Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

February 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2021 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.

R06 – Financial planning practice

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Read the Qualifications Brochure
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which 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.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook 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. 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 examination 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

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.
- The allocation of marks between the two case studies may vary slightly from one examination session to another.

Read the Assessment information and Examination policies

Details of administrative arrangements and regulations are available online at https://www.cii.co.uk/learning/qualifications/assessment-information/. This is *essential reading* for all candidates. For further information please contact Customer Service.

Two weeks before the examination

The case studies
The case studies, containing client information which will form the basis of the examination questions, will be available on the CII website and in RevisionMate.

How should I use my time over the two-week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarizing yourself with the client details from the case studies.

How should I use the case studies to help me prepare?
- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions
Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the examination seeks to test
The examination is based on two case studies for imaginary clients whose details you will have received two weeks prior to the examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper, taking into account the financial objectives provided.
- Compare your answers against the model answers once the three hours have elapsed. The model answers will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies are available to focus on the client details and prepare yourself for the examination day.

In the examination

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. The case studies will be provided on screen in the examination. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common-sense rules:

1. **Spend your time in accordance with the number of marks given next to each question.** The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the examination 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 elapsed, go on to the next question and return to the incomplete question, if you have time.

2. **Take great care to answer the precise question set.**
   The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However well a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated*.

Order of answering questions
Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about.* You are able to flag questions and then go back to them.

Answering different question parts
Always read all parts of a question before starting to answer it otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it may be necessary to duplicate some of the answer.

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.

Marks are not lost due to poor spelling or grammar.

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

Candidates' overall performance:

The overall performance in this sitting was of a very high standard. Many candidates had prepared extremely well.

Question 1

Part (a) saw a reasonable performance. Some responses lacked detail, in particular, that Andrew pays 45% tax on interest, and the impact of inflation.

Part (b) saw mixed performance as some candidates failed to give the correct tax rates and referred instead to general taxes without any supporting figures. This question asked for an explanation 'in detail', so it was clear that more information was needed.

Part (c)(i) was not well answered as many candidates failed to identify the factors that were specific to Andrew and Carrie , as required. Some very generic answers were given that did not link at all to the information provided in the Case Study.

Part (c)(ii) was very well answered by the majority of candidates.

Part (d)(i) was answered well by better prepared candidates. The Fact-find clearly indicated that they were interested in ethical investments so candidates should have researched this area thoroughly, particularly if it was an area they are not familiar with.

Part (d)(ii) was very well answered by the majority of candidates. This is a big area of concern and interest in current financial planning so it was good to note that most candidates were able to provide a detailed answer.

Part (e) was a fairly straightforward pension planning question and candidates scored well overall. Some, however, lacked detail for a high scoring question.

Question 2

Part (a) saw good overall candidate performance.

Part (b) saw some good performances but some candidates struggled to provide a comprehensive answer, and failed to recognise that the clients' existing wealth, level of emergency fund and the guaranteed income they will receive in the form of State Pension, would have a big influence on their capacity for loss.

Part (c)(i) saw generally good performance although again as in 1(b), some candidates failed to identify the relevant tax rates. As these are provided in the tax tables, this is disappointing.

Part (c)(ii) was generally well answered.

Part (d)(i) was well answered by the majority of candidates.

Part (d)(ii) saw a very disappointing performance. It was noticeable that many candidates still believe that investment bonds are chargeable to Capital Gains Tax (CGT). It is stated in the question that an explanation of Income Tax is required so this indicated a poor level of knowledge on the part of a number of candidates. It is expected at this level that a reasonable understanding of investment bond taxation is demonstrated.

Part (e) saw overall good performance but it was noticeable that most candidates focused on just the Discounted Gift Trust and Loan Trust, rather than including other issues relating to Trusts.

Unit R06 – Financial planning practice

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 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.

- **Three hours** are allowed for this paper.
- **Please write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- 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.
- The calculator is in a pop-up box on the top right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- The case studies and the tax tables are provided on the right-hand side of the interface.
- For each answer, please type in the full question number you are answering e.g. **1a.**
- **Please note each answer must be typed in the correct corresponding answer box.**
- **If you are wearing headset, earphones, smart watch please take them off.**
- 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.

