Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

February 2021 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.*

Andrew and Carrie, both aged 34, are married with two children, Olivia aged seven and William aged two. Andrew is employed as a management consultant and Carrie works part-time as a self-employed locum optician. She plans to return to full-time work when William starts school in two years' time. All of them are in good health.

Andrew and Carrie currently live in a rented property. They are planning to purchase their first property in the next few months. They have identified a suitable property, which has a value of £480,000 and are currently considering the best way to fund this purchase.

Andrew receives a salary of £170,000 per annum gross and is a member of his employer's qualifying workplace pension scheme. He makes a gross personal contribution of 8% of salary and this is matched by his employer. Andrew is also a member of his employer's death-in-service scheme, which provides a benefit of four times basic salary in the event of his death. Carrie has taxable net profits of £6,000 per annum gross on her self-employed income.

Andrew's pension fund has a value of £230,000 and it is invested in a range of global and UK equity tracker funds. Carrie has a personal pension plan in respect of a former employment that has a current value of £47,000 and this is invested in an ethical fund. Carrie has not made any pension contributions since she started working on a self-employed basis when William was born.

Andrew and Carrie received an inheritance from Andrew's uncle last year and they currently hold this in cash with a view to using this as a deposit for their first home. This is held across several deposit-based savings accounts with a total value of £250,000.

Andrew and Carrie do not have any personal financial protection arrangements in place and wish to ensure that their family is protected in the event of either death or long-term illness.

Andrew and Carrie have set up mirror Wills, leaving all assets to each other on first death and into trust for the children on second death, if this occurs whilst the children are under the age of 18.

Andrew and Carrie consider themselves to be medium to high risk investors. They wish to ensure that they invest in an ethical and sustainable manner.

Andrew and Carrie have the following assets:

Assets	Owner	Value (£)
Current Account	Joint	15,000
Deposit Account – 1-Year Fixed Rate	Joint	100,000
Deposit Account – Instant Access	Carrie	65,000
Stocks & Shares ISA – UK Ethical fund	Carrie	18,000
Deposit Account – Instant Access	Andrew	85,000
Stocks & Shares ISA – European Equity fund	Andrew	56,000
Unit Trust – UK Equity Income fund	Andrew	80,000

Andrew and Carrie's financial aims are to:

- ensure adequate protection is in place for their family;
- ensure that they have adequate funds available to purchase a property;
- arrange for some of their holdings to be invested in an ethical manner.

Questions

(a) **(i)** Explain why Andrew and Carrie should consider using the majority of the cash inherited from Andrew's uncle as a deposit on their property purchase. **(10)**

(ii) State **six** reasons why Andrew and Carrie should take out a repayment mortgage rather than an interest only mortgage for their new property. **(6)**

(b) Explain, in detail, to Andrew and Carrie the key benefits of transferring more of their existing cash deposits and investments to Carrie. **(10)**

(c) **(i)** Identify the factors, relating to Andrew and Carrie's current circumstances, that should be taken into account by a financial adviser before recommending suitable protection products. **(10)**

(ii) Recommend and justify a suitable protection policy that could provide a regular income in the event of Andrew suffering a long-term illness. **(14)**

(d) **(i)** Explain to Andrew and Carrie why it may be better to invest in ethical investments via a collective investment fund, rather than selecting individual companies for this purpose. **(8)**

(ii) State **five** reasons why the manager of an ethical investment fund might decide not to invest in a particular company. **(5)**

(e) Explain to Andrew why he should consider increasing his personal contributions into his employer's qualifying workplace pension scheme. **(10)**

Total marks available for this question: 73

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.*

Dylan and Susan, both aged 59, are married with one son, Osian, who is financially independent and is married with two children. Dylan and Susan are both in good health.

Dylan is a self-employed plumber. His taxable net profits in the last tax year were £28,000 gross. He has a personal pension into which he contributes £500 per month net. The current fund value is £240,000 and this is invested in a UK Equity fund.

Susan is employed as a human resources director and earns a salary of £80,000 per annum gross. Susan is a member of her employer's group personal pension scheme. Susan contributes 5% of her gross salary into the scheme and her employer contributes 10% of her gross salary. Her current fund value is £530,000 and this is invested in a balanced multi-asset fund.

Dylan and Susan own their home which is mortgage-free and valued at £500,000. They have no debts or liabilities.

Susan's father, who was a widower, died three years ago leaving his entire estate of £140,000 to Susan. This money is held in a deposit account.

Dylan has an onshore investment bond which he feels has not performed well over the last few years. He is considering using this to help mitigate some of their future Inheritance Tax liability.

Dylan and Susan are both medium to high-risk investors. They have no ethical, religious or social views.

Dylan and Susan both have mirror Wills which leave all their assets to each other and then to Osian on second death.

Dylan and Susan have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint tenants	500,000
Current Account	Joint	20,000
Deposit Account	Susan	140,000
Open-ended investment company (OEIC) - FTSE Tracker	Susan	220,000
Stocks & Shares ISA – Multi Asset funds	Susan	330,000
Investment Bond – Managed fund	Dylan	110,000
Stocks & Shares ISA – Global Equity funds	Dylan	160,000

Dylan and Susan's financial aims are to:

- ensure that they have adequate income in retirement;
- arrange for their estates to be passed to their intended beneficiaries in a tax efficient manner using appropriate trust arrangements;
- ensure that their investments are suitable for their needs.

Questions

(a) Identify the additional information a financial adviser would require to advise Dylan and Susan on the suitability of their current pensions and investments. **(12)**

(b) Identify the factors that would typically influence Dylan and Susan's capacity for loss. **(10)**

(c) **(i)** State the factors that a financial adviser should consider when assessing the tax efficiency of Dylan and Susan's savings and investments. **(10)**

(ii) Explain the Capital Gains Tax implications of transferring some of the open-ended investment company (OEIC) held by Susan to Dylan. **(5)**

(d) **(i)** State the additional information a financial adviser would require to advise Dylan on whether to surrender or retain his investment bond. **(8)**

(ii) Explain how the Income Tax liability would be calculated if Dylan's investment bond is surrendered. *No calculations are required.* **(6)**

(e) Identify and explain to Dylan and Susan how suitable trust arrangements could be used to assist them with their Inheritance Tax planning objective. **(10)**

(f) Susan is considering making a lump sum contribution to a stocks and shares ISA using some of the money held in her deposit account.

Explain the potential benefits to Susan of this course of action. **(8)**

(g) State the factors a financial adviser should take into account when reviewing Dylan and Susan's Inheritance Tax planning at their next annual review. **(8)**

Total marks available for this question: 77

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

	2019/2020	2020/2021
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.*

	2019/2020	2020/2021
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*

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%