Chartered Insurance Institute

# AF4

# Advanced Diploma in Financial Planning

## Unit AF4 – Investment Planning

## October 2023 Examination Guide

**SPECIAL NOTICES**

**Candidates entered for the March 2024 examination should study this examination guide carefully in order to prepare themselves for the examination.**

**Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.**

# AF4 – Investment planning

## Contents



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# IMPORTANT GUIDANCE FOR CANDIDATES

## Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

## Before the examination

**Study the syllabus carefully**
This is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas, however you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

**Note the assumed knowledge**
For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

**Read widely**
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

**Make full use of the Examination Guide**
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks, *however, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

**Know the layout of the tax tables**
Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination paper. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination.*

**Know the structure of the examination**
Assessment is by means of a three-hour written paper in two sections. All questions are compulsory:

**Section A** consists of one case study, worth 80 marks. You will be expected to carry out a variety of tasks, after analysing the information provided.

**Section B** consists of two shorter case studies worth a total of 80 marks. Again you will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

**Appreciate the standard of the examination**
Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

**Read the Assessment information and Exam policies for candidates**
The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

# In the examination

## The following will help:

**Spend your time in accordance with the allocation of marks:**

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

**Take great care to answer the question that has been set.**

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

**Tackling questions**

Tackle the three questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

**Answer format**
Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use ‘bullet points’ or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is ‘untidy’. Similarly, marks are not lost due to poor spelling or grammar.

**Calculators**
If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

# EXAMINERS' COMMENTS

**Candidates' overall performance**

Overall, compared to the March 2023 examination, candidates performed very well.

The question paper was a good test of candidate knowledge across the syllabus with a wide range of questions, offering a comprehensive mix of core areas of the syllabus – tested frequently – complemented by peripheral content, tested less frequently. In areas that were tested for the first time, in general, candidates performed adequately.

Candidate performance in this sitting also benefited from improved exam technique from the majority of candidates. This manifested itself in candidates demonstrating a tighter application of the action verb in the question-part, for example, 'state' or 'explain'. This was particularly evident in both calculation and synthesis question-parts, where candidates following the requirements of the question-part itself more closely gave themselves the opportunity to be awarded more marks.

Across the calculation questions, the majority of candidates showed all the relevant stages within their workings, allowing them to be awarded a greater proportion of the available marks. Those who did not perform well either used incorrect variables within the correct formula or the incorrect formula.

The majority of candidates who did not perform well exhibited a level of knowledge below that of an Advanced Diploma unit, with superficial or vague answers that were not able to be awarded many of the available marks. At Level 6, it is reasonable to expect candidate to know not just the factor, for example, 'interest rates' but also its directionality, for example, 'increasing'. This is particularly relevant – and important – in question-parts testing macro-economics and where the question-part asks the candidate to consider an effect, impact or consequence.

It was evident in this sitting that better-prepared candidates had made effective use of previous Exam Guides in familiarising themselves with the nature of the questions asked. However, it was also evident that some candidates repeated model answers from similar questions in previous papers, often on a verbatim basis, in the hope that different questions would have the same model answers.

Fewer candidates wrote expansive, narrative-style answers, usually written in the belief that the more they wrote, the more marks would be awarded, in favour of more candidates answering with a succinct, bullet-point focused style. This enables a more effective exam technique and in general results in more marks being awarded.

A well-prepared candidate having undertaken robust revision would have been able to achieve the pass standard.

**Question 1**

In part (a)(i) candidates performed well, with the majority of candidates achieving over half of the available marks. Those candidates who did not perform well either gave the answers to parts (a)(i) and (a)(ii) the wrong way around or duplicated their answers across both question-parts. In part (a)(iii) those candidates who did not perform well provided answers that were too vague, often listing 'reduced…' followed by a number of main investment risks.

Candidates performed very well in part (b), with the majority gaining full marks. In part (b)(i) candidates who did not perform well described the normal distribution of returns at one and two standard deviations. In part (b)(ii) the majority of candidates were awarded over half of the available marks. Those candidates who did not perform well generally did not show all of their workings, often showing only the sum to a particular stage.

Candidates performed adequately in part (c), with the majority of candidates gaining over half of the available marks. Candidates who did not perform well either regurgitated a list of general investment-related risks that were not applicable to the scenario, for example, stating 'currency risk' for UK assets and 'credit/default risk' for equities. A small number of candidates repeated the same risk(s) and reason(s) several times.

Candidates performed adequately in part (d). In part (d)(i) the majority of candidates gained 1-2 marks. This area of the syllabus was tested for the first time and those candidates who did not perform well generally explained what inflation is; stated that the only difference was in the words 'consumer' and 'retail' or described differences between producer price inflation and CPI/RPI.