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

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

(a) (i)
- Lower loan to value/reduced mortgage/lower level of debt/more equity/higher deposit.
- Reduced cost/need for protection.
- More competitive interest rates available.
- Wider range of providers available.
- Lower monthly repayments.
- Shorter mortgage term.
- Improved affordability/more disposable income.
- Reduced interest payable over term of mortgage.
- Interest on cash taxed at 45% for Andrew.
- Less interest rate risk/less impact of rates rise/inflation risk on cash.

(ii)
- Cheaper/pay less interest over the term/no cost for investment products.
- Level of debt/interest rate risk reduces throughout the term.
- No investment risk/no market timing issues/no shortfall risk.
- Peace of mind.
- Not many lenders offer interest only/easier to re-mortgage.
- Higher monthly repayments are affordable for them.

(b) *Candidates would have gained full marks for any ten of the following:*
- Andrew is additional rate taxpayer/Carrie is non-taxpayer.
- Carrie has unused Personal Allowance.
- Andrew has no Personal Savings Allowance (PSA).
- Use her £1,000 PSA/£5,000 Savings Allowance.
- Saves 45% tax on interest.
- Can use £2,000 Dividend Allowance.
- Andrew will pay 38.1% on excess dividends/Carrie pays 7.5%.
- No gain no loss/interspousal transfer
- Can use Capital Gains Tax (CGT) exemption/£12,300.
- Andrew pays CGT above exemption at 20%/Carrie pays 10%.
- Can bed and ISA.

(c) **(i)**
- Andrew is main breadwinner/Carrie works part-time/dependant on Andrew/Andrews job security.
- Both in good health/family health history/smoker status/dangerous hobbies.
- Andrew has no Income Protection.
- Family would rely on State benefits/Andrew's employer sick pay arrangement/any other employer benefits.
- Due to take out mortgage/additional debt/cover needed for new mortgage.
- No Critical Illness cover.
- Current holdings e.g. pensions, investments, savings.
- No cover for childcare/no family income benefits/no life cover other than death in service (DIS)/Andrew has DIS.
- No Private Medical Insurance (PMI).
- Reliant on NHS/may be delays in return to work/flexible treatment.

(ii)
- Permanent Health Insurance/Income Protection.
- Term to age 60/65/normal retirement date.
- Provides tax free income.
- 50% to 66% of income cover.
- Own occupation/rehabilitation/proportionate benefit.
- Widest level of cover/highest chance of claim.
- Deferred period linked to employer sick pay period/they have savings.
- Longer deferred period leads to reduced cost.
- Guaranteed premiums.
- Known cost/budgeting.
- Indexation.
- Cover will keep pace with inflation.
- Andrew is in good health/simple underwriting.
- Multiple claims/cannot be cancelled by insurer.

(d) **(i)**
- Professional fund management/detailed research.
- Large companies have opaque structure/may have non-ethical business divisions/screening carried out by fund manager/screening difficult.
- Reduced ongoing monitoring/less administration time.
- Lower cost/no Stamp Duty on purchase.
- Easier to buy/sell/switch.
- Greater diversification available/reduced volatility.
- Single companies are higher risk.
- Can match attitude to risk.

(ii) *Candidates would have gained full marks for any five of the following:*
- Poor corporate governance.
- Unethical business practices/exploiting tax loopholes/excessive remuneration.
- Does not meet their screening criteria.
- Poor standards of employee welfare/using cheap labour.
- Tobacco/alcohol/gambling/arms.
- Environmental polluter/nuclear power/oil.
- Animal testing.

(e) *Candidates would have gained full marks for any ten of the following:*

- Saves 45% Income Tax.
- May be able to reduce from additional rate taxpayer to higher rate taxpayer.
- Reduced employee National Insurance (NI)/may be able to salary sacrifice.
- Employer may match higher contributions.
- Greater pension pot/improved retirement income/higher tax-free cash/potential for growth.
- Affordable/he has unused annual allowance/can use carry forward.
- Tax-free growth within the fund.
- Tax-efficient death benefits/Inheritance Tax (IHT) free.
- No admin as deducted from salary.
- Scheme costs may be subsidised by employer/workplace schemes usually low cost.
- Flexible/can change contributions to match budget.
- Pound cost averaging/reduces volatility.

