Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

September 2021 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2021/2022, 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, and then carry out ***ALL*** *of the questions* ***(a), (b), (c), (d), (e)*** *and* ***(f)*** *which follow.*

John, aged 38, and Karen, aged 36, are married. They have two young children, Sophie, aged six, and Jack, aged three. They are in the process of moving home and are hoping to complete the purchase of their new property in the next six weeks.

John is a self-employed computer contractor who has worked on a single contract for one client, which is a large UK bank, for the last two years. He has taxable net profits drawings of £40,000 per annum gross, after expenses. John's current client has offered him a full-time salaried position on a salary of £48,000 per annum gross, and the company will provide a range of employee benefits. John is currently considering the merits of accepting this offer.

Karen has not worked since their children were born but is considering returning to part-time work when Jack starts school in two years' time.

John and Karen are taking out a capital repayment mortgage on the new property for £150,000 which will replace their existing interest-only mortgage of £100,000. They have a joint-life first death level term assurance policy for £100,000 and are considering the suitability of this policy for their new property. The purchase price of their new property is £300,000.

John has a deferred benefit in his former employer's defined benefit occupational pension scheme, although this scheme is currently in deficit. John also has a personal pension which he set up when he became self-employed. This personal pension has a current value of £45,000 and is invested in a cautious lifestyle fund and has a normal retirement age of 65. John makes single contributions to his personal pension when his profits allow. Karen has a personal pension which she set up when she first started work. This personal pension has a value of £10,000 and is invested in a fixed-interest fund. Karen has not made any pension contributions for five years.

John and Karen are both in good health. They have an adventurous attitude to risk and are willing to invest in a wide range of investments. John and Karen do not have any ethical views in respect of their investments. They have set up mirror Wills with appropriate trust arrangements for the children in the event of their deaths before the children reach age 18.

John and Karen wish to maximise the tax-efficiency of their current income and assets and have asked for your recommendations on how this could be best achieved.

John and Karen have the following savings and investments:

Assets	Ownership	Value (£)
Current Account	Joint	8,000
Deposit Savings Account – Instant Access	Joint	15,000
Stocks & Shares ISA – Global Equity Tracker fund	John	19,000
Stocks & Shares ISA – UK Equity Tracker fund	Karen	15,000

John and Karen's financial aims are to:

- arrange for adequate protection to be in place for their new mortgage;
- ensure John's income is structured in an appropriate manner;
- ensure that they have sufficient assets to enable them to retire when John reaches age 60.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) **(i)** State **six** benefits and **six** drawbacks for John of becoming an employee of his current client. **(12)**

(ii) Explain briefly to John the reasons why deciding to remain self-employed may cause him problems from a tax perspective. **(4)**

(b) **(i)** State the reasons why Karen should consider making a regular pension contribution even though she has no earned income. **(8)**

(ii) Explain to John and Karen how the Marriage Allowance could be used to improve their current tax position. **(8)**

(c) Explain to John how his benefit in his former employer's defined benefit occupational pension scheme would be treated if the scheme enters the Pension Protection Fund. **(8)**

(d) **(i)** Identify the key reasons why John's current investment strategy for his personal pension may not be suitable for him over the long-term. **(7)**

(ii) Outline the benefits for John of using the services of a financial adviser on an ongoing basis to review his pension investment strategy. **(10)**

(e) State **five** benefits and **five** drawbacks of replacing John and Karen's existing level term assurance policy with a suitable decreasing term assurance policy. **(10)**

(f) Explain to John and Karen why they should consider using Lifetime ISAs for the purpose of long-term savings. **(8)**

Total marks available for this question: 75

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

Steve and Trish, aged 65 and 62 respectively, are married. They have two children, Harry, aged 34, and Sophie, aged 30. Sophie is married and is financially independent. Harry has serious learning difficulties and lives with his parents.

Steve will semi-retire shortly and has two personal pension arrangements which are valued at £450,000 and £80,000. He would like to consolidate these pensions and whilst he feels that he does not need to take a pension commencement lump sum, he will need a tax-efficient income. Both of Steve's pension funds are invested in low to medium risk funds including a holding in a with-profits fund within the smaller personal pension.

Steve is a higher rate taxpayer and expects to remain so for the foreseeable future. He currently earns a salary of £85,000 gross per annum. Steve expects his salary to fall to £55,000 gross per annum when he semi-retires.

Trish works as a receptionist at a local engineering firm. Her earnings have been £16,000 per annum gross for the last five years. Trish is a member of her employer's qualifying workplace pension scheme. Her plan has a current value of £20,000 and it is invested in the default cash fund in her employer's scheme.

Steve and Trish live in a house worth £700,000 which is mortgage-free and owned as joint tenants. They have no debts. Steve and Trish do not expect to receive any inheritances in the future, and they wish to leave as much of their estate as possible to their children on second death.

Both Steve and Trish feel they have a medium attitude to risk. They have not made any Wills.

Their savings and investments are as follows:

Assets	**Ownership**	**Value (£)**
Current Account	Joint	55,000
Deposit Account	Joint	200,000
OEIC – UK Equity funds	Steve	225,000
Unit Trust – Emerging Markets fund	Steve	80,000
Cash ISA	Trish	46,000

Steve and Trish's financial objectives are to:

- ensure that their financial arrangements are tax-efficient;
- maximise the value of their estate for their beneficiaries;
- maintain their standard of living in retirement.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require to advise Steve and Trish on their savings and investments. **(15)**

(b) Identify **six** reasons why a financial adviser should not solely rely on a computer-based risk profiling tool to confirm Steve and Trish's attitude to risk. **(6)**

(c) **(i)** State **three** benefits and **three** drawbacks of Steve deferring his State Pension. **(6)**

(ii) State the key factors that a financial adviser should take into consideration before recommending a fund switch within Trish's holding as part of her employer's qualifying workplace pension scheme. **(10)**

(d) **(i)** Explain to Steve and Trish why they should both set up Wills. **(10)**

(ii) Recommend and justify the actions Steve and Trish could take to immediately reduce their Inheritance Tax liability. **(8)**

(e) State the key information that a financial adviser would need to obtain relating to Steve's existing pensions, before making a recommendation to consolidate them. **(12)**

(f) State **eight** factors that a financial adviser should take into account when reviewing Steve and Trish's investments at their next annual review. **(8)**

Total marks available for this question: 75

INCOME TAX

RATES OF TAX	2020/2021	2021/2022
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	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:
1% of benefit per £100 of adjusted net income between £50,000 – £60,000

*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance

Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	7.5%
Higher rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	38.1%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,500	£12,570
Married/civil partners (minimum) at 10% *†*	£3,510	£3,530
Married/civil partners at 10% *†*	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance*†*	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
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

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*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 184.00*****	Nil
184.00 – 967.00	12%
Above 967.00	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 £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 - £50,270. 2% on profits above £50,270.

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 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 & 2021/2022	£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 – 2021/2022	£40,000*

~ increased to £80,000 for pension input between 6 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.

**reducing 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	2020/2021	2021/2022
	£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	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£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%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£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	2020/2021	2021/2022
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*	£175,000	£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

	2020/2021 Rates	2021/2022 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
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
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 1 April 2016 (Corporation Tax) or 6 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

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	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	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

CORPORATION TAX

	2020/2021	2021/2022
Standard rate	19%	19%

VALUE ADDED TAX

	2020/2021	2021/2022
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 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- **For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.**
- **For purchases above £250,000, the band rates above apply as normal.**
- **For purchases from 1 October 2021, 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%