Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2022 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

R06 – Financial planning practice

Contents

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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

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 examination preparation. The Examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the examination, these are provided in the portal as you sit the exam (see page 6).*

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.

Two weeks before the examination

The case studies

The case studies, containing client information which will form the basis of the examination questions, will be available on the CII website and in RevisionMate.

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

It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the 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 examination seeks to test

The examination is based on two case studies for fictional clients whose details you will have received two weeks prior to the examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

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 answers once the three hours have elapsed. The model answers 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 are available to focus on the client details and prepare yourself for the examination day.

On-screen written exam demonstration (Demo 1)

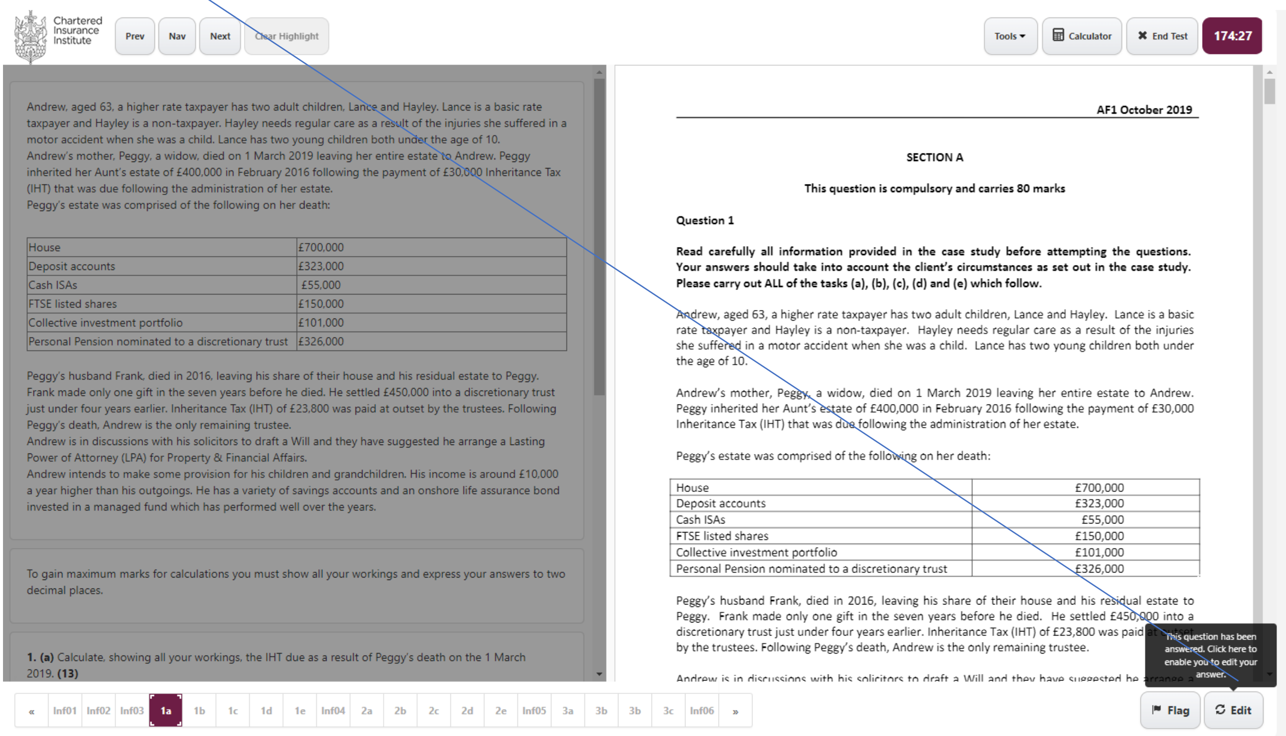
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

https://uat-cii.psionline.com/phoenix/instant/launch?auth=EH6jtrqPu3J6znVp&username=ILDemo1&test=05a75b4f-1c90-4a74-a22d-ec4aa8d4ca48&autoopen=1&samewindow=1&theme=custom/alternative/CII

