



Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

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 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.

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 after the tax tables. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided next and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task set.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the right-hand side of the interface.
- The fact-find is also included at the end of the tax tables on the right-hand side of the interface.

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

CLIENTS' FINANCIAL OBJECTIVES

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

Immediate objectives

- To set up an appropriate remuneration strategy from Dan and Tara's new company.
- To arrange suitable protection for the children in the event of either Dan or Tara's death.
- To consider the purchase of a commercial property unit.

Longer-term objectives

- To arrange a suitable investment strategy for the proceeds of their house sale.
- To establish a suitable strategy to ensure that the school fees can be met.
- To ensure that Dan and Tara are able to generate an adequate and tax-efficient income in retirement.

Attempt ALL tasks**Time: 3 hours**

1.
 - (a) Outline the key client-specific issues that you would consider when advising Dan and Tara on the investment of the house sale proceeds. **(12)**
 - (b) Identify the key information that you would require in respect of Dan and Tara's existing pension plans when reviewing their suitability for their future retirement planning. **(8)**

2. Dan and Tara have recently set up a new company for their website consulting business.
 - (a) Outline the key benefits for Dan and Tara of using a combination of salary and dividends for their future income from their new company. **(8)**
 - (b) Explain in detail to Dan and Tara the benefits of making employer pension contributions for themselves from their new company. **(12)**

3.
 - (a) Explain in detail to Dan and Tara why it is important to write Wills without delay. **(10)**
 - (b) Recommend and justify why setting up a Bereaved Minors trust in their Wills can ensure that the twins will be financially protected if both Dan and Tara die. **(9)**

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

4. Dan and Tara are intending to set up an investment for the twins for future private school fees from age 11 onwards.
 - (a) Outline the key issues that they should consider if they decide to invest a single lump sum of £100,000 to meet their school fees objective. **(9)**
 - (b) Outline the main drawbacks of using a lump sum for this purpose rather than saving from their regular income. **(7)**

5. (a) Explain to Dan and Tara the benefits of setting up protection policies via their new company instead of on a personal basis. (7)
- (b) Recommend and justify a suitable protection policy for Dan and Tara to provide a regular income to ensure funds are available to meet any childcare costs in the event of either of them dying whilst the children are still in school. (10)
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.*
6. (a) State **ten** drawbacks for Dan and Tara of purchasing a commercial property unit as part of their future investment portfolio. (10)
- (b) Explain to Tara why she should consider transferring her cash ISA to a stocks and shares ISA which invests in an equity-based fund. (11)
- (c) Explain to Dan and Tara why it may be beneficial to move the cash deposits in their Deposit Savings Accounts into their existing National Savings & Investments Income Bonds in the short-term. (10)
7. Dan and Tara are considering a range of different investment strategies for their investment portfolio.
- (a) (i) Explain to Dan and Tara how they could gain exposure to gold as an investment in their portfolio. (4)
- (ii) Outline **five** benefits and **five** drawbacks of holding this type of investment within their portfolio. (10)
- (b) Dan and Tara have invested in UK Equity Income funds within their unit trusts and ISAs as they believe that reinvested dividend income plays a key role in long-term returns.
- State the drawbacks for Dan and Tara of relying solely on the reinvestment of dividend income as an investment strategy in the current economic environment. (8)
8. (a) Explain to Dan and Tara the importance of reviewing their attitudes to risk on a regular basis. (8)
- (b) State **seven** factors that you should consider when reviewing Dan and Tara's finances in relation to their new company at the next annual review. (7)

The tax tables can be found on pages 8 – 15

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% |
| § 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 | £2,830 |
| - 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% |
| | 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:

| | 0-3 | 3-4 | 4-5 | 5-6 | 6-7 |
|---------------------------|------|-----|-----|-----|-----|
| - Years before death | 0-3 | 3-4 | 4-5 | 5-6 | 6-7 |
| - Inheritance Tax payable | 100% | 80% | 60% | 40% | 20% |

Quick succession relief:

| | 0-1 | 1-2 | 2-3 | 3-4 | 4-5 |
|--------------------------|------|-----|-----|-----|-----|
| - 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% |
| | 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% |