



Chartered  
Insurance  
Institute

# AF5

## Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

February 2024 Examination Guide

### SPECIAL NOTICES

Candidates entered for the September 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.

## AF5 – Financial planning process

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## IMPORTANT GUIDANCE FOR CANDIDATES

### Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

### Before the examination

#### Read the Qualifications Brochure

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at [www.cii.co.uk](http://www.cii.co.uk).

#### Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at [www.cii.co.uk](http://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.

#### 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 examination 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](http://www.cii.co.uk).

#### Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of the Examination Guide. 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, these are provided in the portal as you sit the exam (see page 6)*.

### **Note the assumed knowledge**

For this Advanced Diploma in Financial Planning, candidates are assumed to have already the knowledge gained from studying the relevant units of the Advanced Diploma, Diploma and Certificate in Financial Planning or the equivalent.

### **Understand the nature of assessment**

Assessment is by means of a three-hour paper. 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.

### **Familiarise yourself with the fact-find**

The examination has been specially written by practitioners with relevant technical knowledge and experience. It is then put through a rigorous editing procedure by a panel of active practitioners to ensure that the fact-find is both technically and structurally correct. At least one qualified practitioner then acts as a scrutineer by sitting the paper in advance and writing a report on it. The scrutineer's comments are taken into account in producing the final examination paper.

### **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 sophisticated scheme of investment.* These clients require a critical appraisal of the various financial planning options available to them.

### **Test yourself under timed conditions**

You should test your report writing skills under timed conditions. A good way to do this and to assess your technical knowledge at the same time is to set yourself a mock examination using the Examination Guide. To gain the most benefit from this exercise you should:

- Study the fact-find detail over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper taking into account the financial objectives provided.
- Compare your answers against the model answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently holistic and if your technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the fact-find details arrive to focus on the client details and prepare yourself for the examination day.

### **Understand the skills the exam seeks to test**

The examination is based on a fact-find for imaginary clients whose details you will have received two weeks prior to the exam date. The fact-find will contain all the client details available. The actual financial objectives of the client will be supplied in the actual examination.

Tasks in the exam will not require candidates to produce a full financial plan. They will instead be focussed on the various elements in the syllabus which are based on the following steps in the financial planning process:

- The relationship between adviser and client.
- Evaluation of the client's objectives.
- Understanding the client's financial status.
- Putting forward appropriate recommendations.
- Reviewing the financial plan.

They may also be focused on other aspects of the syllabus which we believe are key to the customer receiving an effective financial planning service. These include an explanation of technical terms, selection of appropriate remuneration terms etc.

In this way, we are able to test key aspects of the financial planning process. If all aspects of the process are carried out thoroughly, an effective financial plan will be produced.

It is anticipated that at each exam session, a significant proportion of the total marks will be allocated to putting forward recommendations supported by relevant evidence. In this exercise, candidates will always be rewarded for thinking logically about the various objectives and potential solutions to the client.

### **On-screen written exam familiarisation (Demo 1)**

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here:

<https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/>

You can access the familiarisation test at any time.

<https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/>

Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The familiarisation test is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam. **We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

**Please note you are strongly advised not to use a laptop provided by your employer.**

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

- From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.

Chartered Insurance Institute | Prev | Nav | Next | Clear Highlight | Tools | Calculator | End Test | 174:27

**AF1 October 2019**

**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 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.

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10.

Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate. Peggy's estate was comprised of the following on her death:

House	£700,000
Deposit accounts	£323,000
Cash ISAs	£55,000
FTSE listed shares	£150,000
Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

Peggy's husband Frank, died in 2016, leaving his share of their house and his residual estate to Peggy. Frank made only one gift in the seven years before he died. He settled £450,000 into a discretionary trust just under four years earlier. Inheritance Tax (IHT) of £23,800 was paid at outset by the trustees. Following Peggy's death, Andrew is the only remaining trustee.

Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs.

Andrew intends to make some provision for his children and grandchildren. His income is around £10,000 a year higher than his outgoings. He has a variety of savings accounts and an onshore life assurance bond invested in a managed fund which has performed well over the years.

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

1. (a) Calculate, showing all your workings, the IHT due as a result of Peggy's death on the 1 March 2019. (13)

Navigation: « | Inf01 | Inf02 | Inf03 | **1a** | 1b | 1c | 1d | 1e | Inf04 | 2a | 2b | 2c | 2d | 2e | Inf05 | 3a | 3b | 3c | Inf06 | »

Buttons: Flag | Edit

- Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.

Chartered Insurance Institute | Prev | Nav | Next | Clear Highlight | Tools | Calculator | End Test | 164:16

**AF1 October 2019**

**INCOME TAX**

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

\*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.

Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

**MAIN PERSONAL ALLOWANCES AND RELIEFS**

Income limit for Personal Allowance †	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

With regard to the discretionary trust established by Frank:

1. (b)(i) Explain to Andrew why IHT was payable when assets were placed into the trust and how it was calculated. No calculation is required. (6)

Navigation: « | Inf01 | Inf02 | Inf03 | **1a** | **1b** | 1c | 1d | 1e | Inf04 | 2a | 2b | 2c | 2d | 2e | Inf05 | 3a | 3b | 3c | Inf06 | »

Buttons: Flag | Clear

3. Once you have typed in your answer ensure you click the red 'Answer' box, this will save your answer and move you onto the next question. Unless you press 'Answer', you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.

