Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 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)

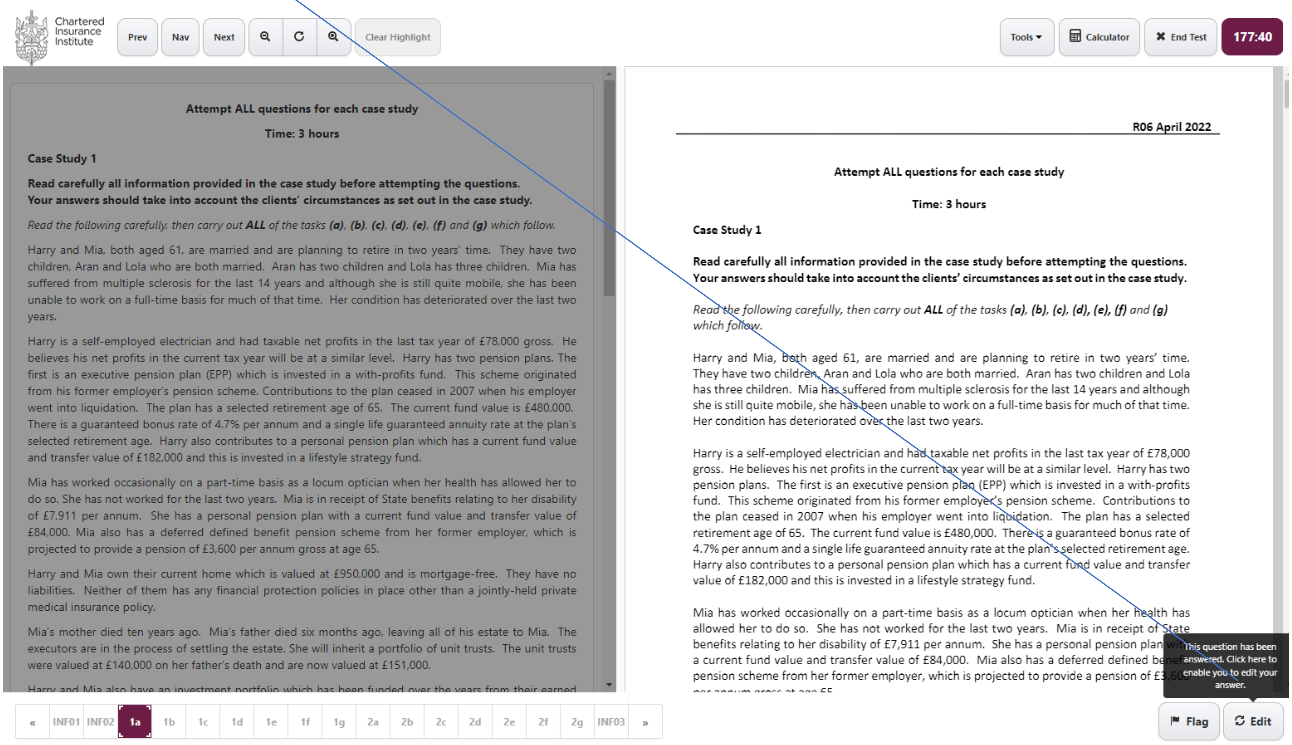
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