In part (d)(ii) candidates who did not perform well either got the differences the wrong way around or described differences between capital and current accounts. In part (d)(iii), perhaps assisted by the topicality of the question-part, candidates performed very well with most being awarded full marks. Candidates who did not perform well generally got the directionality wrong.

Candidates performed well in part (e) with the majority gaining over half of the available marks. In part (e)(i) candidates performed well with the majority being awarded over half of the available marks. Candidates who did not perform well either did not calculate the denominator correctly or stated the '£4,255,000' without showing any workings. In part (e)(ii) candidates performed adequately, however too many candidates stated drawbacks of ROCE rather than ROE.

Candidates performed adequately in part (f). In part (f)(i) the majority of candidates gained 2-3 marks. In part (f)(ii) candidates performed poorly. Too many candidates either simply described capacity for loss or stated ways in which attitude to risk can be mitigated. Several candidates stated ways in which sequencing risk can be mitigated, despite this being a separate question-part in Question 2. Apart from its description, candidate knowledge and understanding of capacity for loss remains poor.

Candidates performed well in part (g), with almost all candidates identifying at least one bias and one or more reasons. Candidates who did not perform well generally either stated random biases that they knew and attempted to attach valid reasons to them or provided a list of biases without any reasons.

Candidates performed very well in part (h), with the majority gaining full marks. Those candidates who did not perform well generally attempted to perform tax relief calculations, often using the wrong rate of Income Tax for the EIS relief, as well as provided vague detail on the CGT relief, describing disposal relief or stating ‘CGT free’ or ‘exempt’, which is a commonality rather than difference between the two products.

**Question 2**

Candidates performed very well in part (a). In part (a)(i) the majority of candidates gained full marks. Those few candidates who did not perform well either missed out one or more of the variables from the formula or performed incorrect operations on the correct variables, for example, adding the risk-free return to the market return rather than subtracting it. In part (a)(ii) candidates performed adequately with almost all candidates gaining 1-2 marks. Those candidates who did not perform well often repeated ‘underperformed’ and ‘not added value’ several times within their answer. A small number of candidates stated ‘alpha is negative’ which was a truism of the alpha from part (a)(i) rather than what could be deduced from a negative alpha figure.

Candidates performed adequately in part (b). In part (b)(i) the majority of candidates were awarded one mark only with their knowledge of gearing being superficial. In part (b)(ii) candidates performed well with the majority being awarded 2-3 marks. Candidates who did not perform well provided general drawbacks or risks relating to investment trusts.

Candidates performed adequately in part (c), with most gaining over half of the available marks. In part (c)(i) almost all candidates were awarded full marks although a surprising number of candidates described trading at a premium rather than at a discount. In part (c)(ii) candidates who performed better, identified information contained in the case study in their answers whereas candidates who did not perform well either repeated their answer to part (b)(ii), or stated that the discount was at the trust’s direction and was designed to be used as a marketing tool to attract new investors and capital.

Candidates performed very well in part (d) with almost all candidates achieving the maximum marks available. The few candidates who did not perform well either listed products that pay income/interest or explained how the CGT annual exemption can be used to create an income stream.

Candidates performed adequately in part (e), with the majority gaining 2-3 marks. Those candidates who did not perform well either got strategic and tactical the wrong way around or explained that the difference was down to one using only active and the other only using only passive management styles.

Candidates performed well in part (f), with most candidates gaining over half of the available marks. In part (f)(i) candidates stated relevant client factors and most were awarded full marks. In part (f)(ii) those candidates who did not perform well either repeated the same point several times or described elements of portfolio construction in relation to asset allocation.

**Question 3**

Candidates performed adequately in part (a). In part (a)(i) the majority of candidates gained over half of the available marks, although candidates' workings were often confused. Candidates who did not perform well generally did not show all their workings or performed incorrect operations, arriving at sums that were in many instances not plausible. In part (a)(ii) most candidates gained 3 marks. Candidates who did not perform well either got the characteristics the wrong way around or made generic statements about gilts. In addition, these candidates showed a poor understanding of the difference between 'coupon' and 'interest/running yield'. Candidate knowledge of gilts remains superficial.

Candidates performed very well in part (b), with the majority of candidates gaining full marks. It was pleasing to see candidates identifying the related benefits and drawbacks across both question-parts. Those candidates who did not perform well provided vague benefits of collective funds rather than their distinct benefits compared to direct ownership of gilts. In part (b)(ii) candidates who did not perform well, as with part (b)(i), provided vague drawbacks, again usually relating to collective funds in general.

