Chartered
Insurance
Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2024 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.*

Daniel and Sophia, both aged 63, are planning to retire in the next two years. They are married and have one daughter and three grandchildren. They are both in good health.

Daniel and Sophia are both employed and work full time. Daniel is an engineer and receives a gross salary of £42,000 per annum. He is a member of his employer's workplace pension scheme. Both Daniel and his employer contribute 6% of his gross salary to the scheme. Daniel's pension fund has a current value of £250,000 and is invested in a UK growth fund. Daniel's employer does not offer any other employee benefits.

Sophia is a senior manager and receives a gross salary of £58,000 per annum. She is a member of her employer's workplace pension scheme and contributes 5% of her gross salary to the scheme. Her employer contributes 3% of her gross salary to the scheme. Sophia's pension fund has a current value of £300,000 and is invested in a UK treasury and fixed-interest fund. Sophia is also a member of her employer's death-in-service scheme which will pay out three times her basic salary on death whilst in service. She also receives protection under the company's comprehensive Private Medical Insurance scheme, which also covers Daniel as her spouse.

Just over a year ago, Daniel began drawing a pension income from a former employer's defined benefit pension scheme. This pays him a gross annual income of £10,000.

Daniel and Sophia own their home which is now mortgage-free. This has a current value of £480,000. They are considering selling the property soon after retirement with a view to moving to live nearer their daughter. This would release capital of approximately £200,000 as they plan to purchase a cheaper property. They have no debts or liabilities.

Daniel and Sophia have a range of stocks & shares ISA holdings which are invested in UK equity and bond funds. They have not yet used their ISA allowances for the current tax year as they are considering their affordability in this area, and how best to use their current cash holdings to maximise tax-efficiency.

Daniel and Sophia have up-to-date Wills which leave all assets to the survivor on first death and then to their daughter on second death.

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

Daniel and Sophia have the following assets:

Assets	Ownership	Value (£)
Home	Joint	480,000
Current account	Joint	45,000
Deposit Savings account	Joint	65,000
NS&I Premium Bonds	Daniel	50,000
NS&I Premium Bonds	Sophia	50,000
Stocks & Shares ISA – UK Equity funds	Daniel	86,000
Stocks & Shares ISA – UK Mixed Bond funds	Sophia	78,000

Their financial aims are to:

- ensure they can generate a sustainable income throughout retirement;
- consider the issues relating to downsizing their property in retirement;
- improve the tax-efficiency of their current financial arrangements.

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 Daniel and Sophia on the suitability of their financial arrangements to meet their stated objectives. **(14)**

(b) Explain to Daniel and Sophia the benefits of making additional pension contributions to their qualifying workplace pension schemes in advance of retirement. **(13)**

(c) Explain in detail to Daniel and Sophia the options available to them to draw benefits from their pension funds when they retire and identify the key benefits of each option. **(16)**

(d) Outline the key reasons why Daniel and Sophia should review the suitability of their current pension funds. **(7)**

(e) Explain to Daniel and Sophia the relevant financial considerations that they should take into account when downsizing their current home. **(10)**

(f) Recommend and justify a range of actions that Daniel and Sophia could take to improve the tax-efficiency of their financial arrangements in advance of their retirement. **(14)**

Total marks available for this question: 74

Case Study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

Read the following carefully, and then carry out ***ALL*** *of the tasks* ***(a), (b), (c), (d), (e), (f), (g)*** *and* ***(h)*** *which follow.*

Sanjeev and Maya, both aged 28, have recently married. They have no children and are not planning to have any children for the foreseeable future.

Sanjeev is employed as a trainee architect and receives a gross salary of £36,000 per annum. When he is fully qualified, his employer will increase his salary to £50,000 per annum gross. He is a member of his employer's workplace pension scheme and contributes 5% of his gross salary to the scheme. His employer contributes 4% of his gross salary to the scheme. Sanjeev's pension fund has a current value of £18,000 and is invested in a UK equity tracker fund. Sanjeev is also a member of his employer's death-in-service scheme which will pay out two times basic salary on death whilst in service.

Maya is employed as a purchasing manager for a retail company and receives a gross salary of £42,000 per annum. She opted out of her employer's workplace pension scheme as she believes it to be unaffordable, based on their current financial position. Her employer offers employer matching for pension contributions of up to 6% of gross salary. Maya receives no other employer benefits.

Sanjeev and Maya live in a rented property which is costing £1,200 per month. They are currently saving on a monthly basis to build up a deposit to help them buy their first home. They will require a deposit of at least £50,000 and have a current savings balance for this goal of £20,000 which is held in a joint deposit savings account, paying interest of 3% gross per annum. They each save £500 per month into the account from their salaries and aim to be in a position to purchase their first property within the next three years.

Sanjeev and Maya each have cash ISAs, which have a fixed rate of 5% for a one-year term, which ends in March 2024.

Sanjeev and Maya have no protection arrangements, other than Sanjeev's death-in-service from his employer. They wish to ensure they have adequate protection going forwards but are not certain of their actual needs at present.

Sanjeev and Maya believe they have a high attitude to risk and neither of them has any strong interest in Environmental, Social and Governance (ESG) investments.

Sanjeev and Maya have set up mirror Wills which leave all assets to the survivor on first death and to Sanjeev's nephew who is currently 5 years old, on second death.

Sanjeev and Maya have the following assets:

Assets	Ownership	Value (£)
Current account	Joint	6,000
Deposit savings account	Joint	20,000
Cash ISA	Maya	10,000
Cash ISA	Sanjeev	8,000

Their financial aims are to:

- continue to build up a deposit to purchase their first property;
- review their affordability of making pension contributions for Maya;
- meet their protection needs.

Questions

(a) Explain to Sanjeev and Maya why a risk profiling tool might be useful in assessing their attitude to risk. **(8)**

(b) Explain to Sanjeev and Maya the importance of holding an adequate emergency fund and outline how they could identify a suitable level of emergency fund. **(10)**

(c) Recommend and justify how Sanjeev and Maya could each use a Lifetime ISA to help to meet their stated objectives. **(12)**

(d) Explain to Maya why she should opt into her employer workplace pension scheme. **(10)**

(e) Outline the key factors that Sanjeev and Maya will need to take into account, when establishing their current protection needs. **(10)**

(f) State the key reasons why Sanjeev may wish to take out an individual income protection insurance policy rather than a critical illness policy to meet their current protection needs. **(10)**

(g) Explain to Sanjeev why he may wish to consider the use of a global equity tracker fund in addition to his current UK equity tracker fund within his pension plan. **(8)**

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

Total marks available for this question: 76

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	2022/2023	2023/2024
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. 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%