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

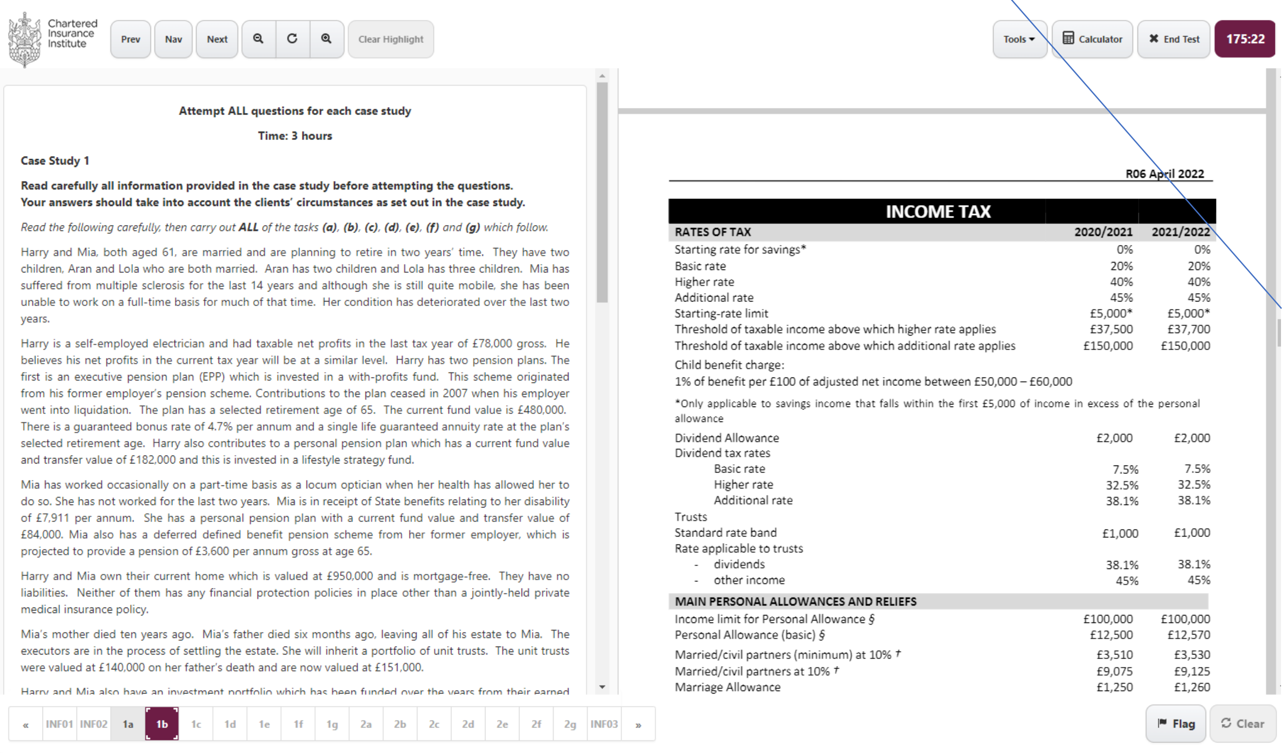
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

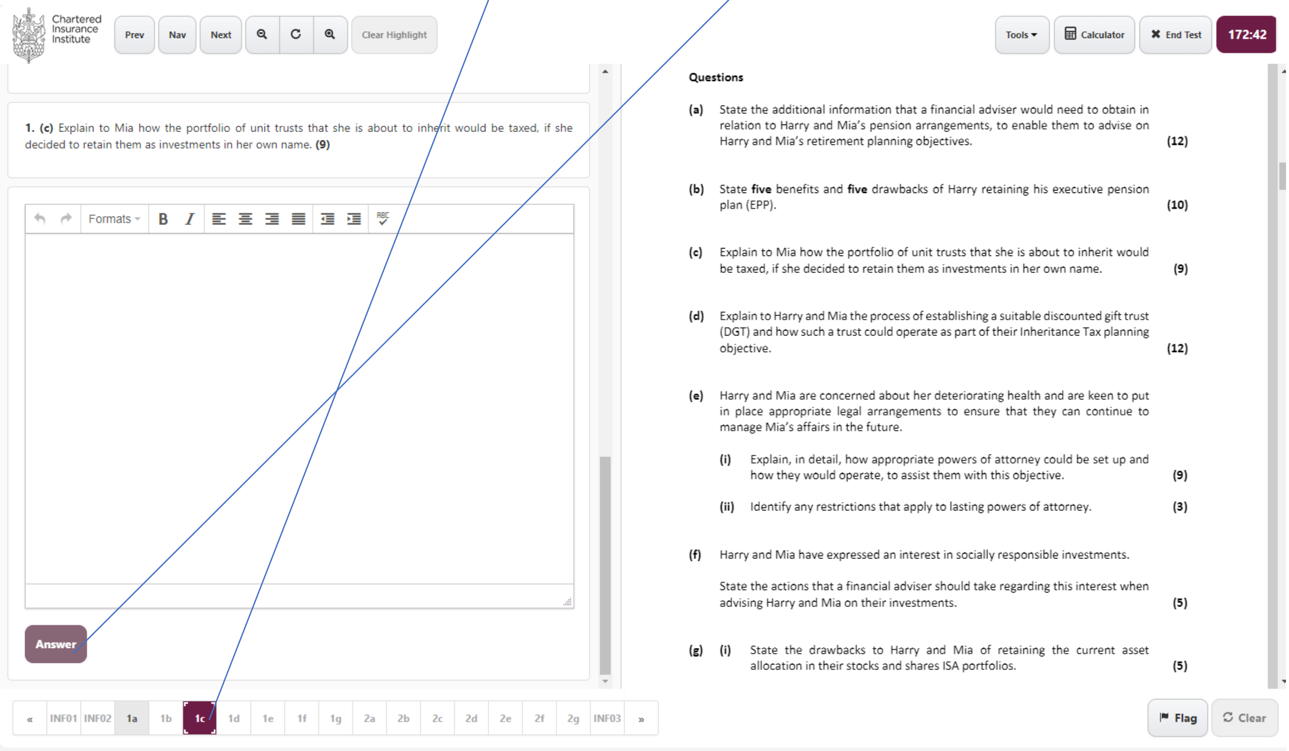
1. From the demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question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