Overall candidates did not perform well in part (c). Despite having been tested in a relatively recent sitting and real-world events mirroring the question-part, candidates did not display improved knowledge of this syllabus area. Candidates who did not perform well focused their answers on general moves in either inflation or interest rates with little reference to index-linked gilts. In addition, a small number of candidates' answers inferred that the 'index' in 'index-linked gilts' refers to a stock market index.

Candidates performed adequately to not well in part (d). In part (d)(i) most candidates gained 2 marks out of those available with better prepared candidates achieving a further 2. Those candidates who did not perform well got the relationship between bond prices and yields the wrong way around. While parts (d)(ii) & (iii) were tested for the first time, awareness of this syllabus area has been assisted by real-world events. In part (d)(ii) candidates who did not perform well got the directionality incorrect, so were unable to gain all of the marks available. In part (d)(iii) candidates who did not perform well mainly provided vague answers or explained the consequences of deficits in trade, current or capital accounts. In part (d)(iv) most candidates were awarded only 1-2 marks, with many candidates again getting the contributory factors the wrong way around.

Candidates performed well in part (e), with many candidates being awarded full marks. Candidates who performed well used the information in the case study to differentiate between the direct and collective ownership of gilts. Those candidates who did not perform well either stated that gilts were always fully protected regardless of the method of ownership or that FSCS protection applies both to direct gilts and to collective funds. A small number of candidates incorrectly stated the FSCS investment compensation limit as £50,000. As this level was raised in April 2019, it suggests poor examination technique and that some candidates are using obsolete study aids.

Chartered Insurance Institute

# AF4

# Advanced Diploma in Financial Planning

## Unit AF4 – Investment planning

### 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 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.**

## Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

# Unit AF4 – Investment planning

## 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 as follows:

- Section A: 80 marks
- Section B: 80 marks

- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.

- You are strongly advised to attempt **all** questions to gain maximum possible marks. 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.

- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.

- It is important to show all steps in a calculation, even if you have used a calculator.

- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

- Tax tables are provided at the back of this question paper.

- Answer each question on a new page and leave six lines blank after each question part.

| |
|---|
| **Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.** |

## SECTION A

**This question is compulsory and carries 80 marks**

**Question 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. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f), (g) and (h) which follow.**

Mitchell, aged 35, is employed as the managing director of a plant hire company, Sauropod Plant Ltd. His salary is £55,000 per annum. The business is majority owned by Mitchell's parents and he has worked in the business since leaving school.

Five years ago, Mitchell was gifted an initial shareholding and as a result has been receiving annual dividends. Sauropod Plant Ltd's draft accounts for the most recent year indicate that Mitchell is likely to receive a dividend of at least £80,000. Mitchell expects his shareholding to increase over the coming years although his parents have said they plan to sell their interest via a trade sale when they retire, rather than pass the business in full to Mitchell. Mitchell has approached his parent's financial adviser, Gabriella, with a view to becoming a new client to discuss investment planning as he can no longer rely upon inheriting the business in its entirety.

Over the past five years, Mitchell has invested each year's dividend to fully fund a stock and shares ISA with the excess purchasing shares in a private limited company, Stratosphere Scaffolding Ltd, which is majority owned by one of his friends, Karolek. The ISA holds shares in a FTSE 100 listed housebuilder.

The recent annual returns from this company are set out in Table 1 below:

**Table 1**

| | 2021 | 2022 |
|---|---|---|
| FTSE 100 listed housebuilder | 17.5% | -41.3% |

Karolek has told Mitchell that Stratosphere Scaffolding Ltd has a return on equity (ROE) that is better than the return from FTSE 100 Index and therefore it must be a good investment. Several of their mutual friends have also invested in the company.

Financial information for Stratosphere Scaffolding Ltd is set out in Table 2 below:

**Table 2**

| | Year to 31st December |
|---|---|
| Operating profit | £1,700,800 |
| Interest paid | £380,000 |
| Tax paid | £279,000 |
| Share capital | £4,000,000 |
| Reserves | £160,000 |
| Retained earnings | £95,000 |

Gabriella has pointed out to Mitchell that his existing investments are exposed to some distinct risks and that he should consider diversification for the investment of future dividends. Mitchell believes that, as his portfolio has done well over the medium term, it will continue to do so in the future. He has also mentioned that he keeps reading about money supply and inflation figures increasing, which Mitchell is sure are positive signs for investing.

