Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2020 examination

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 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 back of this question paper.

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

Vassos and Rania are married and are both aged 28. Rania is pregnant with their first child which is due in three months' time. Vassos and Rania are in good health.

Vassos is employed as a sales manager for a telecommunications company and receives a basic salary of £60,000 per annum gross. He receives death-in-service cover of two times his basic salary and sick pay of four weeks' basic salary. He is a member of his employer's qualifying workplace pension scheme. The pension plan is invested in a managed lifestyle strategy fund.

Rania is employed as an assistant television producer and receives a basic salary of £67,000 per annum gross. Rania is a member of her employer's group money purchase pension scheme. She contributes 5% of her basic salary to the scheme and her employer contributes 8% of her basic salary. Her employer also provides death-in-service cover of three times her basic salary and three months' basic salary as sick pay. Rania's employer provides statutory maternity pay only. Rania plans to take six months' maternity leave after the birth of their child and will then return to work full time. Vassos and Rania's parents have agreed to look after the baby for the first few years after Rania returns to work.

Vassos and Rania rent their current home and neither of them have ever owned a property. They pay rent of £1,200 per month. They have been struggling to save for a deposit for their first home but are hoping to buy a house in the next two years. Rania's parents have just decided to gift them the sum of £20,000. Vassos's parents are also willing to lend them £10,000 towards the deposit. His parents wish to set up this loan on a formal basis. They have seen suitable properties in the price range of £250,000 to £300,000. Vassos and Rania do not have any financial protection policies in place, other than those provided by their employers, but are keen to consider making appropriate arrangements before their child is born.

Over the last year, Vassos and Rania have accrued personal debts. They have accumulated credit card debts of £8,000 in total. Rania also has a personal loan of £10,000 which has a remaining term of four years and costs £220 per month.

Vassos and Rania consider themselves to be medium to high risk investors. They have not received financial advice previously and wish to understand the benefits of doing so.

Vassos and Rania have the following assets:

Assets	**Ownership**	**Value (£)**
Current account	Joint	1,500
Deposit account	Joint	2,500
Help to Buy ISA	Vassos	1,240
Help to Buy ISA	Rania	1,240
Unit Trust – UK Smaller Companies fund	Rania	5,000

Vassos and Rania's financial aims are to:

- ensure that they have adequate financial protection arrangements;
- purchase their first home;
- consider the repayment of their personal debt.

Questions

(a) State the benefits to Vassos and Rania of undertaking a computerised risk-profiling exercise when obtaining financial advice. **(7)**

(b) **(i)** State the key differences between a personal income protection insurance policy and a critical illness insurance policy for Rania. **(12)**

(ii) State the benefits of Vassos and Rania effecting a family income benefit policy. **(10)**

(c) Outline the additional information that a financial adviser would need to obtain to provide retirement planning advice to Vassos and Rania. **(13)**

(d) **(i)** Explain the possible Inheritance Tax implications for Rania's parents of making the planned gift. **(8)**

(ii) Explain the key issues that Vassos's parents should consider when setting up the loan agreement. **(8)**

(e) **(i)** Vassos and Rania are considering repaying some of their personal debt by using the gift from Rania's parents.

State the factors Vassos and Rania should be aware of when making any decision to repay their debts. **(10)**

(ii) Identify the key **drawbacks** for Vassos and Rania of taking out Lifetime ISAs to save for the house deposit. **(8)**

Total marks available for this question: 76

QUESTIONS CONTINUE OVER THE PAGE

Case Study 2

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

Dietmar and Clara, both aged 76, are married with three children and seven grandchildren. Both Dietmar and Clara retired a number of years ago and are in receipt of income from pensions from previous employment and their State Pensions. The income from previous employments is in the form of level lifetime annuities with 50% spousal benefit in the event of either death. They are in receipt of full State Pensions.

Dietmar and Clara have recently downsized their main residence. Their new home is mortgage-free and valued at £200,000.

Dietmar and Clara are considering investing some of the proceeds of the recent house sale in a purchased life annuity as they believe this will give them an additional source of guaranteed income in retirement. They are unsure if this would be a suitable option for them.

Clara inherited a portfolio of UK blue-chip shares with a probate value of £80,000 from her father earlier this year. They are unsure if they wish to retain this portfolio in its current form as they are keen to generate as much income as possible throughout their retirement.

Dietmar and Clara have built up a portfolio of ISAs over many years which are invested in a range of cash ISAs and stocks and shares ISAs. They are keen to generate a higher level of income from their portfolio of ISAs and would like to review the current holdings. The stocks and shares ISAs are held on a platform which offers a wide range of investment funds.

Clara wishes to start making regular gifts to their children and grandchildren to mitigate any potential Inheritance Tax liability. However, Dietmar is concerned that this may cause them financial hardship in future years as he is worried that inflation could rise significantly over the course of their lifetimes.

Dietmar and Clara both have a medium attitude to risk and are happy to invest in a wide range of assets.

Dietmar and Clara have the following assets:

Asset	**Ownership**	**Current Value (£)**
House	Joint Tenants	200,000
Current Account	Joint	40,000
Deposit Account – instant access	Joint	300,000
UK Blue Chip shares	Clara	85,000
Cash ISA	Dietmar	115,000
Cash ISA	Clara	100,000
Stocks and shares ISA – UK Fixed Interest funds	Clara	170,000
Stocks and shares ISA – UK Gilts fund	Dietmar	150,000

Dietmar and Clara's financial aims are to:

- ensure they have sufficient income throughout retirement;
- ensure the suitability and tax-efficiency of their current savings and investments;
- ensure their retirement income is protected against inflation.

Questions

(a) Explain to Dietmar and Clara why it is **unsuitable** for them to retain the cash in the deposit account with their existing bank over the longer term. **(8)**

(b) **(i)** Outline the key information that should be taken into consideration by a financial adviser when building a lifetime cashflow model for Dietmar and Clara, to assist them with planning their future income needs. **(10)**

(ii) Identify **six drawbacks** for Dietmar and Clara of solely relying on lifetime cashflow models when planning for their future financial objectives. **(6)**

(c) Dietmar and Clara would like to put in place an additional source of guaranteed income for their retirement.

(i) Explain to Dietmar and Clara how a purchased life annuity (PLA) operates. **(10)**

(ii) State **five** key reasons why a purchased life annuity (PLA) may **not** be a suitable arrangement for their circumstances. **(5)**

(d) Explain to Dietmar and Clara how retaining the existing portfolio of UK blue-chip shares could assist them in providing additional tax-efficient income. **(9)**

(e) Outline to Dietmar and Clara the changes that they could make to their existing ISA holdings to enable them to generate a higher level of income. **(8)**

QUESTIONS CONTINUE OVER THE PAGE

(f) Identify and explain a range of suitable options that Dietmar and Clara could consider, to help to protect their financial arrangements from the impact of inflation. **(10)**

(g) State **eight** factors that an adviser should take into account when reviewing Dietmar and Clara's financial arrangements at their next annual review meeting. **(8)**

Total marks available for this question: 74

The tax tables can be found on pages 10 – 18

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	2019/2020	2020/2021
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%

§ 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.*

	2019/2020	2020/2021
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.

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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%
	10%	10%
Business Asset Disposal Relief* – Gains taxed at:		
Lifetime limit	£10,000,000	£1,000,000

**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% first year	18% reducing balance	6% reducing balance

**If new*

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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%

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