Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

July 2020 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2020 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

AF7 – Pension Transfers

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully
This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas; however, you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge
For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks, *however, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the examination.*

Know the structure of the examination
Assessment is by means of a two-hour online paper in two sections. All questions are compulsory:

Section A consists of 36 marks.
Section B consists of two case studies worth a total of 64 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

Appreciate the standard of the examination
Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates
The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper;
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates' should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.

EXAMINERS' COMMENTS

General

The AF7 Pension Transfers examination is designed to test a mixture of technical knowledge and its application, and information analysis and evaluation skills that would be required by an individual advising on the transfer of safeguarded pension rights.

The examination has two sections. The first containing four short questions and the second containing two case studies with related questions.

The following comments have been made by the senior examiner for this examination as a guide for candidates attempting the examination in the future and should be considered carefully as part of the preparation for sitting this examination.

Question 1

Overall, the answers given were disappointing. A few candidates demonstrated that they understood the requirements however many clearly did not. Regulatory rules and guidance are tested regularly in examinations and candidates should ensure they are familiar with all aspects that relate specifically to pension transfer advice.

Question 2

Most candidates understood the basic concept of the calculation of a CETV however many were unable to explain the impact of a higher assumed rate of inflation in sufficient detail to gain high marks.

Question 3

Most candidates had a reasonable attempt at this question, which covered lifetime cashflow models.

Question 4

Many candidates gained marks for identifying factors that would be considered when assessing attitude to investment risk, but many did not go on to explain why they would be considered. It is important that candidates read questions carefully and answer everything that is being asked of them, to gain further marks.

Question 5

This question carried 15 marks and most candidates did have a good attempt at it gaining good marks. Candidates should note the number of marks and use it as a guide to the level of detail that is required. Factors questions are asked regularly within this examination and candidates should practice them using past papers.

Question 6

Death benefit questions are asked on a regular basis within pension transfer exams as it is an important part of the syllabus and candidates should have a good understanding. Most candidates demonstrated some understanding but did not give enough detail to gain high marks. Candidates should take note of the number of marks available and use this as a guide as to the level of detail required.

Question 7

Some candidates answered this question well however many did not provide enough specific detail to gain high marks. When a specific tax is not specified for consideration it is important to consider all potential forms of taxation.

Question 8

This question was answered well by most candidates. Candidates should remember that when answering 'additional information' questions that they should focus the answer on the question being asked rather than just providing a long list of generic answers.

Question 9

In order to answer why a Transfer Value Comparator (TVC) will be of limited value, candidates were required to consider each element of the TVC and then take information from the case study to explain why it makes it of limited value. Many candidates gained marks for the factual part of the answer, but few went on to explain the issues. It is important in this examination to be able to demonstrate understanding as well as knowledge to gain good marks.

Question 10

When providing pension transfer advice, it is important to explain benefits and drawbacks that are specific to the client circumstances. As a result, when answering benefit and drawback questions it is important to do the same thing rather than just listing generic benefits and drawbacks if better marks are to be gained.

Question 11

Candidates are provided with the Pension Protection Fund (PPF) compensation limits in the Additional Exam Information. The question asked candidates to apply this information to the case study information provided and explain how it would affect an individual's pension benefits. Overall, the performance in this question was disappointing with very few candidates gaining good marks as just some general information about PPF was provided rather than applying the information to the scenario.

Unit AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions

All questions in this examination are based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

- You are strongly advised to attempt **all** questions to gain maximum possible marks.
- 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.
- The calculator is in a pop-up box on the right-hand side of the interface. 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.
- Additional information, relevant to pension planning, is also included at the end of the tax tables on the right-hand side of the interface.
- For each answer, please type in the full question number you are answering eg **1a**
- Please familiarise yourself with **all** questions before starting the exam.
- Have you shown your ID during the ID check? If not, show it to the camera now please.
- Did you show the edge of your screen with a mirror during the room scan? If not, use a mirror to show it now please.
- If you have blank paper for notes, did you show both sides to the camera? If not, show both sides to the camera now please.

