Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the July 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

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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)

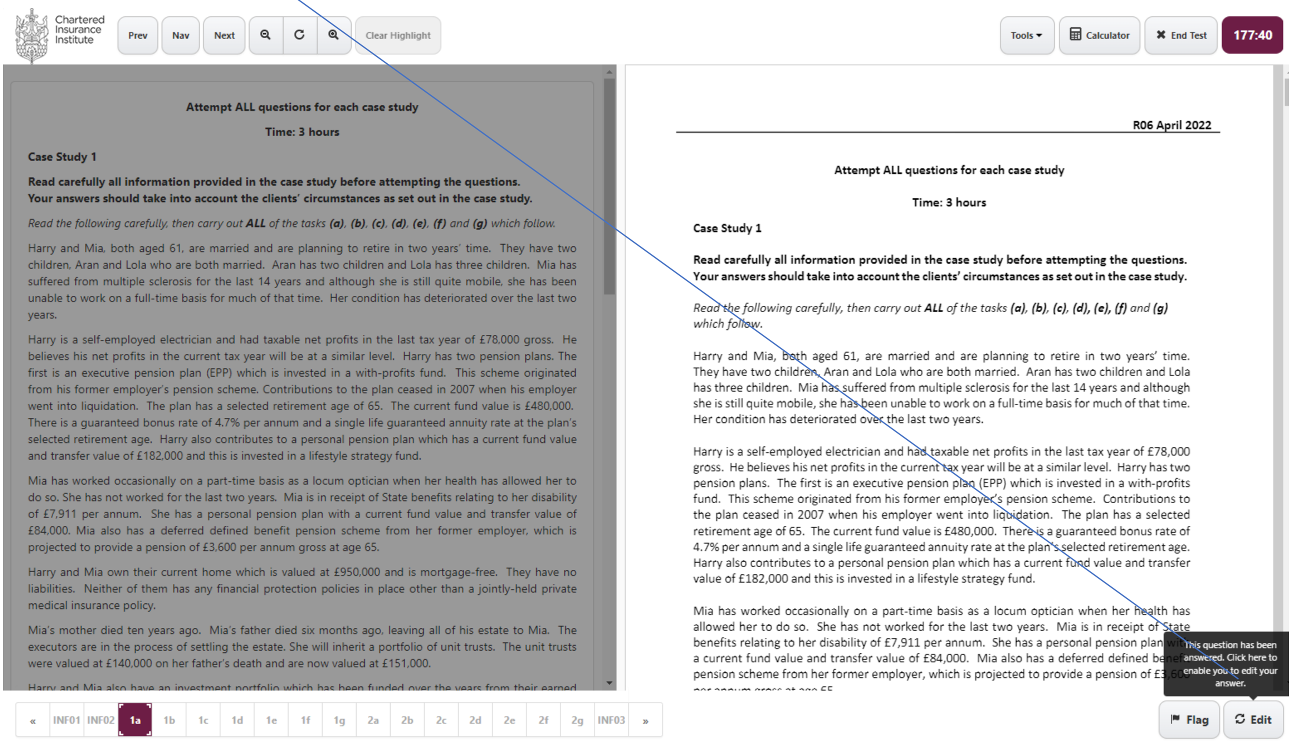
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

