Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 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 carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

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

Dan and Sara, both aged 48, are married and have two children, Finn, aged 11 and Emily, aged 10. All of the family are in good health.

Dan is employed as a pharmacist and receives a basic salary of £102,000 per annum gross. He will receive a bonus of £10,000 gross in the current tax year. Dan is a member of his employer's death-in-service scheme which provides a benefit of two times his basic salary in the event of his death. Dan is entitled to sick pay of 90 days' full salary with Statutory Sick Pay only, thereafter. Dan is a member of his employer's group personal pension scheme. He contributes 7% of his basic salary to the scheme and his employer contributes 11% of his basic salary.

Sara is employed as a solicitor on a part-time basis and receives a basic salary of £40,000 per annum gross. She has agreed to work on a full-time basis from January 2022 and will receive an additional £20,000 per annum gross in basic salary. Sara is a member of her employer's qualifying workplace pension scheme. She contributes 5% of her basic salary and her employer contributes 3% of her basic salary to the scheme. Her employer also provides a death-in-service benefit of £200,000 which is payable in the event of her death. In the event of illness, she will receive six weeks' basic salary as sick pay with Statutory Sick Pay only, thereafter.

Dan's group personal pension fund in his employer's scheme is invested in a range of global and UK equity funds. The current fund and transfer value is £242,000. Sara's workplace pension has a current value and transfer value of £55,000 and is invested in a cautious managed fund. Sara also has a pension fund value in a former employer's workplace pension scheme. This has a current value and transfer value of £97,000 and is invested in a UK equity index tracker fund.

Sara has been offered membership of her employer's group private medical insurance (PMI) scheme from September 2021. She is considering whether this will be of benefit to the family.

Dan and Sara live in a house which is valued at £600,000. This house is owned as joint tenants and has a mortgage of £350,000 outstanding. The mortgage is on a capital and interest basis. The mortgage interest rate is fixed at 3% until 31 March 2023, with early repayment charges applying until the same date. It is an offset mortgage.

Dan and Sara have a joint-life first event life and critical illness policy with a decreasing sum assured. This policy was arranged to protect the mortgage fully when they bought their current home. Dan has a budget private medical insurance policy in place that he set up a number of years ago.

Dan and Sara each established a stocks and shares ISA a few years ago which are invested in a UK smaller companies fund for Dan and a UK corporate bond fund for Sara. Sara inherited a portfolio of unit trusts from her father when he died last year. These holdings have remained unchanged since she received them.

Dan and Sara have decided to start to save for their children's potential university costs by using the additional salary that Sara is about to receive.

Dan and Sara consider themselves to be medium-risk investors.

Dan and Sara have the following assets:

Assets	**Ownership**	**Value (£)**
Family home	Joint	600,000
Current account	Joint	6,500
Deposit account (linked to offset mortgage)	Joint	7,500
Stocks and shares ISA – UK smaller companies fund	Dan	14,000
Stocks and shares ISA – UK corporate bond fund	Sara	13,000
Unit Trusts – UK, European and global equity funds	Sara	60,000

Dan and Sara's financial aims are to:

- ensure that their financial protection arrangements are adequate for their needs;
- arrange a suitable savings strategy to pay for their children's university costs;
- ensure that their savings and investments are appropriate for their needs.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require about Dan and Sara's existing financial arrangements, to assess their current financial position. **(15)**

(b) Explain to Dan and Sara how their current offset mortgage operates. **(8)**

(c) State the process that a financial adviser should follow in advising Dan and Sara how to establish a suitable strategy for their savings and investments to meet their future objectives. **(10)**

(d) State **five** benefits and **five** drawbacks of Dan and Sara setting up Junior ISAs to fund their children's potential university costs. **(10)**

(e) **(i)** State **five** benefits and **five** drawbacks of Sara joining her employer's group PMI scheme. **(10)**

(ii) Identify the benefits of Dan and Sara establishing a family income benefit (FIB) policy for their family's protection needs. **(10)**

(f) Recommend and justify the actions that Dan and Sara could take now to improve the tax efficiency of their current financial arrangements. **(11)**

Total marks available for this question: 74

Case Study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

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

June is aged 71. Her husband, Colin, aged 72, died recently following a sudden heart attack. June has a long-term heart condition which requires ongoing treatment. June has two children and four grandchildren. Her children Emily and Andrew are both married. Colin's estate is being transferred into June's name by their solicitor and this should be completed within the next two months. June will inherit all of Colin's assets.

June is aware that she may need long-term care in the future and is considering selling the family home and moving into a retirement village where she could rent a suitable property at a cost of £1,000 per month. Her current home is valued at £450,000 and is mortgage-free.

June's income consists of her own State Pension, and 50% spouse's pension from a pension annuity which was previously held by Colin. This income is not sufficient to meet her needs. She is spending capital from her deposit account and is concerned that she will run out of cash funds in the near future.

Colin had a self-invested personal pension (SIPP) which is invested in a range of individual equities and collective investment funds. It has a current value of £320,000. The SIPP was fully crystallised and was held in a flexi-access drawdown arrangement at the time of Colin's death.

Colin held a range of AIM shares and open-ended investment companies (OEICs), valued at £250,000 in total. These are still held in Colin's name. Colin also held an ISA portfolio valued at £300,000. June holds a range of cash ISAs which are all on fixed rates with varying terms of between two and five years. She also has a stocks and shares ISA.

June is keen to ensure that she mitigates any future Inheritance Tax liability so that she can maximise her estate for the benefit of her children and grandchildren.

Colin and June had been looking into the possibility of setting up a discounted gift trust. June is keen to understand if such an arrangement would be suitable for her now that Colin has died.

June is a medium-risk investor and is happy to consider a wide range of investments, but she does not want to spend a great deal of time monitoring these investments in the future.

June has entitlement to the following assets:

Assets	**Current holder**	**Value (£)**
Family home	June	450,000
Current account	June	2,000
Deposit account	June	15,000
Cash ISAs – various fixed terms	June	80,000
Stocks and shares ISA – UK corporate bond fund	June	120,000
Stocks and shares ISA – emerging markets fund	Colin (deceased)	300,000
OEICs – UK mid-cap and UK fixed interest funds	Colin (deceased)	150,000
AIM shares	Colin (deceased)	100,000
Self-invested personal pension (SIPP)	Colin (deceased)	320,000

June's financial aims are to ensure that:

- she has sufficient income throughout retirement;
- her investments meet her ongoing needs;
- her estate is passed to her children in an Inheritance Tax efficient manner.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Explain why June should be treated as being a vulnerable client and identify the actions that a financial adviser should take due to her vulnerability during the advice process. **(10)**

(b) State the further information that a financial adviser would require to enable them to identify a suitable level of ongoing income for June, following the recent death of her husband. **(12)**

(c) Identify and explain the various methods by which June could draw benefits from Colin's pension arrangements. **(12)**

(d) Explain to June why retaining Colin's portfolio of AIM shares may not be suitable for her. **(10)**

(e) Explain to June why she could consider using a combination of income and capital withdrawals from her inherited OEIC portfolio to provide her with additional income. **(10)**

(f) State **seven** benefits and **seven** drawbacks for June of proceeding to set up a discounted gift trust. **(14)**

(g) State **eight** factors that an adviser should take into account when reviewing June's income needs at the next annual review meeting. **(8)**

Total marks available for this question: 76

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%