Chartered Insurance Institute

J05

Diploma in Financial Planning

Unit J05 – Pension income options

February 2021 Examination Guide

SPECIAL NOTICES

Candidates entered for the May 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.

J05 – Pension income options

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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 in your preparation for this examination.

Before the examination

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

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

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

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

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

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

Know the layout of the tax tables
Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination. 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 take your own tax tables into the examination.*

Know the structure of the examination
- Assessment is by means of a two-hour online exam.
- All questions are compulsory.
- The online exam is made up of 15 short questions.
- Each question part will clearly show the maximum marks which can be earned.
- The paper will carry a total of 130 marks.

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

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

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

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

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

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

Tackling questions

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

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

Answer format
Unless the question requires you to produce an answer in a particular format, such as a letter or a report, *you should use 'bullet points' or short paragraphs,* since this allows you to communicate your thoughts in the most effective way in the least time. The model answers indicate what is acceptable for the different types of question.

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

Candidates will **not** lose marks 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:

Candidates generally performed well in this exam session and demonstrated a good breadth of knowledge across the key syllabus areas. The paper continued to test understanding of the current legislation, as well as testing understanding of the issues in giving advice to clients on taking pension benefits. Whilst the majority of candidates demonstrated good knowledge in these areas there were still a number of candidates who did not include enough detail in their answers to gain sufficient marks.

Question 1

Part (a) was well answered with most candidates gaining high marks. In part (b) a small number of candidates made the assumption that there was no benefit crystallisation event and therefore no lifetime allowance charge which was incorrect.

Question 2

In part (a) most candidates were identifying that the only option to receive an increased future income was because he reached state pension age after 5 April 2016. However, some candidates did not know the date, or were just stating '2016' which was insufficient detail to obtain the mark.

In part (b) most candidates were gaining high marks, but with most failing to add the addition that he would also receive his statutory increases in addition to the increased state pension on deferral.

Question 3

This was generally very well answered. Although most candidates failed to state that small pots could be accessed earlier than age 55 if they satisfy ill health requirements or have a protected pension age, most were stating the other points to still gain full marks.

Question 4

Part (a) was answered fairly well with most candidates gaining marks but missing the points about commutation. Some candidates are still assuming the income is taxable regardless of age like a scheme pension, when this is not the case with an annuity.

Part (b) was mainly well-answered, but candidates are still getting confused between beneficiaries/dependents, successors and nominees.

Question 5

This received mixed responses. Most candidates understand that a scheme pension in payment past scheme retirement age remains at 100% under PPF rules. However, there is some confusion of the pre-97/post-97 escalation and rates that apply. For example, not stating consumer prices index (CPI) or stating retail price index (RPI) incorrectly instead. Many candidates are making statements about the long-service award which is not relevant here as he is already retired and entitled to 100% of his scheme pension.

Question 6

Both parts were generally well-answered. Some candidates are commenting on phased Flexi-Access Drawdown (FAD) triggering the money purchase annual allowance (MPAA) which is not relevant in these particular circumstances as Shabana is retiring.

Question 7

A common mistake with this question in part (a) was calculating the higher rate tax threshold incorrectly instead of £150,000 (the higher rate tax band) minus £37,500 (the basic rate tax band) giving £112,500 calculations were often £100,000 minus £50,000 (the total of the personal allowance and basic rate tax band).

In part (b), candidates missing marks such as loss of carry forward, uncrystallised funds pension lump sum (UFPLS) being in his estate for inheritance tax (IHT) and loss of future pension income.

Question 8

This was generally well-answered by candidates.

Question 9

This question tasked candidates with identifying the factors that should be considered during the annual review when determining whether Gail should continue in capped drawdown, or whether she should annuities some or all of her drawdown funds. This was generally well-answered by numerous candidates.

Question 10

Part (a) was answered fairly well, but some candidates were missing the fact it is non-statutory increases being given up in exchange for the increased income.

In part (b) a large number of candidates were missing that the pension commencement lump sum (PCLS) may be greater (if pension increase exchange – PIE - offered) and the need to account for spouse/dependants.