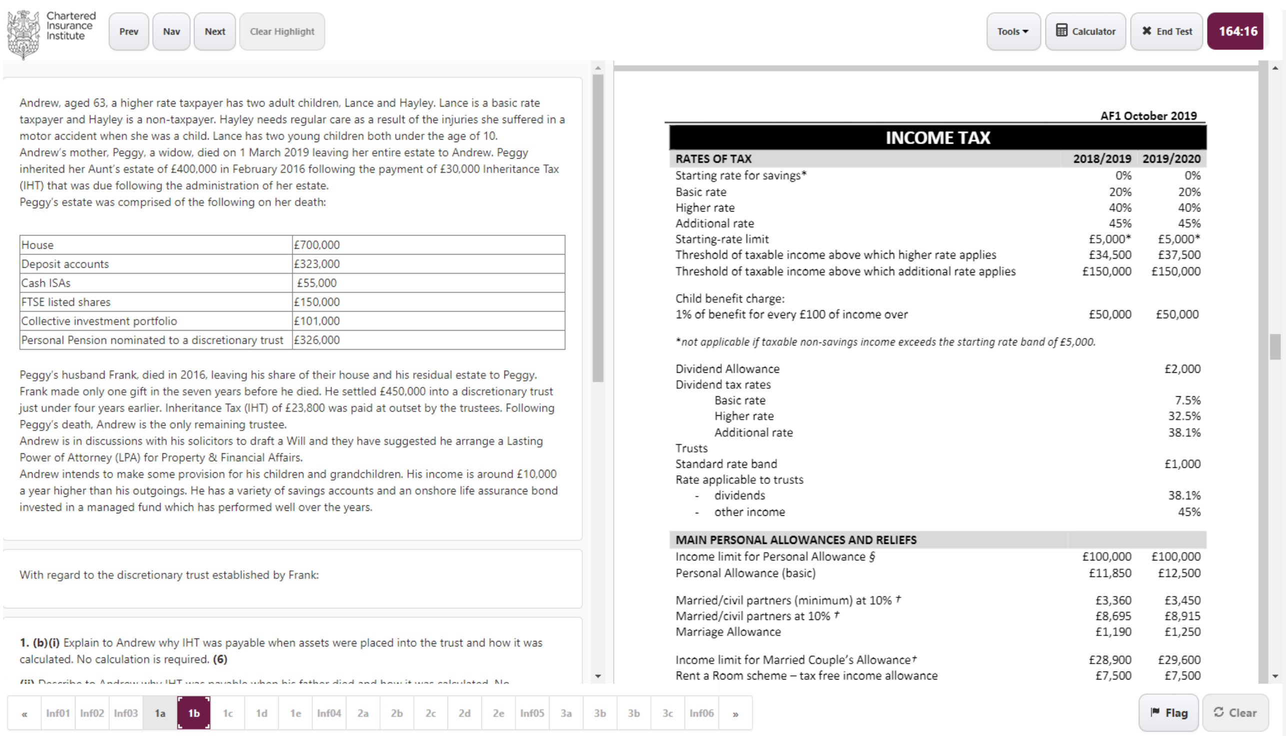
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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

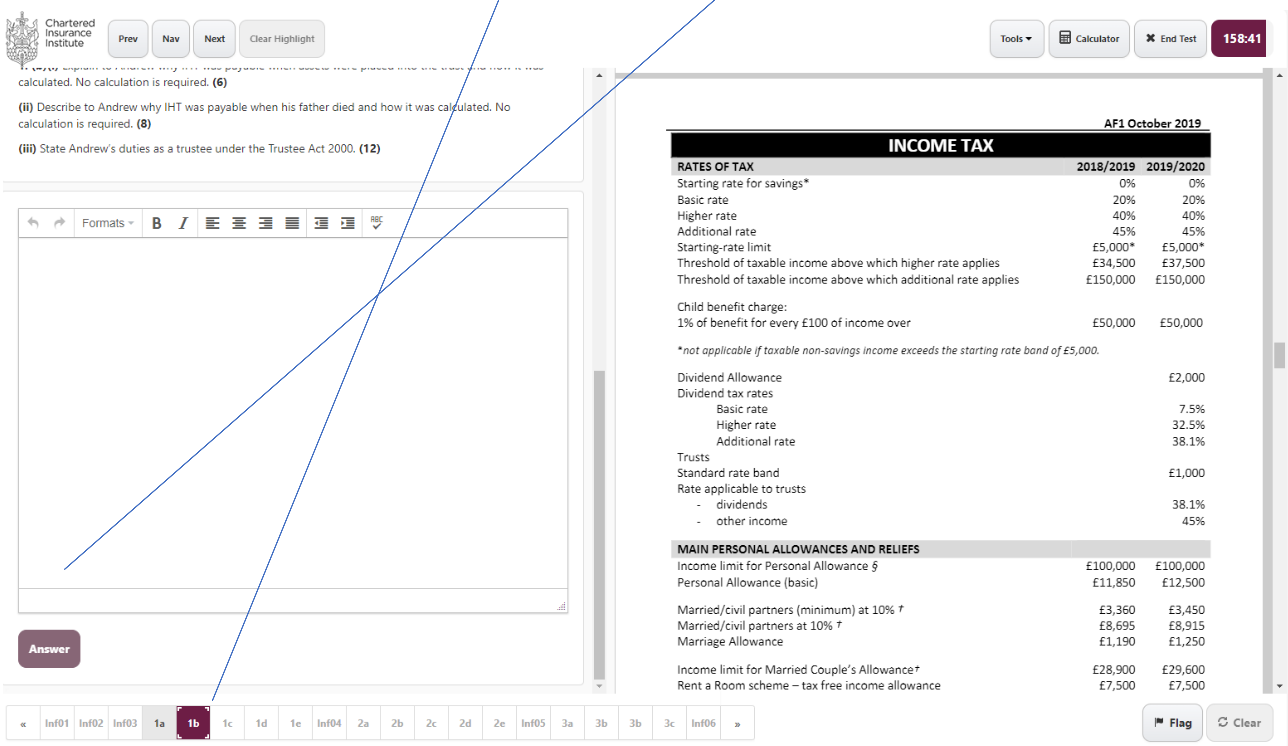
1. From the AF1 demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.



