Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the July 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

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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 good overall. Well-prepared candidates achieved high marks across the paper. A number of weaker candidates demonstrated clear evidence of lack of preparation.

Overall performance was good for most of the paper and it was pleasing to note that many candidates performed well in areas that have not been tested in recent sessions. This demonstrated a high degree of preparation and a good base of knowledge.

Candidates should ensure they read the questions carefully before answering them. They should also ensure they allow sufficient time to answer them in accordance with the marks which are available.

Question 1

Part (a)(i) Reasonable performance and most candidates scored at least three marks. This was a new style question and it was good in that it tested students on the use of capital to repay mortgage arrears.

Part (a)(ii) This was well answered by most candidates who recognised benefits and drawbacks. This did not present any difficulties for most of the candidates. A few candidates overlooked marks like 'no costs for sale of property' and 'rental income could increase in the future'.

Part (b) Most candidates scored good marks in covering why a pay-out would have not been made from an income protection insurance policy, but few candidates were able to obtain all possible marks. Many candidates missed marks such as 'Mark may have changed occupation'.

Part (c)(i) Weaker performance with few candidates understanding the investment benefits of monthly investing such as 'pound cost averaging'. This is a very standard investment term and is covered in the syllabus, candidates mistakenly discussed pension funding in general.

Part (c)(ii) Generally answered well by many candidates. Some candidates considered non-pension arrangements, although the question clearly asks candidates to focus on the pensions.

Part (c)(iii) Most candidates answered this well with many achieving three out of six possible marks. There were some marks overlooked which required a little more thought.

Part (d) This question was well-answered. It tasked candidates with stating the benefits for Mark of remaining self-employed rather than incorporating his business.

Part (e) Many students struggled to achieve good marks in this section. Some candidates did not understand how a Lasting Power of Attorney works and gave very limited answers. This question was clearly flagged in the Case Study so should not have caused any such difficulties.

Part (f) The standard review question failed to attract good marks, which have been achieved in the past. Very few candidates scored higher level marks and this may have been a result of not reading the question carefully.

Question 2

Part (a) This was a typical factfinding style question. It allowed candidates to assess what other details were needed in relation to pension assets and advice.

Part (b) Poor performance overall. Investment bonds are a core element of financial planning and are fully covered in the R06 syllabus. Few candidates were able to score more than four or five marks. Most candidates focused on the open-ended investment company (OEIC) and ignored the features of the investment bond.

Part (c)(i) Very poor performance in this State Benefit question. Candidates often struggle with these questions, but this was clearly indicated in the Case Study as details of their disabled son were provided. Only a few candidates performed well.

Part (c)(ii) Slightly disappointing performance. This was clearly flagged in the Case Study. Better candidates performed well and had clearly understood the need for some form of Trust for the disabled son, Alan. As there is only one practical option, this should have been a relatively straightforward question.

Part (d)(i), (ii) General performance was good although some weaker candidates did not understand that a 'loan' is not any form of 'gift'.

Part (e)(i) This was quite a straightforward drawbacks and benefits question part and has been asked before.

Part (e)(ii) This was answered well by most candidates.

Part (f) This was a taxation question and most candidates scored well with maximum marks obtained by a number of the well-prepared candidates.

Part (g) Disappointing to see many candidates not achieving high marks in this defined benefit section.

Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 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)*** and ***(f)*** *which follow.*

Mark and Janice, both aged 53, are married with three children: Jack, Adam and Lucy. They are aged 30, 28 and 18 respectively and are all financially independent.

Mark and Janice have a repayment mortgage of £180,000 on their home which is currently valued at £230,000.

Mark is a self-employed plumber. Mark's taxable net profits are normally £45,000 per annum. Due to an illness he has been unable to work for the last 12 months. He has now recovered and expects his income to return to its normal level in the near future. As a result of Mark's illness, he and Janice have built up debts on a credit card and personal loan. The total amount of these debts is £22,000. They have also fallen into arrears recently on their mortgage and are very concerned about this. Mark and Janice have used their savings and investments to cover their expenses whilst Mark has been ill. They now only hold £5,000 in their joint bank account and have no other savings or investments.

Mark has an income protection policy which has been in force for a number of years. Despite making a claim on this policy Mark did not receive any benefits. He is now considering cancelling this policy.

Janice works part-time as a veterinary nurse and earns £15,000 per annum gross.

Mark and Janice have personal pension plans which they set up themselves some years ago with normal retirement ages of 60. They stopped their contributions into these pension plans when Mark fell ill and wish to start contributions again as soon as they have paid off their debts. Mark's pension plan has a value of £87,000 and is invested in a cautious lifestyle fund. Janice's pension has a value of £45,000 and is invested in a FTSE 100 tracker fund. Janice was enrolled into her employer's qualifying workplace pension scheme but decided to opt out of this scheme as she already had a personal pension plan.

