Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

September 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the January 2023 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)

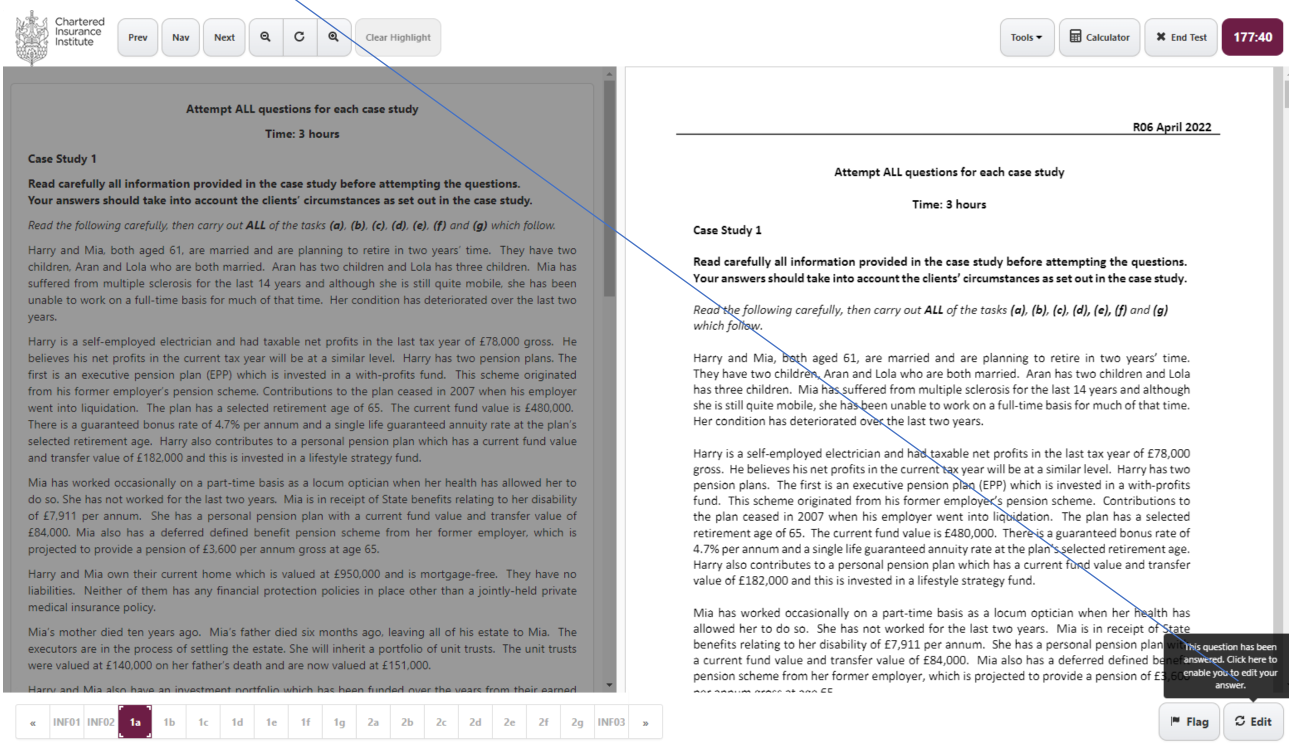
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

