Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2019 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.

R06 – Financial planning practice

Contents

Published March 2019

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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 Diploma in Regulated Financial Planning information for candidates and important notes for candidates

Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Financial Planning Information for Candidates and important notes for candidates, which is *essential reading* for all candidates. It is available online at 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. 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

It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook 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. 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 tax tables printed at the back of each examination paper and 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.*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.
- The allocation of marks between the two case studies may vary slightly from one session to another.

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.

Two weeks before the examination

What will I receive?
Case studies will contain client information, which will form the basis of the exam questions.

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 familiarizing yourself with the client details from the case studies.

How should I use the case studies to help me prepare?
- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

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, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the exam seeks to test
The examination is based on two case studies for imaginary clients whose details you will have received two weeks prior to the exam date. The case studies will enable you to familiarise yourself with the clients circumstances. The questions will only be supplied in the actual examination.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies 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 detailed and if the 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 case studies arrive to focus on the client details and prepare yourself for the examination day.

In the examination

What will I receive?

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. You will be issued with an identical fresh copy. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common sense rules:

1. **Spend your time in accordance with the allocation of marks as indicated on the paper.** The maximum marks allocated to each question and its constituent parts are given on the paper. The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of 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 only return to the incomplete question after you have completed the rest of the paper, if you have time.

2. **Take great care to answer the precise question set.**
The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However brilliantly a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated.* Many candidates leave the examination room confident that they have written a ‘good’ paper, only to be mystified 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.

Order of tackling questions
Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be very challenging until the more familiar questions have been attempted, but *remember not to spend excessive time on the questions you are most confident about.*

Answering different question parts
Always read all parts of a question before starting to answer it, otherwise, you may find that after answering part (a), the answer you have given is really more appropriate to part (b) and it would be necessary to duplicate much of what has already been written. The examiners will normally only give credit for an answer if it is contained within its correct question part.

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:

General performance was very good overall. Well-prepared candidates achieved high marks across the paper. A number of weaker candidates demonstrated clear evidence of lack of preparation. This was notable in their lack of knowledge on Venture Capital Trust's in question 1(g) and Money Market funds question 2(b)(ii). Both of these topics were signposted in the Case Study.

Overall very good performance was seen and clear indications of good preparation by many candidates.

Question 1

Part (a) Many candidates performed well. No difficulties for well-prepared candidates although some focused heavily on Dianne's Defined Benefit scheme, rather than considering Mario's pension arrangements in more detail.

Part (b) Good performance overall. Most candidates scored at least half marks and were able to provide the majority of the factors in their answers.

Part (c)(i) Many candidates performed well and it was apparent that they had studied the Case Study in depth although some weaker candidates failed to recognise that the passive tracker funds have no human element and that the fund he holds provides an element of diversification. The passive tracker fund was clearly identified in the Case Study.

Part (c)(ii). Good performance was seen. Most candidates were able to identify the key advantages without any difficulty.

Part (d)(i) Generally well answered although some candidates focused on more general issues relating to Mario and Dianne's financial position, rather than the term policy itself.

Part (d)(ii) Candidates performed quite well although few gave very detailed answers. Most were able to identify the key factors and achieved reasonable marks.

Part (e) Slightly disappointing performance was seen in this question. Few candidates stated the exact tax position for Dianne if she drew monies from the SIPP and gave general answers that lacked detail.

Part (f) Good performance overall. Candidates were able to identify most of the key benefits and drawbacks without difficulty.

Parts (g)(i) and (g)(ii) Generally good performance although some candidates mixed up the tax benefits of the Enterprise Investment Scheme and Venture Capital Trust. The latter is signposted in the Case Study so this area of potential testing was clearly indicated.

Question 2

Part (a)(i) Good performance overall but weaker candidates ignored some elements of Geoff and Katy's existing arrangements and so missed out on marks. General comments were given regarding the taxation without the actual rates being identified.

Part (a)(ii) Candidates did not encounter problems with this question and good performance was observed.

Part (b)(i) Well-prepared candidates did well with this question but weaker candidates struggled to identify the main reasons why a Money Market fund may be unsuitable. This demonstrates a lack of preparation as this type of fund is identified clearly in the Case Study.

Part (b)(ii) Good performance overall.

Part (c)(i) Most candidates were able to achieve reasonable marks and identified the suitability of flexi-access drawdown for Katy.

Part (c)(ii) Good performance from candidates.

Part (d) Disappointing performance overall although most candidates were able to achieve 4-5 marks. Many candidates focused on a range of alternative Inheritance Tax mitigation options, rather than focusing on the options in respect of the policy itself – as set out in the question.

