



Chartered  
Insurance  
Institute

# R06

## Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2020 Examination Guide

### SPECIAL NOTICES

Candidates entered for the July 2020 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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Telephone: 020 8989 8464

Email: [customer.serv@cii.co.uk](mailto:customer.serv@cii.co.uk)

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

#### **Study the syllabus carefully**

It is crucial that you study the relevant syllabus carefully, which is available online at [www.cii.co.uk](http://www.cii.co.uk). All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone*, so it is vital that you are familiar with it.

#### **Read widely**

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](http://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/](http://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.



## EXAMINER COMMENTS

### Candidates' overall performance:

In summary, candidates performed at a higher level in this paper than in recent sittings.

The majority of candidates appeared to have completed a lot of preparation work and showed that they had taken time to review the case studies effectively. Candidates are reminded to 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) was a tax efficiency style question and allowed for candidates to assess what other changes were needed in relation to tax efficiency. Most candidates obtained high marks.

In part (b)(i) candidates were asked to state four benefits and drawbacks of using an inheritance to pay off an interest only mortgage. This was answered well.

Part (b)(ii) saw mixed performance with many candidates unable to provide sufficient detail to score high marks. Many candidates did not state the tax treatment of ISAs which is a key point, simply stating that they are tax efficient. Greater detail is required at this level.

Part (c) tasked candidates with identifying the key factors than an adviser should consider to ensure financial protection needs are met and was well answered.

In part (d) there was slightly weaker performance as candidates focused on one aspect of the death in service rather than giving a broader range of answers.

In part (e)(i) there was overall good performance and most candidates achieved good marks.

Part (e)(ii) saw slightly disappointing performance as many candidates did not appreciate the key difference between family income benefit and level term, i.e. income versus lump sum.

Part (f) saw good performance from the majority of candidates.

In part (g) there was generally good performance although a number of candidates failed to identify the issues in respect of liquidity and pricing with the commercial property fund. This is a key issue at present in the financial sector. This saw a limited level of understanding evident in some responses, where some candidates clearly did not relate to the issues of the two fund types.

## Question 2

Part (a) saw good performance overall but some less well-prepared candidates did quite poorly. They were unable to identify key points in respect of both pensions so this was disappointing and indicates a possible lack of attention to the Case Studies in advance of the exam.

In part (b) (i) there was very good performance overall.

In part (b)(ii) there was generally good performance although a small number of candidates failed to focus on the funds and instead focused on the SIPP wrapper so gained only a few marks.

In part (c)(i) there was generally good performance and most candidates were familiar with the Pension Protection fund.

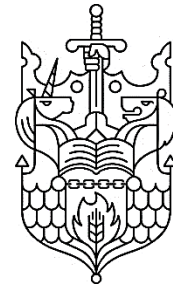
In part (c)(ii) there was generally good performance from most candidates.

Part (d)(i) Most candidates achieved at least three of the key points but those better prepared scored higher.

Part (d)(ii) This was generally well answered and many candidates scored highly.

Part (e) saw mixed performance. Well prepared candidates had no issues with this question but some candidates struggled to provide sufficient detail to score high marks.

Part (f) was generally well answered although some candidates focused purely on the issue of gifting and ignored other key areas that should be considered, such as identifying the value of the assets, etc. The focus of the review was interesting and many struggled with some of the key points.



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# R06

## Diploma in Regulated Financial Planning

### Unit 6 – Financial planning practice

January 2020 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2019/2020, 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, and then carry out **ALL** of the tasks (a), (b), (c), (d), (e), (f) and (g) which follow.*

Tom and Lisa, both aged 36, are married with two children, Sam and Ellie, aged 8 and 5. Tom is employed as a pharmacist and Lisa has recently returned to full-time work as a business manager for a large supermarket chain, as Ellie has now started school. Tom and Lisa are both in good health.

Tom and Lisa have an interest-only mortgage on their home of £250,000, which is currently valued at £320,000. The mortgage is on a fixed rate of 3% per annum for the next two years.

Tom earns a gross salary of £65,000 per annum and is a member of his employer's qualifying workplace pension scheme. He makes a personal contribution of 5% of his gross salary and this is matched by his employer. Tom has the option of setting up a salary sacrifice arrangement on the pension scheme if he wishes to do so.

Tom is also a member of his employer's death-in-service scheme which offers a benefit of three times basic salary.

Lisa earns £58,000 per annum gross and is a member of her employer's qualifying workplace pension scheme. She makes a personal contribution of 6% of gross salary which is matched by her employer. Lisa is also a member of her employer's death-in-service scheme which offers a benefit of four times basic salary.

