Chartered
Insurance
Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2023 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, 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)*** *and* ***(f)*** *which follow.*

David and Ruby, both aged 70, are married. They retired five years ago. They have two adult children and six grandchildren. David and Ruby are both currently in good health although Ruby has a minor heart condition.

David and Ruby each receive an income of £11,120 per annum gross from the State Pension. David has a personal pension with a current value of £300,000. He took the tax-free lump sum from this pension plan when he retired and is drawing an income of approximately £20,000 per annum gross from the plan by using flexi-access drawdown. The plan is invested in a range of equity and fixed-interest funds, which David manages himself. Ruby has a personal pension plan with a value of £120,000 from which she has not yet drawn any benefits although she is considering the merits of using the pension plan to purchase a lifetime annuity.

David and Ruby own their home, which is mortgage-free. The property is valued at £450,000. Ruby also owns a buy-to-let property which she inherited from her mother a number of years ago. The value of the property was £160,000 when Ruby inherited it. Ruby spent £25,000 on improvements to the property in advance of making it available for rental. The property is now vacant and Ruby is considering selling the property as she has found the administrative requirements of being a landlord to be increasingly difficult over the past few years. She has asked for your advice on the merits of either selling it or retaining it as a rental property.

David and Ruby have a range of Stocks & Shares ISA holdings which are invested in fixed-interest and UK gilt funds. They also hold a unit trust which is wholly invested in a UK commercial property fund. They have not yet used their ISA allowances for the current tax year.

David and Ruby have up-to-date Wills which leave all of their assets to the survivor on first death and then in equal shares to their two children on second death. They have not set up any powers of attorney but are considering doing so, following Ruby's diagnosis of a minor heart condition.

David and Ruby are concerned that they may run out of money in later retirement. They have asked you to explain to them how they could generate a stable and sustainable income for their long-term retirement income needs.

David and Ruby have a low to medium attitude to risk and neither of them has any interest in Environmental, Social and Governance (ESG) investments.

David and Ruby have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	450,000
Current account	Joint	20,000
National Savings & Investments – Income Bonds	David	200,000
Stocks & Shares ISA – UK Fixed-Interest funds	David	170,000
Stocks & Shares ISA – UK Gilt funds	Ruby	140,000
Unit Trust – UK Commercial Property fund	Joint	105,000
Buy-to-Let property	Ruby	310,000

Their financial aims are to:

- ensure that they have a sustainable income throughout retirement;
- consider the merits of either selling or retaining Ruby's buy-to-let property;
- review the suitability of their existing investment portfolio.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

(a) State the additional information that a financial adviser would require in order to advise David and Ruby on the suitability of their financial arrangements to meet their long-term retirement income needs. **(14)**

(b) Explain in detail, to David and Ruby how any sale of Ruby's buy-to-let property would be treated for Capital Gains Tax purposes. *No calculations are required.* **(12)**

(c) Outline the key reasons why Ruby might wish to purchase a lifetime annuity with the proceeds of her personal pension plan. **(14)**

(d) Identify the key reasons why the holding in the UK commercial property unit trust may not be suitable for David and Ruby. **(8)**

(e) Recommend and justify a range of actions that David and Ruby could take to improve the tax-efficiency of their current financial arrangements. **(15)**

(f) Explain in detail, to David and Ruby, how appropriate powers of attorney could be set up and how they would operate to assist them with managing their affairs in future. **(10)**

Total marks available for this question: 73

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.*

Ravi and Chloe, both aged 32, are married with two children, Rina, aged four and James, aged two. All of the family are in good health.

Ravi is employed as a software designer and receives a gross salary of £51,000 per annum. He is a member of his employer's qualifying workplace pension scheme and contributes 5% of his gross salary to the scheme. His employer contributes 3% of his gross salary to the scheme. Ravi's pension fund has a current value of £72,000 and is invested in a range of UK and global managed funds. Ravi is also a member of his employer's death-in-service scheme which will pay out four times basic salary on death whilst in service.

Chloe has not been in paid employment since Rina was born but she plans to return to work in three years' time when James starts school. Chloe has a small pension fund from her former employer's qualifying workplace pension scheme which has a current value of £28,000. This is invested in a global equity fund.

Ravi and Chloe do not anticipate any childcare costs in future as they have family members who are willing to provide childcare when Chloe returns to work. Ravi and Chloe are aware that their current financial protection arrangements are inadequate and have asked for your assistance in implementing appropriate protection solutions.

Ravi and Chloe have a repayment mortgage of £200,000 on their property with a 20-year term remaining. The property is currently valued at £370,000. The mortgage is on a fixed interest rate of 3% which is due to expire in December 2023. There are no extended early repayment charges. The mortgage is fully covered by a joint-life decreasing term life assurance policy. Ravi and Chloe are concerned at the prospect of future rises in mortgage payments when the fixed rate expires. They have asked for your advice on how to manage their budget to meet this eventuality.

Ravi and Chloe have no interest in Environmental, Social and Governance (ESG) investments. They both have a high attitude to investment risk. They make monthly investments into Stocks & Shares ISAs of £1,000 each. Ravi and Chloe are aware that these regular savings may not be affordable after the change in mortgage rate in December.

Ravi's parents recently gifted Ravi and Chloe the sum of £100,000 to either help them with their mortgage or to invest for the future. This sum is currently held in their joint deposit savings account.

Ravi and Chloe do not have Wills but are in the process of putting these in place.

Ravi and Chloe have the following assets:

Assets	Ownership	Value (£)
Home	Joint	370,000
Current account	Joint	25,000
Deposit Savings account	Joint	100,000
Cash ISA	Chloe	40,000
Stocks & Shares ISA – Asia Pacific equity funds	Chloe	85,000
Stocks & Shares ISA – Global Infrastructure funds	Ravi	70,000

Their financial aims are to:

- improve the suitability and tax-efficiency of their current financial arrangements;
- review their affordability to maintain their regular savings plan;
- improve their use of tax allowances.

Questions

(a) Identify the key client-specific factors which may prevent Ravi and Chloe from meeting their financial objectives. **(14)**

(b) Explain to Ravi and Chloe how the Marriage Allowance could be used to improve their current tax position. **(8)**

(c) Explain to Ravi and Chloe why it is important for them to continue to make regular savings into their Stocks and Shares ISA's. **(12)**

(d) Explain to Ravi and Chloe the actions that they could take when their fixed-rate mortgage deal expires in December, to ensure that their mortgage payments continue to be affordable. **(10)**

(e) Identify the key areas of weakness in Ravi and Chloe's current financial protection arrangements. **(10)**

(f) Recommend and justify a suitable protection policy to provide a regular income in the event of Ravi suffering a long-term illness and explain how this could be set up in an affordable manner. **(15)**

(g) Identify **eight** key issues that a financial adviser should discuss with Ravi and Chloe at their next annual review. **(8)**

Total marks available for this question: 77

INCOME TAX

RATES OF TAX	**2022/2023**	**2023/2024**
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	£125,140

High income 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.*

Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	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% †	£3,640	£4,010
Married/civil partners at 10% †	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 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)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

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
Over £175.00	13.8%

*** Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced 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.*

***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income'is also over £200,000.*

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.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
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:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	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	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

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
- Annual small gifts exemption per donor	£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%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	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	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
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 follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 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%