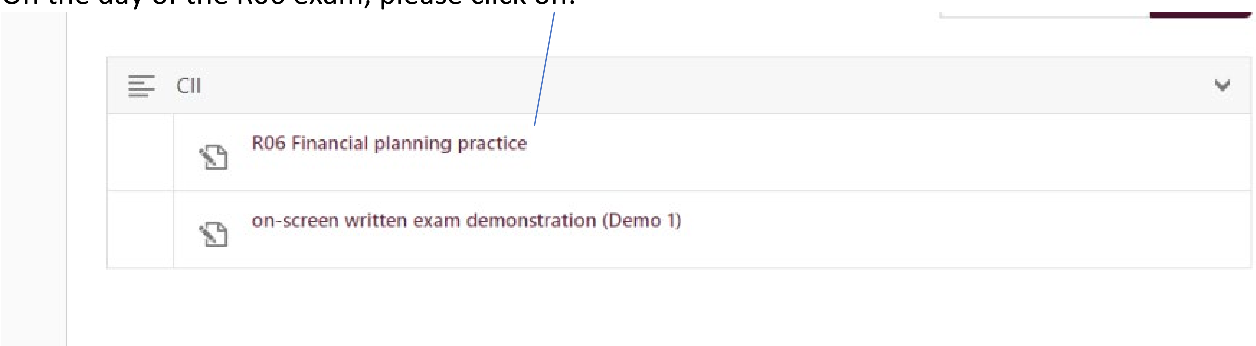
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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 may 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 very good. It was pleasing to note that the majority of candidates had taken time to consider in detail the Case Studies that were provided in advance of the exam and this led to some very good responses.

Some areas of weakness were in evidence in respect of basic tax issues. This was notably the case in respect of the treatment of the investment bond in Case Study One as well as in respect of the tax treatment of the inherited pension benefits in Case Study Two. Some candidates would benefit from a careful review of how assets are treated both on transfer between spouses and also on death.

In Case Study Two, it was pleasing to note that many candidates recognised Mike's vulnerable status, following the death of his wife. This is an important issue and candidates performed well in many of their responses which related to Mike's vulnerable status.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would need to obtain in relation to Dave and Carmel's current pensions and investments to enable them to provide appropriate financial advice. Many candidates performed well and were able to provide some detailed answers although it was noted that only a limited number of candidates recognised that Carmel was no longer working and therefore might have unused Personal Allowance.

Part (b) required candidates to explain to Dave how a salary sacrifice arrangement would operate and to identify the key benefits for Dave if he chose to enter into this arrangement with his employer. General performance was good although only a limited number of candidates clearly stated that the new pension contribution would be treated as an 'employer' contribution.