Tom's pension plan has a value of £68,000 and is invested in a UK commercial property fund. Lisa's pension plan has a value of £26,000 and is invested in a money market cash fund.

Tom and Lisa have a range of ISA and investment holdings which they plan to use to repay their mortgage in 20 years' time. They currently save £100 each per month into their ISAs. They are keen to increase the level of ISA contributions now that Lisa has returned to full-time work.

Tom has a standalone critical illness policy with a sum assured of £120,000 that he set up when he was aged 21. This has a guaranteed premium and runs to his planned retirement age of 60. Tom and Lisa do not have any other personal protection arrangements in place and wish to ensure that their family is protected in the event of either death.

Lisa has recently received an inheritance of £100,000 from her grandfather and is considering how best to use these funds. The funds are currently held in a cash deposit savings account earning interest of 1.5% per annum gross.

Tom and Lisa have set up mirror Wills leaving all of their assets to each other on first death and into trust for their children on second death, if this occurs whilst the children are below age 18.

Tom and Lisa consider themselves to be high-risk investors.

Tom and Lisa have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint	320,000
Current account	Joint	5,000
Deposit account	Lisa	100,000
Stocks & shares ISA – UK Fixed-Interest fund	Lisa	37,000
Stocks & shares ISA – Global Equity fund	Tom	42,000
OEIC – UK FTSE-100 Equity Tracker fund	Tom	80,000

Tom and Lisa's financial aims are to:

- ensure adequate protection is in place for their family;
- ensure that their current investment holdings are suitable and tax-efficient;
- ensure they can repay their mortgage in 20 years' time.

### Questions

- (a) Recommend and justify the actions that Tom and Lisa could take to improve the tax-efficiency of their existing savings and investments. (12)
- (b) (i) State **four** benefits and **four** drawbacks of using Lisa's inheritance to repay some of their mortgage. (8)
- (ii) Explain, in detail, to Tom and Lisa why a stocks & shares ISA may be a suitable investment vehicle to enable them to build up funds to repay their mortgage. (10)
- (c) Identify the key factors that a financial adviser should take into consideration to ensure that Tom and Lisa's financial protection needs are met. (7)
- (d) Explain to Tom and Lisa why their existing employer death-in-service schemes may **not** be suitable to meet their long-term protection needs. (6)
- (e) Tom and Lisa are reviewing their current protection arrangements.
- (i) Explain to Tom why he should consider retaining his existing critical illness policy. (8)
- (ii) Describe why a level term assurance policy would be more suitable than a family income benefit policy for Tom and Lisa's current circumstances. (6)
- (f) State **four** benefits and **four** drawbacks for Tom of taking up the option of salary sacrifice in respect of his employer's qualifying workplace pension scheme. (8)
- (g) Explain in detail to Tom and Lisa why their existing pension fund choices may not be suitable to meet their long-term retirement objectives. (8)

**Total marks available for this question: 73**

**Case study 2**

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

Manuel and Susan, both aged 62, are married with one son, Artai, who is financially independent. Artai is married and has three children. Manuel and Susan are both in good health and plan to retire within the next twelve months.

Manuel works for a fibre optic company as a marketing director. His basic salary is £140,000 per annum gross and he usually receives a bonus of 15% per annum, which is based on company performance. This year he expects to receive the 15% bonus in full. He has a self-invested personal pension (SIPP) into which he contributes £1,000 per month net. His employer matches this contribution and the current value of the SIPP is £420,000 and it is invested in global equity growth and emerging market funds.

Susan is employed as an information technology manager and earns £98,000 per annum gross. Susan is a member of her employer’s defined benefit pension scheme. At the last scheme valuation the scheme was in deficit.

Manuel and Susan’s home is mortgage-free and valued at £750,000.

Susan’s father, who was a widower, died nine months ago leaving her his entire estate of £310,000 which she has now received. Part of the inheritance was an AIM share portfolio valued at £110,000 and the balance was cash of £200,000 which is currently held in a joint savings account. No further inheritances are expected by either Manuel or Susan. Manuel and Susan have up-to-date Wills.

It has been established that both of them are high risk investors.

Manuel and Susan have the following assets:

<b>Assets</b>	<b>Ownership</b>	<b>Value (£)</b>
Main residence	Joint Tenants	750,000
Current account	Joint	60,000
Savings account	Joint	200,000
AIM share Portfolio	Susan	110,000
Stocks & shares ISA – Multi Asset funds	Susan	270,000
Stocks & shares ISA – Global Equity fund	Manuel	320,000

Manuel and Susan’s financial aims are to:

- ensure that their estates are passed to their intended beneficiaries in a tax efficient manner;
- assess the suitability and tax-efficiency of their current pensions and investments;
- ensure they have adequate income in retirement.

