Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2019 Examination Guide

SPECIAL NOTICES

Candidates entered for the January 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

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:

In summary, candidates performed at a lower level in this paper than in recent previous sittings. There seemed to be a small number of candidates who performed to a higher standard and secured a higher level standard.

Some candidates appeared to have completed less preparation, which demonstrated a lack of examination technique and showed that they had taken little time to review the case studies. 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) required candidates to explain why the client should increase workplace pension contributions. Some candidates struggled to identify some of the more obvious points but generally this question was well answered.

Part (b)(i) This was a question that tested a different syllabus area. Most candidates were well prepared and answered it well. The question required candidates to recognise the drawbacks of accepting the annuity rate at age 65. Many candidates recognised the drawbacks in the policy from the case study and performed well.

Part (b)(ii) This question required candidates to explain the reasons why the transfer value of a particular pension plan was higher than the fund value. Candidates did not perform well on this question. A number of candidates were unfamiliar with this type of pension fund, although these are very common types of funds.

Part (c) This question was a typical fact find question and candidates scored reasonably well. Some candidates did not answer the question about the factors that a financial advisor should consider for reviewing the financial arrangements. Therefore, candidates missed very simple points and focused on just the client's pensions rather than look at the wider issues.

Part (d) This was a very well answered question and most candidates performed well. This question required candidates to explain the issues of moving some of the cash held in the ISA to equity funds. This is a common topic for testing and candidates who had prepared well, faced no issues and did well on this question.

Part (e) Candidates struggled with this question and overall did not perform very well. Candidates gave a range of answers that did not answer the question and missed out essential issues such as the use of gifts and making further pension contributions. Many seemed to anticipate a different style of question here on IHT mitigation and missed the more obvious issues at stake.

Part (f) Candidates performed well on this question. Better prepared candidates recognised the specific benefits of pension nominations in providing a wider range of options for beneficiaries and successors.

Part (g) This question required candidates to explain factors to be considered whether to utilise a series of uncrystallised funds pension lump sums (UFPLS) for retirement benefits. Many candidates appeared to have only a limited understanding of UFPLS. The question tested knowledge and analysis. Some candidates recognised that the point of this was to provide flexible income in retirement. Overall, candidates appeared to lack knowledge on this product type, and as such did not perform well on this question.

Question 2

Part (a) Candidates performed well on this question and most were able to provide some good answers. Candidates generally had an awareness of the issues here and also SIPPs in general. Some candidates did not recognise that the pension plan could have debts due to the nature of its' holdings and some did not analyse the issues very well.

Part (b)(i) This question was answered well. This question was current and was signposted in the case study. It required candidates to state the issues to be aware of in respect of the clients' protection plan. Most were well prepared here.

Part (b)(ii) Candidates performed very well on this question. Candidates were required to explain the advantages and disadvantages of the client joining the company PMI scheme. This was signposted in the case study and most stated the advantages very well.

Part (c)(i) This question required candidates to identify factors that a financial advisor should consider in respect of repaying the clients' holiday cottage mortgage. Most stated the obvious marks and some candidates struggled to obtain the maximum marks available for this question part.

Part (c)(ii) Some candidates performed well here while some struggled. Better prepared candidates were aware of the preferential tax treatment for free hold lease properties, so this demonstrated a good level of preparation and focus on the case study.

Part (d) Some candidates seemed to manage this question quite well. It required candidates to state three benefits and three drawbacks of them retaining their current investment funds. However, many candidates focused on the tax issues only and ignored other key areas. Candidates therefore did not perform well on this question generally.

Part (e) This was a mixed performance here by candidates. This question required candidates to explain how a discounted gift trust would operate as an option in respect of their Inheritance Tax planning. In respect of the Trust options, candidates failed to recognise that a Discretionary Trust would be most appropriate here. There was a lack of apparent detailed knowledge in this area from candidates.