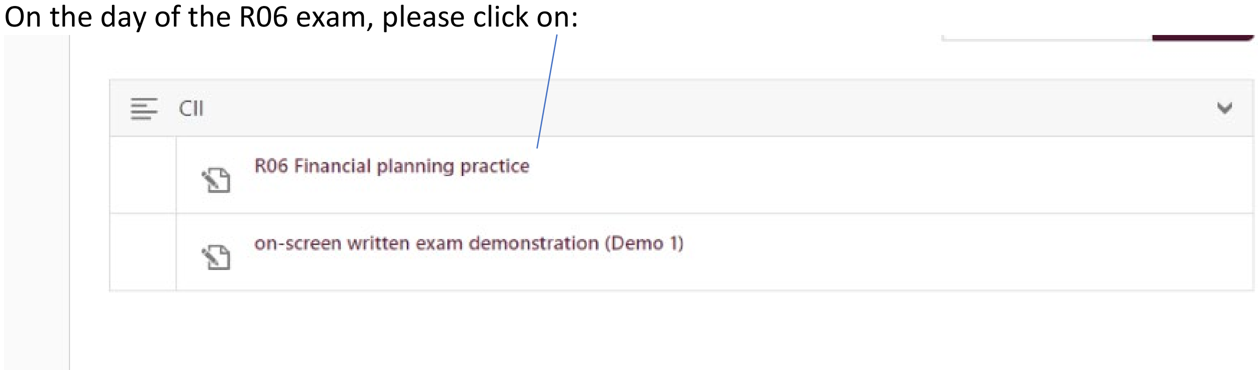
2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam.



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



4. On the day of the R06 exam, please click on:



5. The above screenshot is also a space where you can jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **R06 Financial planning practice**.

In the examination

The case studies
You will not be able to take your pre-released copy of the case studies into the examination with you. The case studies will be provided on screen in the examination. 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 number of marks given next to each question.** 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 examination 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 elapsed, go on to the next question and return to the incomplete question, 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 well 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*.

Order of answering questions
Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about.* You are able to flag questions and then go back to them.

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 more appropriate to part (b) and it may be necessary to duplicate some of the answer.

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.

Marks are not lost due to poor spelling or grammar.

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

EXAMINERS' COMMENTS

Candidates' overall performance:

General performance across the paper was good and many candidates had taken time to consider the Case Studies in detail and had prepared well for the examination. These candidates were able to provide detailed answers to many of the questions and achieved good marks across both Case Studies.

Candidate performance in Case Study 1 was very good but slightly weaker performance was in evidence in Case Study 2.

It was pleasing to note that performance has improved in some mainstream areas of planning including Junior ISAs and Lifetime ISAs where weaker performance has been in evidence in previous examination sittings.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would need to obtain in relation to Vidas and Viktoria's current pension arrangements to assess the suitability of these arrangements. Most candidates performed well and were able to provide some comprehensive answers. It was disappointing to note that only a few candidates recognised the fact that Viktoria was about to go on maternity leave and this might have an impact on her pension arrangements.

Part (b) focused on the benefits to Vidas and Viktoria of receiving ongoing regulated financial advice. Overall performance was very good with most candidates recognising and explaining the key benefits without any difficulties.