**Questions**

- (a) Identify the additional information a financial adviser would require to advise Manuel and Susan on the suitability of their current pension arrangements. (14)
- (b) (i) Describe, in detail, the process a financial adviser would follow, to determine whether Manuel is subject to a reduced (tapered) annual allowance.  
*No calculations are required.* (7)
- (ii) State the benefits and drawbacks of Manuel retaining his global equity growth and emerging market funds within his SIPP. (10)
- (c) (i) Explain to Susan how her pension benefits would be treated under the Pension Protection Fund should her employer's defined benefit pension scheme become insolvent. (8)
- (ii) Susan is considering transferring her benefits to a personal pension.  
Explain to Susan the reasons she should remain in her employer's defined benefit scheme. (9)
- (d) (i) Explain briefly to Manuel and Susan why retaining the AIM share portfolio could be suitable for them. (6)
- (ii) Identify the options available to Manuel and Susan to immediately reduce their potential Inheritance Tax liability. (6)
- (e) Manuel and Susan are considering setting up a deed of variation in favour of Artai in respect of Susan's recent inheritance.  
Describe how this deed of variation should be established. (9)
- (f) State the factors a financial adviser should consider when reviewing Manuel and Susan's potential liability to Inheritance Tax, and associated estate planning, at their next annual review. (8)

**Total marks available for this question: 77**



**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)
- Use ISA/Bed & ISA.
  - Increase pension contributions.
  - EIS/VCT.
  - Tax efficient/tax relief.
  - Use Capital Gains Tax (CGT) exemption/register losses.
  - Use National Savings & Investments Premium Bonds.
  - Transfer savings account to joint names.
  - Tom not using his full personal savings allowance £500/Lisa using her full personal savings allowance/40% tax on portion of interest.
  - Transfer portion of open-ended investment company (OEIC) to Lisa.
  - Using spousal exemption/no gain no loss-
  - Uses her dividend allowance/£2,000.
  - Tom likely to exceed his dividend allowance on OEIC/dividend taxable at 32.5%.
- (b) (i) **Benefits**
- reduced monthly outgoings/improved affordability for other objectives.
  - Less interest paid over term/could reduce term of mortgage.
  - reduced debt/Increased equity/improved loan to value/may get better interest rate/deposit interest is lower than mortgage interest.
  - Peace of mind/no investment risk/reduced need for life cover.
- Drawbacks**
- Loss of liquidity/reduces available emergency fund/cannot be used for other objectives e.g. pension funds.
  - May have to pay Early Repayment Charge (ERC)
  - Does not match attitude to risk.
  - Growth of inheritance may exceed interest paid on mortgage/loss of potential investment growth on inheritance lump sum.
- (b) (ii)
- Tax-efficient for Income Tax and CGT.
  - Potential for growth/may be able to repay mortgage early/could have surplus. Investment returns likely to exceed mortgage interest.
  - Avoids any potential ERC.
  - Flexibility/can make additional contributions.
  - High annual contribution limit/£40,000.
  - Liquidity/can withdraw funds without penalty/access at any time.
  - Wide range of investment options/providers/fund choice/Discretionary Fund Management (DFM).
  - Can hold cash in Stocks & Shares ISA/can switch to cash/can match attitude to risk/market conditions.

- Pound cost averaging/benefit from market volatility.
  - Long investment timeframe/mortgage ends in 20 years/can use Additional Permitted Subscription (APS.)
- (c)
- Income/capital required/ongoing expenditure/emergency fund.
  - Timeframe/inflation/length of children's dependency.
  - Assets/liabilities/affordability/inheritorships expected.
  - Underwriting issues/hobbies/health/smoker status.
  - Attitude to risk/capacity for loss.
  - Use of trusts/nominations.
  - Existing cover/employer sick pay.
- (d)
- Cover is lost if they change employer.
  - Employer may change terms of cover/eligibility.
  - Benefits fixed by employer/cannot increase cover/inflexible.
  - Insufficient cover/not enough to repay mortgage.
  - Only provides cover for death/no critical illness cover/no income protection insurance.
  - Reduced benefit if salary sacrifice used/part-time.
- (e)
- (i)
- Premium likely to be competitive/new cover likely to be more expensive.
  - A new policy will be subject to underwriting/exclusions.
  - Tom took the policy out when he was relatively young.
  - Guaranteed premiums/cost of cover cannot increase/ensures affordability.
  - Cover in place until normal retirement date/mortgage term.
  - Valuable benefit for Tom and family/no other critical illness cover/can provide lump sum.
  - May have guaranteed insurability.
  - May cover wider range of illnesses as older policy/definitions may be wider/buy back/children's cover.
- (ii)
- Pays out lump sum rather than income.
  - They need lump sum to repay mortgage.
  - Survivor may be unable to pay mortgage/death in service insufficient.
  - Sum assured will not decrease/family income benefit is decreasing term.
  - Can set sum assured to match mortgage/family needs.
  - Greater flexibility with lump sum payment.
- (f) **Benefits**
- Reduced employee National Insurance (NI).
  - Reduced Income Tax.
  - Employer may share NI saving.
  - Reduced administration/no need to reclaim higher rate tax via Self-Assessment
- Drawbacks**
- Reduced salary for death in service purposes.
  - Reduced bonus if linked to salary.
  - Lower salary for mortgage purposes/state benefits.
  - Lack of liquidity/cannot access until 55/57.

