Chartered
Insurance
Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

February 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2023 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

Contents

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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

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, these are provided in the portal as you sit the exam (see page 6).*

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.

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 familiarising 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 fictional 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.

On-screen written exam demonstration (Demo 1)

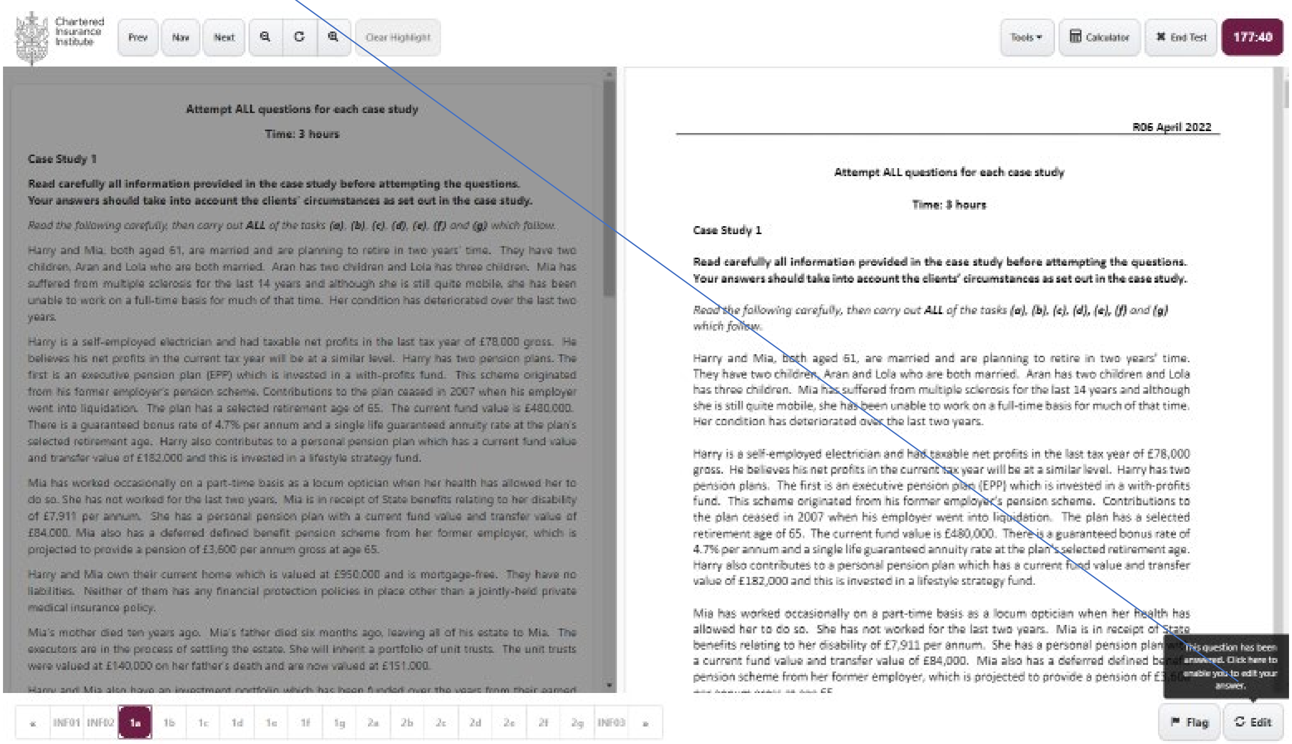
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