Question 11

Well answered by most. Some candidates failed to state the amount of money purchase annual allowance (MPAA) or link this to what Toby is currently contributing, even though they stated the MPAA would be triggered.

Question 12

This was answered fairly well overall, but the majority of candidates failed to identify that £500 of savings income would be taxable and some missed that a higher gross amount would be needed to be withdrawn from the pension due to it being taxable.

Question 13

This was generally well-answered by candidates.

Question 14

Most candidates picked up points for stating the requirement to be under age 23 and have a physical or mental impairment, but most were missing the specific elements of the rules which state it must be at the member's date of death and in the opinion of the scheme administrator. This is as defined in the Pensions Tax Manual.

Question 15

This was a case of remembering the conduct of business sourcebook (COBS) rules in relation to the main risk factors relevant to pension decumulation products. Many candidates did not pick up sufficient marks as rather than stating the COBS risk factors, candidates were stating more general risks such as longevity, liquidity, market and sequency risk. While those risks are relevant when giving advice, they are not the key risks stated within COBS in relation to decumulation products.

Unit J05 – Pension income options

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.

- **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.**

- **Two hours** are allowed for this paper which consists of 15 short answer questions and carries a total of 130 marks.

- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.

- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.

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

- The tax tables are provided on the right-hand side of the interface.

- **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.**

- If required, have you shown your ID during the ID check? If not, show it to the camera now please.

- If required, 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, if required did you show both sides to the camera? If not, show both sides to the camera now please.

- Please familiarise yourself with **all** questions before starting the exam.

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

Attempt ALL questions

Time: 2 hours

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

1. Alexia is aged 64. In July 2017, she crystallised a personal pension fund valued at £100,000 in order to take a pension commencement lump sum (PCLS) of £25,000. The balance was designated into flexi-access drawdown (FAD).

Alexia is about to reach the normal pension age of her current employer's defined benefit scheme and is entitled to a scheme pension of £70,000 per annum, plus a PCLS of £230,000 from the scheme. Alternatively, she has been offered a cash equivalent transfer value (CETV) of £2,100,000. She has not registered for any form of transitional protection.

Calculate, **showing all your workings**, the lifetime allowance charge that may apply, assuming any excess is taken as income if Alexia:

(a) takes her benefits directly from the defined benefit scheme; **(8)**

(b) transfers her CETV into a personal pension plan and takes the maximum PCLS, designating the balance into FAD. **(2)**

2. Igor, who reached State Pension age in May 2017, is in receipt of the full State Pension. He does not require this income and is considering deferring it.

(a) Explain briefly why the only deferral option available to Igor is an increased State Pension. **(1)**

(b) Describe how his increased State Pension will be calculated following a period of deferral. *No calculations are required*. **(4)**

3. Describe the criteria that must be met for a lump sum payment from an uncrystallised personal pension plan to be treated as a small pots payment and how this payment will be taxed. **(7)**

4. Anastasia, aged 68, is divorced and has two non-dependent children. She recently crystallised her personal pension plan and used part of the fund to purchase a lifetime annuity on a single life basis with a 10 year guarantee. The balance of her fund was placed into FAD.

Outline the potential death benefits payable to Anastasia's children, including the Income Tax treatment, for the:

(a) Lifetime annuity, and **(5)**

(b) FAD. **(7)**

5. Eric is married and has no children. He retired and took benefits from his employer's defined benefit scheme at the scheme's normal pension age of 65. He had been a member of the scheme for 28 years and is currently in receipt of a pension of £45,000 per annum.

Eric's former employer has suffered serious financial difficulties and the pension scheme has now entered the Pension Protection Fund (PPF).

Explain the compensation that Eric will receive as a result of the scheme entering the PPF. **(6)**

6. Shabana, aged 57, is married and is taking early retirement. She has a personal pension plan (PPP) valued at £950,000, from which she requires an income of £21,000 per annum. Shabana has an adventurous attitude to risk and no current need to draw her full pension commencement lump sum.