The screenshot shows the exam interface with the Chartered Insurance Institute logo and navigation buttons (Prev, Nav, Next, Clear Highlight). The question text is: (ii) Describe to Andrew why IHT was payable when his father died and how it was calculated. No calculation is required. (8) (iii) State Andrew's duties as a trustee under the Trustee Act 2000. (12). The answer space is empty with an 'Answer' button. The right-hand panel displays the 'INCOME TAX' table for AF1 October 2019.

AF1 October 2019		
INCOME TAX		
RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000
<i>*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.</i>		
Dividend Allowance		£2,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance*	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

4. On the day of the exam, please click on **AF5 Financial planning process**

The screenshot shows a button labeled 'on-screen written exam demonstration (Demo 1)' with a document icon to its left.

5. The above screenshot is also a space where you can jot down any notes on paper that may assist you during the exam. Please note, the exam timer will not start until you click the exam titled: AF5 Financial planning process

## Two weeks before the examination

### What will I receive?

A fact-find will be available to candidates two weeks before the examination and it can be viewed at <https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/supporting-exam-documents>. It will contain client information which will form the basis of the report you will be required to prepare in the examination.

### How should I use my time over the two-week period?

It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the fact-find. Treat the fact-find as though it belongs to a real client whom you will be meeting shortly for the first time.

### How should I use the fact-find to help me prepare?

- Study the client details to find areas of need identified by the clients and look for other potential areas of need.
- Look for technical areas you may wish to revise, e.g. trusts, partnerships.
- Practise some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.
- Do not attempt to 'learn' the answers to such calculations but make sure you are confident with the method and know what to include in your workings. You should be able to see from the fact-find whether the clients are higher-rate taxpayers or close to the threshold. You will be able to ascertain the financial position on death and whether there is likely to be an income shortfall which needs addressing.
- If the client has an investment portfolio, ensure that you are familiar with all the investments held within the portfolio. For example, you should understand the risk profile, tax treatment, accessibility and yield of each investment.

### Preparing the groundwork – considering possible solutions

Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices etc.

### AF5 Examination Technique Exam Guide

To help you prepare for the AF5 examination a FREE AF5 Examination Technique Exam Guide is available to download on the following link <https://www.cii.co.uk/learning/qualifications/unit-financial-planning-process-af5/>.

## In the examination

### What will I receive?

#### The fact-find

*You will not be able to take your pre-released copy of the fact-find into the examination with you. An identical copy will be available on the online system. There will not be any new or different information contained within the fact-find.*

#### Supplementary information

A summary of the client's key financial objectives will be supplied as part of the examination. You should spend some time studying this information before you commence your financial plan.

#### The tasks

The instructions are focused on the main steps required to write a financial plan. Mark allocations will be shown and you should use these to guide you on how long to spend on each section of your report. The task that gains most marks is invariably that requesting candidates to outline their key recommendations, supported by relevant evidence.

#### Answer format

You should provide sufficient technical details to enable you, in the role of financial adviser, to analyse your clients' needs and to demonstrate that the recommendations you make are appropriate and holistic. Merely reproducing quantities of technical detail which is not directly relevant or would be provided through stock paragraphs or appendices in a finished report will not achieve high marks.

Marks will be awarded for demonstrating the holistic consequences of your analysis and recommendations, i.e. how one part of the financial planning process affects all the other parts: how they all interrelate and interact.

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.

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

#### Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

## **EXAMINERS' COMMENTS**

### **Candidates' overall performance:**

Overall candidate performance was good. Most candidates had prepared well for the examination and reviewed the information provided in the Fact Find with care. As a result, many candidates were able to give detailed answers across the exam paper and achieved good marks.

### **Question 1 (a)**

This was a standard Fact-Finding question. Good performance overall with the majority of candidates able to provide a detailed range of answers.

### **Question 1 (b)**

This question required candidates to identify a range of actions that a financial adviser could take when dealing with Neil and Helen to ensure that they comply with the Consumer Understanding requirement under the FCA Consumer Duty rules. Most candidates performed well but some candidates would benefit from a review of the rules to ensure that they are able to identify appropriate actions to support their clients' understanding.

### **Question 2 (a)**

This question required candidates to explain to Neil and Helen why it is important for them to request a State Pension forecast and state the information this could provide to them. Overall, very good performance with most candidates achieving high marks.

### **Question 2 (b)**

This question asked candidates to explain in detail to Neil how increasing his current level of employee pension contribution will improve his Income Tax position. It was pleasing to note that most candidates understood that Neil would lose a portion of his Personal Allowance due to the level of his salary and further pension contributions could assist him with this. Overall good performance from most candidates.

### **Question 3 (a)**

Candidates were asked to recommend and justify a range of actions that Neil and Helen could take to improve their Income Tax and Capital Gains Tax position. Candidates generally performed very well, but it was noted that some candidates did not provide sufficient detail for the tax benefits by not quoting the exact tax savings such as Dividend Tax rates paid by Neil, and lower tax rates that could be paid by Helen on transfer of assets between spouses.

### **Question 3 (b)**

Candidates were asked to outline to Neil and Helen the tax treatment of the Offshore Bond and how it might be used in future. Although overall performance was good, some candidates did not provide sufficient detail to achieve high marks.