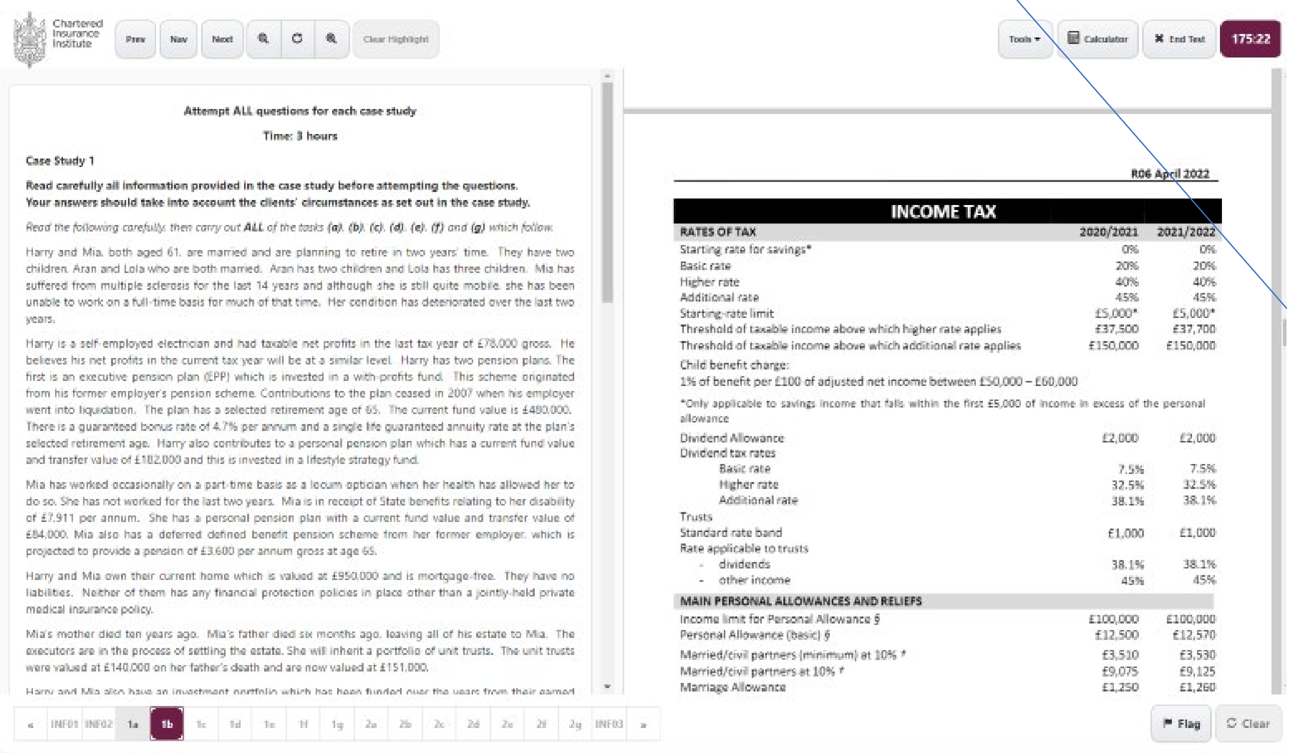
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The demonstration test is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam. **We strongly advise that you try the demonstration test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

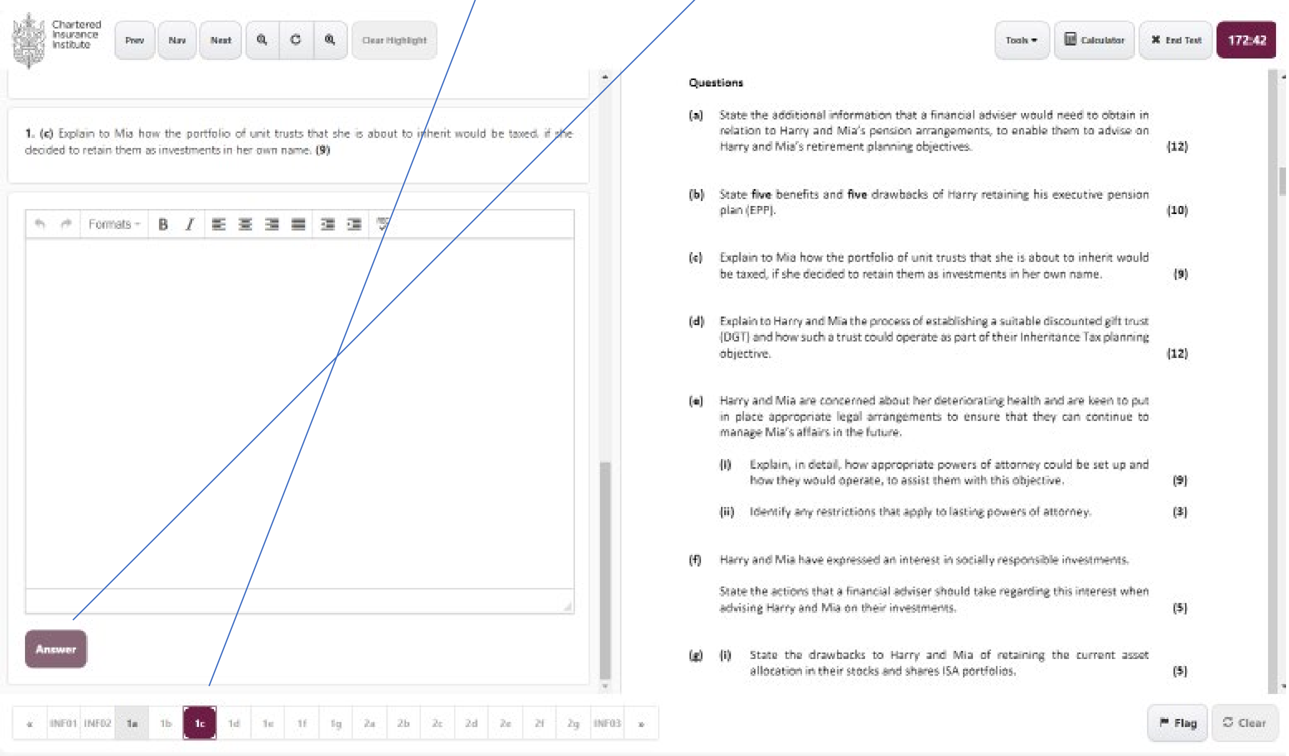
1. From the demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press '**Answer**' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