(a) Explain why phased FAD is likely to be more suitable than purchasing a lifetime annuity. **(6)**

(b) Outline the potential drawbacks of choosing a phased FAD. **(5)**

7. Raj, aged 59, is employed and is a higher rate tax-payer. He has an uncrystallised personal pension fund of £755,000. Raj plans to draw an uncrystallised funds pension lump sum (UFPLS) of £150,000 to repay his outstanding buy-to-let mortgage.

(a) Calculate, **showing all your workings**, the net lump sum that Raj will receive initially, assuming that the UFPLS is taxed on a 'month 1' basis. **(9)**

(b) Outline **five** drawbacks of this course of action. **(5)**

8. Mohammed is approaching retirement and has a portfolio of pensions and investments from which he intends to fund his retirement income.

(a) Explain the benefits of creating a lifetime cashflow model for Mohammed **(5)**

(b) Describe the limitations of a lifetime cashflow model. **(5)**

9. Gail, aged 68, entered capped drawdown in 2012 and it is now time for her annual review.

Outline the factors that should be considered during the annual review when determining whether Gail should continue in capped drawdown, or whether she should annuities some or all of her drawdown funds. **(8)**

10. Bryn, aged 63, has deferred benefits in a previous employer's defined benefit scheme. He has been offered the option of pension increase exchange (PIE) when he takes his benefits from the scheme at the age of 65.

(a) Explain to Bryn what PIE is and why the scheme trustees may offer it. **(3)**

(b) Identify the key factors that should be considered by Bryn when deciding whether to accept this offer. **(6)**

11. Toby, aged 61, is in good health. He is self-employed with annual profits of £45,000 and plans to continue working until age 65. Toby has a personal pension plan (PPP) valued at £630,000 into which he contributes £6,000 each year. Toby would like to take £30,000 out of his PPP, which offers all of the flexible access options.

Explain why you would recommend that Toby takes the funds he needs from the PPP as a PCLS rather than an uncrystallised funds pension lump sum. **(6)**

12. Roberta's husband, John, died recently, aged 77. Roberta, aged 69, is receiving a State Pension of £128 per week and savings income of £1,500 per annum from her building society account. In addition, she has a dependant's FAD plan valued at £600,000 and ISAs valued at £360,000.

Roberta needs a net income of approximately £28,000 per annum in order to maintain her lifestyle. Her primary financial aims are for her income to be tax efficient and to maximise the inheritance for her three non-dependent children.

Explain in detail, why Roberta can best achieve her objectives by taking the balance of the income required from her ISA rather than from her dependant's FAD plan. **(10)**

13. Selina and Dominic are married, both have adult children from previous marriages. Selina has a significant pension fund. On her death she would like this fund to provide for Dominic but ultimately ensure that, on his death, the residual value will pass to her children.

Explain why nominating the death benefits to a spousal bypass trust would be suitable in these circumstances. **(6)**

14. A defined benefit pension scheme can only provide a survivor's pension to a member's child if the child is financially dependent upon the member.

Outline HM Revenue & Custom's definition of a dependant in respect of a child. **(5)**

15. The Financial Conduct Authority (FCA) requires that firms identify the main risk factors relevant to each pension decumulation product it offers. In the Conduct of Business Sourcebook (COBS) 19.7 the FCA provides examples of the risk factors that relate to pension decumulation products.

List **ten** of these example risk factors. **(10)**

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) Benefit Crystallisation Event (BCE) in 2017/18

- BCE value = £100,000
- £100,000/£1m = 10% of Lifetime Allowance (LTA) used

BCE in 2020/21

- LTA remaining = 90% x £1,073,100 = £965,790
- £70,000 x 20 = £1,400,000.
- plus £230,000 = £1,630,000
- £1,630,000 less £965,790 = £664,210
- £664,210 x 25%
- = £166,052.50

(b)

- £2,100,000 less £965,790 = £1,134,210
- £1,134,210 x 25% = £283,552.50

Model answer for Question 2

(a)

- (His only option is to receive an increased future income because) he reached State pension age after 5 April 2016.

(b)

- He will receive State Pension
- plus any Statutory annual increases/triple-lock
- plus a 1% increase
- for each 9-week period of deferral.