Gabriella has also raised the importance of defining Mitchell's attitude to risk and capacity for loss, as Mitchell has previously decided upon his own investments with little research or investment process.

In a recent conversation, Karolek mentioned that Stratosphere Scaffolding Ltd is considering using an Enterprise Investment Scheme (EIS) to raise capital to fund its growth and suggested that Mitchell speak with his financial adviser. Mitchell is interested in how an EIS could form part of his future investment strategy.

**Questions**

*To gain maximum marks for calculations you* ***must*** *show* ***all*** *your workings and express your answer to* ***two*** *decimal places.*

**(a)** **(i)** Explain briefly the aim of Modern Portfolio Theory (MPT) and how it is achieved. **(5)**

**(ii)** State the key assumptions upon which MPT is based. **(5)**

**(iii)** Explain briefly to Mitchell **four** main benefits of diversification within an investment portfolio. **(4)**

**(b)** **(i)** Describe briefly what is measured by standard deviation. **(4)**

**(ii)** Calculate, **showing all your workings**, the standard deviation of the FTSE 100 listed housebuilder using the returns data for the previous two years. **(9)**

**(c)** Identify **six** main risks relating to Mitchell's existing investments and give **one** reason for **each** risk. **(12)**

**(d)** **(i)** Outline the main differences between the Consumer Prices Index (CPI) and Retail Prices Index (RPI) measures of UK inflation. **(5)**

**(ii)** Describe briefly the main differences between broad and narrow money. **(4)**

**(iii)** Identify the likely economic consequences of a sustained increase in the UK money supply. **(3)**

**(e)** **(i)** Calculate, **showing all your workings**, the return on equity (ROE) for Stratosphere Scaffolding Ltd. **(9)**

**(ii)** State **three** drawbacks that Mitchell should consider when using ROE as a measure of a company's performance. **(3)**

**(f)** **(i)** State **five** non-financial factors that could influence Mitchell's attitude to risk. **(5)**

**(ii)** State **four** ways in which capacity for loss can be mitigated. **(4)**

**(g)** Identify the **two** investor biases that Mitchell is exhibiting and give the reason why for **each** bias. **(4)**

**(h)** State **four** ways in which an Enterprise Investment Scheme (EIS) could provide Mitchell with greater tax planning opportunities compared to his stocks and shares ISA. **(4)**

**Total marks available for this question: (80)**

## SECTION B

**Both questions in this section are compulsory and carry an overall total of 80 marks**

**Question 2**

**Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), (e) and (f) which follow.**

Matea is an investment adviser within an authorised advisory firm. She is currently reviewing the investment portfolio of Patrick, who is a retail client of the firm and in his mid-60s. For the past 30 years Patrick's main objective has been capital accumulation and his portfolio has been focused solely upon capital growth.

The portfolio is valued at approximately £275,000 and is held within a general investment account (GIA) on a platform. The GIA is invested solely in Strategic Long View plc, a FTSE 250 listed investment trust that invests in listed and unlisted smaller companies. The investment trust has recently moved to a 40% discount.

Recent financial details of the investment trust are set out in Table 1 below:

**Table 1**

| Share price return | Market return | Beta | Tracking error | Risk-free return |
|---|---|---|---|---|
| -4.7% | 7.2% | 1.3 | 5.8% | 2.9% |

In the most recent annual report from Strategic Long View plc, the fund's manager explains that the recent performance has been affected by the trust not switching from strategic to tactical asset allocation, as well as its level of gearing. Matea has also noticed two significant institutional investors have announced their intention to sell down their shareholdings in the near future.

As a result of a health condition, Patrick intends to retire partially within the next 6-12 months with a view to retiring fully within the subsequent 3-4 years. Upon retirement, Patrick will have an income need and would like to start drawing a monthly income from his portfolio for the first time. This need will increase in due course with his full retirement, whereupon he will need an income over the medium to long term.

In a previous review meeting, Matea outlined sequencing risk. As Patrick's portfolio is now approaching the decumulation phase, he has asked Matea to explain ways in which this risk can be mitigated.

