Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 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

This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is a free extension that is available from **https://speechify.com/**. If for accessibility reasons you require this document in an alternative format, please contact us at **online.exams@cii.co.uk** to discuss your needs.

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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)

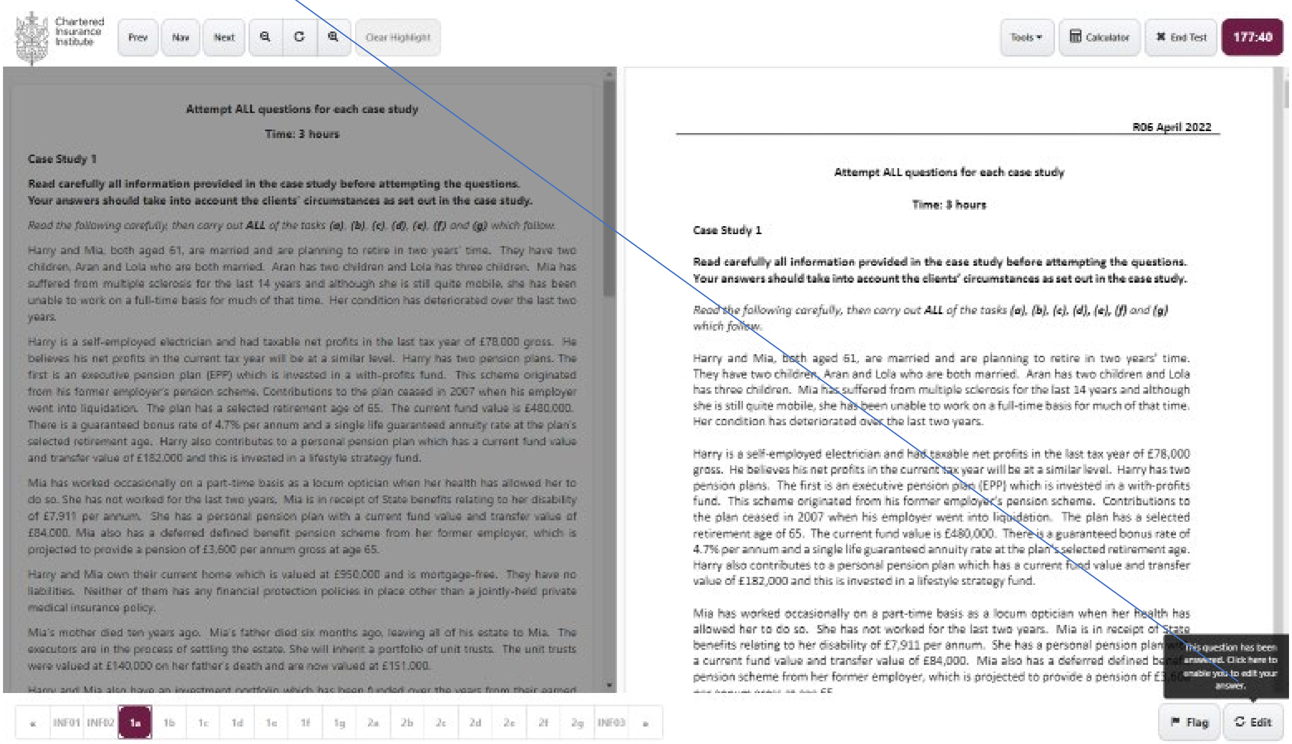
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