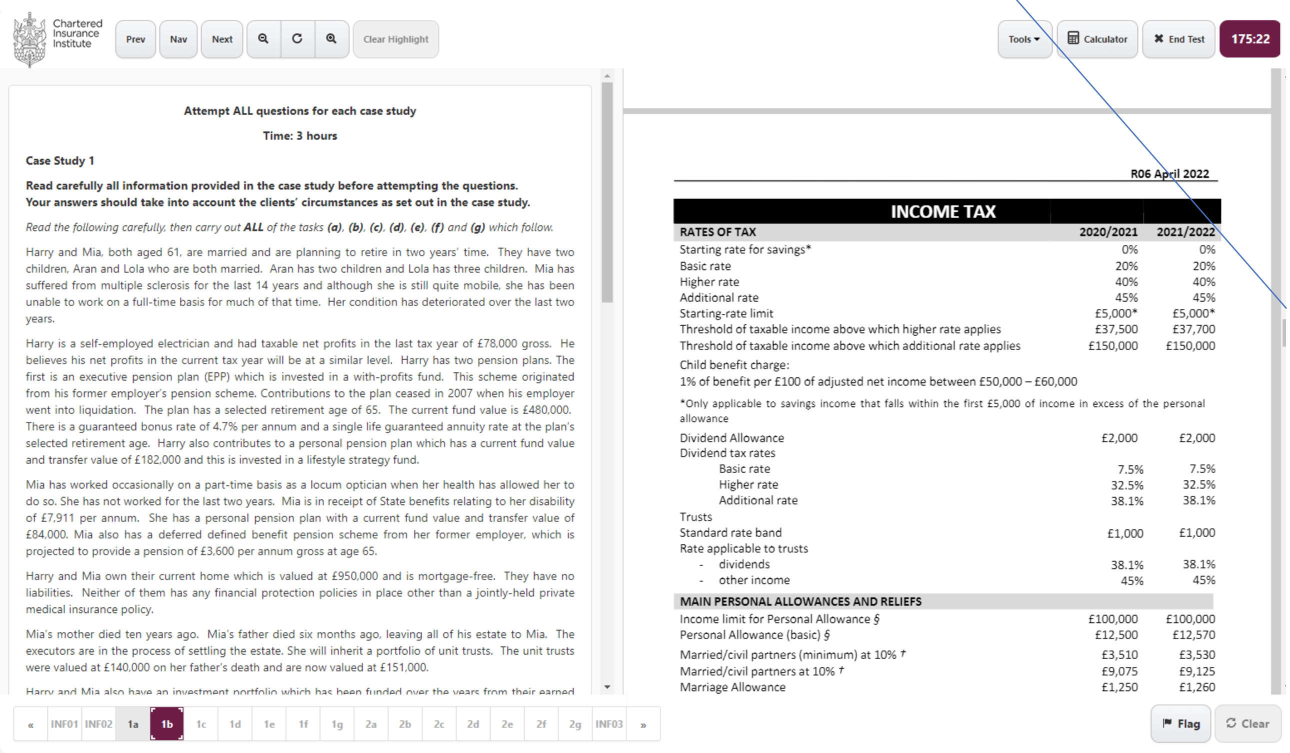
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

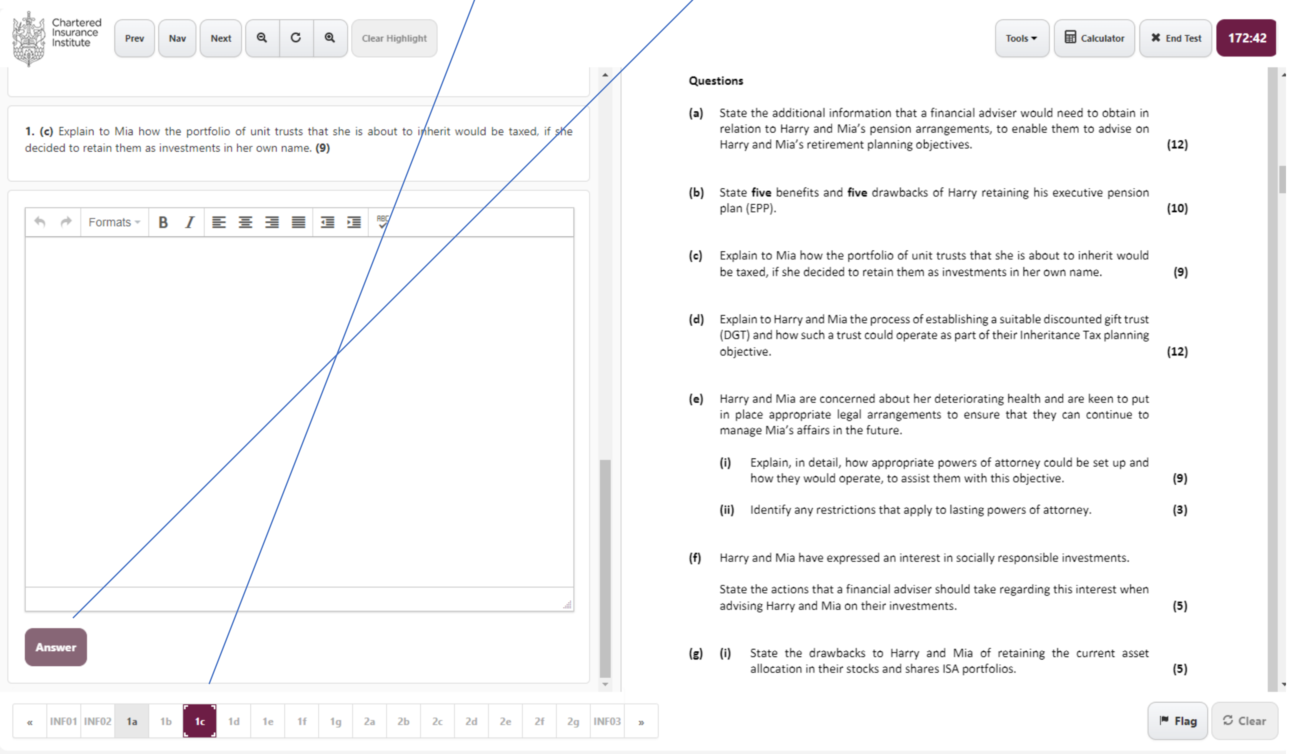
1. From the demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question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