Mark and Janice plan to continue working until they are both aged 65, although Mark does not plan to retire fully and would like to continue to work on a part-time basis later in life. Mark is considering making arrangements for Jack to run the family business in the future and Mark is considering the most suitable options for achieving this in a tax-efficient manner.

Janice's mother died earlier this year and her estate has now been wound up. Janice is due to receive a cash sum of £20,000 very shortly, in addition to her mother's home, which has a probate value of £120,000.

Mark's father is aged 85 and lives in a care home and still has full mental capacity. Mark helps him to manage his finances and personal affairs.

Mark and Janice consider themselves to be medium-risk investors.

Mark and Janice's financial aims are to:

- clear their debts as quickly as possible;
- consider the benefits to Mark of incorporating his self-employed business;
- review Mark's existing protection arrangement;
- put in place a suitable strategy for long-term retirement planning.

Questions

(a) **(i)** Explain to Mark and Janice why they should consider using Janice's inheritance to repay their mortgage arrears before repaying their personal loan and credit card. **(5)**

Janice is due to inherit her late mother's home.

(ii) State **five** benefits and **five** drawbacks for Janice of retaining this property and renting it out. **(10)**

(b) Mark has a personal income protection policy that did not pay out following his illness.

Identify **six** reasons why the insurance company may have refused to meet Mark's claim. **(6)**

(c) Mark and Janice are considering making single contributions into both of their pension plans as soon as this is affordable.

(i) Explain to Mark and Janice why it may be more suitable for them to make monthly contributions into their personal pension plans instead of lump sum contributions. **(5)**

(ii) Recommend and justify the actions that Mark and Janice should take in respect of their pension arrangements, to ensure that these are suitable to meet their long-term objectives. **(14)**

(iii) State **six** drawbacks of Mark and Janice using a socially responsible investment strategy for their personal pensions. **(6)**

(d) State the benefits for Mark of remaining self-employed rather than incorporating his business. **(6)**

(e) Mark holds a Lasting Power of Attorney for property and financial affairs for his father. The paperwork for this was completed several years ago but Mark has never registered the document with the Office of the Public Guardian.

Explain to Mark the benefits of registering the Lasting Power of Attorney as soon as he is able to do so. **(10)**

(f) State **eight** factors you would discuss with Mark and Janice in respect of Janice's inheritance at your next annual review. **(8)**

Total marks available for this question: 70

Case study 2

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

Chris and Anita, aged 63 and 64, and are married with one son, Alan, aged 36. Alan is disabled and will always be financially dependent on Chris and Anita.

Chris and Anita own their own house as joint tenants and it is currently valued at £625,000. They have fully repaid their mortgage.

Chris is employed by a large engineering firm and earns a salary of £60,000 per annum gross. Chris is a deferred member of his employer's defined-benefit pension scheme which was closed seven years ago. He is a member of his employer's qualifying workplace pension scheme and pays 5% of his gross salary to this scheme and his contributions are matched by his employer. His entitlement within his employer's qualifying workplace pension scheme currently has a value of £54,000 and is invested in the provider's default fund which is a UK fixed-interest fund. He has no other pension arrangements.

Anita works part-time for her father's accountancy practice and she earns £22,000 per annum gross. Anita is a member of her employer's auto-enrolment pension scheme with National Employment Savings Trust (NEST) but wonders if it is worth remaining in this scheme. She has no other pension arrangements.

Chris and Anita are very concerned as to Alan's future should they die early. They would like to leave a lump sum to assist with a possible house purchase.

Chris and Anita both have medium attitudes to risk and are both in good health.

Chris and Anita have accumulated the following investments:

Assets	**Ownership**	**Amount (£)**
House	Joint	625,000
Bank current account	Joint	16,000
OEIC – emerging markets fund	Joint	102,000
Bank deposit account	Chris	25,000
Unit Trust – global equity fund	Chris	284,000
OEIC – UK income fund	Anita	74,000

Chris and Anita have both made Wills. The Wills leave everything to each other on first death and then to Alan.

Chris and Anita's financial aims are to:

- ensure they have sufficient income in retirement;
- improve the tax efficiency of their investments;
- provide financial security for Alan.