Part (f) This question required candidates to state the process a financial adviser should follow in advising Rafa about his pension arrangements. Overall candidate performance was very good.

Part (g) This final question related to a review and many candidates performed well.

Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2019 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, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e)**, **(f)** and **(g)** which follow.*

John and his partner Emily, both aged 63, have recently moved into a new home together following John's divorce. The house is valued at £400,000 and was purchased on a joint tenancy basis. There is no mortgage outstanding. Emily is a widow with one daughter and three grandchildren. John has three adult children but does not have any grandchildren. John and Emily do not plan to marry. John has already paid a financial settlement to his ex-wife and she has no further claim on any of his financial arrangements.

Emily's husband died two years ago, aged 64, and left all of his assets to Emily. This included the marital home valued at £300,000, which was sold last year, and a pension scheme valued at £600,000. The pension was crystallised and was held in a flexi-access drawdown (FAD) arrangement when he died. Emily has continued with this FAD arrangement and she draws an income of £1,000 per month from this plan. The plan is managed by a discretionary fund manager. Emily has not worked since the death of her husband.

John is employed as an engineer for a telecommunications company and earns £75,000 per annum gross. John is a member of his employer's qualifying workplace pension scheme and both he and his employer pay 10% of his gross salary into the scheme. John's pension plan has a value of £320,000 and is invested in a range of UK fixed-interest funds.

John also has a personal pension which offers a guaranteed annuity rate at age 65, on a single life, level basis. The annuity rate is 11.3%, with a five-year guarantee period but it does not offer any spouse or dependants' benefits in payment. This pension is invested in a unitised with-profits fund with a current value of £56,000 and a transfer value of £65,000. John and Emily are both entitled to a full State Pension. John plans to retire at age 65.

Emily inherited her late husband's individual savings account (ISA) portfolio using the Additional Permitted Subscription (APS). Emily wishes to review her ISA holdings as she now holds a large cash balance, following the transfer of the APS into her own stocks and shares ISA. The APS had a value of £280,000. This cash balance from the APS is in addition to her own ISA fund of £98,000, which is invested in corporate bond funds.

John wishes to ensure that his estate can pass as tax-efficiently as possible to his three children on his death. John and Emily have agreed that he will leave his entire estate, except their jointly owned home, to his children on his death. Emily will inherit their home as the joint tenant. Neither John nor Emily have updated their Wills since John's divorce and the death of Emily's husband.

John is a cautious investor and Emily is a medium risk investor.

John and Emily have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint	400,000
Current account	Joint	10,000
Deposit account	John	100,000
Stocks and shares ISA – cautious managed funds	John	190,000
Deposit account	Emily	80,000
Stocks and shares ISA – UK Corporate Bond funds	Emily	98,000
Stocks and shares ISA (APS) – held in cash	Emily	280,000

John and Emily's financial aims are to:

- generate an adequate income in retirement;
- ensure that their current investment holdings are suitable and tax-efficient;
- ensure that John's estate can be passed as tax-efficiently as possible to his children.

Questions

(a) Explain in detail to John, why he should consider increasing his pension contributions into his employer's qualifying workplace pension scheme. **(10)**

(b) In respect of John's personal pension plan:

(i) state **five** benefits and **five** drawbacks for John of accepting the guaranteed annuity rate at age 65; **(10)**

(ii) explain briefly to John the likely reason why the transfer value of this pension plan is higher than the current value at present and why it is important to keep this plan under review. **(6)**

(c) John and Emily are now considering their retirement plans in anticipation of John's retirement in a few years' time.

Identify the factors that a financial adviser should consider when reviewing John and Emily's financial arrangements, to determine an adequate level of annual income for their retirement. **(10)**

(d) Emily would like to review her stocks and shares ISAs and the investment funds she holds within them.

