Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 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 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), (f)** and **(g)** which follow.*

Ken and Mary, both aged 68, are married and have been retired for the past three years. They have two adult children and five grandchildren. Ken and Mary are both in good health. They have been enjoying their retirement but have recently become concerned at the increases in the cost of living and are worried that they may run into financial difficulties later in their retirement.

Ken and Mary are both in receipt of their State Pensions. Mary also receives a pension from the NHS Pension Scheme. Mary's total pension income is currently £22,000 per annum gross.

Ken receives a State Pension of £9,400 per annum gross and also draws an income of £15,000 per annum gross from his self-invested personal pension (SIPP), using flexi-access drawdown (FAD). The pension plan has a current value of £250,000. The pension fund has decreased in value over the past year due to difficult market conditions. Ken consolidated all of his pension arrangements into his SIPP on retirement.

Ken's SIPP is invested in a range of UK and global equity funds. He has always chosen these funds himself but he is now concerned that the current investment strategy may be the cause of the recent decline in his pension fund value. He has asked for your advice in respect of the future management of the investment holdings within his SIPP.

Ken and Mary own their home and it is mortgage-free. Ken took the maximum pension commencement lump sum (PCLS) from his SIPP to repay the mortgage. The property is valued at £420,000.

Ken has been offered the opportunity to return to part-time employment with his former employer. This would provide an income of £20,000 per annum gross. Due to Ken and Mary's concerns about their longer-term financial security, Ken has decided to accept this job offer and will start his new job next month. Ken's employer offers a workplace auto-enrolment pension scheme.

Ken and Mary have a range of stocks & shares ISA holdings which have performed poorly over the past few months. They do not draw any income or capital from these holdings and intend to retain them for the long term. They have asked for your views on the suitability of the investment holdings within these ISAs.

Ken and Mary have a medium to high attitude to risk and neither of them has any particular interest in Environmental, Social and Governance (ESG) investments.

Ken and Mary have up-to-date Wills which leave all assets to the survivor on first death and then in equal shares to their two children on second death.

Ken and Mary have the following assets:

Assets	Ownership	Value (£)
Home	Joint	420,000
Current account	Joint	60,000
Deposit savings account	Mary	100,000
NS&I Premium Bonds	Ken	30,000
NS&I Premium Bonds	Mary	30,000
Stocks & Shares ISA – UK Growth funds	Ken	140,000
Stocks & Shares ISA – Multi-Asset Distribution funds	Mary	125,000
OEIC – FTSE-100 Tracker fund	Ken	70,000

Their financial aims are to:

- ensure that they have sufficient income throughout retirement;
- review the ongoing suitability of Ken's personal pension arrangements;
- improve the tax-efficiency of their financial arrangements following Ken's return to work.

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require in order to advise Ken and Mary on the suitability of their current financial arrangements. **(14)**

(b) Explain to Ken why he may wish to stop taking the withdrawals from his flexi-access drawdown (FAD) arrangement. **(10)**

(c) Explain to Ken why he should make further pension contributions when he returns to part-time employment. **(13)**

(d) Recommend and justify a range of actions that Ken and Mary can take to improve the overall tax-efficiency of their financial arrangements when Ken returns to part-time employment. **(14)**

(e) Identify the key factors that Ken should take into consideration before making any changes to the underlying investments in his self-invested personal pension (SIPP). **(10)**

(f) Identify the key information that a financial adviser should take into consideration when preparing a cashflow model to assist Ken and Mary with their financial planning. **(10)**

(g) State the reasons why Ken should include his two children as part of the death benefit nomination on his SIPP. **(5)**

Total marks available for this question: 76

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.*

Nick and Shirin, aged 34 and 32 respectively, are married with two children, Sonia, aged five and Khalid, aged three. Nick and Shirin are both in good health.

Nick is employed as a marketing director and receives a gross salary of £70,000 per annum. He is a member of his employer's workplace pension scheme and contributes 8% of his gross salary to the scheme. His employer matches this contribution. Nick's pension fund has a current value of £130,000 and is invested in a UK equity fund. Nick is also a member of his employer's death-in-service scheme which will pay out four times his basic salary on death whilst in service.

Shirin is employed as a communications manager and receives a gross salary of £80,000 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 matches this contribution and would match an employee contribution of up to 8% of basic salary. Shirin's pension fund has a current value of £96,000 and this is invested in the default cautious managed fund. She is also a member of her employer's death-in-service scheme which will pay out three times her basic salary on death whilst in service.

Nick is very concerned about the potential impact of a serious illness on their future income and retirement plans. Nick and Shirin are aware that they may have insufficient financial protection in the event of either of them suffering a serious illness, as neither of their employers offers any form of cover for long-term sickness other than Statutory Sick Pay.

Nick and Shirin's home is currently valued at £380,000. They have a repayment mortgage which has a current outstanding balance of £260,000. There are 20 years remaining on this mortgage. The mortgage is on a fixed interest rate of 1.9% until October 2025. They are able to make overpayments of 10% of the outstanding capital each year without penalty. The mortgage is protected by a level term assurance policy.

Nick and Shirin are planning to retire when Nick attains age 60, with a view to spending several years travelling overseas. They appreciate that this may not be achievable and have asked you to advise them on the affordability of this objective.

Nick and Shirin use their current surplus income of £1,500 per month each, to invest in Individual Savings Accounts. They are both high risk investors and are investing in a range of actively-managed UK equity funds.

Nick and Shirin have no strong views on Environmental, Social and Governance (ESG) investments.

Nick and Shirin have up-to-date Wills which leave all assets to the survivor on first death and then into a discretionary trust for their two children on second death. They have appointed family members as both trustees and guardians for the children in the event of both Nick and Shirin's deaths before the children reach age 18.

Nick and Shirin have the following assets:

Assets	Ownership	Value (£)
Home	Joint	380,000
Current account	Joint	10,000
Deposit savings account	Joint	25,000
Stocks & Shares ISA – UK Equity funds	Nick	45,000
Stocks & Shares ISA – UK Equity funds	Shirin	48,000

Their financial aims are to:

- improve the suitability and tax-efficiency of their current financial arrangements;
- ensure that they can retire when Nick reaches age 60;
- ensure that their financial protection arrangements are adequate for their needs.

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Outline to Nick and Shirin the key factors that may result in them failing to meet their plan to retire when Nick is 60, based on their current circumstances. **(10)**

(b) Recommend and justify a range of actions that Nick and Shirin could take to improve their ability to retire with an adequate level of income, when Nick attains age 60. **(14)**

(c) Explain why it might be of benefit to Nick and Shirin to use a range of different asset classes within their pension and ISA holdings. **(8)**

(d) Explain to Nick and Shirin their potential entitlement to Statutory Sick Pay and the conditions that must be met for this to be paid to them. **(7)**

(e) **(i)** Outline to Nick and Shirin the key differences between a critical illness policy and an income protection policy. **(12)**

(ii) Explain to Nick and Shirin the reasons why they might consider replacing their existing level term assurance policy with a more suitable policy to protect their mortgage. **(5)**

(f) Identify **five** advantages and **five** disadvantages for Nick and Shirin if they choose to continue to invest their excess income in Individual Savings Accounts (ISAs), rather than making overpayments to their mortgage. **(10)**

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

Total marks available for this question: 74

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 mainresidence. 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. Therates 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%