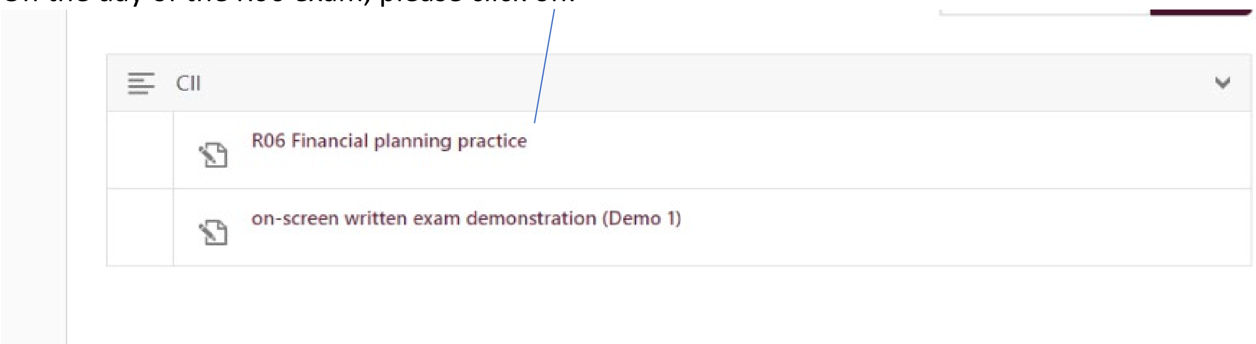
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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. Unless you press 'Answer', you will not be permitted to move onto other questions. 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. The majority of candidates had taken time to look in detail at the Case Studies that were provided in advance of the exam. These candidates were able to provide some very good responses across the paper.

Some areas of weakness were in evidence in respect of a number of tax issues. This was particularly the case in respect of the actions that could be taken to improve the tax efficiency of the client arrangements in Case Study One. Candidates provided a range of answers but only a limited number of candidates focused their answers on tax efficiency.

In Case Study Two, many candidates were able to provide detailed answers to a number of areas and were able to achieve good marks. This indicated a good level of preparation.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require regarding Tom's pension benefits in his former employer's defined benefit pension scheme. Many candidates performed well and were able to provide some very good answers.

Part (b) required candidates to explain to Tom and Sara the main issues that they should consider when deciding if they should use flexi access drawdown (FAD) in retirement, rather than purchasing an annuity. General performance was good although only a limited number of candidates recognised the tax benefits of retaining the pension tax wrapper going forwards.

In part (c) candidates were asked to explain, in detail, the actions that Tom and Sara should take to ensure that they can use their OEIC holdings to provide tax-efficient lump sums for the purpose of assisting their grandchildren with the purchase of their first homes. Unfortunately, the majority of candidates failed to focus on the key actions that were necessary to achieve this objective. Only a limited number of candidates recognised the need to calculate the actual gain in these holdings for CGT purposes or the fact that Tom and Sara could make partial sales from these holdings over several tax years in order to mitigate any potential CGT liability. Many candidates focused exclusively on the possibility of using various trust arrangements when simple actions were readily available to Tom and Sara.