Explain to Emily why she could consider moving some of the cash held in the ISA into a range of actively managed UK and global equity funds. **(8)**

(e) Recommend and justify the actions that John could take now, to ensure that his estate passes as tax-efficiently as possible to his children on his death. **(12)**

(f) Explain to John and Emily the importance of ensuring that their Wills and death benefit nominations are reviewed and are fully up-to-date. **(8)**

(g) Explain to John the factors he should take into consideration when deciding whether to utilise a series of uncrystallised funds pension lump sums (UFPLS) to provide retirement benefits from his employer's qualifying workplace pension scheme. **(10)**

Total marks available for this question: 74

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.*

Rafa aged 60 and Lara aged 53, are married with two children. They have a son, Marco aged 30, and a daughter, Maria, aged 21. Marco and Maria are both financially independent. Rafa and Lara are both in good health and plan to retire in three years' time.

Rafa is employed as a marketing consultant and receives a basic salary of £98,000 per annum gross. He is a member of his employer's death-in-service scheme which provides cover of £300,000. Rafa's employer has offered him the chance to join its newly established group private medical insurance scheme.

Rafa is a member of his employer's group personal pension scheme, to which both he and his employer contribute 8% of his basic gross salary. This pension plan is invested in a UK equity fund.

Rafa also has a Section 32 Buyout pension plan in respect of a transfer from his former employer's pension scheme. The current transfer value is £220,000.

Lara is a director and is the sole shareholder of a design company. She receives a salary of £19,000 per annum gross and has also received dividends of £30,000 in the 2019/20 tax year. She has just agreed to sell the business for £1.5 million and will receive the sale proceeds in January 2020. After the sale completes, Lara plans to work for the new owner of the business for three years before she retires. Rafa and Lara are considering settling some of the business sale proceeds into a suitable trust to assist with their Inheritance Tax planning in the future.

Lara is a member of a self-invested personal pension plan (SIPP) with a transfer value of £600,000. The assets in the plan include the business premises from which her company operates. The balance is invested in a range of collective investment funds.

Rafa and Lara own their home, valued at £700,000, and they have an outstanding repayment mortgage of £100,000. They also own a holiday cottage in Wales, which is valued at £300,000, and is a furnished holiday let. They hold an interest-only mortgage of £150,000 on the holiday cottage. They are unsure as to whether they should sell the cottage when they retire in three years' time or whether they will move permanently to Wales and live in the cottage. Rafa and Lara have a joint-life first event life and critical illness insurance policy.

Rafa and Lara consider themselves to be adventurous investors.

Rafa and Lara have the following assets:

Assets	**Ownership**	**Amount (£)**
Main residence	Joint Tenants	700,000
Holiday home	Joint Tenants	300,000
Current account	Joint	10,000
Unit Trust – commercial property fund	Joint	45,000
Stocks and shares ISA – multi-asset fund	Rafa	80,000
Stocks and shares ISA – multi-asset fund	Lara	80,000

Rafa and Lara 's financial aims are to:

- ensure that their mortgages are repaid before they retire;
- put in place a suitable investment strategy to fund their retirement;
- ensure that their investments are held as tax-efficiently as possible.

Questions

(a) Identify the additional information a financial adviser would require, regarding Lara's SIPP, to advise Lara on her retirement planning. **(8)**

(b) **(i)** Identify the key information required in respect of Rafa and Lara's current protection policy to enable a financial adviser to assess its suitability. **(10)**

(ii) State **five** advantages and **five** disadvantages of Rafa joining his employer's group private medical insurance scheme. **(10)**

(c) In respect of Rafa and Lara's holiday cottage:

(i) state the factors that Rafa and Lara should be aware of if they choose to use some of the sale proceeds of Lara's business to repay the mortgage secured on the cottage; **(8)**

(ii) explain to Rafa and Lara how the current rental income from their holiday home is taxed and how the sale proceeds may be taxed if they decide to sell the cottage in a few years' time. **(9)**

(d) In respect of Rafa and Lara's ISAs and unit trust, state **three** benefits and **three** drawbacks of them retaining their current investment funds. **(6)**