**(g) Lisa – Money market cash Fund**

- Inflation risk/no real return /no potential for growth.
- Return lower than charges/suitable for short-term holding only.
- Money market funds so capital is at risk.

**Tom – Commercial Property fund**

- Withdrawals can be delayed/deferred by fund manager/might be illiquid/pricing issues/may move to bid offer spread.
- Higher fund charges.
- Returns may be low/can fall in value.

**Either**

- Funds do not match attitude to risk.
- Lack of diversification/asset class diversification

**Case Study 2**

- (a)**
- Amount of income required.
  - Scheme retirement age/their intended retirement age.
  - State Pension entitlement/age/date.
  - Financial strength of Susan's employer/size of deficit/funding strategy for deficit.
  - Number of years' service/accrual rate/statement of expected benefits/Cash Equivalent Transfer Value (CETV)/early retirement penalties/any Additional Voluntary contributions.
  - Indexation/escalation.
  - Spouse's pension under defined benefit scheme.
  - Asset allocation/switching options/performance/projection.
  - Employer matching for Manuel.
  - Contribution history.
  - Costs/charges.
  - Protected tax-free cash for Manuel.
  - Affordability/capacity for loss/use of other assets/inheritances/downsizing.
  - Any other pension benefits/retained benefits.
- (b) (i)**
- Identify his total income less pension contributions/threshold income
  - if this is in excess of £110,000.
  - Calculate his adjusted income/second calculation is required
  - this is his total income with no deductions for pension contributions
  - if this exceeds £150,000.
  - The annual allowance is reduced by £1 for every £2 above this.
  - Manuel will have a tapered annual allowance/minimum £10,000.
- (b) (ii) Benefits**
- Potential for growth.
  - Global diversification.
  - Matches his high attitude to risk.
  - Pound cost averaging/monthly contributions.

**Drawbacks**

- High risk/potential for large losses/market timing.
- High volatility.
- Lack of asset class diversification.
- Currency risk.
- Lack of governance/political instability.
- Short timeframe to retirement/limited dividend income.

- (c) (i)
- 90%/100%;
  - this is capped;
  - at £40,020/£36,010.
  - which may be less than her current entitlement/long service cap may apply.
  - 50% spouse's pension for Manuel.
  - Payments relating to pensionable service from April 1997 will increase each year by inflation/CPI;
  - subject to a maximum of 2.5%.
  - Payments relating to service before 1997 will not increase.
- (ii) *Candidates would have gained full marks for any nine of the following:*
- Guaranteed lifetime income/longevity.
  - Guaranteed spouse's pension.
  - Death in service benefits.
  - Index-linking.
  - No advice costs/no need to review/avoids Personal Pension charges.
  - Simple to understand/no administration.
  - No investment risk.
  - Pension Protection fund protection.
  - May have an entitlement to more than 25% tax free cash.
  - Transfer may result in a Lifetime Allowance charge.
- (d) (i) *Candidates would have gained full marks for any six of the following:*
- AIM Shares qualify for Business Relief (BR/BPR).
  - Saves IHT/retain access.
  - Potential for growth.
  - Holding period transferred to Susan/Artai/IHT efficiency retained.
  - It matches their high attitude to risk/adds diversification.
  - Shares are revalued to the date of her father's death (probate value)/rebased for CGT.
  - Can be held in ISA them for IHT efficiency/utilises dividend allowance.
- (d) (ii)
- Make use of the £3,000 annual exemption.
  - Make small gifts of £250.
  - Make gifts out of surplus income.
  - Make charitable/political donations/wedding.
  - Discounted gift trust.
  - Pension contribution.
  - Effect a Deed of Variation on Susan's father's estate.