**Questions**

*To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.*

**(a)** **(i)** Calculate, **showing all your workings**, the alpha for Strategic Long View plc. **(6)**

**(ii)** Comment on what can be deduced about the performance based upon the alpha figure from your answer to **part (a)(i)** above. **(4)**

**(b)** **(i)** Describe briefly the objective of gearing within an investment trust. **(3)**

**(ii)** Explain briefly the possible consequences that could result from an investment trust increasing its level of gearing. **(4)**

**(c)** **(i)** Describe briefly what is meant by an investment trust trading at a discount. **(3)**

**(ii)** Identify **five** possible reasons for the current level of discount at which Strategic Long View plc is trading. **(5)**

**(d)** Identify the **three** main income options that could be available on the platform's cash account to support Patrick in meeting his income need. **(3)**

**(e)** Explain briefly to Patrick how tactical asset allocation differs from strategic asset allocation. **(4)**

**(f)** **(i)** State **three** client-related factors that could impact upon Patrick's income requirement in retirement. *Exclude attitude to risk and capacity for loss from your answer*. **(3)**

**(ii)** Describe **five** actions that Patrick could take to mitigate the effects of sequencing risk. **(5)**

**Total marks available for this question: 40**

**Question 3**

**Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d) and (e) which follow.**

Tommaso has just become a new retail client of an authorised advisory firm of independent financial advisers. Until recently he has managed his own investments on a direct-to-consumer platform, but Tommaso now feels that his needs can be better met by receiving financial advice.

Tommaso has an investment portfolio with a current value of £425,000 that is invested in two conventional gilts on a direct basis as well as a collective fund that sits in the Investment Association UK Gilts sector. Tommaso originally invested £90,000 into each direct gilt and £100,000 into the collective fund.

Details of the direct gilts are set out in Table 1 below:

**Table 1**

| Gilt | Purchase price | Current clean price | Years to redemption | Half-yearly coupon |
|---|---|---|---|---|
| X | £147.28 | £116.32 | 14 | £1.85 |
| Y | £92.76 | £96.17 | 3 | £2.20 |

As a result of the price fluctuations in gilt markets over recent months, Tommaso is considering whether to sell one or both of the gilts and reinvest the proceeds into the collective fund. He has asked his financial adviser to review his fixed interest holdings with particular reference to the outlook for gilts in the short-term as well as the security of his capital.

In researching the collective fund, the adviser has noted that there is an allocation within the fund to index-linked gilts that appears to have been a source of notable underperformance in recent months despite inflation having increased significantly over the same period.

In addition, the most recent fund commentary talks about altering the fund's duration as a response to expected quantitative tightening (QT) and a change in the yield curve.

**Questions**

*To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.*

**(a)** **(i)** Calculate, **showing all your workings**, the redemption yield for Gilt X. *Ensure you use the simplified method in your answer.* **(7)**

**(ii)** Compare the characteristics of Gilts X and Y as shown in **Table 1** and explain what can be deduced from this information. **(6)**

**(b)** **(i)** State **three main benefits** of owning a gilt-based collective fund compared to owning Gilts X and Y on a direct basis. **(3)**

**(ii)** State **three main drawbacks** of owning a gilt-based collective fund compared to owning Gilts X and Y on a direct basis. **(3)**

**(c)** Identify **three** reasons why index-linked gilt prices would fall when inflation itself is rising. **(3)**

**(d)** **(i)** Outline the effects of increases in interest rates on conventional fixed interest securities. **(4)**

**(ii)** State the main objectives of quantitative tightening (QT). **(3)**

**(iii)** Explain briefly to Tommaso the consequences of a central bank implementing QT. **(3)**

**(iv)** Identify **four** main factors that would cause the UK yield curve to steepen. **(4)**

**(e)** Comment on the investor protection when investing in gilts and state, giving your reasons why, whether all of Tommaso's portfolio is protected. *No calculations are required in your answer.* **(4)**

**Total marks available for this question: 40**

**NOTE ON MODEL ANSWERS**
**The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.**

**Model answer for Question 1**

**(a)** **(i)**
- Maximum return;
- for given risk;
- via diversification;
- of imperfectly correlated;
- asset classes.

**(ii)** *Candidates would have scored full marks for any five of the following:*
- Investors are rational;
- and risk adverse.
- Returns are normally distributed.
- Based on historical data.
- Investors have access to all information.
- Market is efficient/no one investor can influence market.
- Unlimited borrowing at risk-free rate.
- No costs/tax.

**(iii)**
- Reduce systematic/volatility risk.
- Can remove/reduce non-systematic/specific risk.
- Gain exposure to different asset classes/markets/sectors.
- Optimise/increase stability of returns.

**(b)** **(i)**
- Volatility/dispersion;
- through variation in;
- actual return;
- against mean.

**(ii)**
(17.5 + -41.3) / 2 = -11.9
(17.5 - -11.9) + (-41.3 - -11.9)
$(29.4)^2 + (-29.4)^2$
864.36 + 864.36
1728.72 / 2 = √864.36 = 29.4

**(c)** *Candidates would have scored full marks for any twelve of the following:*

- **Geographical**
- 100% in equities.
- **Non-systematic/Concentration**
- Only holds direct equities/only holds 2 stocks/lack of diversification.
- **Sector**
- All in same sector.
- **Interest rate/Economic**
- Sensitive to monetary policy/interest rates/exposed to economic cycle.
- **Accessibility**
- Capital in private company/may be unable to realise capital.
- **Liquidity**
- No market for private/unlisted shares.
- **Investor protection**
- No FSCS protection.