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

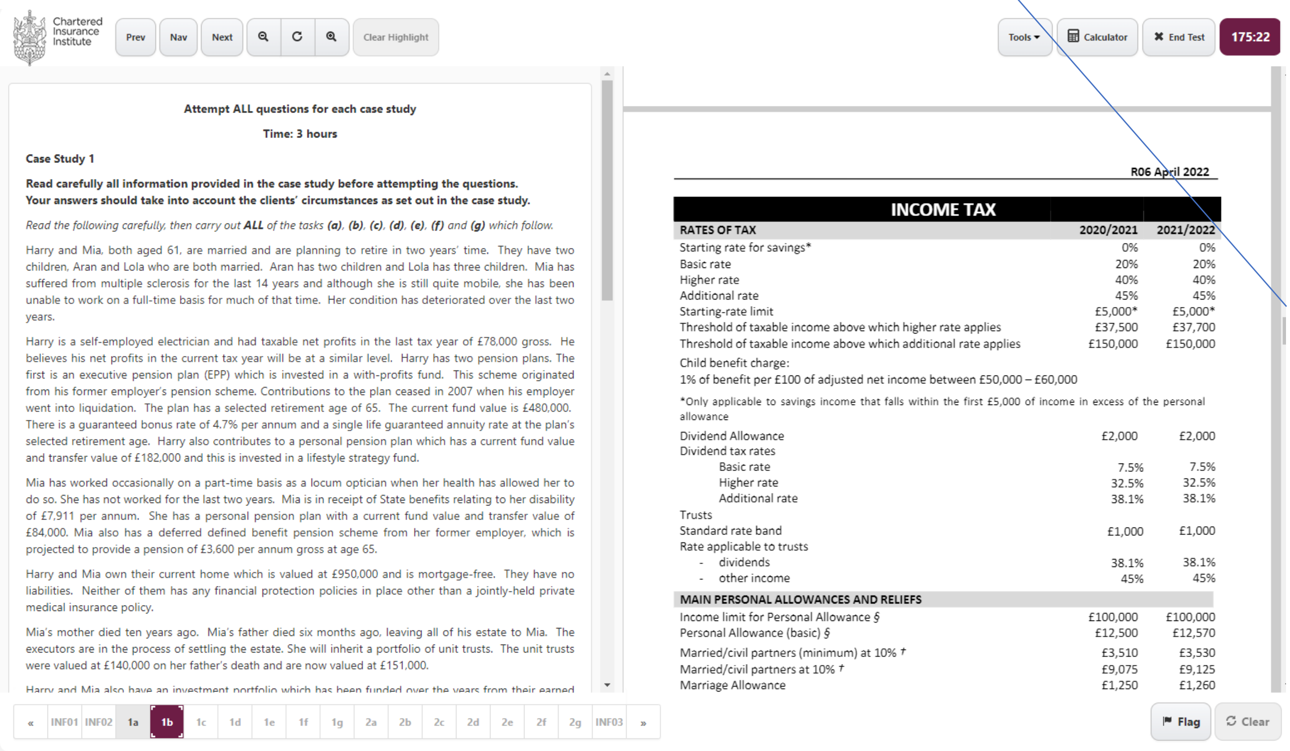
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

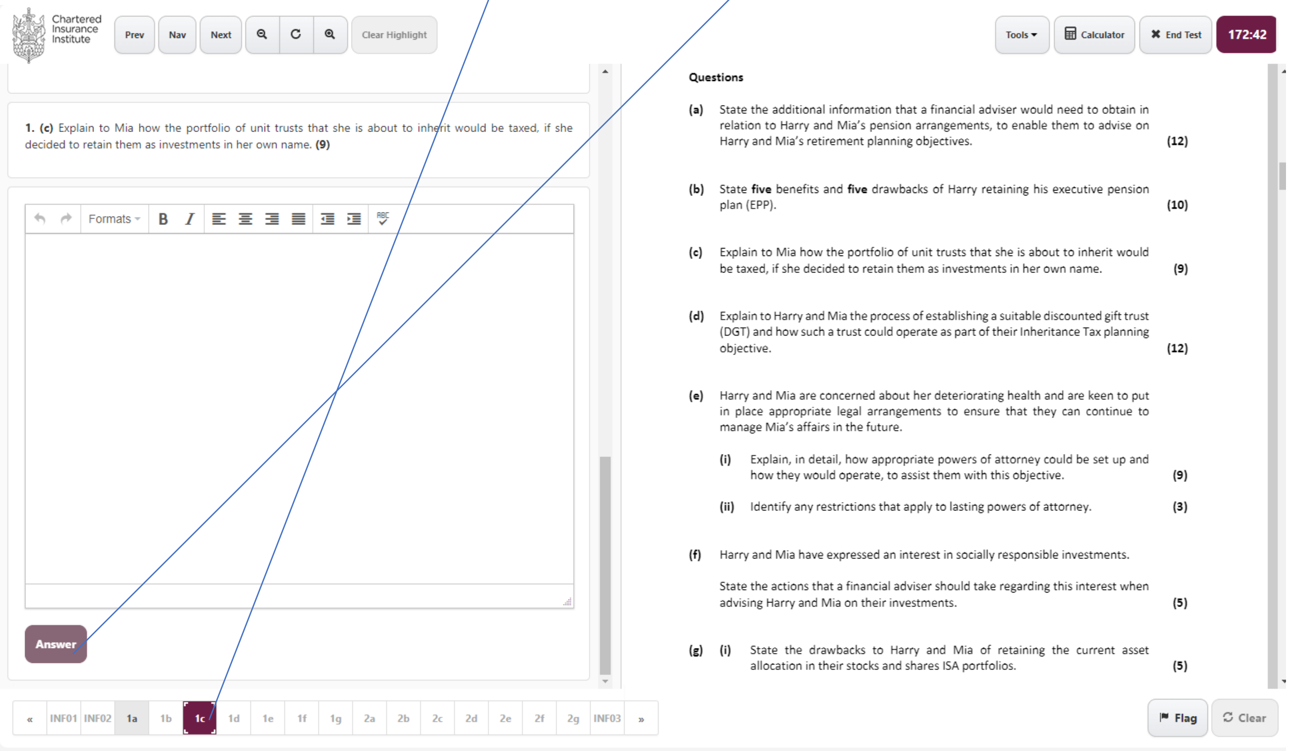
1. From the demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.