In part (c) candidates were asked to recommend and justify the actions that Dave and Carmel could take to improve the tax-efficiency of their current financial arrangements. Overall performance was mixed as many candidates provided only a limited range of options and their justifications for these actions lacked detail. Although many candidates recognised the benefits of making transfers of some of the assets to Carmel, very few candidates stated the actual tax benefits that would be achieved by these actions. Candidates were expected to provide details of tax savings for Capital Gains Tax (CGT), Dividend Tax and tax relief on pension contributions but only a few candidates provided this level of detail.

Part (d) This was a two-part question which focused on the purchase of a UK holiday home for Dave and Carmel. This was clearly identified in the Case Study and it was stated that Dave and Carmel had no intention of renting out this property at any point. It was purely for their own use.

Part (d)(i) asked candidates to explain to Dave and Carmel why they should consider assigning the investment bond to Carmel prior to encashment. Performance was very mixed with some candidates believing that the Investment Bond was subject to Capital Gains Tax (CGT) on encashment, rather than Income Tax. This demonstrated a weak level of knowledge from a number of candidates.

In part (d)(ii) candidates were asked to outline the key taxation issues that Dave and Carmel should take into consideration when purchasing and owning a holiday home. Again, mixed performance as many candidates ignored the information provided in the Case Study and provided tax details for the treatment of income generated by renting out the property. The Case Study clearly stated that they had no intention of renting out the property so this demonstrated a poor level of application and attention to this aspect of the Case Study. Many candidates were still able to achieve reasonable marks as they were able to identify the CGT surcharge on sale of property as well as the additional Stamp Duty charge on purchase of a second property.

In part (e) candidates were asked to recommend and justify a suitable protection policy for Carmel to provide a lump sum on her death or serious illness. Most candidates were able to provide a very comprehensive answer to this question and recognised that Carmel has an outstanding debt in the form of the mortgage which assisted in identifying a suitable level of sum assured for a protection policy.

In part (f) candidates were asked to explain to Dave why his global commodities fund might be a suitable long-term holding for his portfolio. Most candidates performed well and provided detailed responses.

Question 2

In part (a) candidates were asked to state the specific actions that a financial adviser should take when providing advice to Mike, to reflect his current vulnerable status following the recent loss of his wife. Most candidates performed very well and understood and identified an appropriate range of actions that they should take when providing advice to Mike.

Part (b) required candidates to explain why Mike is entitled to receive Bereavement Support Payment from the State and to identify the benefits that he might receive. Many candidates performed well and understood the need for Mike to claim this benefit as quickly as possible due to the time-limited nature of this particular State Benefit. This indicated a good level of preparation for the examination as the Case Study clearly indicated that Kate had died very recently.

Part (c)(i) asked candidates to outline to Mike the pension benefits that he could receive from Kate's pension arrangements and to explain how each of them will be treated for tax purposes. Overall performance was mixed as many candidates correctly identified the pension benefits but made errors on how these benefits would be treated for tax purposes. Some candidates would benefit from a careful review of the tax treatment of inherited pension benefits.

Part (c)(ii) required candidates to explain to Mike how he could use Kate's defined contribution pension scheme to provide a future tax-efficient benefit for Helen after his death. General performance was good although some candidates provided only brief answers which lacked detail.

In part (d) candidates were asked to explain the tax treatment of Kate's ISA portfolio following her death and the actions that Mike needs to take to maintain its' tax-efficiency. Good performance overall from most candidates.

Part (e) asked candidates to explain the key issues that a financial adviser should consider when calculating whether Mike will be able to afford to retire in the near future. General performance was good and most candidates were able to explain most of the key issues.

In part (f) candidates were asked to explain to Mike why he should write a Will at the earliest opportunity. Overall performance was good but many candidates stated that Mike's estate would pass to the Crown on his death as he had no Will. Although this may be possible in very rare cases, these candidates failed to recognise that Mike would most likely have living relatives who would receive his estate, rather than this passing to Helen which would meet both his and Kate's wishes.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should take into account when reviewing Mike's financial affairs at the next annual review. Performance was generally good with most candidates able to provide comprehensive answers.

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

Dave, aged 50, is married to Carmel, aged 47. They have two sons who are both financially independent. Both sons are single and have no children. Dave and Carmel are in good health.