#### **Question 4 (a)**

This question asked candidates to explain to Neil and Helen how a cashflow model could be used to assist them in assessing the affordability of retiring in 10 years' time. Some very good performance with most candidates providing detailed explanations.

#### **Question 4 (b)**

This question required candidates to identify the key reasons why their existing pension fund investment choices may not be suitable for their long-term needs. Some good performance was shown by many candidates, but it was disappointing to note that some candidates did not recognise that their existing funds might provide limited potential for growth.

#### **Question 5 (a)**

This question asked candidates to explain to Neil why joining his employer's Share Incentive Plan (SIP) might be suitable to assist them in their retirement planning objective. Well-prepared candidates performed well and had no difficulties with this question. Some candidates provided only limited explanations of the suitability of the SIP such as the affordability of the contributions for Neil and as a result, they were unable to achieve high marks.

#### **Question 5 (b)**

This question required candidates to identify the additional information you would require in respect of Neil's new employer's range of optional employer-sponsored protection benefits in order to assess their suitability for the family needs. Excellent performance from the majority of candidates. It was pleasing to note that most candidates recognised that membership of the Group PMI scheme would be treated as a Benefit-in-Kind which might impact Neil's decision on this particular benefit.

#### **Question 6 (a)**

Candidates were asked to outline to Neil and Helen how a Mutual Will operates and explain why they should review the suitability of their existing Wills with their solicitor. The existing Mutual Will arrangement was clearly identified in the Fact Find and well-prepared candidates were able to give detailed responses. Some candidates would benefit from a review of the differences between a Mutual Will and a Mirror Will.

#### **Question 6 (b)**

Candidates were asked to state the key advantages for Neil and Helen of making a lump sum investment of £20,000 each into a Stocks & Shares ISA for the new tax year, instead of making regular monthly investments. Mixed performance as some candidates gave brief answers and did not identify the immediate tax savings that would be made by this course of action.

**Question 7 (a)**

This question asked candidates to explain to Neil and Helen any Capital Gains Tax (CGT) implications that might arise, should they decide to sell and downsize their property. Well-prepared candidates recognised that CGT might apply to a sale due to its' use as a rental property but were also able to identify the various exemptions that might be available for Neil and Helen to retain their full Private Residence Relief (PRR), despite their period of absence overseas when their home was used as a rental property.

**Question 7 (b)**

This question asked candidates to explain to Neil and Helen why they may wish to consider selling some of Neil's individual equities. General performance was very good with most candidates achieving high marks.

**Question 8 (a)**

This question asked candidates to identify the key issues that should be considered when reviewing Neil's existing investment in the Asia Pacific Emerging Markets Equity Fund. Overall performance from candidates was very good.

**Question 8 (b)**

This question required candidates to identify seven key issues that you would discuss with Neil and Helen in respect of their retirement planning objective at your next review meeting. General performance was mixed as many candidates did not identify sufficient issues that related specifically to Neil and Helen and their circumstances.

## FACT-FIND

You are a financial adviser authorised under the Financial Services and Markets Act 2000 (FSMA). You completed the following fact-find when you met Neil and Helen Winters.

PART 1: BASIC DETAILS		
	Client 1	Client 2
Surname	Winters	Winters
First name(s)	Neil	Helen
Address	London	London
Date of birth	12.12.1970	05.10.1972
Domicile	UK	UK
Residence	UK	UK
Place of birth	Manchester	London
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Travel, Sport	Travel, Theatre
Notes:		
<p>Neil and Helen had been working for overseas companies across the Asia Pacific region for the past six years. They returned to live in the UK in August 2023. They now intend to remain in the UK, and both have recently started working for new employers.</p> <p>Neil and Helen have appointed you to review their current financial arrangements and assess the suitability of their arrangements to enable them to retire fully in 10 years' time.</p>		

PART 2: FAMILY DETAILS					
Children and other dependants					
Name	Relationship	Age	Health	Occupation	Financially dependent?
Samuel	Son	17	Good	N/A	Yes
Anna	Daughter	16	Good	N/A	Yes
Notes:					
<p>Samuel and Anna both attend private schools and are intending to go to university at age 18.</p>					

<b>PART 3: EMPLOYMENT DETAILS</b>		
<b>Employment</b>	<b>Client 1</b>	<b>Client 2</b>
Occupation	Marine Engineer	Office Manager
Job title	Operations Director	Manager
Business name	Offshore Marine SVS UK	Dalkeith Consultants Ltd
Business address		
Year business started		
Salary (gross per annum)	£120,000	£40,000
State Pensions		
Overtime (gross per annum)		
Benefits-in-kind		
Pension Scheme	See Part 11	See Part 11
Life cover	See Part 8	See Part 8
Private Medical Insurance		
Income Protection Insurance		
<b>Self-Employment</b>		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
<b>Other Earned Income</b>		
<b>Notes:</b>		
<p>Neil and Helen have both joined their new employer's qualifying workplace pension schemes (see Part 11). Neil has been offered a range of optional employer-sponsored protection benefits, including Group Income Protection and Group Private Medical Insurance.</p> <p>Neil has been offered the option to join the Employer's Share Incentive Plan (SIP).</p> <p>Neil is unsure if any of these benefits will meet the family needs and has asked for your advice.</p>		
<b>Previous Employment</b>		
	<b>Client 1</b>	<b>Client 2</b>
Previous employer	Maritime SVS Europe Ltd	Groom Park Consultants Ltd
Job title	Marine Engineer	Assistant Manager
Length of service	20 years	20 years
Pension benefits	See Part 11	See Part 11
<b>Notes:</b>		
<p>Neil and Helen did not receive any pension or other benefits in addition to their salaries whilst working overseas.</p> <p>Helen took a five-year career break after Samuel and Anna were born.</p>		