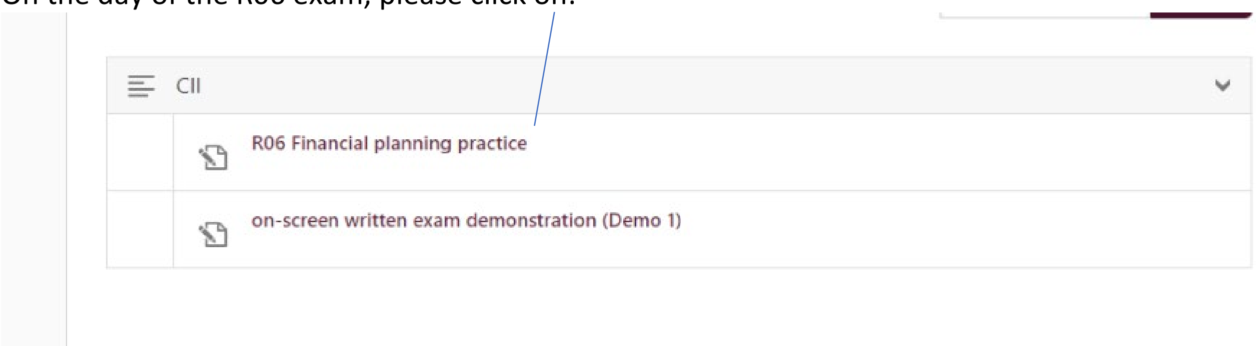
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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 shows the point before the exam has started; you wish to take a moment at this screen to 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.

Some candidates did not recognise the vulnerability issues in respect of Mia's health in Case Study One. As a result, they did not take into consideration the need for Lasting Powers of Attorney (LPOA), nor how this might have an impact on other areas of planning for Harry and Mia. This was disappointing as Mia's health was a clear focus and concern for Harry and Mia.

In Case Study Two, it was pleasing to note that many candidates had looked carefully at the tax position for Matt and Emma in respect of a number of different issues. This indicated a good level of preparation for the exam.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would need to obtain in relation to Harry and Mia's current pension arrangements to enable them to advise on Harry and Mia's retirement planning objectives. Most candidates performed well and were able to provide comprehensive answers. It was disappointing to note that many candidates failed to identify the fact that Mia might be able to access her Defined Benefit pension scheme early due to her ill health.

Part (b) required candidates to state five benefits and five drawbacks of Harry retaining his executive pension plan (EPP). General performance was reasonable and most candidates were able to provide sufficient information to achieve good marks. It was of slight concern to note that a number of candidates failed to appreciate that Harry's EPP offered both a guaranteed bonus rate and a guaranteed annuity rate and as a result, some candidates believed that the guaranteed annuity rate was 4.7% per annum, when this referred clearly to the guaranteed bonus rate on the underlying with-profits fund. This indicated a poor level of preparation and attention to the information provided in the Case Studies on the part of some candidates.

In part (c) candidates were asked to explain to Mia how the portfolio of unit trusts would be taxed, if she decided to retain them as investments in her own name, following the death of her father. Overall performance was good and most candidates were able to correctly identify the relevant tax rates and how these would be applied.

