Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 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)*** *and* ***(e)*** *which follow.*

Declan and Carmen, both aged 67, are married and have recently retired. They have three adult children and four grandchildren. Declan and Carmen are both in good health.

Declan receives a State Pension of £10,300 per annum gross and also receives an income from his former employer's defined benefit pension scheme of £45,000 per annum gross. Carmen receives a State Pension of £6,200 per annum gross as she has an incomplete National Insurance record due to extended periods with no paid employment. Carmen also receives a small annuity of £2,500 per annum gross which is on a single life, level basis.

Declan and Carmen own their home and it is mortgage-free. The property is valued at £570,000.

Declan and Carmen have a range of stocks and shares ISA holdings and a portfolio of unit trusts. They have fully used their ISA allowance for the current tax year. The portfolio of unit trusts is showing total capital gains of £140,000 and is jointly held. They take a fixed regular monthly income of £500 each from their ISA portfolios as well as taking the ongoing dividend income from the portfolio of unit trust funds. The unit trust dividend income is approximately £12,750 per annum gross, which is split equally between them.

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

Declan and Carmen are considering the use of a trust to provide funds to assist their grandchildren with future university fees. They are willing to invest up to £200,000 for this purpose but are keen to ensure that they retain a degree of control over the trust and any payments to their grandchildren.

Declan and Carmen have a medium attitude to risk and neither of them has a strong interest in Environmental, Social and Governance (ESG) investments.

Declan and Carmen have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	570,000
Current account	Joint	40,000
Deposit savings account	Joint	60,000
Stocks & Shares ISA – UK Equity Income funds	Declan	300,000
Stocks & Shares ISA – Global Equity funds	Carmen	335,000
Unit Trust funds – UK and European Equity funds	Joint	425,000

Their financial aims are to:

- ensure that they have sufficient income throughout retirement;
- set up a suitable trust arrangement to provide funds for their grandchildren;
- improve the tax efficiency of their financial arrangements.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require in order to advise Declan and Carmen on the suitability of their financial arrangements to meet their long-term needs. **(15)**

(b) Identify **five** benefits and **five** drawbacks for Carmen of paying Class 3 National Insurance contributions to increase her State Pension. **(10)**

(c) Recommend and justify a range of actions that Declan and Carmen can take to improve the long-term sustainability of their income in retirement. **(14)**

(d) Declan and Carmen understand that there is a potential Capital Gains Tax (CGT) liability on their unit trust funds.

(i) Explain to Declan and Carmen how they should calculate any potential CGT liability on their unit trust funds. *No calculations are required.* **(6)**

(ii) Identify any actions which they could take to reduce the potential CGT liability on a future encashment. **(5)**

(e) **(i)** Explain to Declan and Carmen why they should consider setting up a discretionary trust to pay for their grandchildren's university costs. **(12)**

(ii) Explain to Declan and Carmen why they may wish to use an offshore investment bond within the discretionary trust. **(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), (g)** and **(h)** which follow.*

Sam and Kerry, both aged 38, are married with three young children. Kerry has been on maternity leave for the past three months due to the arrival of their third child, who is eight weeks old. All of the family are in good health.

Sam is employed as an engineer and receives a salary of £85,000 per annum gross. He is a member of his employer's workplace pension scheme and contributes 5% of his gross salary to the scheme via salary sacrifice. His employer matches this contribution and also invests the employer National Insurance savings as a result of the salary sacrifice into Sam's pension. Sam's pension fund has a current value of £120,000 and is invested in a range of global equity tracker funds.

Sam is also a member of his employer's death-in-service scheme which will pay out three times basic salary on death whilst in service. Sam receives a bonus each year and this year's bonus is likely to be approximately £10,000 gross. Sam has been offered the option of sacrificing this bonus into his pension fund.

Kerry is employed as a sales manager and receives a salary of £38,000 per annum gross. As she is currently on maternity leave, her employer is paying 50% of her basic salary for the next four months. She is a member of her employer's workplace pension scheme. Kerry and her employer each make pension contributions of 6% of her gross salary. These contributions are continuing to be paid throughout the maternity leave, based on her reduced level of salary. Kerry's pension fund has a current value of £62,000 and is invested in a managed fund. Her employer does not offer any other benefits.

Due to the young age of their children, Sam and Kerry are both concerned about their ability to meet their future childcare costs in the event of either of them dying.

Sam and Kerry have a repayment mortgage of £180,000 on their home which is currently valued at £240,000. The mortgage is on a fixed interest rate of 2.7% until July 2024. The mortgage is partially covered by a single-life level term life assurance policy with a sum assured of £100,000 which pays out on Sam's death. Kerry has no financial protection policies of any kind.

Sam and Kerry have limited surplus income whilst Kerry is on maternity leave but expect this position to change when she returns to work later this year. They are both medium to high-risk investors and are keen to build up their savings and investments with a view to possible early retirement. Sam and Kerry have not used their ISA allowances for the current tax year.

Sam and Kerry are interested in Environmental, Social and Governance (ESG) investments and are particularly keen to avoid investment into any tobacco or gambling stocks.

Sam and Kerry have up-to-date Wills which leave all assets to the survivor on first death and then in trust for the children in the event of both deaths occurring before the children reach age 18.

Sam and Kerry have the following assets:

Assets	Ownership	Value (£)
Home	Joint	240,000
Current account	Joint	12,000
Deposit savings account	Joint	18,000
Stocks & Shares ISA – Multi-Asset funds	Sam	36,000
Stocks & Shares ISA – Emerging Market funds	Kerry	52,000

Their financial aims are to:

- improve the suitability and tax-efficiency of their current financial arrangements;
- review their protection arrangements and ensure that adequate financial protection is in place;
- review their existing investments to take account of their ethical views.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Identify the key factors that Sam and Kerry should consider when deciding on an appropriate level of emergency fund. **(12)**

(b) Identify **five** benefits and **five** drawbacks for Sam if he agrees to sacrifice his annual bonus into his workplace pension scheme. **(10)**

(c) In respect of their retirement planning, explain to Sam and Kerry the advantages of making monthly pension contributions rather than making lump sum pension contributions. **(10)**

(d) Explain to Sam and Kerry why their current mortgage protection policy may not be suitable for their needs and outline how their protection arrangements in respect of the mortgage could be improved. **(10)**

(e) Recommend and justify a suitable protection product to provide a regular income to support the family in the event of either Sam or Kerry's death. **(16)**

(f) Outline the key difficulties that Sam and Kerry might encounter when setting up a suitable Environmental, Social and Governance (ESG) portfolio which meets their requirements. **(7)**

(g) Explain to Kerry her potential entitlement to Statutory Maternity Pay (SMP) once her employer's maternity pay of 50% of basic salary ceases in four months' time. **(5)**

(h) Identify **eight** key issues that a financial adviser should discuss with Sam and Kerry at the next annual review. **(8)**

Total marks available for this question: 78

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% 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%