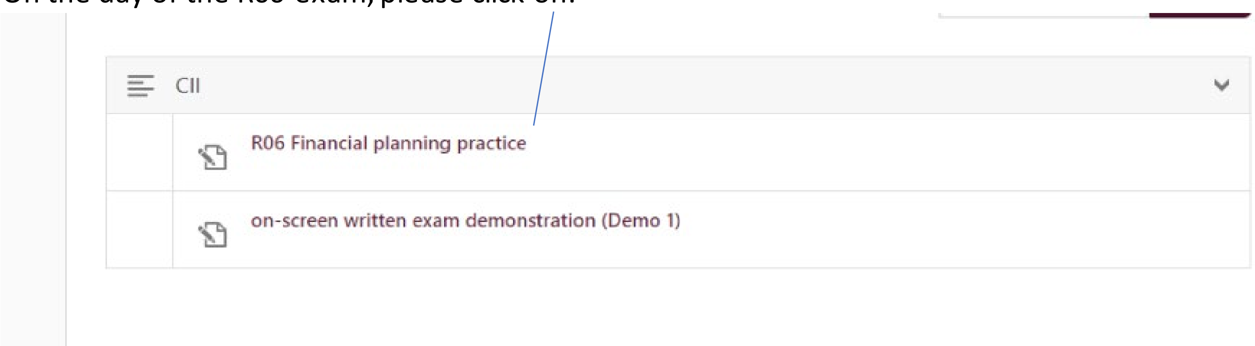
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



3. Once you have typed in your answer ensure you click the red '**Answer**' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the R06 exam, please click on:



5. The above screenshot shows the point before the exam has started; you may wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **R06 Financial planning practice**.

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 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 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 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 in your answer, even if you have used a calculator. You are permitted to use your own calculator.

EXAMINERS' COMMENTS

Candidates' overall performance:

General performance across the paper was very good.

Most candidates had prepared well for the paper but there were some areas of weakness. This was a concern as some candidates performed relatively poorly in areas relating to protection issues. This was a little disappointing as the client in Case Study 2 had a number of weaknesses in this area which were easily identified from the information provided in the Case Study.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require to enable them to advise Jim and Carol on how they could generate an adequate income in retirement. Most candidates performed well and were able to provide some very good answers.

Part (b) required candidates to identify the key factors that Carol should consider before deciding whether to encash or retain her inherited portfolio of UK Bank shares. Some mixed performance was in evidence as a number of candidates failed to recognise the tax issues relating to these shares and hence provided only limited answers which lacked sufficient detail to achieve high marks. Only a limited number of candidates recognised that the tax position could be improved by considering a partial transfer of the shares to Jim which would result in an improved use of tax allowances.

In part (c) candidates were asked to explain in detail to Jim and Carol why they might wish to consider investing some of Carol's inheritance into each of their workplace pension schemes. Many candidates performed well and were able to explain the benefits of this course of action, based on Jim and Carol's current circumstances and financial position.