Part (d) required candidates to explain to Harry and Mia the process of establishing a suitable discounted gift trust (DGT) and how such a trust could operate as part of their Inheritance Tax planning objective. Performance was mixed with some candidates believing that the full value of the gift into the Trust would fall outside the estate immediately. This indicated a weaker level of knowledge from some candidates and these candidates would benefit from some further study of Trust arrangements and Inheritance Tax mitigation issues.

In part (e)(i) candidates were asked to explain in detail, how appropriate powers of attorney could be set up and how they would operate. This was specifically in relation to Mia's deteriorating health which was clearly identified in the Case Study. Unfortunately, only a limited number of candidates were able to identify correctly the two types of Lasting Powers of Attorney although it was noted that most candidates understood the general principles under which these legal arrangements operate.

In part (e)(ii) candidates were asked to identify any restrictions that apply to lasting powers of attorney. Most candidates were able to provide a reasonable answer to this part of the question.

In part (f) candidates were asked to state the actions that a financial adviser should take when providing advice in respect of Harry and Mia's interest in socially responsible investments. Most candidates performed well here and identified the majority of the actions that should be taken.

Part (g)(i) focused on the drawbacks to Harry and Mia of retaining the current asset allocation in their stocks and shares ISA portfolio. Generally good performance from the majority of candidates.

Part (g)(ii) asked candidates to recommend and justify the actions that Harry and Mia could take to improve the tax efficiency of their existing financial arrangements. Although some candidates performed well, it was disappointing to note a lack of detail from many candidates in identifying the tax benefits of various actions. As an example, most candidates identified the possibility of increasing Harry's pension contributions but not all candidates recognised that this would provide higher rate tax relief.

Question 2

In part (a) candidates were asked to identify the key issues a financial adviser should take into consideration when assisting Matt and Emma to prioritise their protection needs. Most candidates performed reasonably well and were able to provide some good answers.

Part (b) required candidates to recommend and justify why Matt and Emma should establish a family income benefit (FIB) policy for their protection needs. Although overall performance was good, it was concerning to note that a number of candidates recommended an Income Protection policy, rather than a family income benefit policy. This indicated a lack of preparation for the examination as the Case Study clearly indicated that Matt and Emma were very concerned about funding their childcare costs in the event of death of either of them. An Income Protection policy would not meet this need.

Part (c)(i) tasked candidates with explaining to Matt and Emma how the proposed gift of the buy-to-let property would be treated for Inheritance Tax purposes. Overall performance was good although many candidates failed to recognise that there would be no taper relief on the gift as it falls below Emma's father's Nil Rate Band.

Part (c)(ii) focused on the potential tax treatment for Income Tax and Capital Gains Tax purposes for Matt and Emma when they have assumed ownership of the buy-to-let property. General performance was good and most candidates were able to provide detailed answers.

In part (d) candidates were asked to explain to Matt and Emma the potential benefits for tax purposes if they decide to get married in the future. Good performance overall.

Part (e)(i) required candidates to identify and explain the key benefits for Matt and Emma of investing their regular pension contributions into equity-based funds. General performance was good and most candidates recognised the benefits of using equity funds for this purpose.

Part (e)(ii) focused on the key risks associated with the investment in Matt's global emerging markets fund. Excellent performance from the majority of candidates.

In part (f) candidates were asked to explain to Matt and Emma why their capacity for loss may change following the transfer of the buy-to-let property. It was pleasing to note that most candidates recognised that the receipt of this property could have both a positive and a negative impact on their capacity for loss. Overall performance was very good.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should discuss with Matt and Emma at the next annual review meeting. Performance was reasonable although it was disappointing to note that only a small number of candidates recognised the need to discuss the position of the buy-to-let property with Matt and Emma. As this is a new holding for them, this would be a key area for discussion.

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.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- 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.*

Harry and Mia, both aged 61, are married and are planning to retire in two years' time. They have two children, Aran and Lola who are both married. Aran has two children and Lola has three children. Mia has suffered from multiple sclerosis for the last 14 years and although she is still quite mobile, she has been unable to work on a full-time basis for much of that time. Her condition has deteriorated over the last two years.