Part (e) Reasonable performance from most candidates.

Part (f) The annual review question saw average performance from most candidates.

Chartered Insurance Institute

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Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2019 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2018/2019, 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.

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 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.
- 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.

Attempt ALL questions for each case study

Time: 3 hours

Case study 1

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

Mario and Dianne, both aged 52, are married with one son, Gianluca. Mario and Dianne are both in good health. Gianluca, aged 22, lives with his parents and works in his father's business.

Mario owns a restaurant as a sole proprietor and his taxable net profits are £70,000 per annum which he takes as drawings. He has a personal pension into which he contributes £1,000 per month net. The current value of the personal pension is £440,000 and the monies are invested in a range of passive equity tracker funds.

Dianne is employed as a human resources manager and earns a salary of £48,000 per annum gross. Dianne is a member of her employer's defined benefit pension scheme. Her employer does not provide any other employee benefits.

Mario and Dianne own their home as joint tenants which is valued at £350,000 and they have an outstanding mortgage of £90,000 on an interest-only basis. This is a tracker-based mortgage and the current interest rate is 1.29%. The mortgage has a remaining term of eight years. They have a joint life level term assurance policy in place to cover this mortgage.

Dianne's father died three years ago when he was aged 78. Dianne inherited his self-invested personal pension (SIPP) which, at the time of his death, was valued at £525,000. The current value of the SIPP is £673,000. The fund is managed by a discretionary fund manager and includes a wide range of asset classes.

Mario inherited an open-ended investment company (OEIC) portfolio from his aunt two years ago when it was worth £150,000. The current value is £190,000.

Mario is a high-risk investor and Dianne's attitude to risk is low to medium. Neither Mario nor Dianne have any ethical preferences.

Mario and Dianne have the following assets:

Assets	**Ownership**	**Value (£)**
Main residence	Joint Tenants	350,000
Current account	Joint	20,000
Deposit account	Joint	80,000
Cash ISA	Dianne	20,000
Restaurant premises	Mario	300,000
Stock and shares ISA – UK Equity fund	Mario	30,000
OEIC – Global Equity fund	Mario	190,000
Venture Capital Trust	Mario	15,000

Mario and Dianne's financial aims are to:

- ensure that they have adequate income in retirement;
- ensure that they have adequate financial protection arrangements;
- ensure that their pensions and investments are suitable for their needs.

Questions

(a) Identify the additional information an adviser would require to advise them on the suitability of their current pensions. **(13)**

(b) Identify the factors that would typically influence Mario and Dianne's tolerance for risk. **(7)**

(c) **(i)** Explain to Mario why a range of passive equity tracker funds within his personal pension are likely to be suitable for him. **(6)**

(ii) Explain to Mario the advantages of continuing to fund his personal pension rather than using a stocks and shares ISA for his retirement planning. **(5)**

(d) **(i)** Identify the additional information you would require, in respect of Mario and Dianne's joint life level term assurance policy, to assess its suitability. **(8)**

(ii) State the factors that Mario and Dianne should be aware of if they decide to repay their mortgage now using some of Mario's open-ended investment company. **(10)**

(e) Explain why Dianne should consider retaining the inherited self-invested personal pension (SIPP) for the long-term. **(7)**

(f) State **four** benefits and **four** drawbacks for Dianne of retaining the services of the discretionary fund manager to look after her SIPP investments. **(8)**

(g) **(i)** Outline the tax treatment of the Venture Capital Trust (VCT) held by Mario. **(5)**

(ii) Explain why an Enterprise Investment Scheme may be a more suitable investment vehicle for Mario than a VCT. **(6)**

Total marks available for this question: 75

Case study 2

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

Geoff and Katy, both aged 64, are married with one son, Samuel. Geoff and Katy are both in good health. They are planning to retire in six months' time by which they will both be aged 65. Samuel is married with three children and is financially independent.

Geoff is employed as a design engineer and earns a salary of £52,000 per annum gross. He is a member of his employer's qualifying workplace pension scheme and he contributes 5% of his basic salary to this scheme. This contribution level is matched by his employer. The pension plan is invested in a UK-based cautious managed fund. His fund has a current value of £110,000.

Katy is employed as a retail manager and earns a salary of £30,000 per annum gross. Katy is a member of her employer's qualifying workplace pension scheme to which both she and her employer contribute 3% of her basic salary. This pension plan is invested in a global equity fund and a global tracker fund. Her fund has a current value of £100,000.

Geoff and Katy have no other pension benefits but expect to receive a full new State Pension at their respective State Pension ages.