<b>PART 4: OTHER PROFESSIONAL ADVISERS</b>		
	<b>Client 1</b>	<b>Client 2</b>
Accountant		
Bank	Accent Bank	Accent Bank
Doctor		
Financial Adviser		
Solicitor	Hendry Davies LLP	Hendry Davies LLP
Stockbroker		
Other		
<b>Notes:</b>		

<b>PART 5: INCOME AND EXPENDITURE</b>						
<b>Income</b>						
	<b>Client 1</b>		<b>Client 2</b>		<b>Joint</b>	
	<b>Monthly £</b>	<b>Annually £</b>	<b>Monthly £</b>	<b>Annually £</b>	<b>Monthly £</b>	<b>Annually £</b>
State Pensions						
Pensions/Annuities						
Salary (gross)		120,000		40,000		
Overtime (gross)						
Benefits-in-kind						
Savings income (interest)						7,200
Rental (gross)						
Dividends		5,400				
<b>Notes:</b>						
	<b>Client 1</b>		<b>Client 2</b>			
<b>Income Tax</b>	<b>£</b>		<b>£</b>			
Personal allowances						
Taxable income						
Tax						
National Insurance						
<b>Net Income</b>						
<b>Notes:</b>						

<b>Expenditure</b>						
	<b>Monthly £</b>			<b>Annually £</b>		
<b>Household Expenditure</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>
Mortgage/Rent						
Council tax			350			
Buildings and contents insurance						240
Gas, water and electricity			250			
Telephone/Mobile	40	40	60			
TV licence and satellite			70			
Property maintenance						2,000
<b>Regular Outgoings</b>						
Life assurance (see Part 8)						
Income Protection insurance (see Part 9)						
Savings Plans						
Car tax, insurance and maintenance				1,500	1,100	
Petrol and fares	200	160				
Loans						
School fees						30,000
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			800			
Pension contributions (see Part 11)	480	160				
<b>Other Expenditure</b>						
Magazines and newspapers						468
Entertainment			60			
Clubs and sport	75	75				
Spending money						6,000
Clothes				1,000	1,600	
Other (Holidays)						8,000
<b>Total Monthly Expenditure</b>	<b>795</b>	<b>435</b>	<b>1,590</b>			
<b>Total Annual Expenditure</b>	<b>9,540</b>	<b>5,220</b>	<b>19,080</b>	<b>2,500</b>	<b>2,700</b>	<b>46,708</b>
<b>Total Outgoings</b>						<b>85,748</b>

<b>Do you foresee any major/lump sum expenditure in the next two years?</b>
<b>Notes:</b>
<p>Neil and Helen will continue to pay the children's private school fees for the next two years. These are £15,000 per child per year. Samuel's school fees will cease in July 2024 and Anna's fees will cease in July 2025.</p> <p>Neil and Helen do not intend to pay university tuition fees for their children but will provide limited financial support only.</p>

<b>PART 6: ASSETS</b>					
	<b>Assets</b>	<b>Client 1 £</b>	<b>Client 2 £</b>	<b>Joint £</b>	<b>Income (Gross) £</b>
1.	Main residence			850,000	
2.	Contents/car			75,000	
3.	Current account			15,000	
4.	Deposit Account – Variable Rate			160,000	7,200
5.	Stocks and shares ISAs – Asia Pacific Emerging Market Equity Funds (accumulation units)	95,000			
6.	Stocks and shares ISAs – Global Sustainable Equity Funds (accumulation units)		65,000		
7.	UK individual equities	180,000			5,400
8.	Offshore Investment Bond – Global Managed Equity Fund			250,000	
<b>Notes:</b>					
<p>Neil and Helen did not use their ISA allowances whilst they were overseas but used their ISA allowances for the current tax year when they returned to the UK in August 2023.</p> <p>They invested a lump sum of £195,000 in an Offshore Investment Bond in June 2020.</p> <p>Neil’s individual share portfolio was inherited from his late father a few years ago with a probate value of £240,000. Neil has asked for your advice on the merits of retaining the share portfolio.</p> <p>Neil and Helen are considering downsizing their property when Anna leaves for university. They are planning to travel extensively in retirement and do not wish to maintain a large property in the UK. They rented out their property for the six-year period whilst they were overseas. This enabled them to pay off their mortgage from the rental income.</p>					

<b>PART 7: LIABILITIES</b>			
<b>Mortgage Details</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see Part 8)			
<b>Notes:</b>			
Neil and Helen have paid off their mortgage but are now considering downsizing to release funds to invest for their retirement.			
<b>Other Loans</b>	<b>Client 1</b>	<b>Client 2</b>	<b>Joint</b>
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			
<b>Notes:</b>			
Neil and Helen do not have any loans.			

<b>Other Liabilities (e.g. tax)</b>
<b>Notes:</b>
Neil and Helen do not have any other liabilities.