**(d)** **(i)** *Candidates would have scored full marks for any five of the following:*

**CPI**

- Key inflation measure/BoE target.
- National statistic.
- Geometric/lower than RPI.
- Used by government in payment of state pension/benefits.
- Excludes housing costs/mortgage interest payments.

**RPI**

- Used for index-linked gilts/planned to be replaced by 2030.
- Not a national statistic.
- Arithmetic/higher than CPI.
- Includes housing costs/mortgage interest payments.

**(ii)** *Candidates would have scored full marks for any four of the following:*

- Broad includes;
- lending activities;
- and accounts;
- of UK residents.

- Narrow includes;
- operational deposits with the BoE.

- Broad indicator of economy.
- Narrow indicator of consumer confidence.

**(iii)** *Candidates would have scored full marks for any three of the following:*

- Greater velocity/transmission of money.
- Increased borrowing/spending/economic growth.
- Increase in prices/inflation.
- Tightening monetary policy/rise in interest rates.

**(e)** **(i)** (£1,700,800 - £380,000 - £279,000) = £1,041,800
£4,000,000 + £160,000 + £95,000 = £4,255,000
(£1,041,800 / £4,255,000) = 0.24484136 x 100 = 24.48%

**(ii)**
- Only shows return on shareholder equity/funds.
- Ignores borrowing/other sources of capital.
- Difficult to compare with different companies.

**(f)** **(i)** *Candidates would have scored full marks for any five of the following:*
- Expertise/experience/knowledge/understanding.
- Age/state of health/his dependents.
- Parents/the business' position.
- Investor psychology/framing.
- Society/collective mood/friends/peers/media.
- Political/economic outlook/environment.

**(ii)** *Candidates would have scored full marks for any four of the following:*
- Invest only what he can afford to lose/invest less.
- Reduce AtR/lower risk investments.
- Hold sufficient cash to cover the potential loss.
- Discussion and understanding in advance.
- Establish the actual risk he is able to take/not focus on outcome.
- Avoid over-reliance on tools/questionnaires.

**(g)** *Candidates would have scored full marks for any four of the following:*
- **Overconfidence**
- Overestimates own abilities/knowledge.
- Using economic data as own research/to support his view.

- **Herding**
- Following Karolek/friend's advice.
- Fear of missing out.

**(h)** *Candidates would have scored full marks for any four of the following:*
- Higher investment limit/can invest up to £1m/£2m if Knowledge Intensive Company.
- Can carry back to previous tax year.
- 30% Income Tax relief.
- CGT deferral relief available.
- IHT/business relief available.
- Loss relief available

**Model answer for Question 2**

**(a)** **(i)** -4.7 - [2.9 + 1.3(7.2 - 2.9)] = -13.19

**(ii)**
- Manager has not added value/underperforming market/returns in excess of CAPM.
- Poor asset allocation/stock picking.
- Better off investing on passive basis/tracking index.

**(b)** **(i)** *Candidates would have scored full marks for any three of the following:*
- To increase available funds/make investments;
- without using cash/going to shareholders/selling assets.
- To increase exposure to other assets.
- To increase returns.

**(ii)** *Candidates would have scored full marks for any four of the following:*
- Higher volatility/standard deviation.
- Gains/losses magnified.
- Increased sensitivity to interest rates/interest rate risk.
- Increased borrowing costs/returns eroded by interest costs.
- Forced seller if borrowing limits/covenants exceeded.
- Change in investor sentiment/supply & demand/NAV.

**(c)** **(i)**
- Share price;
- below;
- NAV.

**(ii)** *Candidates would have scored full marks for any five of the following:*
- Holds unlisted securities.
- Sector out of favour/institutional shareholders selling.
- Manager out of favour.
- Poor recent trust performance.
- Ejection from index.
- Level of gearing/impact of higher borrowing costs.

**(d)**
- Ability to pay just dividends/natural income.
- Ability to pay fixed/regular levels of income.
- Ability to pay ad-hoc/one-off withdrawals.