Dave and Carmel own their family home which has a value of £700,000. They have an outstanding mortgage of £250,000 which is on an interest-only basis.

Dave is employed as a business analyst. He receives a salary of £130,000 per annum gross. Dave receives regular bonuses from his employer and he uses these to pay lump sums off the mortgage. Carmel has recently resigned from her job as a journalist. She is intending to study for a university degree and has secured a university place on her chosen course. She does not intend to work for the next three years, whilst she studies.

Dave is a member of his employer's workplace pension scheme and makes an employee pension contribution of 10% of his gross salary, which is matched by his employer. He has been offered the possibility of making his pension contributions via salary sacrifice and would like to explore the benefits of this course of action. Dave's pension plan with his employer has a value of £235,000 and is invested in a UK equity tracker fund and a UK fixed-interest fund. Dave is a member of his employer's death-in-service scheme which would pay four times his basic salary in the event of death whilst in service.

Carmel has been contributing to her former employer's workplace pension scheme and this has a current value of £126,000. Her pension is invested in a UK corporate bond fund. Carmel ceased making pension contributions into this plan when she left her employer in May 2022.

Dave and Carmel do not have any personal protection policies in place as they have always relied on their death-in-service benefit to provide sufficient cover. Following Carmel's decision to give up work, she no longer benefits from her employer's death-in-service scheme. As a result of this, they wish to ensure that they have adequate cover in the event of her death or diagnosis of a serious illness.

Dave has an onshore investment bond under which he is the sole life assured. He invested £40,000 into this bond in June 2007. This is invested in a UK smaller companies fund and the bond has a current value of £150,000. No withdrawals have been made from the bond and Dave is concerned that there will be a tax liability if he chooses to encash the bond in the near future. Dave and Carmel are planning to use the proceeds of the bond to purchase a holiday property in the UK for their own personal use. This will not be used as a rental property at any point.

Dave has a unit trust holding which he inherited from his late grandfather. This now has a large capital gain which has accrued since Dave received the holding. Dave is considering how best to reduce any tax liability on this holding. This unit trust is invested in a global commodities fund and pays dividends of approximately £2,700 per annum gross.

Dave and Carmel are both high-risk investors. They have stated that they do not have any specific ethical investment requirements.

Dave and Carmel have the following assets:

Investment/Asset	**Ownership**	**Value (£)**
Family Home	Joint	700,000
Current Account	Joint	15,000
Deposit Savings Account	Joint	65,000
Stocks & Shares ISA – UK Fixed-Interest funds	Carmel	90,000
Stocks & Shares ISA – Global Equity funds	Dave	125,000
Onshore Investment Bond	Dave	150,000
Unit Trust – Global Commodities	Dave	90,000

Dave and Carmel's financial objectives are to:

- improve the tax-efficiency of their current financial arrangements;
- set up appropriate protection arrangements to meet their current and future needs;
- ensure they can access sufficient funds in a tax-efficient manner to purchase a holiday home in the UK.

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 about Dave and Carmel's current pensions and investments to enable them to provide appropriate financial advice. **(14)**

(b) Explain to Dave how a salary sacrifice arrangement would operate and identify the key benefits for him, if he chooses to enter into this arrangement with his employer. **(10)**

(c) Recommend and justify the actions that Dave and Carmel could take to improve the tax-efficiency of their current financial arrangements. **(14)**

(d) Dave and Carmel have decided to fully encash the investment bond to assist with the purchase of a holiday home in the UK.

(i) Explain to Dave and Carmel why they should consider assigning the bond to Carmel prior to encashment. **(8)**

(ii) Outline the key taxation issues that Dave and Carmel should take into consideration when purchasing and owning a holiday home. **(7)**

(e) Recommend and justify a suitable protection policy for Carmel to provide a lump sum on her death or serious illness. **(14)**

(f) Explain to Dave why the global commodities fund might be a suitable long-term holding for his portfolio. **(9)**

Total marks available for this question: 76

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.*

Mike, aged 63 is a widower and is in good health. His wife Kate died, aged 66 in May 2022. They have no children from their marriage although Kate had a daughter, Helen, from her first marriage. Helen is financially independent. Kate was divorced in 2008 and her first husband is still alive. Mike has no children.