Geoff and Katy own their home as joint tenants valued at £650,000 and they have fully repaid their mortgage. They do not have any protection policies other than a death-in-service cover offered by Katy's employer which provides three times her basic salary whilst she remains in service. Geoff is the nominated beneficiary of this scheme.

Geoff and Katy have an investment portfolio which includes stocks and shares ISAs. These are currently held in money market funds. They have not used their ISA allowances for the current tax year. Geoff has a portfolio of individual UK smaller company shares which is held on a platform. These shares provide a total dividend yield of £1,000 per annum. Katy also holds a portfolio of open-ended investment companies (OEICs) which are invested in a range of global growth funds. These generate annual dividends of approximately £3,500.

Geoff and Katy are concerned about their potential Inheritance Tax liability and have in place a reviewable joint life last survivor whole of life policy, which is in trust, with a sum assured of £100,000. This policy is due to reach its first ten-year anniversary in May 2019. They have been advised that the premium will rise significantly on this anniversary and have asked for your advice in respect of this policy. Their Wills were made several years ago, and they are planning to review these in the near future.

Geoff and Katy consider themselves to be high-risk investors.

Geoff and Katy have the following assets:

Assets	Ownership	Amount (£)
Main residence	Joint Tenants	650,000
Current account	Joint	10,000
Savings account	Joint	80,000
Stocks and shares ISA – Money Market fund	Katy	45,000
OEIC portfolio – Global Growth Funds	Katy	175,000
Portfolio of Individual Equities	Geoff	130,000
Stocks and Shares ISA – Money Market fund	Geoff	68,000

Geoff and Katy's financial aims are to:

- generate a sustainable income for their joint lifetimes;
- assess the suitability and tax-efficiency of their current pensions and investments;
- ensure their estates pass to their intended beneficiaries on second death;

Questions

(a) **(i)** Comment on the suitability and tax-efficiency of Geoff and Katy's existing pensions and personal investment holdings. **(15)**

(ii) Recommend and justify the actions that Katy could take to improve the tax-efficiency of her existing portfolio of OEICs. **(6)**

(b) **(i)** Explain to Geoff why he should consider switching the money market fund in his stocks and shares ISA into another investment fund. **(8)**

(ii) State the main drawbacks for Geoff of retaining his portfolio of individual UK smaller company shares. **(8)**

(c) In respect of Katy's qualifying workplace pension scheme:

(i) Explain to Katy why using flexi-access drawdown may be a suitable option for her in retirement. **(8)**

(ii) State **eight** benefits to Katy of using her pension fund to purchase a joint-life annuity once she retires. **(8)**

(d) Identify and explain the range of options available to Geoff and Katy in respect of their reviewable whole of life policy when it reaches its ten-year anniversary. **(9)**

(e) Outline the actions that Geoff and Katy should take to ensure that their estates are passed to their intended beneficiaries on second death. **(5)**

(f) State **eight** factors that an adviser should consider in respect of Geoff and Katy's income requirements at their next annual review. **(8)**

Total marks available for this question: 75

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) *Candidates would have gained full marks for any thirteen of the following:*

- Amount of income/capital required.
- Scheme retirement age/their intended retirement age.
- State Pension entitlement/age/date.
- Financial strength of Dianne's defined benefit scheme.
- Number of years' service/accrual rate/statement of expected benefits/commutation/projection of defined benefit scheme.
- Indexation/escalation.
- Early retirement factor.
- Spouse's pension under defined benefit scheme/death benefit nominations.
- Is Mario willing to sell the restaurant/value of the business/exit strategy.
- Asset allocation/switching options.
- Performance/projection of Self-Invested Personal Pension scheme (SIPP)/Personal Pension.
- Contribution history/carry forward.
- Costs/charges.
- Capacity for Loss.
- Affordability/use of other assets/inheritance.
- Any other pension benefits/retained benefits/Additional Voluntary Contributions.

(b) *Candidates would have gained full marks for any seven of the following:*

- Timescale.
- Age/health.
- They have disposable income/adequate emergency fund/level of wealth or assets.
- Guaranteed pension income for Dianne/State Pension entitlement.
- Investment experience/knowledge.
- Objectives.
- Economic environment/current market conditions.
- Tolerance for loss/Capacity for Loss.

(c)(i)

- Matches his attitude to risk.
- Growth potential.
- Lower charges.
- Diversification.
- Wide choice of funds/switching funds.
- No human error/simplicity.

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

- 40% tax relief/higher rate taxpayer.
- Carry forward.
- Can contribute more.
- Cannot access until 55/no temptation to spend.
- Fund can be passed to anyone Inheritance Tax free/ISA can only be passed to spouse or Diane Inheritance Tax free/pension can be Inheritance Tax free.
- Protected from creditors.