**(e)** *Candidates would have scored full marks for any four of the following:*

- Strategic is long term / Tactical is short term.
- Strategic has a fixed asset-allocation / Tactical varies the asset-allocation.
- Strategic reviewed less frequently / Tactical reviewed more frequently.
- Strategic trades less frequently / Tactical trades more frequently.
- Tactical aims to take advantage of market movement.

**(f)** **(i)** *Candidates would have scored full marks for any three of the following:*

- Health condition/state of health/ life expectancy.
- Marital status/dependents.
- Other income sources.
- Other assets/liabilities/emergency fund.

**(ii)** *Candidates would have scored full marks for any five of the following:*

- Work longer/defer retirement date.
- Reduce level of income.
- Take natural income only.
- Change the frequency of income.
- Purchase annuity/secure proportion of income.
- Reduce equities/holding in Strategic Long View.
- Buy higher yield assets/fixed interest/diversify asset allocation.
- Hold sufficient cash.

**Model answer for Question 3**

**(a)** **(i)** (100 - 116.32) = -16.32
-16.32 / 14 = -1.1657142
(-1.1657142 / 116.32) x 100 = -1.0021614

1.85 x 2 = 3.7
(3.7 / 116.32) x 100 = 3.1808803

(3.1808803 + -1.0021614) = 2.1787189 = 2.18%

**(ii)** *Candidates would have scored full marks for any six of the following:*

- X is trading above par/ Y is trading below par.
- X will have a capital loss/ Y will have a capital gain;
- if held to redemption/maturity.
- X is medium dated / Y is short dated.
- X has lower running yield / Y has higher running yield.
- X has lower redemption yield / Y has higher redemption yield.
- Yield curve is inverted.

**(b)** **(i)** *Candidates would have scored full marks for any three of the following:*
- Invest across range of maturities/durations.
- Invest across range of coupons.
- Fund manager expertise/potential for outperformance.
- Less administration/knowledge required.
- Able to access gilts at issue/not available directly.

**(ii)** *Candidates would have scored full marks for any three of the following:*
- Higher on-going charges.
- Annual interest/redemption yield not known.
- Less/no control.
- Potential CGT liability on sale.
- Manager may underperform/not add value.
- Investor protection limited to £85,000/subject to FSCS limit.

**(c)** *Candidates would have scored full marks for any three of the following:*
- Interest rates increase faster than inflation/real yields increase.
- Actual inflation exceeds expected inflation.
- Expectation of lower inflation in future/inflation transitory.
- Indexation lag.
- UK downgraded.
- Index-linked coupons small part of overall return/not being compensated for inflation increase.
- Increased supply/issuance.

**(d)** **(i)** *Candidates would have scored full marks for any four of the following:*
- Fixed coupon less attractive;
- so price/capital value falls.
- Yield rises/new bonds issue with higher coupon.
- Longer dated bonds see larger falls.
- Lower coupon bonds see larger falls.

**(ii)** *Candidates would have scored full marks for any three of the following:*
- Slow economy down/reduce consumer spending.
- Reduce liquidity/withdraw money from circulation.
- Raise interest rates/make monetary policy restrictive.
- Reduce inflation.

**(iii)** *Candidates would have scored full marks for any three of the following:*
- Increased supply of bonds causes prices to fall;
- and yields to rise.
- Borrowing becomes more expensive/less disposable income.
- Savings rates increase/become more attractive.
- Inflation comes down/reduces.
- Lenders unable to lend as much/less credit available.

**(d)** **(iv)** *Candidates would have scored full marks for any four of the following:*

- Sell-off in long dated gilts/increased demand for short dated gilts.
- Expectation of higher inflation/interest rates in future.
- Excessive economic growth.
- Expansionary fiscal policy.
- QT.
- Market shock.

**(e)** *Candidates would have scored full marks for any four of the following:*

- Gilt fund covered by FSCS;
- up to £85,000/not fully protected if investment above this.
- Direct gilts backed by government;
- without limit;
- however not guaranteed/still subject to credit risk.