In part (c) candidates were asked to explain to Vidas and Viktoria how their Lifetime ISAs operate. Excellent overall performance from the majority of candidates. These ISAs were identified in the Case Study and well-prepared candidates had no difficulty in providing a comprehensive explanation of the operation of these ISAs.

Part (d) required candidates to state five benefits and five drawbacks of Vidas and Viktoria using Junior ISAs to provide funds for their children's potential further education costs. It was very pleasing to note that performance was very good. This topic has been tested in recent examination sessions and demonstrated serious gaps in candidate knowledge in respect of these ISAs. This was not the case in this session and overall performance was excellent with only a small number of candidates failing to recognise that these products cannot be accessed before the child attains age 18.

In part (e) candidates were asked to outline the conditions that should be stated within a written loan agreement between Vidas and Viktoria and his parents, in relation to the loan they are considering for the house deposit. Performance was good overall with the majority of candidates able to identify the key conditions that should be stated.

In part (f) candidates were asked to identify the factors that a financial adviser should consider when establishing a suitable suite of financial protection products to meet Vidas and Viktoria's requirements. Performance was mixed with some candidates focusing on individual products rather than considering the factors that relate specifically to Vidas and Viktoria. Some candidates achieved high marks but others failed to recognise key factors such as their state of health and their existing employer benefits.

Part (g)(i) focused on the benefits to Vidas of using a multi-asset fund for his ISA investment. Most candidates performed well and understood how a multi-asset fund could be of benefit.

Part (g)(ii) tasked candidates to recommend and justify the actions that Vidas and Viktoria could take to improve the tax efficiency of their current financial arrangements. Although some candidates performed well, it was disappointing to note a lack of understanding from many candidates that interspousal exemptions would only be available to Vidas and Viktoria after their marriage. These exemptions are not available at present as Vidas and Viktoria are currently unmarried.

Question 2

In part (a) candidates were asked to identify the key factors a financial adviser should take into consideration when recommending how Tom and Clare should utilise the pension plan and lump sum she is due to inherit from her late father. Most candidates performed well and were able to provide some good answers.

Part (b) required candidates to identify the issues that a financial adviser would need to consider when establishing the tax position for Inheritance Tax purposes in respect of Clare's late father's discounted gift trust (DGT). No calculations were required. The DGT was clearly identified in the Case Study. Unfortunately, candidate performance was slightly disappointing as many candidates focused on the Income Tax position of the DGT, rather than answering the question which related to the Inheritance Tax position of the Trust. Well-prepared candidates had no difficulties with this question and were able to give a good explanation of the issues that should be taken into consideration when identifying the Inheritance Tax position of the DGT.

Part (c) asked candidates to recommend and justify how Clare and Tom could use her share of her late father's pension fund to assist them with their retirement planning objectives. Overall performance was good although a number of candidates failed to identify the fact that Clare could retain the existing pension wrapper and use Flexi-Access Drawdown in future years.

In part (d) candidates were asked to explain to Tom and Clare the key reasons why their existing pension, savings and investment holdings may not be suitable for their longer-term objectives. Mixed performance was observed with some candidates able to provide a good explanation. Other candidates provided only limited generic commentary and failed to explain in sufficient detail why the specific fund holdings may not be suitable.

Part (e) focused on the reasons why Clare may wish to consider retaining her existing credit card debt for the next 12 months. Most candidates performed very well and were able to provide a range of reasons why this might be appropriate for Clare.

In part (f) candidates were asked to state the benefits for Tom and Clare of investing some of the lump sum inheritance from Clare's father, into both their pensions and ISAs. Overall performance was reasonably good but a number of candidates failed to identify the specific tax benefits of using both the pension and the ISA and gave limited answers which focused on general points, rather than stating the specific benefits for Tom and Clare.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should take into account when reviewing Tom and Clare's investment portfolio at the next annual review meeting. Performance was very good and most candidates achieved high marks.

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

If you are sitting via remote invigilation please

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

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

For candidates sitting via remote invigilation or at a test centre

- 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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Different to CII multiple choice exams, tax tables are provided at the right-hand side of the interface after the Question Paper.**
- For each answer, please type in the full question number you are answering e.g. **1a**
- **Please note each answer must be typed in the correct corresponding answer box.**
- **If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL questions for each case study

Time: 3 hours

Case Study 1

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

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

Vidas and Viktoria, both aged 30, are engaged and are due to marry in March 2022. They have a two-year-old daughter, Juna. Viktoria is pregnant with their second child, which is due to be born in May this year.