(d)(i)

- Current premium.
- Cost of replacement policy/is premium competitive?
- Sum assured/term.
- Guaranteed or reviewable premiums.
- Waiver of Premium included?
- Critical Illness cover/terminal illness included?
- Loading?
- Trust?

(d)(ii) *Candidates would have gained full marks for any ten of the following:*

- Debt free.
- Peace of mind.
- Matches Dianne's attitude to risk/investment risk reduced.
- Reduces interest payable/interest rates may rise.
- Increases monthly disposable income.
- Can use annual Capital Gains Tax (CGT) exemption/Capital Gains Tax liability on disposal.
- Interspousal exemption/transfer to joint names.
- Market timing.
- Early repayment charge.
- Loss of future growth/dividend income/growth on open-ended investment company (OEIC) compared to interest rate.
- Reduced liquidity.
- No longer require term policy.

(e)

- Potential for growth.
- Can be used to provide income in retirement.
- Tax efficient-wrapper.
- Inheritance Tax free/can pass to Gianluca.
- Maybe basic-rate taxpayer in retirement/manage withdrawals for tax efficiency.
- Withdrawal now would be taxed at 40%/45%;/may lose Personal Allowance;
- as father was over 75 at date of death.

(f)

Benefits

- Professional/active management/wider investment options.
- Potential for higher returns.
- Will target objectives/bespoke service/will match attitude to risk.
- No requirement for ongoing involvement/saves time.

Drawbacks

- Higher charges.
- No guarantee of performance.
- May invest in unacceptable sectors/lack of control.
- May not provide regular service/review.

(g)(i)

- Venture Capital Trust losses cannot be offset against other gains.
- No Capital gains Tax liability.
- Tax relief clawed back if sold within five years.
- Subject to Inheritance Tax.
- No income tax liability on dividends.

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

- Inheritance Tax relief/Business Property Relief;
- if held for two years.
- Lower holding period for income tax relief/three years.
- Capital Gains Tax deferral/can roll over gains/holdover relief.
- Can offset losses against income tax.
- Higher investment limits.
- Can carry back one year.

Case study 2

Model answer for Question 2

(a)(i) *Candidates would have gained full marks for any fifteen of the following:*

- Inflation risk/real return eroded by inflation on savings account/Money Market ISA holdings eroded in real terms/charges may exceed returns on money market funds.
- All capital growth focused/low dividend yield.
- They need income in retirement so unsuitable.
- Individual equities/OEIC portfolio/Katy's pension match attitude to risk.
- Limited use of ISA allowances so lacks tax-efficiency.
- Shares liable to Capital Gains Tax at 20% for Geoff (on sale).
- OEIC's liable to Capital Gains Tax at 10% to Katy.
- Use of Capital Gains Tax allowance.
- Geoff not using his full dividend allowance/£2,000.
- Katy's dividends exceed her £2,000 dividend allowance.
- Katy's dividends taxed at 7.5%.
- (Pension Cautious Managed fund Geoff)/Money Market fund does not match attitude to risk.
- Limited pension savings/not maximising tax-efficient pension.
- Personal Savings Allowance of £1,000/£500.
- Limited Inheritance Tax efficiency.
- Too much in cash.

(a)(ii)

- Bed & ISA each year.
- Future dividends tax-free/no Capital Gains Tax on gains.
- Transfer sufficient funds to Geoff;
- to use his Dividend Allowance/£2,000.
- Transfer uses interspousal exemption/he receives Katy's base cost.
- Use Capital Gains Tax exemption.

(b)(i)

- Lack of diversification.
- Fund provides limited returns/provides limited income.
- Value eroded in real terms/inflation risk.
- Charges usually exceed growth.
- Suitable for short-term investment only.
- Lower/no charge on Cash ISA.
- Does not match his high-risk attitude to risk.
- Limited tax benefit/wasted ISA allowance.

(b)(ii)

- Lack of geographic diversification/all UK.
- Lack of asset diversification/all equity.
- Systematic risk/high volatility.
- Non-systemic risk/poor management/company specific risk.
- Time required to monitor/admin.
- Costs/charges.
- Lack of dividend income/not using Dividend Allowance.
- Not held within an ISA for tax efficiency.

(c)(i) *Candidates would have gained full marks for any eight of the following:*

- Matches attitude to risk.
- They have other (liquid) assets/not reliant on pension/State Pension.
- Fund remains in tax free wrapper.
- Income is flexible.
- Can use tax free cash/tax efficient income.
- Potential for growth.
- No tax on death before 75/can pass to family/Inheritance Tax free on death/improved death benefits.
- Can purchase annuity at any time/annuity rates may change.
- Health may change/enhanced annuity rates available.