Case Study 2

(a)

- Income/capital required/emergency fund required/expenditure.
- Timescale/intended retirement age.
- State Pension entitlement/age/date.
- Fund choices/asset allocation/switching options.
- Use of ISA allowance/carry forward available.
- Charges.
- Base cost of OEIC/bond/withdrawals from the bond.
- Use of CGT exemption.
- Capacity for loss.
- Any other pension benefits/death benefit nominations.
- Any inheritances/downsizing/use of other assets/priorities.
- Employer matching contributions.

(b)

- Age.
- Timescale/intended retirement age.
- State of health.
- Objectives.
- Income and expenditure/budget.
- Assets/liabilities/expected inheritance/any protection policies.
- Large emergency fund/willing to downsize.
- Investment experience/knowledge.
- Economic environment/market conditions.
- State Pension entitlement.

(c) **(i)** *Candidates would have gained full marks for any ten of the following:*

- Susan is a higher rate taxpayer and Dylan is a basic rate taxpayer.
- Use of ISA allowance.
- Bank account should be all in Susan's name/should be held jointly with Dylan.
- Saves 20% Income Tax.
- Susan has a Personal Savings Allowance (PSA) of £500/Dylan has a PSA of £1,000.
- OEIC should be held in joint names/inter-spousal transfer.
- To use both Capital Gains Tax (CGT) exemptions.
- Dylan pays CGT at 10%/20% for Susan.
- Any realised gains/carried forward losses/any withdrawals from bond.
- Dylan has unused dividend allowance/£2,000/Susan exceeds her dividend allowance.
- Excess taxed at 7.5% for Dylan/32.5% for Sue.
- They have not maximised pension contributions/limited IHT efficient investments.

(ii)

- Inter-spousal transfer rules apply.
- No gain no loss/no CGT/received at base cost.
- Can use two CGT exemptions.
- CGT is chargeable on disposal/sale.
- CGT charged at 10% not 20%/saving 10%.

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

- Original investment amount.
- Date of original investment/number of complete years held.
- Any further investment.
- Details of withdrawals.
- Charges.
- Fact finding/capacity for loss/objectives.
- Is it in Trust/assigned?
- Asset allocation/segments.
- Switching options/range of funds available.

(ii)

- Calculate gain (using relevant tax bands).
- Establish number of years held.
- Add gain to taxable income.
- If gain pushes Dylan into higher rate taxpayer top slicing will apply.
- If still Basic Rate Taxpayer (BRT) no tax to pay/basic rate taxpayer treated as paid.
- If pushes into higher rate taxpayer taxed at 20% on gain.

(e) *Candidates would have gained full marks for any ten of the following:*

- Can use Discretionary Trust/absolute Trust/Bare trust.
- Potentially Exempt Transfer/Chargeable lifetime Transfer.
- Choice of trustees/they can be trustees/they retain control/Osian can be trustee.
- Identify beneficiary/can change beneficiary.
- Discretionary Trust protects beneficiaries in case of bankruptcy/divorce.
- Discounted Gift Trust (DGT).
- Discount immediately outside estate/provides income.
- No immediate IHT liability if transfer is under £325,000.
- Loan trust.
- Growth can be immediately outside estate.
- Allows them to retain access to capital.
- Outside estate after 7 years.
- Can be held in Investment Bond for tax-efficiency/no reporting/5% tax deferred withdrawals.
- Will trust/Immediate Post Death Interest Trust (IPDI).
- Pension fund under trust.

(f)

- Financial Services Compensation scheme (FSCS) protection/Susan holds more than the limit in her deposit account/she holds excess cash.
- Reduced inflation risk.
- Potential for growth/no growth on bank account.
- May provide dividends.
- Matches attitude to risk.
- Adds diversification/choice of funds.
- ISA is free from Income Tax and CGT/no tax reporting.
- Could use Additional Permitted Subscription (APS).

(g)

- Health.
- Current value of savings/investments/pensions/home/estate/any inheritances received or expected/performance.
- Use of pension allowances/AIM/Enterprise Investment scheme (EIS)/Business Asset Disposal relief.
- Change of beneficiary/Wills updated/nominations.
- Affordability/change in income/change in expenditure.
- Any gifts made/willingness to make gifts/use of gift exemptions/use of trusts.
- Change in legislation/taxation/change of nil rate band/residence nil Rate band/new products available.
- Attitude to risk/capacity for loss.

February 2021 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

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

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:

- 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%