Vidas is employed as a regional manager for a large supermarket chain and receives a basic salary of £95,000 per annum gross. He has also received a bonus of £20,000 gross each year for the last two years and he believes that this will continue at a similar level. Vidas receives death-in-service benefit of three times his basic salary and sick pay of six weeks' basic salary with statutory sick pay thereafter. He is a member of his employer's qualifying workplace pension scheme. This pension is invested in a target date retirement fund.

Viktoria is employed as a solicitor and receives a basic salary of £72,000 per annum gross. She is a member of her employer's qualifying workplace pension scheme. Viktoria contributes 8% of her basic salary to the scheme and her employer contributes 12% of her basic salary. Her employer also provides death-in-service benefit of two times her basic salary and three months basic salary as sick pay with statutory sick pay thereafter. Viktoria's employer provides statutory maternity pay only. She plans to take six months off work after the birth of their second child and will then return to work full time. Vidas and Viktoria currently pay for childcare two days per week with their family providing childcare on the other days. This arrangement will continue once the new baby is born.

Vidas and Viktoria rent their current home and neither of them has ever owned a property. They pay rent of £1,000 per month. They have been saving for a deposit for their first home and hope to buy a house in the next six months. Vidas' parents are considering whether to lend them £20,000 towards the deposit. They have seen suitable homes valued at approximately £500,000. Neither of them has any personal financial protection policies in place but are keen to put in place suitable arrangements before the arrival of their new baby.

Vidas and Viktoria have a car loan which has an outstanding balance of £15,000 which costs £420 per month and the term remaining on the loan is three years.

Vidas and Viktoria have set up a Junior ISA (JISA) for their daughter, Juna. This has a current balance of £1,000 and is held in a deposit fund. They wish to use the JISA to pay for further education costs in the future.

Both clients consider themselves to be medium to high-risk investors and neither have any strong ethical views. They have not received financial advice previously and would like to understand the benefits of doing so. In particular, Vidas has heard about multi-asset funds, and would like to know how these types of funds operate and could match their attitudes to risk.

Vidas and Viktoria have the following assets:

Assets	**Ownership**	**Value (£)**
Lifetime ISA (LISA) – cash	Vidas	1,100
Deposit account	Vidas	15,000
Individual equities	Vidas	30,000
Stocks & Shares ISA – UK equity index tracker fund	Vidas	2,000
Lifetime ISA (LISA) – cash	Viktoria	2,000
Current account	Joint	2,500

Vidas and Viktoria's financial aims are to:

- ensure that they have adequate financial protection arrangements;
- arrange a suitable savings strategy to plan for their children's possible further education;
- ensure that they have a strategy in place to purchase a new home.

Questions

(a) State the additional information that a financial adviser would need to obtain in relation to Vidas and Viktoria's current pension arrangements, to enable them to assess the suitability of these arrangements. **(12)**

(b) Explain the benefits to Vidas and Viktoria of receiving ongoing regulated financial advice. **(12)**

(c) Explain to Vidas and Viktoria how their Lifetime ISAs (LISAs) operate. **(10)**

(d) State **five** benefits and **five** drawbacks of Vidas and Viktoria using Junior ISAs to provide funds for their children's potential further education costs. **(10)**

(e) Outline the conditions that should be stated within a written loan agreement between Vidas, Viktoria and his parents, in relation to the loan they are considering for the house deposit. **(8)**

(f) Identify the factors that a financial adviser should consider when establishing a suitable suite of financial protection products to meet Vidas and Viktoria's requirements. **(10)**

(g) **(i)** State the benefits to Vidas of using a multi-asset fund for his ISA investment. **(5)**

(ii) Recommend and justify the actions that Vidas and Viktoria could take to improve the tax efficiency of their current financial arrangements. **(10)**

Total marks available for this question: 77

Case Study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients' circumstances as set out in the case study.

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

Tom, aged 54, and Clare, aged 53, are married, with two adult children, aged 24 and 22. Both Tom and Clare are in good health. They own their own home and have an outstanding repayment mortgage of £70,000. The property has a current value of £350,000.

Tom is a marketing manager and receives a salary of £55,000 per annum gross. He is a member of his employer's qualifying workplace pension scheme and his employer contributes 5% of his basic salary. Tom contributes 7% of his basic salary and he wishes to build up greater retirement benefits. Tom's fund value is £110,000 and this is invested in a cautious managed fund.