Part (d) required candidates to explain to Jim and Carol why the UK fixed interest funds held by Jim's OEIC may not be suitable in helping to meet their retirement objectives. Overall performance was reasonable although some candidates failed to consider the tax issues relating to a fixed-interest fund and did not recognise that the income from this fund might be taxed at 40% for Jim.

In part (e) candidates were asked to recommend and justify a range of actions that Jim and Carol could take to assist in reducing their potential Inheritance Tax (IHT) liability on second death, if they choose to cancel their existing whole of life (WOL) policy. Some very good performance was in evidence with many candidates achieving high marks.

In part (f) candidates were asked to recommend and justify the actions that Jim and Carol could take to improve the tax-efficiency for Income Tax and Capital Gains Tax (CGT) purposes, of their existing financial arrangements. Overall performance was good and most candidates were able to identify an appropriate range of actions.

Question 2

In part (a) candidates were asked to explain to Jenny the reasons why her current level of cash holdings may be unsuitable to meet her longer-term needs. Some mixed performance as a number of candidates failed to consider a range of reasons why her current high levels of cash might be unsuitable for Jenny. Only a small number of candidates recognised that the interest on these cash balances might exceed her Personal Savings Allowances (PSA). It was pleasing to note that many candidates recognised the additional Financial Services Compensation scheme (FSCS) protection that would be available for a short period of time due to the cash being held as a result of Jenny's divorce.

Part (b)(i) required candidates to identify the key areas of weakness in Jenny's current financial protection arrangements. Many candidates performed very well and were able to identify most of the key areas of weakness.

Part (b)(ii) required candidates to recommend and justify a suitable financial protection policy that will pay a lump sum to support Sasha with her university costs in the event of Jenny's death. Although many candidates performed well, it was disappointing to note that a number of candidates were unable to identify a suitable protection policy with a range of answers covering such unsuitable options as Family Income Benefit and Income Protection Insurance – neither of which would provide a lump sum to support Sasha in the event of Jenny's death. This was disappointing and indicates the need for some candidates to undertake further study on the various types of life assurance policies and their benefit options.

Part (c) asked candidates to explain to Jenny why it is important for her to check her National Insurance (NI) contribution record following her recent change in circumstances. Some good performance from candidates although only a limited number of candidates recognised that Jenny may have been entitled to NI credits for any periods where she was on maternity leave or providing childcare for Sasha.

In part (d) candidates were asked to explain to Jenny the key benefits of investing a portion of the cash proceeds of her divorce settlement in to a portfolio of equity funds. Generally good performance from most candidates although some failed to identify a range of key benefits and hence failed to achieve high marks.

Part (e) asked candidates to outline the options that Jenny has available to her in respect of the pension sharing order and to state the factors that a financial adviser should take into account when making a recommendation. Well-prepared candidates performed very well and had no difficulties with this question. This was clearly identified as an issue for Jenny in the Case Study and it was pleasing to note that candidates had researched this topic in detail in advance of the exam.

In part (f) candidates were asked to outline the factors that Jenny should consider before deciding whether to fund her daughter's university costs using some of the lump sum from her divorce. Overall performance was good although some less well-prepared candidates did not recognise that this action could lead to financial difficulties for Jenny in later life. There was a clear affordability issue to be considered here and only a limited number of candidates recognised this.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should discuss with Jenny at the next annual review. Performance was generally very good with most candidates able to provide comprehensive answers.

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 2022/2023, 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.

If you are sitting via remote invigilation 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.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem, please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- 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 right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- 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 a headset, earphones, smart watch please take them off. No watches are allowed.
- 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.

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.*

Jim and Carol, both aged 62, are married and are planning to retire in six months' time. They have two adult children, aged 35 and 32 who are financially independent and one grandchild. Both Jim and Carol have recently stopped smoking.

Jim is employed as a staff manager and receives a gross salary of £62,000 per annum. He is a member of his employer's workplace pension scheme and contributes 7% of his gross salary to the scheme. His employer matches this contribution. Additionally, Jim is due to receive a bonus of £6,000 before he retires and is considering investing this into the workplace pension scheme. His pension has a current value of £340,000 and this is invested in a UK equity fund and a global equity fund.

Carol is employed as a recruitment officer and receives a gross salary of £75,000 per annum. She is a member of her employer's workplace pension scheme and contributes 5% of her gross salary to the scheme. Her employer contributes 7% of her gross salary to the scheme. Her pension has a current value of £280,000 and is invested in a fixed-interest fund.