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

SECTION A

The following questions are compulsory and carry a total of 32 marks

1. Outline the Financial Conduct Authority's rules that must be followed when two separate advisers work together to provide the defined benefit pension transfer advice and, the advice on the proposed receiving scheme and its investments. **(7)**

2. Naseem, aged 42, has recently received a cash equivalent transfer value (CETV) from a previous employer's defined benefit pension scheme. The CETV has changed in value since Naseem was last provided with a CETV two years ago. His financial adviser has informed him that this may be due, in part, to the actuary assuming a higher rate of future inflation.

Explain, in detail, how the higher assumed rate of future inflation would impact on the calculation of Naseem's CETV. **(9)**

3. George, aged 61, is married to Karen. You have prepared a lifetime cashflow model for them in relation to the proposed transfer of the cash equivalent transfer value of George's defined benefit pension into a personal pension plan.

(a) Outline **four** benefits of using a lifetime cashflow model as part of the advice process. **(4)**

(b) Explain why the lifetime cashflow model will need to be reviewed regularly. **(5)**

4. Outline the key factors that should be considered when assessing an individual's attitude to investment risk and outline why they are important. **(8)**

Total marks available for this question: 33

SECTION B

All questions in this section are compulsory and carry an overall total of 67 marks

Case study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study.

William, aged 64, is married to Olivia, aged 61, and are both in good health. They have two sons, aged 35 and 37, and four grandchildren aged between four and nine. Olivia's parents are in their mid-80s and in good health, however William's parents both died in their mid-70s.

Olivia is a member of her company's defined benefit pension scheme. She plans to retire and take her benefits from the scheme when she reaches the age of 62, which is the scheme's normal pension age. The scheme will provide her with a pension commencement lump sum of £66,000 plus a scheme pension of £22,000 per annum gross.

William has been a member of his company's defined benefit pension scheme, which was contracted-out prior to 2016. He joined the scheme at the age of 21 and plans to retire when he reaches the age of 65.

The details of William's scheme are as follows:

Pre-commutation pension	£46,000 per annum
Guarantee period	5 years (payable as income)
Spouse's pension	50% of member's pre-commutation pension
Increases to pension in payment	Statutory minimum
Normal pension age	65
Cash equivalent transfer value (CETV)	£1,220,000

When they reach their State Pension ages of 66, William will receive a State Pension of £5,800 per annum and Olivia will receive £6,700 per annum.

The couple's investment portfolio is valued at £350,000 and includes an adequate emergency fund as well as stocks and shares ISAs and equity-based unit trusts. Their home is valued at £950,000 and is mortgage free.

They require a joint net income of £2,500 per month to cover their day-to-day living expenses. Once they reach their State Pension ages this income requirement will be covered by Olivia's scheme pension and their State Pensions.

William would like advice about whether to transfer his defined benefit pension scheme into a personal pension plan in order to access his benefits flexibly. They would also like to make gifts to help with their grandchildren's future university costs and would like to provide a legacy for their children. In view of these requirements, William plans to nominate Olivia and their two sons as beneficiaries of the personal pension plan if a transfer is recommended.

Both William and Olivia have a balanced attitude to investment risk.

Questions

5. Based on the information provided in the case study, list the factors you would consider and outline their relevance when making a recommendation on the potential transfer of the cash equivalent value of William's defined benefit pension scheme. **(15)**

6. State all the potential death benefit options and their tax treatment, if William transfers his defined benefit pension scheme benefits to a personal pension plan in order to access his benefits flexibly. **(10)**

7. You have recommended that William transfers the benefits from his defined benefit pension scheme into a personal pension plan.

Compare the taxation implications of using the couple's investment portfolio to provide any income or capital requirements as opposed to taking funds from William's personal pension. **(9)**

Total marks available for this question: 34

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

Nisha, aged 47, is married to Sanjay, aged 48. They have two children aged 10 and 12.

Sanjay is a radiographer and has worked for the National Health Service (NHS) since August 1999. His current salary is £48,000.

Nisha was recently made redundant and has decided to use her redundancy payment to fulfil her long-term desire to start her own business making cakes for weddings and other special occasions.