Clare is an office manager and she receives a salary of £32,000 per annum gross. She is a member of her employer's qualifying workplace pension scheme. Her employer contributes 3% of her basic salary and she contributes 5% of her basic salary. Clare's pension fund is currently invested in a UK managed fund and a money market fund. Her pension fund has a current value of £72,000.

Clare took a sabbatical from her job last year to enable her to provide care for her father who was suffering from a serious illness. During this period, Clare accrued a credit card debt of £7,000 as she had no earnings. She has recently moved this debt to a new credit card which has an interest rate of 0% for the next 12 months.

Clare's father died a few months ago, aged 72. Her mother died many years ago, leaving her entire estate to her father. Clare is due to receive a lump sum inheritance of £150,000 in cash in the next few months from his estate. Clare has also been notified by the trustees of her late father's personal pension that she is a nominated beneficiary under the plan and is entitled to 25% of his pension fund value. The pension trustees have notified Clare that the value of her share is £125,000. Clare's father set up a discounted gift trust (DGT) two years ago under a discretionary trust. Clare and her three brothers are all potential beneficiaries as well as being trustees for the DGT. The DGT has a total value of £300,000 and is invested in a managed fund within an onshore investment bond.

Tom and Clare are keen to explore their options in respect of the assets that Clare is due to inherit from her late father. They wish to retire when Tom is aged 62 and are considering how best to use Clare's inheritance to assist them with this objective.

Tom and Clare both have adventurous attitudes to investment risk. Neither of them has any ethical views in respect of their financial planning.

Clare and Tom have the following assets:

Assets	Ownership	Value (£)
Main residence	Joint Tenants	350,000
Current account	Joint	5,000
Deposit account	Joint	20,000
Cash ISA	Clare	8,000
Stocks & Shares ISA – Sterling high yield bond funds	Clare	35,000
Stocks & Shares ISA – UK equity income funds	Tom	95,000

Tom and Clare's financial aims are to:

- ensure their existing investments are suitable;
- consider their options in respect of Clare's inheritance from her father;
- ensure they can retire when Tom reaches age 62.

Questions

(a) Identify the key factors that a financial adviser should take into consideration when recommending how Tom and Clare should utilise the pension plan and lump sum she is due to inherit from her late father. **(12)**

(b) Identify the issues that a financial adviser would need to consider when establishing the tax position for Inheritance Tax purposes in respect of Clare's late father's discounted gift trust (DGT). *No calculations are required*. **(10)**

(c) Recommend and justify how Clare and Tom could use her share of her late father's pension fund to assist them with their retirement planning objectives. **(10)**

(d) Explain to Tom and Clare the key reasons why their existing pension, savings and ISA investment holdings may not be suitable for their longer-term objectives. **(12)**

(e) Explain the reasons why Clare may wish to consider retaining her existing credit card debt for the next 12 months. **(8)**

(f) State the benefits for Tom and Clare of investing some of the lump sum inheritance from Clare's father, into both their pensions and ISAs. **(13)**

(g) Identify **eight** issues that a financial adviser would take into account when reviewing Tom and Clare's investment portfolio at the next annual review. **(8)**

Total marks available for this question: 73

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)

- Income/capital needs.
- Planned retirement age.
- Current fund values/statement.
- Viktoria's pension investment fund/asset allocation/fund choice/switching.
- Details of target date fund/target date.
- Pension contributions for Vidas/contribution history/carry forward.
- Any other pensions?
- Plans to use savings/inheritance?
- Will employer's increase/match contributions?/salary sacrifice.
- NI record for Viktoria/maternity leave.
- Affordability/budget/capacity for loss (CFL).
- State Pension/BR19/nominations in place?

(b)

- Suitability of current arrangements/review of current arrangements.
- Assessment of attitude to risk (ATR)/CFL.
- Identify/discuss priorities/objectives.
- Cashflow forecast/affordability.
- Financial education/clarity of explanation.
- Clear costs of advice.
- Consumer protection/Financial Services Compensation Scheme (FSCS)/Financial Ombudsman Service (FOS).
- Benefit from research/specialist/professional.
- Creates a financial plan/saves time/new products.
- Tax advice.
- Improves financial position e.g. potential for growth.
- Reviews/monitoring/can act quickly on change in circumstances/point of contact.

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

- Maximum payment £4,000 per annum.
- Contribute to age 50/bonus paid to age 50.
- 25% bonus each year/maximum £1,000 per year.
- Tax free/first home only.
- Contributions count towards annual ISA limit.
- Stocks and shares/cash/wide range of funds/can match ATR/switching.
- £450,000 limit for house purchase.
- Must have a mortgage for house purchase.
- Must wait 12 months before use as deposit from start date.
- No penalty from age 60.
- Withdrawals subject to 25% penalty.