Jim and Carol own their current home as joint tenants and it is mortgage-free and valued at £650,000.

Carol's father died recently and she is due to receive an inheritance of £200,000 in cash. She is the sole beneficiary of her father's estate.

Jim and Carol set up a joint life last survivor whole-of-life policy some years ago as they were concerned about their potential Inheritance Tax (IHT) liability. This policy is due for its first review later this year.

Jim and Carol have built up a range of investments in ISAs. In addition, Jim holds an open-ended investment company (OEIC) fund and Carol holds some individual shares which she inherited from her late mother a number of years ago. They believe that these holdings may not be suitable for them once they have retired. They have not yet used their ISA allowances for the current tax year.

Jim and Carol are medium to adventurous risk investors and believe they have sufficient capacity for loss to invest in risk-based assets throughout retirement. They have no immediate desire to invest in Environmental, Social and Governance (ESG) investments.

Jim and Carol have up-to-date Wills and lasting powers of attorney. They wish to ensure that as much of their estate as possible can be passed to their two children on second death.

Jim and Carol currently have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	650,000
Current account	Joint	10,000
Cash ISA	Jim	30,000
Cash ISA	Carol	70,000
Stocks & Shares ISA – UK Smaller Companies funds	Jim	220,000
Stocks & Shares ISA – Money Market funds	Carol	170,000
OEIC – UK Fixed-Interest funds	Jim	100,000
Individual Shares – UK Bank shares	Carol	75,000

Their financial aims are to:

- ensure that they have an adequate income in retirement;
- review the suitability of their investments in advance of their retirement;
- consider a range of options in respect of Carol's inheritance and to review their potential Inheritance Tax liability.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require to enable them to advise Jim and Carol on how they could generate an adequate income in retirement. **(14)**

(b) Identify the key factors that Carol should consider before deciding whether to encash or retain her inherited portfolio of UK Bank shares. **(12)**

(c) Explain in detail to Jim and Carol why they might wish to consider investing some of Carol's inheritance into each of their workplace pension schemes. **(12)**

(d) Explain to Jim and Carol why the UK fixed interest funds held by Jim's OEIC may not be suitable in helping to meet their retirement objectives. **(10)**

(e) Recommend and justify a range of actions that Jim and Carol could take to assist in reducing their potential Inheritance Tax (IHT) liability on second death, if they choose to cancel their existing Whole of Life (WOL) policy. **(14)**

Candidates should assume that Jim and Carol do not set up a new WOL policy.

(f) Recommend and justify the actions that Jim and Carol could take to improve the tax-efficiency for Income Tax and Capital Gains Tax purposes, of their existing financial arrangements. **(10)**

Total marks available for this question: 72

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.*

Jenny, aged 48, has recently finalised her divorce. Jenny and her ex-husband, Faizal have agreed a financial settlement which has been approved by the court. Jenny and Faizal have a 17-year-old daughter, Sasha, who lives with Jenny.

Jenny has received the family home in the divorce settlement. This is mortgage-free and is valued at £400,000. She has also received a lump sum of £175,000 which represents her share of the other marital assets. This is currently held in her deposit account. Jenny will not receive any maintenance from Faizal as a condition of the divorce settlement.

Jenny has also been awarded a pension sharing order in respect of Faizal's defined contribution pension scheme. Her entitlement is 50% of the value of his pension scheme. Jenny's entitlement is currently worth £180,000. The current pension provider has contacted Jenny and asked her to confirm her intentions with this pension fund.

Jenny has recently returned to full-time employment as a data manager for a technology company She receives a gross salary of £46,000 per annum. Jenny is a member of her employer's workplace pension scheme and contributes 5% of her gross salary to the scheme. Her employer matches this contribution. Her pension has a current value of £115,000 and this is invested in a cautious managed fund. Her employer offers no additional workplace benefits.

Sasha is planning to go to university next year and Jenny is concerned that she does not want Sasha to graduate with a high level of debt. Jenny is considering the merits of funding a large portion of Sasha's tuition fees and university living expenses herself, instead of allowing Sasha to use student loans.

Jenny is reviewing her protection needs following the completion of her divorce. Prior to the divorce, she was covered under her ex-husband's employer's group private medical insurance policy, but this is no longer the case. Sasha retains her cover under this policy until she leaves university. Jenny is no longer the nominated beneficiary under any of Faizal's workplace benefits.