(c)(ii)

- Provides guaranteed income.
- Only State Pension available as guaranteed income.
- No investment risk.
- No ongoing costs/charges/no need for reviews/easy to understand.
- Enables investment portfolio to be used elsewhere/kept intact.
- Will pay the surviving spouse on death.
- Can be index linked.
- Guaranteed period/capital protection.

(d)

- Accept increased premium;
- to maintain current sum assured.

- Retain existing premium;
- results in reduced sum assured.

- Reduce premium;
- sum assured will reduce.

- Maintains affordability of policy.

- Can cancel policy at no cost.
- Loss of premiums/unlikely to have surrender value.

(e) *Candidates would have gained full marks for any five of the following:*

- Review Wills.
- Update pension nominations.
- Spousal bypass trust/Immediate post death interest Trust.
- Discretionary Trust/put assets in Trust.
- Ensure Whole of Life is in appropriate Trust.
- Nominate Katy's death in service for Samuel (as well as Geoff).

(f)

- Health/change in personal circumstances.
- Change in income/expenditure/capital needs/any inheritance received/expected/timescale for investment.
- Attitude to risk/capacity for loss.
- Performance/rebalance/current yield.
- Charges.
- Use of tax allowances/ISA/Pension.
- Economic/market conditions/inflation.
- New products/change in legislation/taxation.

January 2019 Examination - R06 Financial Planning Practice		
Question No.	**Syllabus learning outcomes being examined**	
1.	1.	Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process.
	2.	Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions.
	3.	Analyse a client's situation and the advantages and disadvantages of the appropriate options.
	4.	Formulate suitable financial plans for action and explain and justify recommendations.
	5.	Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1.	Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process.
	2.	Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions.
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	5.	Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the April 2019 paper will be based on English law and practice applicable in the tax year 2018/2019, unless stated otherwise and should be answered accordingly.

INCOME TAX

RATES OF TAX	2017/2018	2018/2019
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	£33,500	£34,500
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.*

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)	£11,500	£11,850
Married/civil partners (minimum) at 10% †	£3,260	£3,360
Married/civil partners at 10% †	£8,445	£8,695
Transferable tax allowance for married couples/civil partners	£1,150	£1,190
Income limit for Married couple's allowance†	£28,000	£28,900
Rent a Room relief	£7,500	£7,500
Blind Person's Allowance	£2,320	£2,390
Enterprise Investment Scheme relief limit on £1,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 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.
*** maximum for 'standard' investment but for 'knowledge intensive' investment, the limit is £2,000,000.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£116
Primary threshold	£162
Upper Earnings Limit (UEL)	£892

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 162.00*	Nil
162.01 – 892.00	12%
Above 892.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £116 per week. This £116 to £162 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 162.00**	Nil
162.01 – 892	13.8%
Excess over 892.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.95 where profits exceed £6,205 per annum.
Class 3 (voluntary)	Flat rate per week £14.65.
Class 4 (self-employed)	9% on profits between £8,424 - £46,350. 2% on profits above £46,350.

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	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000
2018/2019	£1,030,000

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.
25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2017/2018	2018/2019
	£4,000	£4,000

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.

CAPITAL GAINS TAX

EXEMPTIONS	2017/2018	2018/2019
Individuals, estates etc	£11,300	£11,700
Trusts generally	£5,650	£5,850
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	20%	20%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2017/2018	2018/2019
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS		
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*	£100,000	£125,000
- 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
- Small gifts exemption	£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%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2018/2019:

- The percentage charge is 13% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 16%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 19%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 20% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 190g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£23,400 for 2018/2019) e.g. car emission 90g/km = 19% on car benefit scale. 19% of £23,400 = £4,446.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2017/2018 Rates	2018/2019 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2017/2018	2018/2019
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO_2 emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2017/2018	2018/2019
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.70	17.20
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.65	Up to 110.75
Attendance Allowance	Lower rate	55.65	57.30
	Higher rate	83.10	85.60
basic State Pension	Single	122.30	125.95
	Married	195.60	201.45
new State Pension	Single	159.55	164.35
Pension Credit	Single person standard minimum guarantee	159.35	163.00
	Married couple standard minimum guarantee	243.25	248.80
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment*		2,000.00	2,000.00
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
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		140.98	145.18

**Only applicable where spouse or civil partner died before 6 April 2017.*
*** Only applicable where spouse or civil partner died on or after 6 April 2017.*

CORPORATION TAX

	2017/2018	2018/2019
Standard rate	19%	19%

VALUE ADDED TAX

	2017/2018	2018/2019
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 £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (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.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.