Model answer for Question 3

Candidates would have gained full marks for any seven of the following:

- A maximum of three small personal pensions can be commuted.
- Must have reached age 55
- or earlier if they satisfy ill health requirements/has a protected pension age.
- Each pension pot must not exceed £10,000.
- The payment must extinguish all member benefits in the personal pension pot.
- 25% of the funds is payable tax-free.
- The balance is paid with a deduction of basic rate tax/subject to marginal income tax rate.
- No remaining lifetime allowance is required/the payment is not a benefit crystallisation event.

Model answer for Question 4

Candidates would have gained full marks for any five of the following:

(a) Annuity

- Balance of payments under a guarantee period
- paid as an income/annuity
- tax free if death pre-75
- taxable if death post-75.
- Could commute under Trivial Commutation if less than £30,000.
- Taxed as income (if commuted).

(b) *Candidates would have gained full marks for any seven of the following:*

Flexi Access Drawdown (FAD)

- Lump sum.
- Nominees.
- Annuity.
- Flexi-access drawdown.
- No Income Tax if the member dies under-age 75;
- and the death benefit is designated within two years
- otherwise taxable as children's pension income/under pay as you earn.
- taxable if death is post-75.

Model answer for Question 5

- As Eric retired/reached scheme normal pension age;
- he will receive 100% of his pension.
- Only his post-1997 benefits will escalate in payment/no escalation on pre-1997 benefits.
- Post 1997 benefits will escalate in line with Consumer Prices Index;
- Subject to 2.5% per annum maximum.
- Spouse's/widow's/civil partner's pension will be a maximum of 50%.

Model answer for Question 6

(a)

- Pension commencement lump sum (PCLS) is not needed.
- Death benefits are more flexible.
- The fund has potential for growth/no growth on annuity.
- Income can be varied/annuity income cannot be changed or stopped.
- Matches her attitude to risk/annuity does not meet her attitude to risk.
- Annuity rates maybe higher/she may be eligible for an enhanced annuity in the future.

(b)

- Annuity rates may fall in the future.
- Continued investment risk/risk of fund erosion.
- Income is not guaranteed.
- Charges higher than a lifetime annuity.
- Does not benefit from mortality gain cross subsidy.
- Drawdown is more complex/requires reviews.

Model answer for Question 7

(a) 25% is payable tax-free (£37,500).
£112,500 is taxable as follows:

- £12,500/12 = £1,041.67
- is payable tax-free.
- £37,500/12 = £3,125
- Taxed at 20% = £625
- (£150,000 - £37,500)/12 = £9,375
- Taxed at 40% = £3,750
- £112,500 (i.e. £150,000 minus 25% pension commencement lump sum) – (£1,041.67 + £3,125 + £9,375) = £98,958.33 (ft)
- Taxed at 45% = £44,531.25

Net uncrystallised funds pension lump sum (UFPLS) received:

- £150,000 – (£625 + £3,750 + £44,531.25) = £101,093.75

(b) *Candidates would have gained full marks for any five of the following:*

- Increases his estate for Inheritance Tax purposes.
- Will result in large amount of tax payable.
- He will have to reclaim the overpayment of tax on the UFPLS.
- Reduces potential income from the personal pension plan.
- Payment of the UFPLS will trigger the money purchase annual allowance (MPAA).
- Loses ability to carry forward.

Model answer for Question 8

(a)

- Provides an indication of future income and expenditure/identifies any shortfalls
- uses income/capital from all sources
- taking into account assumptions.
- Allows stress testing
- to assess how the model would change following certain events.

(b)

- It only provides a snapshot/is only ever an estimate.
- Assumptions used may prove to be incorrect/inputs not guaranteed.
- The client's circumstances/health/attitude to risk/objectives may change.
- Tax/legislation may change.
- It needs reviewing.

Model answer for Question 9

- Her health/availability of enhanced annuity rates.
- Income/expenditure needs.
- Dependents/need for death benefits.
- Attitude to risk and capacity for loss.
- Investment performance.
- Charges of drawdown contract/costs of annual reviews/complexity.
- Preference for flexibility or certainty.
- Market conditions/inflation/economy.