Shortly after leaving her former employer, Nisha received a statement of entitlement in respect of her defined benefit pension scheme membership which included the opportunity to take a cash equivalent transfer value (CETV). The details are as follows:

Scheme service	1 September 1995 to 27 March 2020
Total pension at date of leaving	£13,334 per annum
Spouse's pension	50%
Increases in deferment	RPI capped at 5% for all benefits
Increases to pension in payment	Statutory minimum
Normal pension age	65
CETV	£426,688

The scheme is underfunded, however the CETV is currently unreduced.

Nisha was pleasantly surprised by the amount of the CETV and is considering transferring these benefits to a personal arrangement. She intends to buy a single life, fully inflation protected annuity at age 60, on the basis that she believes Sanjay already has enough pension provision. She is in excellent health with a family history of longevity.

Nisha has a cautious attitude to investment risk and would wish to utilise passive index tracking funds to keep the annual management charges as low as possible, preferably 0.5% or lower.

In addition to their pension provision, Nisha and Sanjay's only other assets are:

- their main residence, currently valued at £235,000 with an outstanding mortgage of £82,000;
- cash savings of £38,250 held in joint names which includes Nisha's redundancy payment;
- a stocks and shares ISA in Nisha's name, currently valued at £28,500.

Questions

8. State the additional information that you would require from Nisha and Sanjay, prior to advising Nisha on the suitability or otherwise of transferring the value of her defined benefit pension scheme to a personal pension plan. **(8)**

9. Taking account of Nisha's plans to purchase a lifetime annuity, as outlined in the case study, explain why the results of a Transfer Value Comparator will be of limited relevance in determining whether a transfer is suitable or not. **(12)**

10. List **four** potential benefits and **four** potential drawbacks of transferring the value of her defined benefit pension scheme to a personal pension plan **now** rather than when Nisha approaches age 60. **(8)**

11. Despite Nisha's concerns about the scheme's funding position, you have recommended that Nisha leaves her benefits preserved in her former employer's defined benefit pension scheme.

Outline how Nisha's benefits will be affected if the scheme enters the Pension Protection Fund (PPF) before she reaches age 65. **(5)**

Total marks available for this question: 33

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

- Both advisers should have available the same information to be able to provide both the pension transfer advice and investment advice.
- They should establish the attitude to investment risk, attitude to transfer risk and capacity to loss along with their knowledge and past experience.
- The role of each adviser should be made clear, along with the respective adviser charging structures and how to make a complaint to each adviser.

Model answer for Question 2

- Higher assumed revaluation leads to a higher revalued pension at normal retirement age.
- The escalation of Naseem's pension in payment is assumed to be higher leading to a lower assumed scheme annuity rate.
- Both above factors will lead to a higher capitalised value of benefits at normal retirement age leading to a higher cash equivalent transfer value (CETV).
- Higher assumed equity returns lead to an increased discount rate in turn leading to a reduced CETV.

Model answer for Question 3

(a)
- Compares the level of income from the existing and proposed schemes and can help demonstrates whether the client's objectives can be met.
- Identifies any potential shortfalls and can help to consider income sustainability.
- Can help to confirm the level of risk the client needs to take and whether it is appropriate.
- Allows various scenarios and circumstances to be illustrated and tested.

(b)
- To consider the changing values of assets and actual investment returns.
- To consider any changes in personal or financial circumstances.
- To consider any changes to needs and objectives.
- To consider changes in underlying assumptions or legislation.
- To reconsider relevant stress tests.

Model answer for Question 4

- Timescale – a longer timescale allows short-term fluctuations to be overcome.
- Pension as a proportion of overall wealth – if the proportion is small then a person may be prepared to take more risk and may be a different level of risk to other assets.
- Past investment Experience – someone with a positive or extensive investment experience may be prepared to take a higher degree of risk.
- Risk required to achieve goals – there may be no need to take as high a level of risk as the person is prepared to take.

