



Chartered  
Insurance  
Institute

# AF5

## Advanced Diploma in Financial Planning

### Unit AF5 – Financial planning process

September 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 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.
- During the exam, the fact-find is also provided 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 client has the following financial objectives:**

### **Immediate objectives**

- To arrange the transfer of Tanya's financial arrangements to Alex.
- To consider the affordability of Alex reducing his working hours.
- To claim any available State Benefits to assist Alex following Tanya's death.

### **Longer-term objectives**

- To arrange a suitable investment strategy for Alex's financial assets, including the inherited funds.
- To put in place suitable arrangements to protect his children in the event of Alex's death or serious illness.
- To improve the overall tax-efficiency of Alex's financial arrangements.

**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 Alex on the suitability of his financial arrangements following the loss of his wife. **(14)**  
  
      **(b)**   Outline the key requirements that a financial adviser must meet when working with Alex, due to his current vulnerable status. **(8)**
  
2.     **(a)**   Identify the key reasons why Alex's affordability and capacity for loss may have changed following Tanya's death. **(10)**  
  
      **(b)**   State why Alex can claim Bereavement Support Payment following Tanya's death and outline the potential level of benefits which may be available to him. **(8)**
  
3.     **(a)**   Describe in detail the process that Alex should follow and the conditions that must be met to maintain the tax-efficiency of Tanya's Stocks & Shares ISA. **(10)**  
  
      **(b)**   Recommend and justify how Alex can improve the tax-efficiency of his current financial position, following Tanya's death. **(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.*
  
4.     **(a)**   Explain in detail the options available to Alex in respect of Tanya's workplace pension scheme following her death. **(12)**  
  
      **(b)**   Explain the actions that Alex should take in respect of his existing Will, nominations and Powers of Attorney. **(10)**

5. (a) Recommend and justify a suitable and tax-efficient trust arrangement that Alex could set up in his Will to protect his children in the event of his death before they reach age 18. (12)

*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 Alex why he may wish to set up a Critical Illness policy and how this could provide suitable protection for himself and the children in the event of a serious illness. (10)

6. (a) Identify the key financial issues that Alex should consider when deciding if he will reduce his future working hours. (8)

- (b) Outline the financial planning considerations that Alex should consider in setting up an appropriate investment strategy for Tanya's Death-in-Service payment. (12)

7. (a) Explain to Alex why the existing range of pension and investment funds may not be suitable for his current financial needs. (8)

- (b) Explain in detail how Tanya's pension and investment holdings will be transferred to Alex and how they will be treated for tax purposes following her death. (12)

*Candidates should assume that all pension and investment assets will be inherited by Alex.*

8. (a) State the reasons why Alex should review his protection arrangements as a matter of urgency following Tanya's death. (6)

- (b) Identify **six** key issues that you would discuss with Alex regarding the transfer of Tanya's assets at the next meeting. (6)

**Total marks: 160**

## 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	
<i>*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.</i>			
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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>			
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>			
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>			
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
<i>*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.</i>					
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 minimum guarantee - 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 3<sup>rd</sup> 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 main residence. 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. 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%