Harry is a self-employed electrician and had taxable net profits in the last tax year of £78,000 gross. He believes his net profits in the current tax year will be at a similar level. Harry has two pension plans. The first is an executive pension plan (EPP) which is invested in a with-profits fund. This scheme originated from his former employer's pension scheme. Contributions to the plan ceased in 2007 when his employer went into liquidation. The plan has a selected retirement age of 65. The current fund value is £480,000. There is a guaranteed bonus rate of 4.7% per annum and a single life guaranteed annuity rate at the plan's selected retirement age. Harry also contributes to a personal pension plan which has a current fund value and transfer value of £182,000 and this is invested in a lifestyle strategy fund.

Mia has worked occasionally on a part-time basis as a locum optician when her health has allowed her to do so. She has not worked for the last two years. Mia is in receipt of State benefits relating to her disability of £7,911 per annum. She has a personal pension plan with a current fund value and transfer value of £84,000. Mia also has a deferred defined benefit pension scheme from her former employer, which is projected to provide a pension of £3,600 per annum gross at age 65.

Harry and Mia own their current home which is valued at £950,000 and is mortgage-free. They have no liabilities. Neither of them has any financial protection policies in place other than a jointly-held private medical insurance policy.

Mia's mother died ten years ago. Mia's father died six months ago, leaving all of his estate to Mia. The executors are in the process of settling the estate. She will inherit a portfolio of unit trusts. The unit trusts were valued at £140,000 on her father's death and are now valued at £151,000.

Harry and Mia also have an investment portfolio which has been funded over the years from their earned income and from an inheritance that Harry received in 2016 from his parents' estate.

They have not used their ISA allowances in the last two tax years. Harry and Mia are keen to ensure that they are able to generate an appropriate level of investment income alongside their pension income when they retire.

Both clients consider themselves to be medium-risk investors. They have expressed an interest in socially responsible investments.

Harry and Mia currently have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	950,000
Current account	Joint	28,500
Collectives – Discretionary Managed Portfolio	Joint	622,000
Stocks & Shares ISA – UK Fixed Interest and Global High Yield Bond funds	Harry	230,000
Premium Bonds	Harry	50,000
Deposit account	Harry	72,000
Shares in a UK High Street Bank	Harry	76,000
Stocks & Shares ISA – Long dated index-linked gilt and corporate bond funds	Mia	110,000

Harry and Mia's financial aims are to:

- ensure that they have an adequate income in retirement;
- review their investments and plan for the receipt of Mia's inheritance;
- consider an Inheritance Tax (IHT) mitigation strategy to ensure that their estate passes to their two children in a tax-efficient manner.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would need to obtain in relation to Harry and Mia's pension arrangements, to enable them to advise on Harry and Mia's retirement planning objectives. **(12)**

(b) State **five** benefits and **five** drawbacks of Harry retaining his executive pension plan (EPP). **(10)**

(c) Explain to Mia how the portfolio of unit trusts that she is about to inherit would be taxed, if she decided to retain them as investments in her own name. **(9)**

(d) Explain to Harry and Mia the process of establishing a suitable discounted gift trust (DGT) and how such a trust could operate as part of their Inheritance Tax planning objective. **(12)**

(e) Harry and Mia are concerned about her deteriorating health and are keen to put in place appropriate legal arrangements to ensure that they can continue to manage Mia's affairs in the future.

(i) Explain, in detail, how appropriate powers of attorney could be set up and how they would operate, to assist them with this objective. **(9)**

(ii) Identify any restrictions that apply to lasting powers of attorney. **(3)**

(f) Harry and Mia have expressed an interest in socially responsible investments.

State the actions that a financial adviser should take regarding this interest when advising Harry and Mia on their investments. **(5)**

(g) **(i)** State the drawbacks to Harry and Mia of retaining the current asset allocation in their stocks and shares ISA portfolios. **(5)**

(ii) Recommend and justify the actions that Harry and Mia could take to improve the tax efficiency of their existing financial arrangements. **(12)**

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.*

Matt and Emma, both aged 35, have been living together for ten years and have two children, Cara, aged 5 and James, aged 3. They do not plan to marry in the foreseeable future. Matt and Emma have a repayment mortgage on their home of £160,000 and the property is valued at £300,000.