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

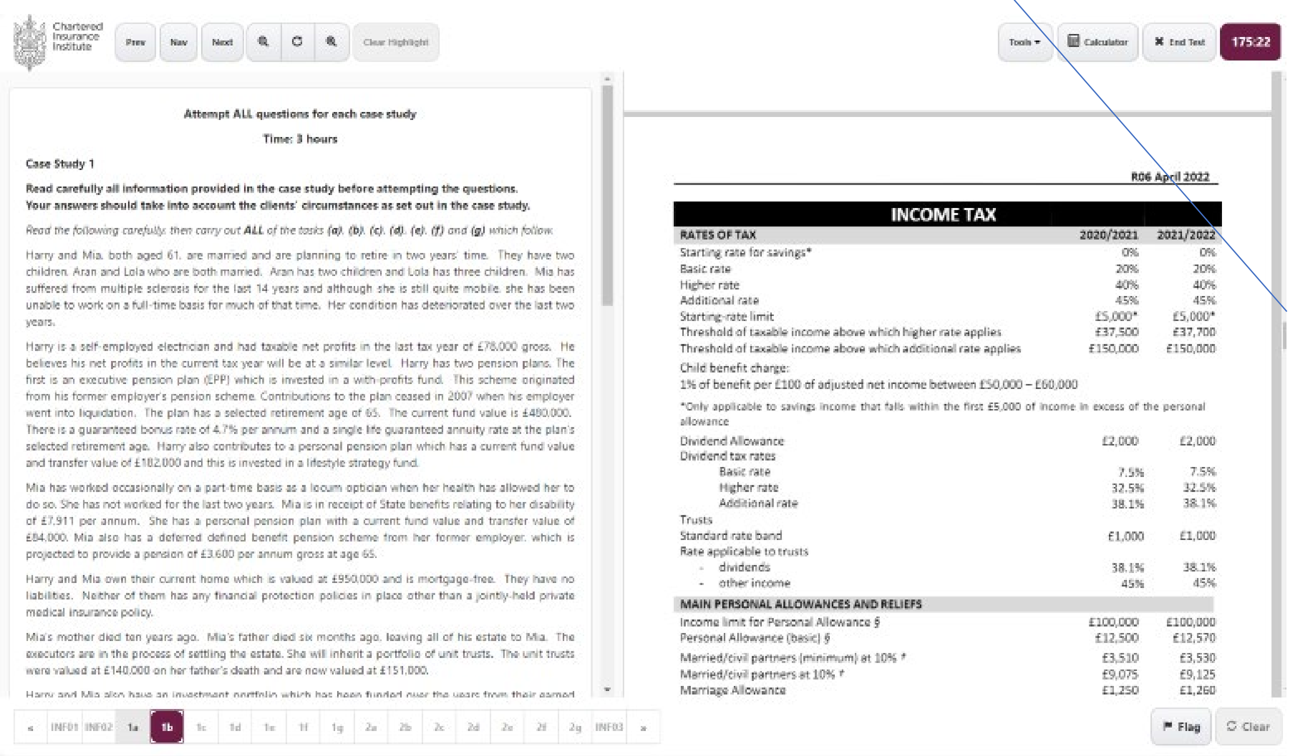
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.**