Questions

(a) State the additional information you would require, in order to advise Chris and Anita on their financial aim of ensuring they have adequate income in retirement. **(15)**

(b) Explain the factors an adviser should consider when advising Anita to take out an onshore investment bond rather than retaining her open-ended investment company (OEIC). **(13)**

(c) Alan currently receives the following State benefits:

- Employment and Support Allowance and;
- Personal Independence Payment.

(i) Describe briefly how these benefits operate and state their taxation treatment. **(8)**

(ii) Describe how a Disabled Persons Trust could be set up for Alan and how it would operate. **(10)**

(d) State the Inheritance Tax implications for Chris and Anita, should they provide a lump sum to Alan by each of the following methods.

(i) In the form of an interest free loan: **(3)**

(ii) In the form of a gift. **(3)**

(e) **(i)** State **four** benefits and **four** drawbacks for Chris of his pension investment remaining in the default investment fund within his employer's qualifying workplace pension scheme. **(8)**

(ii) Explain briefly to Anita why she should remain in her employer's auto-enrolment pension scheme. **(4)**

(f) Explain to Chris and Anita how the income and capital gains on their existing OEICs are likely to be treated for tax purposes. **(8)**

(g) State the benefits of Chris retaining his current defined benefit pension scheme entitlement. **(8)**

Total marks available for this question: 80

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

Model answer for Question 1

(a) **(i)**

- Home at risk if mortgage not paid/personal loan/credit cards are unsecured debt/mortgage arrears are priority debt.
- Mortgage arrears will significantly damage credit rating/will improve credit score.
- May not be able to re-mortgage in future/no access to better rates of interest.
- Admin charges on arrears.
- Improves chance of repayment before retirement/maybe penalties for repaying personal loan early.

(ii) **Benefits**

- Provides income.
- No costs for sale of property.
- Rental income could increase in the future.
- Capital value could increase.
- Could be used to supplement income in retirement.

Drawbacks

- Void periods.
- Inconvenience/admin/maintenance/landlord duties/need to complete tax return.
- Costs/costs of preparing property for rental/meeting legal requirements/ accountancy costs.
- Illiquid asset/cannot use proceeds to repay debts.
- Capital Gains Tax (CGT) on sale/rental income is taxable.

(b)

- Policy set up on an any occupation basis.
- May have missed premium payments.
- Caused by pre-existing condition/excluded.
- Non-disclosure/job/occupation class may have been wrongly disclosed.
- Mark may have changed occupation.
- Deferral period not attained/returned to work before deferral period expired.

(c) **(i)**
- Pound cost averaging.
- Benefit from investment volatility.
- Can stop and start contributions/flexibility/convenience.
- Limited affordability/assists with budgeting.
- Reduces risk of poor investment timing.

(ii) *Candidates would have gained full marks for any fourteen of the following:*
- Switch off life styling on Mark's plan.
- He does not plan to retire at age 60/unlikely to purchase annuity.
- Life styling reduces prospects for growth.

- Janice to opt in to employer pension scheme.
- Benefits from employer contributions.

- Ensure current funds meet attitude to risk/capacity for loss/switch Janice's fund.

- Review charges.
- To ensure they remain competitive.
- Older-style plans so may need to be switched.

- Start making contributions/carry forward;
- for Income Tax relief.
- Potential for growth/to improve retirement income.

- Check nominations updated.

- Check State Pension entitlement;
- to ensure maximum benefit/top up with voluntary contributions if necessary.

(iii)
- Restricted fund choice/options/lack of diversification.
- Higher charges.
- More volatile/higher risk/may not match attitude to risk.
- Limited dividend income.
- Potentially lower growth.
- Difficult to screen larger companies/increased monitoring.

(d)
- No employer National Insurance (NI)/reduced NI.
- Can use full profits for pension purposes/dividends not pensionable.
- Simple for tax reporting/tax return once a year/no legal reporting requirements/no accounts needed for Companies House.
- Less admin/less admin costs.
- Profits/earnings remain private/not in public domain.
- No costs of setting up a Limited company/lower costs.

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

- Cannot be used until it has been registered.
- Can only be registered whilst Mark's father has mental capacity;
- impact of Mark's fathers age/urgent need to register.
- Cheapest option/£82.
- If loses capacity, must use Court of Protection (CoP/must apply to be deputy.
- Court of Protection can take several months.
- People to notify may no longer be contactable/moved house/causes admin difficulties.
- Errors in documentation will cause delay.
- Solicitor required if CoP used/more complex/more scrutiny.
- Restricted powers of deputyship/no gifting permitted under deputyship.
- Deputy appointed by Court/may not be Mark or another family member.
- Lasting Power of Attorney (LPA) ensures father's wishes are met.