Matt is a sales manager for a telecommunications company and receives a basic salary of £65,000 per annum gross. He is a member of his employer's qualifying workplace pension scheme and currently contributes 5% of his basic salary. This is matched by his employer. The pension fund has a current value and transfer value of £80,000 and is invested in the scheme's default managed fund. Matt is a member of his employer's death-in-service scheme which provides four times his basic salary in the event of his death. He is entitled to two months' basic salary in the event of illness with statutory sick pay thereafter.

Emma is a communications officer for a technology company. She receives a basic salary of £35,000 per annum gross. Emma is a member of her employer's qualifying workplace pension scheme and contributes 5% of her basic salary. Her employer contributes 3% of her basic salary. Emma does not receive any other benefits from her employer although they will pay four weeks' basic salary in the event of sickness. Emma's pension fund is invested in a cautious managed fund. This has a current value and transfer value of £40,000.

Matt and Emma pay childcare costs for Cara and James and wish to ensure that they are able to continue with funding these costs in the event of the death of either of them. They are aware that their protection arrangements are currently inadequate and this is an immediate concern for both of them.

Emma's father is a long-term property investor and is planning to gift one of his buy-to-let properties to Matt and Emma in the next few months. This will be a joint gift to them and will be held on a joint-tenancy basis. The property has a current value of £150,000 and has an existing long-term tenant who will remain in the property following the transfer of the property to Matt and Emma. The property generates a gross annual rental income of £10,000.

Both Matt and Emma are high-risk investors. They do not have any strong ethical views.

Matt and Emma have the following assets:

Assets	Ownership	Value (£)
Home	Joint	300,000
Current account	Joint	5,000
Deposit savings account	Matt	25,000
Stocks & Shares ISA – Global Emerging Markets fund	Matt	29,000
Fixed Rate savings account	Emma	52,000
Stocks & Shares ISA – Global Infrastructure fund	Emma	33,000

Matt and Emma's financial aims are to:

- ensure their protection arrangements are both suitable and adequate for their needs;
- improve their long-term savings arrangements;
- improve the tax-efficiency of their current arrangements.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) Outline the key issues that a financial adviser should take into account when assisting Matt and Emma to prioritise their protection needs. **(12)**

(b) Recommend and justify why Matt and Emma should establish a family income benefit (FIB) policy for their family protection needs. **(12)**

(c) **(i)** Explain to Matt and Emma how the proposed gift of the buy-to-let property would be treated for Inheritance Tax purposes. **(7)**

(ii) Outline the potential tax treatment for Income Tax and Capital Gains Tax purposes for Matt and Emma when they have assumed ownership of the buy-to-let property. **(8)**

(d) Explain to Matt and Emma the potential benefits for tax purposes if they decide to get married in the future. **(6)**

(e) **(i)** Identify and explain the key benefits for Matt and Emma of investing their regular pension contributions into equity-based funds. **(10)**

(ii) Matt holds a global emerging markets fund in his stocks and shares ISA.

List the key risks associated with the investment in Matt's global emerging markets fund. **(5)**

(f) Explain to Matt and Emma why their capacity for loss may change following the transfer of the buy-to-let property from Emma's father to them. **(5)**

(g) Identify **eight** issues that a financial adviser should discuss with Matt and Emma at their 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) *Candidates would have gained full marks for any twelve of the following:*

- Income/capital needed in retirement.
- Financial strength (Mia defined benefit (DB)/With Profits (WP) fund).
- Charges/market value adjustment (MVA) on Harry's executive pension plan (EPP)?/Cash Equivalent Transfer Value (CETV) of Mia's DB scheme.
- Guaranteed annuity rate details/guarantee period/indexing/any protected tax-free cash?/any terminal bonus on Harry's EPP.
- Penalties for early retirement/ill health provision/state of health.
- Details of Lifestyle Strategy (Harry's PP).
- Spouse's pension for Mia DB/Harry EPP/death benefits.
- Contribution history/carry forward available.
- Fund choice available for both/switching options/asset allocation.
- Retirement options/flexi access drawdown (FAD)/uncrystallised fund pension lump sum (UFPLS).
- BR19.
- Affordability.
- Nominations.

(b) **Benefits**

- Guaranteed bonus rate (4.7%)/could outperform market.
- Possible terminal bonus.
- Low volatility/smoothing.
- Any protected tax-free cash?
- Guaranteed annuity rates.