Jenny is a cautious to medium risk investor and she does not have any concerns in respect of Environmental, Social and Governance (ESG) investments. Following her recent divorce, her capacity for loss is moderate.

Jenny has the following assets:

Assets	Value (£)
Home	400,000
Current account	15,000
Deposit savings account	175,000
Cash ISA	45,000
NS&I Premium Bonds	25,000
Stocks & Shares ISA – UK Tracker fund	48,000

Jenny's financial aims are to:

- ensure her protection arrangements are adequate for her needs;
- consider investment options following the divorce settlement;
- execute the pension sharing order.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Explain to Jenny the reasons why her current level of cash holdings may be unsuitable to meet her longer-term needs. **(12)**

(b) **(i)** Identify the key areas of weakness in Jenny's current financial protection arrangements. **(8)**

(ii) Recommend and justify a suitable financial protection policy that will pay a lump sum to support Sasha with her university costs in the event of Jenny's death. **(14)**

(c) Explain to Jenny why it is important for her to check her National Insurance contribution record following her recent change in circumstances. **(6)**

(d) Explain to Jenny the key benefits of investing a portion of the cash proceeds of her divorce settlement in to a portfolio of equity funds. **(10)**

(e) Jenny is unsure about the options available to her in respect of her pension sharing order.

Outline the options she has in respect of the pension sharing order and state the factors that a financial adviser should take into account when making a recommendation. **(10)**

(f) Jenny is considering using some of the lump sum from her divorce to pay her daughter's university costs.

Outline the factors that Jenny should consider before deciding whether to fund her daughter's university costs using some of the lump sum. **(10)**

(g) Identify **eight** issues that a financial adviser should discuss with Jenny at the next annual review. **(8)**

Total marks available for this question: 78

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) *Candidates would have gained full marks for any fourteen of the following:*

- Current expenditure/affordability.
- Level of income/capital required in retirement.
- Dividend income/Interest Rate on cash.
- Liabilities/any debts/any planned gifts.
- Pension contribution history/carry forward available.
- Employer matching (maximum)/salary sacrifice.
- Use of Capital Gains Tax (CGT) allowances/any carry forward losses.
- Use of other assets/inheritances expected/downsizing/plans for Carol's inheritance.
- Fund choice/fund options available.
- Charges/switching charges.
- Complexity/simplicity.
- Need for guaranteed/flexible income/current annuity rates
- BR19/State Pension.
- Nominations.
- Health status/family health/longevity.
- Guaranteed Annuity Rate (GAR)/protected tax-free cash.

(b)

- Base costs.
- Sentimental attachment (inherited from mother).
- Gain on each share/performance.
- Bed and ISA.
- Available CGT exemption/any previous losses.
- 20% CGT/reducing to 10% CGT in 6 months' time.
- Current dividend yield/use of Dividend Allowance.
- Potential for growth/income in retirement/hedge against inflation/potential for loss/market risk.
- Held on platform/nominee or certificated?/administration on shares.
- Lack of diversification.
- Willing to transfer some to Jim?/interspousal transfer.
- Match Attitude to risk (ATR) (medium to adventurous).

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

- 40% tax relief for both.
- Pensions are IHT-free/reduces IHT liability.
- Tax free growth.
- They have an increased IHT liability (due to father's inheritance).
- Due to retire so last chance to make large pension contributions/low pension values.
- Can contribute up to £40,000 in current tax year/both can use carry forward/both earn over £40,000.
- Salary sacrifice/employer matching.
- Can access funds as soon as retire/no access issues/can bridge to State Pension.
- Better death benefits for children/flexible death benefits.
- Tax-free lump sum on death before 75/income available on death before 75.
- Flexible income options in retirement/flexi access drawdown (FAD)/uncrystallised fund pension lump sum (UFPLUS)/annuity.
- Can generate a tax-efficient income stream/use Personal Allowance/higher pension commencement lump sum (PCLS).
- Lower charges/employer sponsored/simple administration.

(d)

- Portfolio does not match ATR.
- Lack of diversification.
- Limited growth potential.
- Provides limited income/they will need income when they retire.
- Income taxed at 40%
- Interest-rate risk/Inflation risk.
- Default risk.
- Held in Jim's sole name/could transfer to Carol.
- Not held in ISA/not tax efficient/uses her Personal Savings Allowance (PSA)/CGT exemption.
- No use of Dividend Allowance.