**PART 8: LIFE ASSURANCE POLICIES**

Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
Neil	Employer (DIS)	360,000	N/A			Yes	N/A
Helen	Employer (DIS)	120,000	N/A			Yes	N/A

**Notes:**

Both Neil and Helen are members of their employer’s death-in-service (DIS) schemes which will pay out 3 times salary on death. Both benefits are currently nominated for the survivor.

Neil and Helen have no other life cover.

**PART 9: HEALTH INSURANCE POLICIES**

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
Income Protection						
Private Medical Insurance						

**Notes:**

Neil has been offered the option of joining his new employer’s Group Income Protection scheme as well as the Group Private Medical Insurance scheme.

He is unsure if he will accept either of these benefits due to his concerns over their suitability and any potential benefit-in-kind tax charges.

**PART 10: REGULAR SAVINGS**

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

**Notes:**

Neil and Helen have not yet started a programme of regular savings but are keen to do so. Neil is considering the merits of joining his employer’s Share Incentive Plan (SIP).

<b>PART 11: PENSION DETAILS</b>		
<b>Occupational pension scheme</b>		
	<b>Client 1</b>	<b>Client 2</b>
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		
<b>Notes:</b>		
Neither Neil nor Helen has any occupational pension benefits.		
<b>Additional Voluntary Contributions (including free standing additional voluntary contributions).</b>		
	<b>Client 1</b>	<b>Client 2</b>
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		
<b>Notes:</b>		
Neither Neil nor Helen has any Additional Voluntary Contribution plans.		

<b>Personal Pensions</b>		
	<b>Client 1</b>	<b>Client 2</b>
Type	Qualifying Workplace Pension scheme	Qualifying Workplace Pension scheme
Company	Monarch Life	Accent UK Life
Fund	Default fund – Managed fund	Default fund – Balanced Managed fund
Contributions	6% employee/6% employer	6% employee/3% employer
Retirement date	65	65
Current value	£1,200	£800
Date started	December 2023	November 2023
<b>Notes:</b>		
<p>Both Neil and Helen have joined their employer’s qualifying workplace pension schemes. As they have only just started their new jobs and are currently busy, they have chosen the default investment funds.</p> <p>Both schemes offer a wide range of passive and active investment funds. They have completed nominations for the schemes in favour of the survivor.</p>		
<b>Previous/other pension arrangements</b>		
	<b>Client 1</b>	<b>Client 2</b>
Employer	Maritime SVS Europe Ltd	Groom Park Consultants Ltd
Type of scheme	Group Personal Pension	Group Personal Pension
Date joined scheme	January 1997	March 1997
Date left scheme	June 2017	June 2017
Current value	£175,000	£65,000
<b>Notes:</b>		
<p>Neil’s previous pension is invested in a UK Cautious Managed fund. Helen’s pension is invested in a UK Corporate Bond fund. Neil and Helen were originally relatively cautious investors in earlier life as they had lower earnings and a limited understanding of investment risk and reward.</p> <p>They have not reviewed these pensions for several years.</p>		
<b>State Pension</b>		
	<b>Client 1</b>	<b>Client 2</b>
State Pension		
<b>Notes</b>		
Neil and Helen have never checked their State Pension records.		

<b>PART 12: INHERITANCES</b>		
<b>Wills</b>	<b>Client 1</b>	<b>Client 2</b>
Do you have a current Will?	Yes	Yes
<b>Notes:</b>		
Neil and Helen have Mutual Wills leaving all their assets to the survivor and then to the two children in equal shares. Both are keen to ensure that the children are guaranteed to receive the residual assets on second death.		
<b>Trusts</b>	<b>Client 1</b>	<b>Client 2</b>
Are you a beneficiary under a trust?	No	No
If yes, give details		
Are you a trustee?	No	No
If yes, give details		
<b>Notes:</b>		
<b>Gifts</b>	<b>Client 1</b>	<b>Client 2</b>
Give details of gifts made and received	None	None
<b>Notes:</b>		
<b>Inheritances</b>	<b>Client 1</b>	<b>Client 2</b>
Give details of any inheritances expected	None	None
<b>Notes:</b>		
Neil's parents died several years ago. Helen's parents are alive and in good health. Any inheritance is likely to be minimal and will not be received for many years so Neil and Helen do not wish to consider this in their planning.		

**PART 13: ATTITUDE TO RISK**

**What level of risk are you prepared to take to achieve your financial objectives?**

**Notes:**

Neil and Helen have been assessed as high-risk investors. Helen has an interest in Environmental, Social and Governance (ESG) investing but this is not a key consideration for her. This is not a consideration for Neil.

Neil and Helen have a medium to high capacity for loss.

**PART 14: BUSINESS RECORDS**

**Compliance**

Date fact-find completed	12.01.24	
Client agreement issued	12.01.24	
Data Protection Act	12.01.24	
Money laundering	12.01.24	

Dates of meetings	12.01.24	
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**Marketing**

Client source		
Referrals		

**Documents**

Client documents held		
Date returned		
Letters of authority requested		

**Notes:**

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**PART 15: OTHER INFORMATION**

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## Unit AF5 – Financial planning process

### Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination 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.

### If you are sitting via remote invigilation please

- Write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem please alert the invigilator.