Drawbacks

- Low potential for growth/does not match attitude to risk (ATR).
- Charges/MVA/penalties/early retirement penalty on EPP (aged 65).
- Terminal bonus not guaranteed.
- GAR is single life only/Mia has limited pension benefits.
- Limited options on retirement/may have limited alternative fund choices/no income flexibility/irrevocable decision.

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

- The base investment cost is the value on date of father's death.
- She will pay Capital Gains Tax (CGT) on any encashment for profits above base cost.
- She can offset losses carried forward.
- She can assign to joint names with Harry/using the interspousal transfer rules/no gain no loss.
- She can use her CGT allowance/use 2 CGT allowances.
- CGT at 10%/20%
- Can use Dividend Allowance/Personal Savings Allowance (PSA).
- Excess taxed at 7.5%/8.75%
- Fixed interest taxable at 20% over allowances.
- Liable to Inheritance Tax (IHT) on her death.

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

- Complete legal documents/register trust.
- Harry and Mia to be trustees/they retain control/appoint children as Trustees.
- Set up a Discretionary Trust.
- Set up an investment bond within the trust.
- Set up suitable investment strategy to meet ATR.
- Withdrawal can be deferred.
- Withdrawal amount cannot be changed (without tax implications)/no access to capital.
- Growth is outside the estate/trust may pay periodic charge.
- The initial gift is immediately discounted/immediate reduction in IHT/can use annual gift allowances.
- The discount is based on medical underwriting/Mia is in poor health.
- After 7 years the gift is outside of the estate.

(e) (i)

- Lasting Power of Attorney (LPOA) Property and Financial Affairs should be set up.
- LPOA Health and Welfare.
- Attorneys could be Harry plus children.
- Must be registered with Office of the Public Guardian (OPG)/must pay fee.
- The financial LPOA can be used now.
- Mia must be consulted on all decisions if she has capacity.
- Health and Welfare only comes into force on Mia losing mental capacity.
- Expenses can be charged.
- Can manage Mia's bank accounts/finances/pay bills.

(e) (ii)

- Limited gifting powers/limited powers on sale of property.
- Must be registered before loss of capacity/only valid when registered with OPG.
- Will cannot be changed.

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

- Explain Environmental, Social and Governance (ESG) investing/explain screening/shades of green.
- Establish Harry and Mia's opinion on ESG/specific areas of concern.
- Research information on ESG.
- Assess the clients' current investments in relation to ESG.
- Realign the portfolio where necessary.
- Document the ESG position and any changes made.

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

- Limited diversification.
- Limited potential for growth.
- No equities.
- Interest rate risk.
- Possible inflation risk/currency risk.
- Does not match ATR/unlikely to be ESG.

(ii)

- Harry increase pension contributions for 40%/higher rate tax relief.
- Mia to pay £2,880 net/£3,600 gross.
- Transfer deposit account to Mia.
- Uses both PSAs/she has £1,000/Harry has £500/Mia may not pay tax on interest/Harry may pay 40%.
- Mia to buy Premium Bonds.
- Maximise ISA contributions/Bed & ISA/Junior ISA (JISA) for grandchildren.
- Tax free growth/returns (pension and ISA).
- Use CGT exemptions (each year).
- Maximise annual gifts allowances/£3,000.
- Harry to make gifts from income.
- Gifts reduce estate for IHT.
- Pension contributions improve IHT-efficiency.

Case Study 2

(a)
- Affordability/planned capital expenditure.
- Liabilities/debts/outstanding mortgage/credit cards.
- Limited sick pay.
- No personal protection in place/no protection for mortgage.
- Period of dependency/term of mortgage.
- Job security/change in jobs?/loss of Death in Service (DIS) for Matt/Matt is main breadwinner.
- Cost of childcare/School fees/no cover in place for childcare/any more children?
- Support from family/financial or practical.
- Inheritances/windfalls expected/IHT liability for 7 years on buy-to-let.
- Unmarried so risk from intestacy/no right to single assets/no Will/nomination.
- Willing to use current assets/savings/investments/emergency fund.
- Family health history/any health issues in family/health/hazardous pursuits.

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

- Provides cover in event of death.
- Limited cover at present/only through employer/cover ceases if they leave employer.
- Low-cost cover.
- Can select sum assured to meet childcare costs/maintain lifestyle.
- Indexed.
- To keep pace with inflation.
- Tax-free income.
- Term to meet financial dependency of children.
- Simple underwriting.
- Can be placed in Trust.
- No delays/no need for Probate/not part of estate.
- Guaranteed premiums.
- Known cost/affordability.