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

- Make pension contributions/use carry forward.
- Immediately IHT-free.
- Pensions can pass IHT-free down generations.
- Use annual gifting allowances/£3,000/gifts out of income.
- These gifts offer immediate reduction in estate/reduces IHT liability on 2nd death.
- Use Deed of Variation (DOV) on Carol's inheritance.
- Use of DOV means value of inheritance never enters her estate.
- Set up Discounted Gift Trust (DGT).
- DGT offers immediate discount based on underwriting.
- Children can be beneficiaries of Trust/they can be Trustees.
- Loan trust/Potentially Exempt Transfer (PET)/Chargeable Lifetime Transfer (CLT).
- Value leaves estate after 7 years/loan trust repayable on demand/growth on trust is outside estate.
- Invest in Enterprise Investment Scheme (EIS)/AIM shares.
- EIS/AIM shares are IHT-free after 2 years.
- EIS/AIM shares match ATR/CFL.

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

- Increase pension contributions/bonus sacrifice.
- 40% tax relief for both.
- Use ISA allowances/Bed & ISA.
- Tax-efficiency for ISA/pension.
- Transfer OEIC into joint names/transfer Bank shares into joint names.
- Transfer uses interspousal exemption/CGT-free.
- Use of CGT exemptions/register CGT losses.
- Carol can use her PSA against interest from OEIC.
- Jim can use his Dividend Allowance.
- Enterprise Investment Scheme (EIS)/Venture Capital Trust (VCT).
- 30% Income Tax relief/CGT deferral on EIS.

Model answer for Question 2

(a) *Candidates would have gained full marks for any twelve of the following:*

- Current cash levels are excessive/excess emergency fund/lack of diversification.
- Current balance in Deposit account exceeds Financial Services Compensation scheme (FSCS) protection/default risk.
- Temporary high balance protection of £1m under FSCS due to divorce proceeds.
- Temporary cover under FSCS for 6 months.
- When did she receive this cash lump sum?
- Inflation risk.
- Capital is being eroded.
- Interest rate risk/rates could fall.
- Interest may be taxed if it exceeds her Personal Savings Allowance (£1,000)/not held within ISA/excess interest is taxed at 20%.
- No potential for growth/low returns.
- She has limited pension provision/could top up her pension.
- She has earned income/return to full time work.
- Does not meet her ATR/long term to retirement.

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

- She is the sole breadwinner/change of circumstances (divorce).
- No life cover/Critical Illness Cover (CC).
- Financially dependant daughter.
- No cover for daughter’s university costs/will Faizal help?
- She has no employer benefits/likely to have limited sick pay.
- Loss of husband’s Private Medical Insurance (PMI)/relies on NHS/needs speedy return to work.
- No Income Protection/Accident Sickness Unemployment (ASU) cover/loss of income in event of long-term illness.
- Cannot access pensions at present (too young)/has she updated nominations/Wills?
- Unlikely to receive State benefits due to level of assets.

(ii)

- Level Term Assurance (LTA)/Decreasing Term Assurance (DTA).
- Pays out tax-free lump sum.
- Cheap/inexpensive cover
- Term of minimum 4 years.
- Meets likely term of Sasha’s University course.
- Sum assured to meet Sasha’s University fees and expenses.
- Guaranteed premiums.
- Known cost/affordability.
- Indexation.
- Keeps pace with inflation.
- In Trust (for Sasha).
- No delays with Probate.
- Waiver of Premium (WOP).
- Pays premium in event of sickness.

(c)
- Checks State Pension entitlement.
- She can fill gaps at low cost/it is affordable.
- She has only recently returned to work/she has gaps in employment/may be gap in records.
- May have taken time off for maternity/childcare/has she been credited?
- Need to check any gaps in past 6 years/ability to fill gaps beyond 6 years is removed in April 2023.
- She may have some entitlement to State Pension based on Faizal's National Insurance (NI) record/NI record affects other state benefits.