(d) **Benefits**

- Tax efficient.
- Held in children's names/does not use parents ISA allowance/anyone can contribute.
- Wide range of funds/cash/stocks and shares.
- Potential for growth.
- Flexible/can vary contributions/pound cost averaging.

Drawbacks

- Children can choose funds from 16.
- Children get access at 18.
- Children may not use for education/loss of control for parents.
- Lack of affordability at present/investment risk/inflation risk.
- Charges/need for advice.

(e)

- Repayment amount/loan amount.
- Frequency of payments.
- Term of loan.
- Interest rate.
- Will it be secured?/second charge on property.
- Default/what happens on missed payment.
- What happens on death/divorce/separation of Vidas and Viktoria?/what happens on death of parents?
- Is life cover required?

(f)

- Limited cover at present/pregnant so deferral of cover/underwriting issues.
- Mortgage amount.
- Do they plan to repay personal debt?
- Any more children planned?
- In Trust/ownership of products/life of another/not currently married.
- State of health/smokers?/any dangerous hobbies/pastimes.
- Affordability/cost of premiums?/preference for reviewable or guaranteed premiums/inheritances due/willing to use other assets.
- Priorities/term/retirement age/sum assured.
- Have they made Wills?/nominations on pension/death in service (DIS)/employer benefits?
- Job change?/any plans to change employment?/security of employment.

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

- Diversification/non-correlation of assets/wider choice of investments.
- Potential for growth.
- Competitive fees (for active management)/fund manager discount.
- Professional management/monitoring.
- Automatic rebalancing/no admin required for Vidas.
- Can be risk-rated to suit ATR/lower risk than current fund.

(ii)

- Increase pension contributions for higher rate tax (HRT) relief.
- Salary sacrifice for bonus.
- Bonus results in loss of Personal Allowance £2 for every £1 over £100,000.
- Pension contribution regains some/all of Personal Allowance (PA) for Vidas.
- Interspousal transfer of 50% of shares when married/not available now.
- Uses both Capital Gains Tax (CGT) exemptions/uses dividend allowances.
- Make ISA contributions/maximize LISA.
- Tax free growth/LISA bonus added.
- Pension nominations/make Wills in anticipation of marriage.
- Retains pensions wrapper/use of residence nil rate band (RNRB).

Case Study 2

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

- Current/low level of savings/investments/pensions.
- Income needs/capital needs/capacity for loss.
- Use of allowances/ISA.
- Pension allowances/carry forward.
- Beneficiary flexi access drawdown (FAD) may be available on pension/options available on self-invested personal pension plan (SIPP).
- Priority/importance of repaying debt – credit card/mortgage.
- Early repayment charges (ERC) on mortgage.
- Current rate of interest on mortgage.
- Emergency fund/need for access/liquidity.
- Investment goals/objectives/priorities.
- Timescale/they plan to retire in 8 years.
- Willing to invest in joint names.
- Does she wish to pass any monies to the children/deed of variation (DOV)/gifts.

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

- Gift is a Chargeable Lifetime Transfer (CLT)
- Value of original gift into Trust/was it under £325,000?
- Value of other gifts made?
- Any tax paid on entry to Trust?
- Growth is outside estate.
- No tapering;
- father died within three years of gift/gift into Trust made 2 years ago.
- Father was in poor health/how much was discount?/discount probably small.
- Value of Trust included in IHT calculation.
- Gift uses portion of nil rate band (NRB).
- Did father inherit any NRB from late wife?
- 40% Inheritance Tax (IHT).

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

- Father died before age 75.
- All benefit options will be tax-free.
- Nomination in place (for Clare).
- Lump sum.
- Can invest elsewhere/use ISA allowances.
- FAD/beneficiary drawdown.
- Purchase annuity.
- Pension fund can remain invested (in her name)/no need to draw benefits.
- Clare retains tax-free wrapper/no Income Tax/CGT.
- Potential for growth.
- Update the plan with new expression of wish for Tom/children.
- Plan can pass IHT-free to nominees.

(d)
- Lack geographical diversification/all UK based.
- Fund values currently low/insufficient assets to retire.
- Funds do not match ATR.
- No high-risk funds in portfolio/they need more equities.
- Limited potential for growth/they need growth.
- Inflation risk on cash.
- Interest rate risk on cash.
- Low interest rates so poor return from Money Market fund.
- Charges on Money Market fund exceed interest/inflation risk/capital loss.
- Unknown asset split in Managed funds/lack of transparency.
- Sterling Bond fund has potential for capital loss.
- Inheritance due/increased capacity for loss/they can tolerate volatility.