(e) Explain in detail to Rafa and Lara how a discounted gift trust would operate, should they wish to consider such an option in respect of their Inheritance Tax planning. **(8)**

(f) State the process that a financial adviser should follow in advising Rafa in respect of his pension arrangements. **(9)**

(g) State **eight** factors that a financial adviser should take into account when advising Rafa and Lara on their investments at their next annual review meeting. **(8)**

Total marks available for this question: 76

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)
- Increased pension pot/meets objective of adequate income in retirement.
- 40% tax relief on contributions/carry forward.
- Salary sacrifice may be available/reduced employee National Insurance (NI).
- Employer may match higher contribution.
- Tax-free growth.
- Can match attitude to risk.
- Flexible options on retirement/flexi-access drawdown (FAD)/Uncrystallised funds pension lump sum (UFPLS)/annuity.
- IHT-free fund/flexible death benefit options/Inheritance Tax (IHT) planning.
- No administration/deducted from gross salary/admin done by employer.
- Low cost scheme/subsidised by employer.

(b) **(i)** **Benefits**
- Guaranteed income for life.
- No investment risks.
- No charges/admin/low cost option.
- High level of income/exceeds current annuity rates.
- Matches attitude to risk.

Drawbacks
- Limited death benefits/five year guarantee only.
- No escalation/inflation risk.
- Single Life/no potential benefit for Emily or children.
- No potential for investment growth.
- Irrevocable decision/loss of fund/no flexibility.

(b) **(ii)** *Candidates would have gained full marks for any six of the following:*
- Terminal bonus applies.
- Represents large portion of fund.
- Terminal bonus changes on a daily basis.
- Can be removed at actuaries' discretion.
- John should monitor Terminal Bonus/Market Value Reduction (MVR).
- Is there a penalty free date?
- Could switch fund/crystallise terminal bonus.

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

- Current expenditure/planned expenditure/capital needs.
- Liabilities/debts.
- Assets available to provide income/inheritances expected.
- State Pension .
- Tax status in retirement.
- Use of tax allowances/to provide tax-efficiency.
- Guaranteed income/flexible income.
- Economic conditions/inflation/market conditions/current annuity rates.
- Longevity/family health/how long will income be required?
- Required/expected rate of return on investments.
- Impact of death of either.

(d)

- Potential for growth (if switched).
- Current cash losing real value/inflation.
- Tax-free income.
- Provides diversification/currently no diversification.
- Benefit from fund manager expertise.
- Geographic diversification.
- Matches attitude to risk/cash does not match to her attitude to risk.
- Matches capacity for loss/other assets/FAD available.

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

- Update Will;
- pension and dearth in service nominations.
- Ensures estate passes to intended beneficiaries.
- Maximise pension contributions.
- potentially exempt transfers/chargeable lifetime transfer.
- Use gift inter vivos/lifetime allowance.
- Use annual gifting exemption/£3,000/gift from income.
- Use assets within estate before pensions/pension last.
- Reduces value of taxable estate.
- Set up whole of life policy in Trust.
- Pays IHT liability on death.
- Consider discounted gift trust/loan Trust.
- Immediate discount on discounted gift trust/growth outside estate.

(f)

- Recent change of circumstances for both.
- Emily may die intestate/if late husband was sole beneficiary.
- John’s ex-wife cannot be beneficiary of his Will.
- Review executors.
- Pension nominations will improve death benefit options.
- Trustees determine destination of death benefits/if permitted.
- Ensures intended beneficiaries receive correct benefits/reduces risk of challenge.
- Emily can ensure successor FAD for daughter.

(g)
- Flexible income/admin.
- Improved tax-efficiency/can draw only when needed.
- Personal circumstances may change/decide to provide for Emily.
- Flexible death benefits for his children.
- Pension fund can be passed on IHT-free.
- Annuity rates currently low/annuity rates may improve.
- Potential for growth/loss of growth due to UFPLS/erosion.
- May not need guaranteed income.
- He has guaranteed annuity rate on old pension plan/money purchase annual allowance issue.
- State Pension/diversification of income sources/other assets available.