Part (d) required candidates to comment on the suitability of Tom continuing to hold the UK Commercial Property Unit Trust in his ISA. Overall performance was good and the majority of candidates were able to provide some detailed comments on this fund and it's suitability for Tom.

In part (e)(i) candidates were asked to explain in detail to Tom and Sarah how their assets would be treated in the event of the death of either of them, if they died tomorrow. Some very good performance although it is important to note that a number of candidates failed to recognise that neither Tom nor Sara has a Will. As this is the case, they do not have an automatic right to inherit the other's full estate. Some revision of the rules of intestacy would be of benefit to ensure that candidates recognise the rights of the survivor on first death. This is an important area of financial planning and can have a serious impact on the financial security of the survivor, regardless of their marital status.

In part (e)(ii) candidates were asked to identify the key instructions that Tom and Sara should include in their Wills. Generally good performance was seen in this question part.

In part (f) candidates were asked to recommend and justify the actions that Tom and Sara could take to improve the tax-efficiency of their existing financial arrangements. Many candidates provided good responses to this question but it was noted that a large number of candidates failed to identify a range of actions that would have an impact on tax-efficiency and instead commented on the clients' investments from the perspective of their attitude to risk. As this was the case, they failed to achieve high marks.

Question 2

In part (a) candidates were asked to state the additional information a financial adviser would require, in order to advise Leo and Karin on ensuring that the family is financially secure in the event of Leo's death. Most candidates performed very well and were able to identify a wide range of information that would be needed to provide advice in this area for Leo and Karin.

In part (b), the question required candidates to identify the key factors that a financial adviser should consider when reviewing the suitability of Leo's existing income protection policy. The majority of candidates performed very well and were able to achieve high marks.

In part (c) candidates were asked to explain in detail why setting up a limited company might be a more appropriate option for Leo, rather than remaining self-employed. Good performance from most candidates. This issue was indicated as a concern for Leo in the Case Study and most candidates provided comprehensive answers.

In part (d) candidates were asked to explain to Leo why he should set up a pension plan as soon as possible. Good performance overall although some candidates failed to point out the specific tax benefits for Leo of using a pension, such as the ability to extend his Basic Rate Tax band, resulting in tax savings in respect of Child Benefit.

Part (e) asked candidates to outline the factors that Leo should consider before deciding whether to invest in a buy-to-let property as part of his retirement planning. General performance was good and most candidates were able to identify a wide range of factors that should be considered. It was pleasing to note that the majority of candidates understood the tax implications for Leo of purchasing a buy-to-let property.

In part (f) candidates were asked to explain to Leo and Karin why it is important for them to review the investment funds held in their stocks & shares ISAs on a regular basis. It was disappointing to note that many candidates failed to recognise that Leo and Karin have Environmental, Social and Governance (ESG) concerns and therefore failed to appreciate the need to monitor the chosen investment funds on a regular basis to ensure that they remain in line with Leo and Karin's ethical objectives.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should discuss with Leo and Karin at the next annual review. Performance was generally very 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 2022/2023, 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.*

Tom and Sara, both aged 64, are married and are planning to retire on Tom's 65th birthday next year. They have three adult children and five grandchildren. Tom and Sara are both in good health at present but are aware of the risk of potential health problems in the future as their respective parents died in their early seventies.

Tom is employed as an architect and earns £85,000 per annum gross. Tom is a member of his employer's workplace pension scheme and contributes 5% of his gross salary to the scheme. His employer makes a contribution of 8% of gross salary to the scheme. The plan has a current value of £60,000 and is invested in a range of equity tracker funds. Tom also has a deferred benefit in a former employer's defined benefit occupational pension scheme.

Sara is employed as a customer services manager. She earns £70,000 per annum gross. She is a member of her employer's workplace pension scheme and contributes 10% of her gross salary to the scheme. This is matched by her employer. This pension plan has a current value of £290,000 which is invested in a balanced managed fund.

