



Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

February 2023 examination

SPECIAL NOTICES

All questions in this paper 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.

Unit AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find provided after the tax tables. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided on the next page and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task set.
- Tax tables are provided at the end of the question paper.
- The fact-find is also included at the end of the tax tables.

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

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

Immediate objectives

- To consider the affordability of early retirement.
- To identify any actions to be taken in advance of leaving employment.
- To consider whether they should repay their mortgage on receipt of the inheritance.

Longer-term objectives

- Set up a long-term investment strategy for Linda's inheritance.
- Improve the tax-efficiency of their financial arrangements.
- To ensure a sustainable income can be generated in retirement.

Attempt ALL tasks**Time: 3 hours****PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

1. **(a)** Identify the additional information that you would require in order to advise Steve and Linda on the affordability of retiring early following receipt of Linda's inheritance. **(14)**

 (b) Explain the key financial drawbacks for Steve and Linda if they decide to take early retirement. **(12)**

2. **(a)** Recommend and justify how Steve and Linda can improve their personal pension arrangements before taking early retirement. **(14)**

 Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

 (b) Explain in detail to Steve and Linda the process that must be followed to establish and make use of their maximum carry forward pension allowance. *(No calculations are required).* **(9)**

3. **(a)** Explain to Steve and Linda why they could consider retaining their existing mortgage rather than using part of their inheritance to repay this. **(8)**

 (b) Identify the key reasons why Steve and Linda's pension fund investments may not be suitable for their longer-term objectives. **(10)**

4. **(a)** Outline the key protection issues that should be considered by Steve and Linda once they leave employment. **(10)**

 (b) Identify the key reasons why Steve and Linda may wish to retain at least two years' planned expenditure in low-risk assets, following their retirement. **(9)**

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. (a) Explain in detail to Steve and Linda why they may wish to consider a portfolio of global and UK passive equity tracker funds to invest a portion of the inheritance. (8)
- (b) Identify the key drawbacks for Steve and Linda of using passive equity tracker funds within their portfolio. (8)
6. (a) Identify the key issues that Steve and Linda should take into consideration when establishing a safe level of withdrawal from their investment portfolio. (12)
- (b) Explain to Steve and Linda the key factors that they should take into consideration when setting up fixed monthly withdrawals from the investment portfolio, instead of drawing the natural income. (11)
7. (a) Recommend and justify how Steve and Linda can generate a tax-efficient income from their financial arrangements before they reach State Pension Age. (14)
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.*
- (b) Explain to Steve and Linda the key benefits of making voluntary National Insurance contributions for the State Pension after leaving employment. (9)
8. (a) Identify the key changes in Steve and Linda's circumstances which should trigger an immediate review of their financial arrangements. (6)
- (b) Identify **six** key issues that you would discuss with Steve and Linda when their mortgage reaches the end of its fixed term in November 2026. (6)

Total marks: 160

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*

| | | |
|---------------------------|--------|--------|
| 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

| | | |
|---|----------|----------|
| 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.

| | | |
|---|---------|---------|
| 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% | 18% | 6% |
| | first year | reducing balance | 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% |