Model answer for Question 5

- William has a balanced attitude to risk and the couple have both investment experience and capacity for loss.
- William and Olivia are both in good health however William's parents both died in their mid-70s whereas Olivia's parents are both alive and in their 80s.
- If William were to die early, he will not benefit from the Define Benefit (DB) scheme over the longer term although it does provide a 50% spouses pension for Olivia.
- The couple's objectives include leaving a legacy for their children and helping with the grandchildren's university costs.
- The children and grandchildren cannot benefit from the DB scheme however they can benefit from the investment portfolio and property assets.
- The couple's day to day living expenses can be met from Olivia's scheme pension and their State pensions with the Olivia's pension commencement lump sum (PCLS) and the investment portfolio being able to provide income during the period to State Pension Age.
- There would be a potential lifetime allowance charge following a transfer however there is not likely to be one if benefits are drawn from the DB scheme.
- The DB scheme will escalate in line with Statutory Requirements only therefore not all elements of the pension scheme will increase.

Model answer for Question 6

- Lump sum.
- Dependant's or Nominees Annuity.
- Dependant's or Nominees Drawdown.
- Any benefit taken from the uncrystallised funds before age 75 and within the two-year window will be paid tax-free. There is no two-year window for crystalised funds.
- Any benefit taken after age 75 or outside of the two-year window will be paid tax-free. There is no two-year window for crystalised funds.
- There will be a lifetime allowance test on death before age 75 in respect of any remaining uncrystallised funds.
- The pension fund is not included in the estate for Inheritance Tax purposes.

Model answer for Question 7

- Any income more than the personal allowance taken from the personal pension plan will be taxed as earned income under PAYE.
- PCLS taken will be paid tax-free.
- If the withdrawals are not taken until after William's death, they will be tax-free if William dies before age 75.
- Tax-free funds can be taken from their ISAs.
- They can take capital withdrawals from their unit trusts which will be tax-free within the Capital Gains Tax annual exemption.
- They can make use of their savings and dividend allowances.
- Taking funds from the investment portfolio will reduce their estate for Inheritance Tax purposes.
- Taking pension withdrawals can reduce future lifetime allowance charges.

Model answer for Question 8

- Expected income needs in retirement.
- Expected capital needs in retirement.
- Sanjay's expected NHS pension.
- Sanjay's expected retirement age.
- Sanjay's health and life expectancy.
- Understanding of transfer risk.
- Do they expect and inheritances?
- Expected State Pensions.

Model answer for Question 9

- It assumes an annuity purchase based on the scheme benefit structure and includes a spouse's pension whereas Nisha intends to buy a single life pension.
- She requires full inflation protection which is not provided by the scheme.
- It is based on the normal scheme retirement age of 65 whereas she wants to retire at age 60.
- It has fixed assumption of 0.75% for product charges however she is likely to use a fund with a lower charge.
- It includes a 4% annuity advice cost assumption however she intends to source her own annuity therefore there will be no advice cost.
- The assumed 'risk-free' rate of return is not likely to be in line with the investments chosen.
- TVC assumes no PCLS is taken and she is likely to want to take some PCLS.
- It is based on standard ONS mortality however she is in excellent health and has a family history of longevity.

Model answer for Question 10

Benefits:
- Provides immediately higher lump sum death benefits.
- Potential for capital growth due to long term to drawing benefits.
- Could be used to support the business now e.g. property purchase with the fund.
- Transfer value could reduce in the future due to the underfunding.

Drawbacks:
- Ongoing charges and advice costs.
- Loss of high guaranteed revaluation.
- Not compatible with her attitude to risk.
- Irreversible decision and circumstances may change.

Model answer for Question 11

- Her pension will be reduced to 90% with no cap.
- Inflation in deferment reduces from RPI to CPI with post-2009 benefits capped at 2.5%.
- Escalation reduced to CPI capped at 2.5% for all post-1997 benefits.
- Spouse's pension is reduced to 50% of the Pension Protection Fund income.

All questions in the October 2020 paper will be based on English law and practice applicable in the tax year 2020/2021, unless stated otherwise and should be answered accordingly.

The Tax Tables and Supplementary Information which follow are applicable to the July 2020 examination.

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%	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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Revaluation

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
After 5 April 2017	3.5%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

Escalation

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

Pension Protection Fund

Compensation cap at age 65 (2019/2020): £40,0020

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%