Tom and Sara own their current home as joint tenants. The property is mortgage-free and is valued at £500,000.

Tom and Sara are planning to gift lump sums from their existing investments to assist their grandchildren with the purchase of their first homes in future years. Tom and Sara hold several OEIC (open ended investment company) funds which have performed very well since they were originally purchased from the proceeds of a redundancy payment that Tom received from a former employer. Tom and Sara have used their ISA allowances for the current tax year.

Both clients consider themselves to be low to medium-risk investors. They have stated that they have no particular concerns about socially responsible investments.

Tom and Sara do not have Wills or lasting powers of attorney but are planning to arrange for these documents to be drawn up in the next few months.

Tom and Sara currently have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	500,000
Current account	Joint	32,000
Cash ISA	Tom	40,000
Cash ISA	Sara	40,000
Stocks & Shares ISA – UK Commercial Property unit trust	Tom	160,000
Stocks & Shares ISA – UK Managed unit trust	Sara	140,000
OEIC – UK Smaller Companies fund	Tom	90,000
OEIC – Global Equity fund	Sara	150,000

Tom and Sara's financial aims are to:

- ensure that they have a sustainable income in retirement;
- review their investments to ensure that they are suitable for their retirement;
- consider an appropriate method of gifting lump sums to their grandchildren.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require regarding Tom's pension benefits in his former employer's defined benefit pension scheme, in order to advise him and Sara on their retirement objectives. **(12)**

(b) Explain to Tom and Sara the main issues that they should consider when deciding if they should use flexi-access drawdown (FAD) in retirement, rather than purchasing an annuity. **(12)**

(c) Tom and Sara are planning to assist their grandchildren with the purchase of their first homes in future years.

Explain, in detail, the actions that Tom and Sara should take to ensure that they can use their OEIC holdings to provide tax-efficient lump sums for this purpose. **(10)**

(d) Comment on the suitability of Tom continuing to hold the UK Commercial Property unit trust in his ISA. **(8)**

(e) Tom and Sara are concerned about the treatment of their estate in the event of their deaths before they draw up their Wills.

(i) Explain, in detail, how their assets would be treated in the event of the death of either Tom or Sara, if they died tomorrow. **(12)**

(ii) Identify the key instructions that Tom and Sara should include in their Wills. **(7)**

(f) Recommend and justify the actions that Tom and Sara could take to improve the tax efficiency of their existing financial arrangements. **(12)**

Total marks available for this question: 73

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.*

Leo and Karin, both aged 37, are married and have a daughter, Hannah, aged seven. Leo and Karin have a £95,000 interest-only mortgage secured on their home. The property is currently valued at £200,000. They hold a joint life level term assurance policy which covers the mortgage amount. Leo and Karin are both in good health.

Leo is a self-employed landscape gardener. He has been self-employed for many years and has taxable net profits of £52,000 per annum gross. Leo has a current account with his bank which he uses for all of his business earnings and expenses. Leo does not have any form of pension plan at present. He is considering purchasing a small property as a buy-to-let investment, as an alternative to setting up a pension plan.

Leo has an income protection insurance policy which he set up via his bank when he first started working as a self-employed landscape gardener. Leo has asked for your advice on the merits of retaining this policy.

Karin works part-time as a support assistant at a local community centre. She earns £17,000 per annum gross and is a member of her employer's workplace pension scheme. She contributes 5% of her gross salary and her employer contributes 4% of her gross salary to the scheme. Karin's beneficiaries would receive a death-in-service payment of four times her basic salary in the event of her death. Karin's pension fund is invested in the scheme's default managed fund. Karin has never checked the performance of this fund and is not aware of any alternative fund options. This has a current value and transfer value of £15,000. Karin also assists Leo with the accounts for his business.

Leo and Karin are concerned about their lack of financial protection arrangements in the event of Leo's death as he is the main breadwinner. Leo is also concerned about his potential personal liabilities as a self-employed landscape gardener. He has asked you to explain any alternative options for his business, which could offer him greater protection and improved tax-efficiency.

Both Leo and Karin are high-risk investors. They have advised you that they do not wish to invest in any funds or companies that damage the environment but have no other strong ethical views.