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

- Current lack of affordability to repay/low cash balances.
- Inheritance not yet received.
- 0% interest on debt/interest-free debt.
- Can switch to another 0% deal at end of 12 months.
- Can repay at any time/no penalties.
- More beneficial to make additional mortgage repayments.
- Better returns available from other assets/potential for growth on investment.
- Can invest in ISA/pension.
- Retains liquidity/flexibility.

(f)
- Can maximise allowances for ISA and pension.
- Can invest £20,000 each in ISA.
- ISA is accessible/liquid.
- 20% pension tax relief for Clare/40% pension tax relief for Tom.
- Tom can contribute up to £55,000/Clare up to £32,000.
- Tom can use carry forward/Tom could increase basic rate band.
- Employer pension schemes may offer low charges/low admin/employer matching.
- Pensions outside estate for IHT/reduce value of their estate.
- Survivor can inherit pension and ISA tax free.
- Invest for growth/income/should outperform cash.
- Wide range of funds/passive/active/Discretionary Fund Manager (DFM).
- Can match ATR.
- Combination of ISA and pension provides tax-efficient income in retirement.

(g)
- Change in health/personal circumstances/early retirement.
- Change in financial position/loss of job/debts/need for income/capital/inheritance received.
- ATR/CFL.
- Performance/yield/asset allocation/rebalance.
- Use of tax allowances/ISA/pension/CGT.
- Regulatory/legislation changes.
- Charges.
- Market conditions/economic conditions/new products.

Glossary of terms

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

1. ATR – attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. CLT – Chargeable Lifetime Transfer
5. CFL – capacity for loss
6. CGT – Capital Gains Tax
7. DOV – Deed of variation
8. DIS – Death-in-Service
9. DFM – Discretionary Fund Manager
10. ESG – Environmental, Social and Governance
11. EPT – Excluded Property Trust
12. EPA – Enduring Power of Attorney
13. ERC – Early repayment charges
14. FAD – flexi access drawdown
15. FSCS – Financial Services Compensation Scheme
16. FOS – Financial Ombudsman Service
17. GAR – guaranteed annuity rate
18. HRT – Higher rate taxpayer
19. IHT – Inheritance Tax
20. IT – Income Tax
21. IVA – Individual Voluntary Arrangement
22. LPA – Lasting Power of Attorney
23. LTA – lifetime allowance
24. MVR – market value reduction
25. MPAA – money purchase annual allowance
26. NICs – National Insurance contributions
27. NPA – Normal pension age
28. NRA – Normal retirement age
29. NRB – nil rate band
30. OPG – Office of the Public Guardian
31. OEIC – open ended investment company
32. PAYE – Pay As you Earn
33. PPP – personal pension plan
34. PCLS – pension commencement lump sum
35. PA – Personal Allowance
36. PSA – Personal Savings Allowance
37. RAC – retirement annuity contract
38. RNRB – residence nil rate band
39. SIPP – self-invested personal pension plan
40. SEIS – Seed Enterprise Investment Scheme
41. UFPLS – uncrystallised fund pension lump sum
42. VCT – Venture Capital Trust

January 2022 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 April and July 2022 papers will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

INCOME TAX

RATES OF TAX	2020/2021	2021/2022
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,500	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:
1% of benefit per £100 of adjusted net income between £50,000 – £60,000

*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance

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

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance†	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
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

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

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 184.00*****	Nil
184.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 - £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 & 2021/2022	£1,073,100

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017 – 2021/2022	£40,000*

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

**reducing by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income'is also over £200,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2020/2021	2021/2022
	£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	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
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%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2020/2021	2021/2022
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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*	£175,000	£175,000
- 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%

PRIVATE VEHICLES USED FOR WORK

	2020/2021 Rates	2021/2022 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
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£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	6%	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 1 April 2016 (Corporation Tax) or 6 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

		2020/2021	2021/2022
		£	£
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

CORPORATION TAX

	2020/2021	2021/2022
Standard rate	19%	19%

VALUE ADDED TAX

	2020/2021	2021/2022
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 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- **For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.**
- **For purchases above £250,000, the band rates above apply as normal.**
- **For purchases from 1 October 2021, the band rates above apply as normal.**

Additional SDLT rules still apply as below.

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 may be 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%