(f)

- Change in personal circumstances/health/family/income/outgoings/budget.
- Attitude to risk/capacity for loss.
- Wills updated/change in beneficiary.
- Have debts been repaid using inheritance/mortgage arrears repaid/have pension contributions restarted.
- Change in objectives.
- Has inheritance been received/are they selling the house/renting it.
- Any gifts made/intention to make gifts.
- Change in economic circumstances/market/political/legislation.

Model answer for Question 2

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

- Income needed in retirement/cost of Alan's care/capital costs.
- Intended retirement date/Normal Retirement Date (NRD).
- BR19/State pension forecast.
- Pension projections/statement/performance/accrual/Anita's fund value.
- Asset allocation/fund choice.
- Widow's/dependants pension.
- Financial strength of Chris's Defined Benefit (DB) scheme.
- Cash Equivalent Transfer Value (CETV).
- Indexation on DB/revaluation.
- Commutation factors on DB.
- Further inheritances/use of other assets.
- Early retirement factor on DB scheme.
- Capacity for loss.
- Affordability/budget.
- Ethical.
- Contribution history/carry forward.

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

- Bond can be assigned/put in trust.
- Can switch funds without triggering tax liability/reduced admin on bond.
- Subject to income tax not Capital Gain Tax (CGT).
- Top slicing may be available.
- May not be subject to Long-Term Care (LTC) assessment.
- 5% tax deferred withdrawals.
- Segmentation.
- Charges.
- Tax efficiency/onshore underlying fund is taxed (at 20%).
- Fund choice availability.
- Timeframe for investment.
- Encashment of OEIC could trigger CGT.
- Bond does not affect dividend allowance/utilises Personal Savings Allowance (PSA)/diversifies tax wrappers.
- Their tax status.

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

Employment and Support Allowance (ESA)

- Income based/support group.
- Contribution-based/work related.
- Contribution based is taxable.
- Income based is tax free.
- Contribution based is not means tested/income based is means tested.

Personal Independence Payment (PIP)

- This is assessed/reviewed by a health professional.
- Available to anyone who is registered disabled (incapacitated).
- Based on level of disability/severity based.
- Not means tested/non-contributory.
- Tax free.

Applies to either

- Paid to State Pension age.
- Regularly reviewed.

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

- Arranged by a solicitor.
- Trustees must be appointed.
- Taxed on Alan.
- No periodic/exit charges.
- Does not affect Alan's state benefit entitlement.
- Must complete a vulnerable person's election form.
- Must be signed by trustees and beneficiary/Alan.
- Alan is the beneficiary/must be wholly for the benefit of Alan.
- There is an exemption to this;
- the lesser of £3,000 or 3% of the value of trust;
- forms part of Alan's estate on death.
- Settlement is a potentially exempt transfers/can include house/maintains Residence Nil Rate Band (RNRB).

(d) **(i)**

- Not a potentially exempt transfer (PET)/Chargeable Lifetime Transfer.
- The loan is part of their estate/value included on their death.
- Loan is interest-free so not increasing estate.

(ii)

- Gift is a potentially exempt transfer (PET).
- Can use annual exemptions.
- Gift will be outside estate after 7 years.

(e) **(i)** **Benefits**

- Provides steady return through income/fixed interest.
- No equity risk/low volatility/no currency risk.
- Cannot accept high risk as he is close to retirement.
- No administration for Chris/no charges for advice/low charges.

Drawbacks

- Lack of diversification/does not match attitude to risk.
- Limited growth potential.
- Limited inflation protection unless index-linked element.
- May be adversely affected by interest rate rises.

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

- Benefit from employer contributions.
- Benefit from tax relief (20%).
- Tax free wrapper.
- No other pension benefits/limited income in retirement.
- Can be left to Alan/Inheritance Tax free.

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

- Capital Gains Tax (CGT)/income due is split 50:50 on emerging markets fund.
- Open-ended investment company (OEIC) income taxed as dividends/at 7.5%/32.5%
- £2,000 dividend allowance.
- Fixed interest could be subject to income tax/20%.
- Fixed interest taxed against personal savings allowance/£1000.
- CGT on disposal/10%/20%
- Use of annual CGT exemption.
- Losses can be offset against gains.
- Chris is a higher rate tax payer and Anita is a basic rate tax payer.

(g)

- Guaranteed income.
- No investment risk.
- No annuity rate risk.
- Spouses pension.
- Dependents pension due to Alan's disability.
- Indexation.
- Employer takes on liability/Pension Protection Fund (PPF).
- No admin/ongoing advice/costs.

April 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.
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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 July 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

	2017/2018	2018/2019
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*

	2017/2018	2018/2019
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.