Leo and Karin have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	200,000
Deposit savings account	Joint	15,000
Current account	Joint	3,000
Current account (used as business account)	Leo	7,500
Stocks & Shares ISA – Global Sustainable Equities OEIC	Leo	48,000
Stocks & Shares ISA – UK Ethical Equities OEIC	Karin	43,000

Leo and Karin's financial aims are to:

- ensure their protection arrangements are adequate for their needs;
- arrange suitable retirement funding for Leo;
- improve the tax-efficiency of their current arrangements.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information a financial adviser would require, in order to advise Leo and Karin on ensuring that the family is financially secure in the event of Leo's death. **(12)**

(b) Identify the key factors that a financial adviser should consider when reviewing the suitability of Leo's existing income protection insurance policy. **(13)**

(c) Leo is concerned about the suitability of his current working arrangements as a self-employed landscape gardener.

Explain, in detail, why setting up a limited company might be a more appropriate option for Leo, rather than remaining self-employed. **(12)**

(d) Explain to Leo why he should set up a pension plan as soon as possible. **(12)**

(e) Outline the factors that Leo should consider before deciding whether to invest in a buy-to-let property as part of his retirement planning. **(14)**

(f) Explain to Leo and Karin why it is important for them to review the investment funds held in their stocks & shares ISAs on a regular basis. **(6)**

(g) Identify **eight** issues that a financial adviser should discuss with Leo and Karin at the next annual review. **(8)**

Total marks available for this question: 77

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a)

- Scheme retirement date.
- Current/projected pension entitlement/current benefits/accrual rate.
- Definition of salary.
- Years of service/contracted-out?
- Commutation factor/pension commencement lump sum (PCLS).
- Spouse's pension/death benefits.
- Any nominations?
- Early retirement factor/penalties/revaluation up to retirement.
- Indexation/escalation levels (in retirement).
- Scheme deficits/solvency/employer solvency/any plans for closure of scheme/scheme funding/Pension Protection Fund (PPF).
- Cash equivalent transfer value (CETV)/any enhanced terms to transfer?/partial transfers allowed.
- Lifetime allowance (LTA) value/any LTA protection in place?

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

- Flexi access drawdown (FAD) not suited to attitude to risk (ATR)/asset allocation/can invest in line with ATR.
- Potential for growth.
- Income is flexible/can change in line with requirements/annuity is inflexible.
- Can use tax free cash/can create tax efficient income/tax planning.
- Retains tax free wrapper (CGT and Income Tax).
- Complex/ongoing administration/reviews/ongoing advice.
- Ongoing charges/adviser charges.
- Income taken will restrict future contributions to £4,000 per annum/money purchase annual allowance (MPAA).
- Funds can deplete/income not guaranteed/investment risk/fund performance not guaranteed.
- Would they prefer a guaranteed income?
- No tax on death before 75/taxable at marginal rate after age 75.
- Improved death benefits/on death can pass to family/Inheritance Tax (IHT) efficiency.
- Can purchase annuity at any time/annuity rates may fall/rise/health may change/enhanced annuity rate may be available in future.

(c)

- Identify amount required/when is money required.
- Identify base cost for each of the holdings/calculate current capital gain in each OEIC.
- Transfer open ended investment company (OEIC) into joint names/other spouse's name.
- Using interspousal transfer/no CGT charge on transfer.
- Use of CGT exemptions/£12,300
- Register any previous losses with HM Revenue & Customs/use previous losses.
- Sell units over several tax years for tax-efficiency.
- Could Bed & ISA in new Tax Year/gift to Junior ISA/Lifetime ISA for grandchildren.
- Could use trusts.
- Use of gift allowances/£3,000 each/use gifts out of income.

(d)

- May not be suited to his Attitude to Risk (ATR)/risk of capital loss.
- Too much reliance on single asset class/not diversified/all UK based/no geographic diversification.
- May provide hedge against inflation.
- Vulnerable to changes in economic environment/change in working environment for office space post-Covid/reduced demand/void periods.
- Liquidity issues/funds can be closed to withdrawals/gated.
- May hold high cash levels so reducing returns.
- Potential for tax-free growth/income.
- Charges.