(c) **(i)**

- Treated as a potentially exempt transfer (PET).
- No immediate tax due.
- Under £325,000/uses father's NRB.
- Remains within father's estate for 7 years.
- No taper on gift as under nil rate band (NRB).
- Can use father's annual allowance/£3,000.
- Could be taxable on Matt and Emma (if father dies within 7 years).

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

- No tax payable on receipt of gift.
- Jointly held so tax liability is split 50:50.
- Matt pays 40% Income Tax (IT)/Emma pays 20% IT.
- Allowable expenses can be deducted.
- Capital Gains Tax (CGT) base cost set on date of transfer from father.
- CGT surcharge on property of 8%/18%/28%.
- Can use CGT exemption x 2.
- CGT must be paid within 60 days of sale.
- Can claim £1,000 Property Allowance on rental income.

(d)

- Interspousal transfer of assets is CGT free.
- Transfer of assets allows greater use of Dividend Allowance/£2,000 each.
- Can use spouse's lower tax rate for CGT and Income Tax.
- Nil Rate Band (NRB) and residence nil rate band (RNRB) can be inherited on first death.
- No IHT on first death.
- Additional Permitted Subscription (APS)/inherited ISA/retains tax-free ISA status.

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

- Potential for capital growth.
- Equities tend to outperform cash/other assets over longer-term.
- Long timeframe.
- Pound cost averaging.
- Benefits from volatility/avoids poor market timing.
- Inflation protection/equities tend to keep pace with inflation.
- Matches ATR/CFL/existing funds do not match ATR.
- May have increased capacity for loss (CFL) following receipt of buy-to-let.
- Wide range of funds/economies/diversification/can switch.
- Lower charges/simple administration.
- Tax relief/pension commencement lump sum (PCLS)/FAD/tax free fund/IHT free fund.

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

- Market risk/systemic risk/capital loss/volatility.
- Currency risk.
- Political risk/Governmental risk
- Regulatory risk/legislation risk.
- Liquidity risk/counterparty risk/default risk.
- Event risk/non-systematic risk/environmental risk/operational risk.

(f)

- Increased assets/could sell property.
- More diversification.
- Less reliance on existing income streams/long term tenant/stable income stream.
- Potential costs/potential liabilities/potential void periods.
- Could borrow against property/use as security.

(g)

- Change in personal circumstances/health/family/plans to marry.
- Change in financial circumstances/income/expenditure/inheritances.
- ATR/CFL.
- Performance of funds/asset allocation/rebalance.
- Value of buy-to-let property/rental yield/tenant security.
- Use of tax allowances/ISA/CGT exemptions/pensions.
- Charges/cost of rental agent/accountancy costs for buy-to-let.
- Regulatory/legislation changes/market conditions/economic conditions/new products.

Glossary of terms

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

- ATR – Attitude to risk
- APS – Additional Permitted Subscription
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- CLT – Chargeable Lifetime Transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- ESG – Environmental, Social and Governance
- EPT – Excluded Property Trust
- EPA – Enduring Power of Attorney
- ERC – Early repayment charges
- EPP - Executive pension plan
- FAD – Flexi access drawdown
- FSCS – Financial Services Compensation Scheme
- FOS – Financial Ombudsman Service
- GAR – Guaranteed annuity rate
- HRT – Higher rate taxpayer
- IHT – Inheritance Tax
- IT – Income Tax
- IVA – Individual Voluntary Arrangement
- LPOA – Lasting Power of Attorney
- LTA – lifetime allowance
- MVR – Market value reduction
- MPAA – money purchase annual allowance
- NICs – National Insurance contributions
- NPA – Normal pension age
- NRA – Normal retirement age
- NRB – Nil rate band
- OPG – Office of the Public Guardian
- OEIC – Open ended investment company
- PAYE – Pay As you Earn
- PPP – Personal pension plan
- PCLS – Pension commencement lump sum
- PA – Personal Allowance
- PSA – Personal Savings Allowance
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- UFPLS – Uncrystallised fund pension lump sum
- VCT – Venture Capital Trust

April 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.
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	5.	Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the July 2022 paper 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%