## Glossary of terms

*Some abbreviations candidates can you use in financial planning online exams:*

**1.** AA – Annual allowance
**2.** ACD – Authorised capital director
**3.** AEA – Annual exempt amount
**4.** AER – Annual equivalent rate
**5.** AMC – Annual management charge
**6.** APR – Annual percentage rate
**7.** APS – Additional permitted subscription
**8.** ART – Additional-rate tax
**9.** AtR – Attitude to risk
**10.** BoE – Bank of England
**11.** BRT – Basic-rate tax
**12.** CAPM – Capital Asset Pricing Model
**13.** CDS – Credit default swap
**14.** CfL – Capacity for loss
**15.** CGT – Capital Gains Tax
**16.** CPI – Consumer Prices Index
**17.** CTF – Child trust fund
**18.** DA – Dividend allowance
**19.** DB – Defined benefit
**20.** DC – Defined contribution
**21.** DCF – Discounted cash flow
**22.** D/E – Debt-to-equity
**23.** DJIA – Dow Jones Industrial Average
**24.** DIM – Discretionary investment management
**25.** DFM – Discretionary fund manager
**26.** EBIT/EBITDA – Earnings before interest and tax/depreciation and amortisation
**27.** EIS – Enterprise investment scheme
**28.** EMH – Efficient market hypothesis
**29.** ESG – Environmental, social and governance
**30.** ETC – Exchange traded commodity
**31.** ETF – Exchange traded fund
**32.** ETN – Exchange traded note
**33.** ETP – Exchange traded product
**34.** EPS – Earnings per share
**35.** FAD – Flexi-access drawdown
**36.** FCA – Financial Conduct Authority
**37.** FoF – Fund of funds
**38.** FOS – Financial Ombudsman Service
**39.** FSCS – Financial Services Compensation Scheme
**40.** FTSE – Financial Times Stock Exchange
**41.** GAARP – Growth at a reasonable price
**42.** GDP – Gross domestic product
**43.** GIA – General investment account
**44.** HRT – Higher-rate tax
**45.** HTBISA – Help to Buy individual savings account
**46.** IA – Investment Association

**47.** ICVC – Investment company with variable capital
**48.** IHT – Inheritance Tax
**49.** ISA – Individual savings account
**50.** IPO – initial public offering
**51.** IFISA – Innovative finance individual savings account
**52.** IT – Income Tax
**53.** JISA – Junior individual savings account
**54.** LCF – Lifetime cash flow
**55.** LISA – Lifetime individual savings account
**56.** LTA – Lifetime allowance
**57.** MoM – Manager of managers
**58.** MPC – Monetary Policy Committee
**59.** MPT – Modern portfolio theory
**60.** MSCI – Morgan Stanley Capital International
**61.** MVR – market value reduction
**62.** MPS – Model portfolio service
**63.** MSCI – Morgan Stanley Capital International
**64.** MVR – Market value reduction
**65.** MWR – Money-weighted rate of return
**66.** NASDAQ – National Association of Securities Dealers Automated Quotations
**67.** NAV – Net asset value
**68.** NICs – National Insurance contributions
**69.** NPA – Normal pension age
**70.** NRA – Normal retirement age
**71.** NRB – Nil rate band
**72.** NS&I – National Savings and Investments
**73.** OCF – Ongoing charges figure
**74.** OEIC – Open-ended investment company
**75.** OPA – Ordinary power of attorney
**76.** OEIC – open ended investment company
**77.** P/B – Price-to-book
**78.** P/E – Price-earnings/price-to-earnings
**79.** PAIF – Property authorised investment fund
**80.** PAYE – Pay As you Earn
**81.** PET – Potentially exempt transfer
**82.** PIA – Property Income Allowance
**83.** PID – Property income distribution
**84.** PPP – Personal pension plan
**85.** PCLS – Pension commencement lump sum
**86.** PRA – Prudential Regulation Authority
**87.** PA – Personal Allowance
**88.** PSA – Personal Savings Allowance
**89.** PTM – Panel of Takeovers and Mergers
**90.** QE – Quantitative easing
**91.** QT – Quantitative tightening
**92.** REIT – Real estate investment trust
**93.** ROCE – Return on capital employed
**94.** ROE – Return on equity
**95.** RPI – Retail Prices Index
**96.** S&P – Standard and Poor’s
**97.** SICAV - Société d'investissement à capital variable

**98.** SD – Stamp Duty
**99.** SDLT – Stamp Duty Land Tax
**100.** SDRT – Stamp Duty Reserve Tax
**101.** SIPP – Self-invested personal pension plan
**102.** SEIS – Seed enterprise investment scheme
**103.** SRI – Socially responsible investing
**104.** TER – Total expense ratio
**105.** TWR – Time-weighted rate of return
**106.** UCITS – Undertakings for collective investment in transferable securities
**107.** UCIS – Unregulated collective investment scheme
**108.** UFPLS – Uncrystallised fund pension lump sum
**109.** VCT – Venture capital trust

**All questions in the March 2024 paper will be based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are applicable for examinations from 1 September 2023 until 31 August 2024.**

# 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.*

| | 2022/2023 | 2023/2024 |
|---|---|---|
| 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.*

| | 2022/2023 | 2023/2024 |
|---|---|---|
| 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.<br>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% |