(e) (i)

- Laws of intestacy apply.
- Must apply for Letters of Administration.
- Survivor gets the joint bank account outright/house;
- Survivor receives personal chattels;
- Survivor receives the first £270,000 of estate;
- Survivor receives 50% of remainder absolutely.
- The other 50% passes to the three adult children equally;
- Defined Contribution (DC) pensions pass to survivor (if nominated).
- DC pensions are subject to Trustee approval.
- Tom's Defined Benefit (DB) scheme passes to Sara as surviving spouse.
- Pensions do not form part of the estate.
- Survivor can apply for Additional Permitted Subscription (APS) on ISA to protect tax wrapper.

(ii)

- Identify beneficiaries.
- Identify split of estate.
- Specific gifts/charitable donations.
- Identify suitable executors.
- Residuary beneficiaries in event of death of main beneficiaries.
- Funeral requirements.
- Need for Trusts/identification of Trustees in event of gifts to grandchildren/restrictions on gifts to grandchildren.

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

- Pension contributions for Tom and Sara/use carry forward.
- 40% tax relief for both.
- Pension contributions improve IHT efficiency/check if Lifetime allowance (LTA) protection is available.
- Bed & ISA/ISA/use Personal Savings Allowance (PSA) (currently unused).
- Junior ISA (JISA).
- Tax efficient (pension and ISA).
- Change ownership of OEIC holdings.
- Register any capital losses.
- Use CGT exemption.
- Use annual gift allowance (AGA)/£3,000 each/gifts out of income.
- Use of gift allowances provides immediate reduction in estate.
- Write Wills/nominations.
- Wills/nominations could reduce IHT on first death/use of residence nil rate band (RNRB)/nil rate band (NRB).

Case Study 2

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

- Affordability/expenditure.
- Smoker status/family health.
- Any other debts/plans to move to bigger property/any business liabilities.
- How do they plan to repay interest-only mortgage?
- Any inheritance expected/use of other assets/value of Leo's business.
- Any help from family/financial or practical.
- Childcare costs.
- Further children planned.
- Retirement age/term of mortgage/term of dependency of children.
- Wills in place?
- Term/premium of Level Term policy.
- State benefit entitlement for Karin/National Insurance (NI) contribution history.
- Priority of objective.

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

- Amount of cover (e.g. 50% - 70% of earnings).
- Premium amount.
- Deferred period.
- Definition of earnings (e.g. gross or net).
- Guaranteed premium or reviewable premium.
- Guaranteed insurability.
- Retirement age/term/is it a budget plan?
- Any or own occupation.
- Indexation.
- Exclusions/loading/rated.
- Proportionate benefits/rehabilitation benefit.
- Any additional benefits e.g. Total Permanent Disability (TPD).
- Cost of alternative policies.
- Amount of income needed/priority.

(c)

- Limited financial liability/protection from creditors.
- Personal protection against damage claims for public liability.
- Company benefits could be available e.g. Private Medical Insurance (PMI)/death in service (DIS).
- Potential for lower personal tax/National Insurance Contributions (NICs).
- Flexible remuneration/can adjust salary/could increase Child Benefit.
- Can take dividends.
- Allows use of £2,000 dividend allowance.
- Dividends are taxed at lower rate than salary/no National Insurance (NI) on dividends.
- Employer pension contributions;
- Employer contributions can reduce Corporation Tax.
- Can employ Karin/she already works for Leo/Karin could be a shareholder.
- Pension contributions for Karin/dividends for Karin as a shareholder.

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

- Leo has no pension benefits/will impact his ability to retire.
- Potential for tax-free growth.
- State Pension unlikely to be sufficient.
- 20%/40% tax relief.
- Pension contributions extend his Basic Rate band/increases Child Benefit.
- Pension is IHT free.
- Can make nomination for Karin.
- Pension can provide flexible death benefits.
- Pension protected from creditors.
- Wide range of funds/providers.
- Can match Attitude to Risk/ethical requirements.
- Simple to set up/administer/can be managed online/low cost.
- Pound cost averaging.
- Long timeframe for investment/enables more volatile investments.