Kate had a Will which left all of her assets to Mike. Due to the size of Kate's estate, probate will be required and Mike has appointed a solicitor to deal with this on his behalf. Their family home has a value of £400,000. This is mortgage-free and was owned as joint tenants.

Mike is employed as a graphic designer with a salary of £60,000 per annum gross. He is a member of his employer's workplace pension scheme and contributes 5% of gross salary to the scheme. This is matched with a 5% employer contribution. His pension has a current value of £190,000 and is invested in a range of UK and global equity funds. Mike is considering early retirement following Kate's death. He wishes to understand his future income needs and whether these can be met from his and Kate's combined assets.

Kate was in receipt of a range of pension benefits when she died including her State Pension, a defined benefit scheme and a small annuity. She also held an uncrystallised defined contribution pension. Kate was receiving a State Pension of £8,800 per annum, as well as a pension of £15,800 per annum gross, from her former employer's defined benefit pension scheme. Mike has notified the scheme's trustees of Kate's defined benefit scheme of her death and is awaiting confirmation of his spouse's pension under the scheme. Kate was also in receipt of an annuity from a small personal pension plan. This annuity commenced payment in 2021 and pays an annual income of £700 gross. This offers a spouse's pension of 50% as well as a 5-year guarantee period. Kate also held a defined contribution pension with a value of £170,000. This is uncrystallised and is invested in a range of equity funds and high-yield corporate bond funds. Kate's defined contribution pension is nominated for Mike.

Kate held a range of ISA investments. Kate's ISA portfolio had a value on her death of £340,000. Kate's ISA portfolio is invested in a range of individual shares. Kate was very interested in investments and managed both her own and Mike's ISA portfolios on an ongoing basis. Mike has not yet notified Kate's ISA provider of her death.

Kate was keen to ensure that Helen would receive a portion of her estate in future on the second death of Kate and Mike, but this was never stated in Kate's Will. Mike intends to respect this wish and is keen to ensure that Helen will receive some of his estate on his death. Currently, Mike does not have a Will or a Lasting Power of Attorney.

Mike has entitlement to the following assets:

Investments	Ownership	Amount (£)
Family home	Mike	400,000
Current Account	Mike	60,000
Deposit Savings Account – Variable Rate	Mike	60,000
Individual Savings Account (ISA) – Stocks & Shares	Mike	390,000
Deposit Savings Account – Fixed Rate (1 Year Term)	Kate	85,000
Individual Savings Account (ISA) – Stocks & Shares	Kate	340,000

Mike's financial aims are to:

- transfer Kate's remaining assets into his name;
- obtain a tax-efficient income in his retirement;
- ensure that Helen can receive a portion of Mike's estate on his death.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the specific actions that a financial adviser should take when providing advice to Mike, to reflect his current vulnerable status following the recent loss of his wife. **(8)**

(b) Explain why Mike is entitled to receive the Bereavement Support Payment from the State and identify the benefits he may receive. **(6)**

(c) **(i)** Outline to Mike the pension benefits that he could receive from Kate's pension arrangements and explain how each of them will be treated for tax purposes. *No calculations are required.* **(12)**

(ii) Explain to Mike how he could use Kate's defined contribution pension scheme to provide a future tax-efficient benefit for Helen after his death. **(7)**

(d) Explain the tax treatment of Kate's ISA portfolio following her death and the actions that Mike needs to take to maintain its tax-efficiency. **(10)**

(e) Explain the key issues that a financial adviser should consider when calculating whether Mike will be able to afford to retire in the near future. **(12)**

(f) Explain to Mike why he should write a Will at the earliest opportunity. **(11)**

(g) State **eight** factors that a financial adviser should take into account when reviewing Mike's financial affairs at the next annual review. **(8)**

Total marks available for this question: 74

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)

- Planned retirement age.
- Target income in retirement/capital needs/cost of holiday home/affordability.
- Carmel is no longer working/unused Personal Allowance.
- Use of current ISA allowance/Capital Cains Tax (CGT) exemption/any CGT losses.
- Pension contribution history/carry forward available?
- Will employer share National Insurance (NI) saving on salary sacrifice?
- Security of employment for Dave.
- Current gain on Unit Trust/base cost on Unit Trust.
- Fund choices available/asset allocation.
- Charges/held on platform.
- Any protected benefits on pension schemes.
- Repayment strategy for mortgage/use of investments?/term of mortgage.
- Wills/nomination on pensions/nomination on death in service (DIS)/is bond in trust?
- BR19/State Pension entitlement/NI voluntary contributions for Carmel?