- (e)
- Must be in writing/signed.
  - Deed must state what is being varied.
  - Must state who is benefitting from the variation.
  - All affected beneficiaries must agree.
  - All beneficiaries must be 18/sound mind.
  - Must be executed within two years of death.
  - The deed should not be for consideration of money or money's worth.
  - Should state the variation has effect for CGT/IHT.
  - Should contain an exemption certificate for variations of stocks, shares and securities/AIM shares.
- (f)
- Change in personal circumstances/health.
  - Wills/death benefit nominations/Lasting Power of Attorney/have they done deed of variation?
  - Fund valuations/performance/increase in property value/downsizing.
  - Income change/affordability/tax status/any debts.
  - New products/legislation/tax changes.
  - Attitude to risk/capacity for loss.
  - Use of tax allowances/gifts/IHT exemptions/have AIM shares retained Business Relief?
  - Change in economic circumstances/market/political.

January 2020 Examination - R06 Financial Planning Practice	
Question No.	Syllabus learning outcomes being examined
1.	<ol style="list-style-type: none"> <li>1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process.</li> <li>2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions.</li> <li>3. Analyse a client's situation and the advantages and disadvantages of the appropriate options.</li> <li>4. Formulate suitable financial plans for action and explain and justify recommendations.</li> <li>5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.</li> </ol>
2.	<ol style="list-style-type: none"> <li>1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process.</li> <li>2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions.</li> <li>3. Analyse a client's situation and the advantages and disadvantages of the appropriate options.</li> <li>4. Formulate suitable financial plans for action and explain and justify recommendations.</li> <li>5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.</li> </ol>

**All questions in the July 2020 paper will be based on English law and practice applicable in the tax year 2019/2020, unless stated otherwise and should be answered accordingly.**

## INCOME TAX

RATES OF TAX	2018/2019	2019/2020
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000

### Child benefit charge:

1% of benefit for every £100 of income over	£50,000	£50,000
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*\*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.*

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

### MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,390	£2,450
Enterprise Investment Scheme relief limit on £2,000,000 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.*

*\*\* Investment above £1,000,000 must be in knowledge-intensive companies.*

### 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)	£118
Primary threshold	£166
Upper Earnings Limit (UEL)	£962

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 166.00*	Nil
166.01 – 962.00	12%
Above 962.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £118 per week. This £118 to £166 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 166.00**	Nil
166.01 – 962	13.8%
Excess over 962.00	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £3.00 where profits exceed £6,365 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £15.00.
<b>Class 4 (self-employed)</b>	9% on profits between £8,632 - £50,000. 2% on profits above £50,000.

## 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
2019/2020	£1,055,000

### 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
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*
2018/2019	£40,000*
2019/2020	£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

2018/2019	2019/2020
£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	2018/2019	2019/2020
Individuals, estates etc	£11,700	£12,000
Trusts generally	£5,850	£6,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	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 (2018/2019), two years (2019/2020).*

## INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2018/2019	2019/2020
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*	£125,000	£150,000
- 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<sub>2</sub>) emissions. There is no reduction for high business mileage users.

### For 2019/2020:

- The percentage charge is 16% of the car's list price for CO<sub>2</sub> emissions of 50g/km or less.
- For cars with CO<sub>2</sub> emissions of 51g/km to 75g/km the percentage is 19%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 22%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 23% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 165g/km and above).

There is an additional 4% supplement for diesel cars not meeting Euro 6 emission standards. However, the maximum charge remains 37% of the car's list price.

**Car fuel** The benefit is calculated as the CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£24,100 for 2019/2020) e.g. car emission 90g/km = 22% on car benefit scale. 22% of £24,100 = £5,302.

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

	2018/2019 Rates	2019/2020 Rates
<b>Cars</b>		
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
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

2018/2019    2019/2020

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£1,000,000
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%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	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 <sub>2</sub> emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	6%
	first year	reducing balance	reducing balance

\*If new

## MAIN SOCIAL SECURITY BENEFITS

		2018/2019	2019/2020
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	17.20	17.60
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 110.75	Up to 111.65
Attendance Allowance	Lower rate	57.30	58.70
	Higher rate	85.60	87.65
Basic State Pension	Single	125.95	129.20
	Married	201.45	201.45
Single Tier State Pension	Single	164.35	168.60
Pension Credit	Single person standard minimum guarantee	163.00	167.25
	Married couple standard minimum guarantee	248.80	255.25
	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
Jobseeker's Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		145.18	148.68

\*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**

	2018/2019	2019/2020
Standard rate	19%	19%

**VALUE ADDED TAX**

	2018/2019	2019/2020
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.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%