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

- Tangible asset/familiar to Leo/taking on additional debt.
- Can provide income.
- Potential for capital growth/hedge against inflation.
- Can use buy to let (B2L) mortgage.
- Can receive Tax Credit for Basic Rate Tax on mortgage interest.
- Can purchase in joint names with Karin for tax efficiency.
- Stamp Duty surcharge (3%).
- Illiquid.
- All income and gains are taxable/CGT surcharge/no tax relief on purchase.
- Cannot partially sell (to provide pension commencement lump sum (PCLS) on retirement).
- Void periods.
- Not IHT efficient/will form part of his estate/cannot use RNRB.
- Purchase costs/solicitor costs/ongoing costs/interest payments/maintenance payments/protection costs.
- Interest Rate risk.
- Administration/hassle.
- Reduces cash/emergency fund for deposit/how will they fund deposit?

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

- They have an ethical fund requirement.
- Underlying holdings can change/funds may no longer meet their ethical requirements/fund objectives may change/Fund Manager may change.
- New funds may become available.
- Performance may be poor.
- May not match Attitude to Risk (ATR)/their ATR may change/objectives may change.
- Ongoing fund costs.
- Currency movements/economic changes/market conditions.

(g)

- Change in personal circumstances/health/Wills.
- Change in income/expenditure/tax status.
- Has Leo set up Limited company?/has he purchased Buy to Let?
- Attitude to Risk/Capacity For Loss.
- Rebalance/asset allocation/performance/ethical status of funds.
- Use of allowances/ISA/Pension/has Leo set up a new pension?
- Charges.
- Change in legislation/taxation/new products/market conditions/economy/regulatory/Interest Rates.

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
- CETV – Cash equivalent transfer value
- CLT – Chargeable Lifetime Transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- EIS – Enterprise Investment Scheme
- 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
- 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
- TPD – Total Permanent Disability
- UFPLS – Uncrystallised fund pension lump sum
- VCT – Venture Capital Trust

September 2022 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the January, April and July 2023 papers 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	2021/2022	2022/2023
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	£37,700	£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%	8.75%
Higher rate	32.5%	33.75%
Additional rate	38.1%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,530	£3,640
Married/civil partners at 10% †	£9,125	£9,415
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£30,400	£31,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,520	£2,600
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age(under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,845	£2,935
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,480	£17,005

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242*
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00**	Nil
242.00* – 967.00	13.25%
Above 967.00	3.25%

**£190 per week/£9,880 per annum before 6 July 2022.*
***This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242* 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 175.00***	Nil
175.00 – 967.00	15.05%
Excess over 967.00	N/A

**** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.15 where profits exceed £6,725 per annum.
Class 3 (voluntary)	Flat rate per week £15.85.
Class 4 (self-employed)	10.25% on profits between £11,908 – £50,270. 3.25% 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 – 2022/2023	£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
2014/2015 – 2022/2023	£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	2021/2022	2022/2023
	£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	2021/2022	2022/2023
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 two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2021/2022	2022/2023
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 EXEMPTION		
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

	2021/2022 Rates	2022/2023 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

	2021/2022	2022/2023
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery* first year allowance for companies to 31/3/2023: Super-deduction		130%
Special rate		50%
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:	0*	1-50	Over 50
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new and unused*

MAIN SOCIAL SECURITY BENEFITS

		2021/2022	2022/2023
		£	£
Child Benefit	First child	21.15	21.80
	Subsequent children	14.00	14.45
	Guardian's allowance	18.00	18.55
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 59.20	Up to £61.05
	Aged 25 or over	Up to 74.70	Up to £77.00
	Main Phase		
	Work Related Activity Group	Up to 104.40	Up to 107.60
	Support Group	Up to 114.10	Up to 117.60
Attendance Allowance	Lower rate	60.00	61.85
	Higher rate	89.60	92.40
Basic State Pension	Single	137.60	141.85
	Married	275.20	283.70
New State Pension	Single	179.60	185.15
Pension Credit	Single person standard minimum guarantee	177.10	182.60
	Married couple standard minimum guarantee	270.30	278.70
	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	59.20	61.05
	Age 25 or over	74.70	77.00
Statutory Maternity, Paternity and Adoption Pay		151.97	156.66

CORPORATION TAX

	2021/2022	2022/2023
Standard rate	19%	19%

VALUE ADDED TAX

	2021/2022	2022/2023
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%

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%