(b)

- Dave signs agreement with employer/contractual agreement.
- Treated as employer contribution.
- Saves employee National Insurance (NI).
- Reduces Income Tax.
- Employer may pay NI saving into Dave's pension.
- Recovers some of his lost Personal Allowance.
- Loss of £1 for every £2 over £100,000.
- Greater pension contribution/help to meet retirement objectives/could sacrifice bonus.
- Tax-free growth within pension fund.
- Low cost/employer may subsidise charges/no admin needed to reclaim tax.

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

- Pension contributions for Dave.
- 40% tax relief.
- Could reinstate Personal Allowance (PA).
- Carmel to contribute £3,600/£2,880 to pension for tax relief.
- ISA contributions/Bed & ISA.
- Tax efficient (pension or ISA).
- Transfer some of Unit Trust (UT) to Carmel.
- Interspousal exemption/no CGT.
- Can use both/her CGT exemption/Dividend Allowance.
- Saves Dividend Tax over £2,000 at 32.5%/33.75%/she pays 7.5%/8.75%
- Saves CGT at 10%/Dave pays 20%
- Assign onshore Bond to Carmel/transfer deposit account to Carmel.
- She can use Personal Allowance (PA)/Personal Savings Allowance (PSA) and Savings allowance/she might be able to encash with no tax.
- Enterprise Investment Scheme (EIS) for Dave.
- 30% Income Tax relief.

(d) (i)

- Dave is a higher rate taxpayer (HRT)/Carmel is non-tax payer.
- Saves tax on encashment/no tax charge on assignment.
- Basic Rate tax already paid within Bond.
- No further tax if encashment falls within her BR band.
- 20%/25% tax charge if encashed by Dave.
- Top-slicing available.
- Can use her PA/PSA/savings rate band.
- Bond has a gain of £110,000.

(ii)

- Purchase in joint names for greater tax-efficiency.
- Additional Stamp Duty charge as 2nd property (3%).
- Cannot use Principal Private Residence Relief (unless becomes permanent home in future)/cannot use residence nil rate band (RNRB) against holiday property.
- Full Council Tax payable/no reduction for holiday use.
- CGT on sale of property.
- CGT surcharge of 8%/18%/28% on future sale.
- Can use CGT exemption to reduce capital gain.

(e)

- Single Life Term policy with Critical Illness/whole of life (WOL) with critical illness cover (CIC).
- First event.
- Term to age 60/retirement age/WOL/to match term of mortgage.
- Sum Assured to cover mortgage/liabilities/£250,000.
- Provides tax free lump sum.
- CIC paid after initial survival period.
- In Split Trust.
- Life cover paid to Dave/CIC paid to Carmel/speedy payment.
- Guaranteed premiums.
- For budgeting/known cost/likely to be affordable based on Dave's income.
- Indexation.
- Keeps pace with inflation.
- Waiver of Premium (WOP).
- Maintains premium in event of illness.

(f)

- Potential for capital growth.
- Already performed well/showing large capital gain.
- Global diversification/asset diversification.
- Meets his attitude to risk (ATR)/unlikely to be Environmental, Social and Governance (ESG).
- Suitable timeframe for investment.
- Can tolerate volatility/he has high capacity for loss (CFL).
- Inflation protection.
- Uses his Dividend Allowance/potential for increasing dividend income.
- Can Bed & ISA/can transfer to Carmel for tax efficiency.

Case Study 2

(a)
- Family member/trusted friend invited to attend meetings.
- Clarity of explanation/Mike has limited financial knowledge/no jargon.
- Provide written explanations for Mike.
- Additional meetings/longer meetings if required/requested.
- Give additional time to consider decisions/no immediate action.
- Flexible outcomes/changing circumstances/no fixed term investments.
- No 'undue influence'.
- Mike's file should clearly indicate that he will be treated as a vulnerable client/all relevant staff members informed.