### For candidates sitting via remote invigilation or at a test centre

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- 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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- The fact-find and the tax tables are provided on the right-hand side of the interface.
- **Client objectives are also provided and you should read them carefully before attempting the tasks.**
- **In this examination you should use the fact-find on the system. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- For each answer, please type in the full question number you are answering e.g. 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are permitted.**
- Please familiarise yourself with **all** questions before starting the exam.

## **CLIENTS' FINANCIAL OBJECTIVES**

**You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:**

### **Immediate objectives**

- Improve the tax-efficiency of their current arrangements.
- Consider the merits of accepting the additional benefits from Neil's employer.
- Review their existing pension fund choices.

### **Longer-term objectives**

- Ensure they have sufficient assets to enable them to retire in 10 years' time.
- Set up a regular savings plan.
- Ensure the use of all tax allowances to improve their future arrangements.

Attempt ALL tasks

Time: 3 hours

**PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

1. (a) State the additional information you would require in order to advise Neil and Helen on the suitability of their current arrangements to meet their retirement objectives. (15)
- (b) Identify a range of actions that a financial adviser could take when dealing with Neil and Helen to ensure that they comply with the Consumer Understanding requirement under FCA Consumer Duty rules. (10)
  
2. (a) Explain to Neil and Helen why it is important for them to request a State Pension forecast and state the information this could provide to them. (8)
- (b) Explain in detail to Neil how increasing his current level of employee pension contributions will improve his Income Tax position. (10)
  
3. (a) Recommend and justify a range of actions that Neil and Helen could take to improve their Income Tax and Capital Gains Tax position. (16)
- 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) Outline to Neil and Helen the tax treatment of the Offshore Investment Bond and how it might be used in the future. (12)
  
4. (a) Explain to Neil and Helen how a cashflow model could be used to assist them in assessing the affordability of retiring in 10 years' time. (10)
- (b) Identify the key reasons why their existing pension fund investment choices may not be suitable for their long-term needs. (9)

**PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX**

5. (a) Neil has been offered the opportunity to join his Employer’s Share Incentive Plan (SIP).  
Explain to Neil why joining the SIP might be suitable to assist them in their retirement planning objective. (10)
- (b) Identify the additional information you would require in respect of Neil’s new employer’s range of optional employer-sponsored protection benefits in order to assess their suitability for the family needs. (10)
6. (a) Outline to Neil and Helen how a Mutual Will operates and explain why they should review the suitability of their existing Wills with their solicitor. (8)
- (b) State the key advantages for Neil and Helen of making a lump sum investment of £20,000 each into a Stocks & Shares ISA for the new tax year, instead of making regular monthly investments. (7)
7. (a) Explain to Neil and Helen any Capital Gains Tax implications that might arise, should they decide to sell and downsize their property. (10)
- (b) Explain to Neil and Helen why they may wish to consider selling some of Neil’s individual equities. (10)
8. (a) Identify the key issues that should be considered when reviewing Neil’s existing investment in the Asia Pacific Emerging Market Equity Funds. (8)
- (b) Identify **seven** key issues that you would discuss with Neil and Helen in respect of their retirement planning objectives at your next review meeting. (7)
- Total marks: 160**

**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)
- Budget/ Affordability/ Emergency Fund requirement.
  - Income needed in retirement/ estimated travel costs?/ how much for children at university?
  - Any plans to retire abroad?/ plans to phase retirement?
  - Use of Capital Gains Tax (CGT) exemption/ losses carried forward.
  - Employer matching/ salary sacrifice.
  - Contribution level of Share Incentive Plan (SIP)/ Details of SIP plan.
  - State pension forecast/ BR19.
  - Purchase price of new property/ how much will they release?
  - When do they plan to sell?/ how long was property rented out for?/ how long have they owned the house?
  - Willing to put assets into joint names for tax purposes.
  - Nominations on pension schemes.
  - Any transfer penalties on old pension plans/protected benefits/ Guaranteed Annuity Rates (GAR).
  - Asset allocation/funds available/ platform.
  - Base costs of individual equities?
  - Charges/ Performance/ ESG views for Helen.
- (b)
- Initial discussions to identify vulnerabilities.
  - Communicate to suit client needs e.g. phone, email, joint meetings.
  - Adjust/ adapt processes to meet client needs.
  - Provide information on products/services in writing.
  - Benefits & drawbacks must be clear.
  - All information must be understandable/clear presentation/no jargon.
  - Check consumer understanding/ client could be asked to repeat back the information to ensure understanding/ ensure client understands own needs.
  - Client must have enough information to make an informed decision/ explain why recommendation is suitable.
  - Time must be given for client to consider information/ no pressure put on client at any time.
  - Available for further discussion at any time/ timely contact/ reviews at appropriate times.

**Model answer for Question 2**

- (a)
- Worked overseas for six years.
  - Shows projected State Pension/ indicates 'missing' years.
  - Need 35 years for full State Pension.
  - Gives State Pension age (SPA)
  - State Pension is their only guaranteed income/ provides details of guaranteed income/ provides index-linked benefit in retirement/ triple lock.
  - Should indicate cost to fill gaps.
  - Check Helen's credits for childcare period/ career break.
  - Planning to retire before SPA so top up now/ better retirement planning.
- (b)
- 40% tax relief for Neil.
  - 20% tax relief at source/ he pays net of 20% tax/ could be deducted from gross salary (automatic relief).
  - HMRC pays 20% to pension/ Immediate tax relief/ Relief at Source (RAS)
  - Neil reclaims extra 20% via Self-Assessment/ if RAS, no need to reclaim.
  