Case Study 2

(a) *Candidates would have gained full marks for any eight of the following:*
- Any protected tax free cash amount.
- Does she hold any form of transitional protection?
- What is the value of the business premises?/is she sole owner of property?
- What is the rental value from the business premises?
- What is the plan for the premises after the sale?/sold to new owners?
- What funds is she invested in?/do funds match attitude to risk?
- Contributions history.
- Charges?
- Any debts outstanding?/any property loan outstanding?
- Financial strength of provider.

(b) (i) *Candidates would have gained full marks for any ten of the following:*
- Sum assured on death?
- Sum assured on critical illness cover.
- Premium?
- Guaranteed or reviewable premium?
- Term of plan?
- WOP included?
- What critical illnesses is included?
- Owner occupied or any occupied total permanent disability?
- Level/decreasing/increasing.
- Rated or exclusions?
- In trust?

(b) (ii) **Advantages**
- Quick treatment/speedy return to work.
- Covers family maybe.
- Choice of hospital/consultant.
- Cheaper than personal policy/employer pays.
- Free cover/moratorium cover/simplified underwriting.

Disadvantages

- P11D tax costs.
- Cancels when he leaves employer.
- May provide limited cover/have excess.
- No choice of insurer/scheme.
- May have a cost attached for him/family.

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

- Loss of liquidity.
- No mortgage interest to offset against profits.
- Saves interest over term of mortgage.
- Reduces monthly costs/increases rental profits/increased disposable income.
- Reduces potential investment returns/does not match attitude to risk.
- May reduce need for life cover.
- Will help with plans to retire.
- Possible mortgage penalties.
- Removes option for Business Property Relief/EIS investment on business sale proceeds.

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

- Taxed as income.
- Claim for allowable expenses.
- May claim for some capital costs.
- Can offset mortgage interest.
- Maybe treated as a trading business.
- Must meet conditions for free holding;
- preferential tax treatment then applies.
- Can possibly claim entrepreneurs' relief.
- Capital Gains Tax.
- Tax rates 18%/28%/10%.

(d) Benefits

- Growth potential.
- No Capital Gains Tax charge on switch/sale of unit trusts.
- Multi-asset is diversified.

Drawbacks

- Funds do not match attitude to risk.
- Property funds may be illiquid/dilution levy may apply.
- Charges may be high.

(e)

- Create investment bond.
- Joint life last survivor.
- Rafa and Lara to be trustees/children too.
- Assign bond to discretionary trust.
- Calculate discount/underwriting.
- Up to 5% income may be taken.
- Income may be deferred to begin with.
- Chargeable Lifetime Transfer.

(f)
- Fact-find.
- Risk and capacity for loss profile assessed.
- Client agreement and documents presented and signed.
- Obtain scheme details/analyse.
- Check for any guaranteed benefits/transitional protection.
- Carry out research.
- Formulate a recommendation.
- Present recommendation/issue suitability report.
- Review.

(g)
- Personal circumstances/objectives/Wills and nominations.
- Income changes/new money/tax status.
- Capacity for loss/attitude to risk.
- Performance/rebalance.
- Use of allowances.
- Charges/taxation liabilities.
- Market conditions.
- Legislative changes/new products.

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

All questions in the January 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

**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.*

Class 2 (self-employed)	Flat rate per week £3.00 where profits exceed £6,365 per annum.
Class 3 (voluntary)	Flat rate per week £15.00.
Class 4 (self-employed)	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

	2018/2019	2019/2020
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*

	2018/2019	2019/2020
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 2019/2020:

- The percentage charge is 16% 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 19%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 22%.
- Cars with CO_2 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_2 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
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

	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_2 emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	6% 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%