(d)
- Inflation risk on cash/equities provide hedge against inflation.
- No growth potential on cash/she needs growth/excess cash.
- She has limited pension benefits (currently inadequate).
- She has unused tax allowances (pension/ISA).
- Provides improved prospect of meeting retirement objectives/additional income in future.
- Long time frame/term.
- Can provide dividend income.
- Can use her Dividend Allowance/Capital Gains Tax exemption.
- Affordable/she has no liabilities/no debts.
- Can meet her ATR/CFL is improving as she has returned to work/provides diversification.

(e)
- Any other pension plans she holds.
- Can she retain pension fund with existing pension provider?
- Can she transfer to her current employer scheme?
- Stakeholder pension options/set up new pension plan.
- Costs/charges/discounts for larger investments.
- Planned retirement age/scheme Normal Retirement Date (NRD).
- Fund availability/range of investment options.
- Online access/platform.
- Flexible access in retirement/range of retirement options.
- Service levels of provider.

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

- Loss of capital/access no longer available/adverse impact on her retirement.
- Costs of university are unknown/approximate amount required?
- Student loans/grants available/will Faizal contribute?/will Sasha work?/bursaries.
- Student loans are at low rates of interest.
- Sasha may never need to repay.
- Jenny has only recently divorced/change of circumstance.
- Large financial commitment/can she afford this?
- She has no protection/capital needed for protection.
- Loss of potential growth.
- Loss of use of tax allowances (ISA/Pension).
- Priority of this objective (meeting Sasha's costs versus her own needs).

(g)
- Change in personal circumstances/health/is daughter at university?
- Change in income/expenditure/tax status/capital needs/university costs.
- Has she invested cash from divorce?/has pension transfer been completed?/is protection in place?/lack of FSCS protection.
- ATR/CFL.
- Rebalance/asset allocation/performance.
- Use of allowances/ISA/pension/CGT.
- Charges.
- Change in legislation/taxation/regulation/new products/market conditions/economic conditions.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

- APS – Additional Permitted Subscription
- Attitude to Risk – ATR
- ASU – Accident Sickness Unemployment
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- CETV – Cash equivalent transfer value
- CLT – Chargeable Lifetime Transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- EIS – Enterprise Investment Scheme
- ESG – Environmental, Social and Governance
- EPT – Excluded Property Trust
- EPA – Enduring Power of Attorney
- ERC – Early repayment charges
- EPP - Executive pension plan
- FAD – Flexi access drawdown
- FSCS – Financial Services Compensation Scheme
- FOS – Financial Ombudsman Service
- GAR – Guaranteed annuity rate
- GWR – Gift with reservation
- HRT – Higher rate taxpayer
- IHT – Inheritance Tax
- IVA – Individual Voluntary Arrangement
- LPOA – Lasting Power of Attorney
- LTA – Lifetime allowance
- MVR – Market value reduction
- MPAA – Money purchase annual allowance
- NICs – National Insurance contributions
- NPA – Normal pension age
- NRA – Normal retirement age
- NRB – Nil rate band
- OPG – Office of the Public Guardian
- OEIC – Open ended investment company
- PAYE – Pay As you Earn
- PPP – Personal pension plan
- PCLS – Pension commencement lump sum
- PA – Personal Allowance
- PSA – Personal Savings Allowance
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- TPD – Total Permanent Disability
- UFPLS – Uncrystallised fund pension lump sum
- VCT – Venture Capital Trust

February 2023 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 and July 2023 papers will be based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise and should be answered accordingly.

INCOME TAX

RATES OF TAX	2021/2022	2022/2023
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	£37,700	£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*

	2021/2022	2022/2023
Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS	2021/2022	2022/2023
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
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.*

	2021/2022	2022/2023
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*	Nil
242.00* – 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 £123 per week. This £123 to £242* 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 175.00**	Nil
175.00 – 967.00	13.8%
Excess over 967.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.15 where profits exceed £6,725 per annum.
Class 3 (voluntary)	Flat rate per week £15.85.
Class 4 (self-employed)	9.73% on profits between £11,908 and up to £50,270. 2.73% 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 – 2022/2023	£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
2014/2015 – 2022/2023	£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	2021/2022	2022/2023
	£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	2021/2022	2022/2023
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	2021/2022	2022/2023
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 EXEMPTION		
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

	2021/2022 Rates	2022/2023 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

	2021/2022	2022/2023
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction		130%
Special rate		50%
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:	0*	1-50	Over 50
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	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	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
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 £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as below:

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*

- *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.*

- *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.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%