Model answer for Question 10

(a)
- Pension Increase Exchange (PIE) allows members to exchange future non-statutory increases;
- For a higher initial pension income.
- The trustees may offer this to reduce future liabilities in the scheme.

(b) *Candidates would have gained full marks for any six of the following:*
- The level of increases being given up/the amount of increase being offered.
- Immediate income needs/retirement income needs.
- Inflation.
- Health/family longevity.
- Marital status/dependants/spouse's pension.
- A higher level of pension commencement lump sum (PCLS) may be available.
- Whether PIE would lead to an annual allowance tax charge/lifetime allowance charge/additional income tax liability/tax status.

Model answer for Question 11

- If he takes an uncrystallised funds pension lump sum (UFPLS) he will trigger the money purchase annual allowance (MPAA)/if he takes pension commencement lump sum (PCLS) he will not trigger the MPAA;
- limiting his total contributions to the personal pension plan to £4,000 per annum;
- based on his current contribution level he will have to pay an annual allowance tax charge/he will need to reduce his current contributions.
- If he takes an UFPLS part of the payment will be subject to higher rate tax/if he takes PCLS the whole payment is tax free;
- and so he will have to crystallise more of his pension fund to achieve the £30,000 he requires/and so he will crystallise less than the UFPLS to achieve the £30,000 required;
- leaving more in the pension which is tax efficient/to grow/for a better retirement income.

Model answer for Question 12

- Income taken from the ISA will be tax-free;
- Any income taken from flexi access drawdown (FAD) will be taxed;
- as Roberta's pension income;
- as John died aged 77/over age 75.
- State pension and savings income currently within personal allowance;
- Taking FAD pushes savings income into taxable income;
- Her savings income exceeds her personal savings allowance;
- And therefore £500/excess will be taxable;
- A higher gross amount needs to be taken from the pension.
- ISA is in her estate for inheritance tax (IHT)/pension is outside of her estate for IHT.

Model answer for Question 13

- Dominic can receive income/loans;
- subject to Selina 's wishes/may avoid conflict/Selina chooses the trustees.
- Loans are repayable on death/reducing Dominic's estate;
- Her children can be potential beneficiaries/remaindermen.
- Ensures the children are likely to receive the residual funds.
- Outside estates for bankruptcy/divorce/remarriage.

Model answer for Question 14

- Aged under 23;
- or who at the member's date of death;
- in the opinion of the scheme administrator;
- is dependent on the member due to physical
- or mental impairment.

Model answer for Question 15

Candidates would have gained full marks for any ten of the following:

- Client's state of health;
- loss of guarantees;
- whether the client has a partner or dependants;
- inflation;
- whether the client has shopped around;
- sustainability of income in retirement;
- tax implications;
- charges (if the client intends to invest their savings);
- impact on means-tested benefits;
- debt;
- investment scams.

February 2021 Examination - J05 Pension income options		
Question No.	**Syllabus learning outcomes being examined**	
1.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
2.	6.	Understand the State retirement benefits available.
3.	1.	Understand the HMRC rules that apply when pension benefits are crystallised.
4.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
	3.	Understand the features, tax treatment and risks of flexible benefit options.
5.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.
6.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
	4.	Understand the features, tax treatment and risks of phasing retirement benefits.
7.	3.	Understand the features, tax treatment and risks of flexible benefit options.
8.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
9.	3.	Understand the features, tax treatment and risks of flexible benefit options.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
10.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
11.	3.	Understand the features, tax treatment and risks of flexible benefit options.
	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
12.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
13.	7.	Understand the issues in giving initial and ongoing advice on taking pension benefits to clients.
14.	2.	Understand in detail the features, tax treatment and risks of lifetime annuities and scheme pensions.
15.	5.	Understand the regulatory requirements and legal framework designed to protect clients who are drawing pension benefits.

All questions in the March 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.

The Tax Tables which follow are applicable to the October 2020 and February 2021 examination.

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%