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

- Mike is below State Pension Age (SPA).
- Mike is resident in UK.
- Kate worked full-time so will have sufficient NI record (25 weeks NI paid in 1 tax year).
- They were married.
- Tax free payment/not means-tested.
- £2,500 lump sum/£100 per month for 18 months.
- Must claim within 3 months of death to receive full payments/he is in time to claim/can back-date for 3 months.

(c) (i)
- Defined Benefit (DB) scheme depends on scheme rules.
- Spouse's pension.
- Fully taxable to Income Tax/Pay As You Earn (PAYE).
- May be entitled to a Lump Sum Death benefit (early death).

- Annuity will continue in full up to 5-year guarantee term.
- After 5 years, income reduces to 50% (£350 per annum)
- Income will be tax-free for Mike (Kate died before age 75).

- DC scheme will pass to Mike.
- Can access DC scheme free of Income Tax.
- All options are available (flexi access drawdown (FAD)/annuity/Lump Sum).

- Mike may be entitled to some additional State Pension from Kate when he reaches State Pension Age (SPA) (depending on NI records).
- Subject to Income Tax.

(ii)
- Can leave pension fund invested for future growth/transfer to Flexi-Access Drawdown (FAD).
- Tax-free investment pot to improve retirement income.
- Can nominate Helen as successor.
- Residual fund passes to Helen on his death.
- Tax free if Mike dies under age 75.
- Taxable on Helen if Mike dies aged 75 or over.
- Pension Pot passes to Helen Inheritance Tax free (IHT)/only asset he can pass to Helen with no IHT.

(d)
- Additional Permitted Subscription (APS)/continuing account.
- Obtain value of ISA at date of death/Probate value/date of transfer.
- Claim/apply/register the Additional Permitted Subscription (APS).
- APS protects the ISA wrapper/remains tax free/cannot add to Kates ISA.
- APS available as married to Kate/living together on date of death.
- Can still use his own ISA allowance each year.
- APS can be used up to 3 years from date of death/to date of estate wind-up/date of closure of continuing account.
- He can transfer existing holdings in specie/retain existing investments/can switch to cash ISA.
- Can invest in line with his Attitude to Risk (ATR).
- He can transfer personal cash to the ISA.

(e)
- Retirement date/near future?
- Anticipated expenditure in retirement/need for capital lump sums?
- Tax status in retirement/willing to work part time.
- Level of guaranteed income (Defined Benefit (DB)/annuity).
- Indexation on DB scheme/annuity.
- Entitlement to State Pension/BR19/State Pension Age (SPA).
- Expected inheritances/plans to downsize?
- How much does he wish to leave as inheritance for Helen?
- Growth assumptions/stress test.
- Inflation/inflation assumptions.
- Longevity
- Capacity for Loss (CFL)/Attitude to Risk.

(f)
- Mike will die intestate/estate will be distributed in line with rules of intestacy.
- Mike wants Helen to benefit from his estate.
- Does not respect Kates wishes/Helen will not inherit.
- He has no dependants/distant relatives will receive his estate/estate would pass to his next of kin.
- Mike could use Kate’s nil rate band (NRB)/RNRB.
- Could pass house to Helen to retain RNRB (stepdaughter).
- Improves IHT efficiency (full use of both NRB/RNRB bands).
- Can appoint executors.
- Prevents family disputes.
- Speeds up distribution of estate.
- Peace of mind.

(g)
- Change in personal circumstances/health/still considered vulnerable?
- Financial position/change in income/expenditure/inheritance settled?/tax status.
- Attitude to Risk/Capacity for Loss.
- Rebalance/asset allocation/performance.
- Use of allowances/ISA/Pension.
- Will updated/Lasting Power of Attorney (LPA) update/nominations updated.
- Charges.
- Change in legislation/taxation/new products/market conditions/economy/regulatory.

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

July 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 September 2022 paper will be based on English law and practice applicable in the tax year 2022/2023, 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

	2020/2021	2021/2022
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.*

	2020/2021	2021/2022
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%