  - Pension contribution extends Basic Rate band/ reduces gross salary;
  - which reduces level of income taxed at higher rate.
  
  - Neil loses most of his Personal Allowance as he earns over £100,000.
  - He loses £1 for every £2 (over £100,000).
  - Effective tax rate of 60%.
  - Making pension contribution recovers some/ all Personal Allowance/ protects Personal Savings Allowance (PSA).

**Model answer for Question 3**

- (a) *Candidates would have scored full marks for any sixteen of the following:*
- Increase pension contributions/ salary sacrifice.
  - 40% tax relief for Neil/ 20% for Helen.
  - Regains Personal Allowance for Neil.
  - Maximise ISA allowance/ Bed & ISA.
  - Tax-free income and growth (Pension & ISA).
  - Transfer shares to joint names/ Interspousal transfer.
  - Helen pays lower Dividend Tax of 8.75%/ Neil pays 33.75%.
  - Helen can use £1,000 Dividend Allowance/ can use two CGT exemptions of £6,000 each.
  - Sell shares to crystallise losses (register losses with HMRC).
  - Can carry forward losses/ use against future gains.
  - Transfer majority of deposit account to Helen to use Neil's £500 PSA/ Helen has £1,000 PSA/ paying 40% tax on excess interest over PSA/ Helen pays 20%.
  - Neil to join Share Incentive Plan;
  - SIPP is Income Tax/ NI free.
  - Can assign Bond to Helen/ children.
  - They would pay 20% tax/ 0% tax/ Neil pays 40%.
  - Use Enterprise Investment Scheme (EIS)/ Venture Capital Trust (VCT);
  - 30% income tax relief.

**Model answer for Question 3 continued**

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

- Gross roll up.
- Can draw 5% of original investment/ £9,750.
- Tax-deferred/ cumulative.
- Chargeable Gains subject to Income Tax.
- Tax due on chargeable gains of 40%/ 45% for Neil/ 20% for Helen.
- Neil would lose his full Personal Allowance on large encashment/ both can use their Personal Savings Allowance.
- Can assign Bond to children/ Helen.
- No chargeable event on assignment.
- Chargeable gain transfers to children/ Helen/ no future tax implications for Neil and Helen.
- Neil & Helen can draw from Bond when Basic Rate taxpayers/ non-taxpayers (in retirement).
- Can use Personal Allowance to draw with minimal/ no tax. (in retirement/children)
- Top-slicing may be available.
- Time Apportionment Relief (TAR).

**Model answer for Question 4**

- (a)**
- Can assess shortfall.
  - How much do they need to save?/ level of contributions required.
  - Growth assumptions.
  - Inflation.
  - Affordability from surplus income.
  - How much risk do they need to take?
  - Stress test/ market conditions.
  - Downsize/ future capital costs/ university fees/ Long Term Care.
  - Impact of taxes/ use of tax wrappers.
  - Identify how long their capital would last/ sustainability/ Safe withdrawal rate (SWR)/ sequencing risk.
- (b)**
- Does not match ATR/CFL.
  - Low growth potential/ they need high levels of growth.
  - Limited equity exposure/ they need higher equity exposure.
  - Equities provide higher potential for growth.
  - Higher charge for Managed funds/ old schemes.
  - Unlikely to meet Helen's ESG requirements.
  - Lack of diversification.
  - Corporate Bond and Cautious Managed funds have too much exposure to Fixed-Interest/ interest rate risk/ inflation risk.
  - Time frame/ investments unsuitable for 10-year time frame

**Model answer for Question 5**

- (a) *Candidates would have scored full marks for any ten of the following:*
- Affordable.
  - Matches their investment timeframe/ ATR.
  - Neil is a Higher Rate Taxpayer (HRT).
  - No Income Tax/ No National Insurance. (at outset)
  - Free/ matching shares available from employer.
  - May purchase further shares with dividends (dividend shares)
  - No Income Tax if dividend shares are retained for three years.
  - Neil already uses his Dividend Allowance/ Saves Dividend Tax at 33.75%
  - No Income Tax (on Partnership Shares) if held for 5 years.
  - No CGT on sale of shares on maturity/ at five years/ CGT applies if retained outside plan after maturity.
  - Can transfer to ISA on maturity within 90 days.
- (b)
- PHI – deferral period.
  - PHI – % of salary covered/ does it include bonuses.
  - PHI – does it include pension contributions?
  - PHI – to what age? State Pension Age (SPA) or Normal Retirement Date (NRD).
  - PHI – exclusions/ underwriting.
  - PHI – When can he join?/ Eligibility to join?/ Occupation definition?/ Inflation-protection?
  - Benefit-in-Kind (BIK) value of PMI.
  - PMI – Contributory/ Excess.
  - PMI – does it cover pre-existing conditions/ underwriting?
  - PMI – does it cover Helen/ children?

**Model answer for Question 6**

- (a) *Candidates would have scored full marks for any eight of the following:*
- Mutual Will passes assets to survivor.
  - Survivor has no right to change their Will after the first death/ cannot rewrite Will.
  - Can revoke Will if both consent (before 1st death).
  - Will is not automatically be revoked on remarriage.
  - Cannot disinherit children/ Guarantees destination on 2nd death.
- Limited IHT planning/ cannot utilise new tax rules.
  - Survivor has full control of funds during lifetime.
  - Can spend/ gift assets (to effectively disinherit children).
  - Both are young so circumstances could change e.g. new partner/ grandchildren/ executors may need to change (future changes).

