancing/performance.
- Income needs/capital requirements/expenditure needs/Inherited State Pension.
- SIPP benefits elected/chosen/SIPP review.
- Use of ISA allowance/transfer of Additional Permitted Subscription/ Capital Gains Tax allowance.
- Will updated/gifts to the children/pension nominations.
- Taxation/Legislation changes.
- Market/economic changes/new products/charges.

The Tax Tables which follow are applicable to the October 2020 and April 2021 examinations.

INCOME TAX

RATES OF TAX	2019/2020	2020/2021
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	£37,500	£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
*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance		
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) §	£12,500	£12,500
Married/civil partners (minimum) at 10% †	£3,450	£3,510
Married/civil partners at 10% †	£8,915	£9,075
Marriage Allowance	£1,250	£1,250
Income limit for Married Couple's Allowance †	£29,600	£30,200
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,450	£2,500
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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,830
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,385

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£183
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 183.00*	Nil
183.00 – 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 £120 per week. This £120 to £183 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 169.00**	Nil
169.00 – 962.00	13.8%
Excess over 962.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,475 per annum.
Class 3 (voluntary)	Flat rate per week £15.30.
Class 4 (self-employed)	9% on profits between £9,500 - £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
2020/2021	£1,073,100

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.

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*
2020/2021	£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 by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.

MONEY PURCHASE ANNUAL ALLOWANCE	2019/2020	2020/2021
	£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	2019/2020	2020/2021
Individuals, estates etc	£12,000	£12,300
Trusts generally	£6,000	£6,150
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%
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	10%	10%
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Business Asset Disposal Relief* – Gains taxed at:

Lifetime limit	£10,000,000	£1,000,000
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**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS

	2019/2020	2020/2021
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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*	£150,000	£175,000
- 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%

PRIVATE VEHICLES USED FOR WORK

	2019/2020 Rates	2020/2021 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

	2019/2020	2020/2021	
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£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	6%	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

		2019/2020	2020/2021
		£	£
Child Benefit	First child	20.70	21.05
	Subsequent children	13.70	13.95
	Guardian's allowance	17.20	17.90
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 57.90	Up to £58.90
	Aged 25 or over	Up to 73.10	Up to £74.35
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 74.35
	Support Group	Up to 111.65	Up to 113.55
Attendance Allowance	Lower rate	58.70	59.70
	Higher rate	87.65	89.15
Basic State Pension	Single	129.20	134.25
	Married	201.45	268.50
Single Tier State Pension	Single	168.60	175.20
Pension Credit	Single person standard minimum guarantee	167.25	173.75
	Married couple standard minimum guarantee	255.25	265.20
	Maximum savings ignored in calculating income	10,000.00	10,000.00
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	58.90
	Age 25 or over	73.10	74.35
Statutory Maternity, Paternity and Adoption Pay		148.68	151.20

CORPORATION TAX

	2019/2020	2020/2021
Standard rate	19%	19%

VALUE ADDED TAX

	2019/2020	2020/2021
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%

Important note: For residential properties purchased between 8th July 2020 and 31st March 2021, Stamp Duty Land Tax does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.

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 may be 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%