**Model answer for Question 6 continued**

- (b)
- Income Tax & CGT free.
  - Immediate tax saving for both.
  - Both exceed their Personal Savings Allowance (PSA)/ interest taxable at 40%/20%.
  - Neil pays 33.75% Tax on Dividend Income/ Dividend Allowance reducing to £500/ preserves CGT exemption.
  - Limited future growth potential on cash/ Greater protection against inflation/ greater potential for growth.
  - Can invest in cash initially & drip feed into market/ cash might exceed FSCS limit/ can take advantage of market conditions.
  - Longer investment timeframe.

**Model answer for Question 7**

- (a)
- Potential CGT liability.
  - Property was rented out whilst overseas.
  - Exemption may apply due to working overseas.
  - Must confirm exemption with HMRC/ retain records of overseas employment/ accommodation.
  - Might lose portion of private residence relief (PRR) which is CGT exempt.
  - Based on number of years held/ % deducted for years when not lived in/ potential exemption for returning to same property.
  - Last 9 months excluded (even if not living in property).
  - Can use annual CGT exemption for both in case of liability.
  - Any gain subject to 18% for Helen/ 28% for Neil.
  - Can deduct losses/ can deduct fees/ improvement costs.
- (b) *Candidates would have scored full marks for any ten of the following:*
- Poor performance/ capital loss.
  - Lack of diversification/ all equity/ all UK.
  - Dividends exceed Neil's Dividend Allowance (DA).
  - Dividends taxable at 33.75%.
  - Can reinvest proceeds in tax-efficient wrapper/ ISA/ pension/ not currently tax efficient.
  - Reduce admin/ they are busy/ no professional management.
  - Can register capital losses on sale of shares.
  - Use against future sale of assets/ property.
  - Useful as CGT exemption is reducing to £3,000.
  - Can transfer to joint names in advance of sale.
  - Enables use of both CGT exemptions/ can use Helen's DA (before sale).

**Model answer for Question 8**

- (a)
- Diversification?/ what is the geographical split?
  - They may have specialist knowledge of region.
  - Potential for high growth in emerging markets.
  - Performance of funds/ market conditions.
  - Political risk/ Can be poor ESG records/ corruption/ poor regulation.
  - Charges.
  - Currency risk.
  - Suits ATR.
- (b)
- Any change to health/ planned retirement date.
  - Desired level of income/ cost of travel plans.
  - Unused allowances (pension/ISA)/ did he join SIP/ increased allowances available.
  - BR19/ State Pension topped up.
  - Affordability for contributions/ sale of property/ sale of shares/ salary increases/ university fees.
  - Growth expectations/ projections/ on target/ economic outlook/ legislation changes.
  - Fund choices/ did they switch funds?/ review asset allocations.

## Glossary of terms

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

1. ATR – Attitude to risk
2. APS – Additional Permitted Subscription
3. BRT – Basic rate taxpayer
4. BIK – Benefit in kind
5. BADR – Business Asset Disposal Relief
6. CLT – Chargeable Lifetime Transfer
7. CFL – Capacity for loss
8. CGT – Capital Gains Tax
9. DOV – Deed of variation
10. DIS – Death-in-Service
11. DFM – Discretionary Fund Manager
12. EIS – Enterprise Investment Scheme
13. ESG – Environmental, Social and Governance
14. EPT – Excluded Property Trust
15. EPA – Enduring Power of Attorney
16. ERC – Early repayment charges
17. FAD – Flexi access drawdown
18. FSCS – Financial Services Compensation Scheme
19. FOS – Financial Ombudsman Service
20. GAR – Guaranteed annuity rate
21. HRT – Higher rate taxpayer
22. IHT – Inheritance Tax
23. IT – Income Tax
24. IVA – Individual Voluntary Arrangement
25. LPA – Lasting Power of Attorney
26. LTA – Lifetime allowance
27. MVR – Market value reduction
28. MPAA – Money purchase annual allowance
29. NICs – National Insurance contributions
30. NPA – Normal pension age
31. NRA – Normal retirement age
32. NRB – Nil rate band
33. OPG – Office of the Public Guardian
34. OEIC – Open ended investment company
35. PAYE – Pay As you Earn
36. PPP – Personal pension plan
37. PCLS – Pension commencement lump sum
38. PA – Personal Allowance
39. PSA – Personal Savings Allowance
40. PMI – Private Medical Insurance
41. RAC – Retirement annuity contract
42. RNRB – Residence nil rate band
43. SIPP – Self-invested personal pension plan
44. SEIS – Seed Enterprise Investment Scheme
45. SWR – Safe withdrawal rate
46. SP – State Pension
47. UFPLS – Uncrystallised fund pension lump sum
48. VCT – Venture Capital Trust

**All questions in the September 2024 paper will be based on English law and practice applicable in the tax year 2024/2025, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are applicable to the September 2023 and February 2024 examinations.**

## 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%
<b>MAIN PERSONAL ALLOWANCES AND RELIEFS</b>		
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

<b>Class 3 (voluntary)</b>	Flat rate per week £17.45.
<b>Class 4 (self-employed)</b>	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%