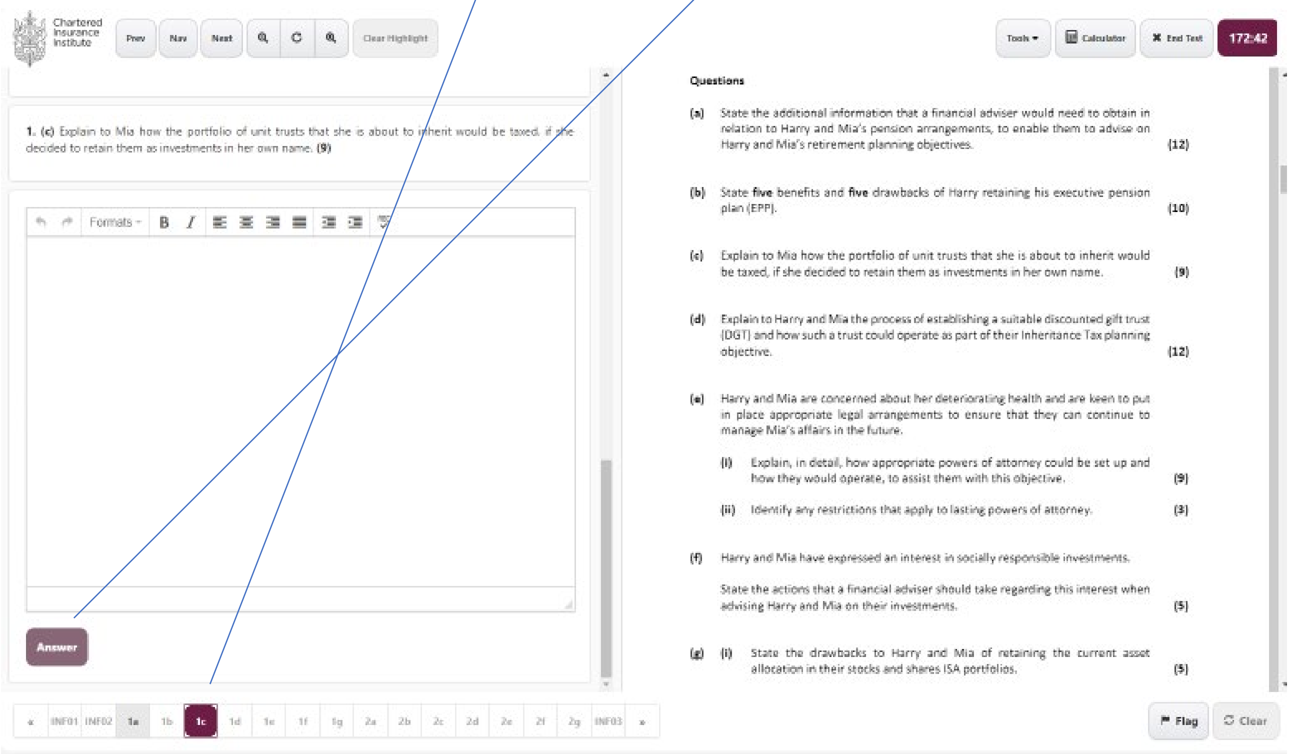
1. From the demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question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



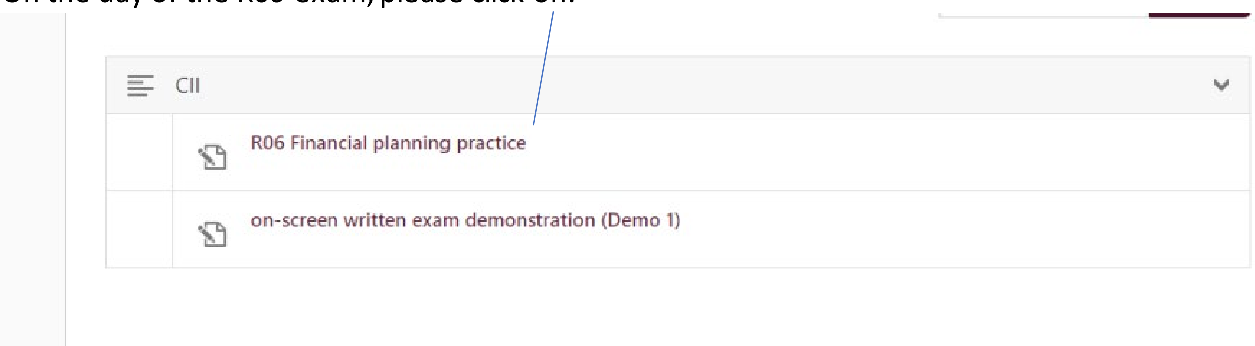
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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.

Most candidates had prepared well for the paper but there were some areas which proved difficult for some candidates, due to a basic lack of understanding of certain areas – notably Deed of Variation in the case of less well-prepared candidates and Private Medical Insurance (PMI) which is a common product and has been tested on many occasions in R06.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require to enable them to advise Jim and Carol on how they could generate an adequate income in retirement. Most candidates performed well and were able to provide some very good answers.

Part (b) required candidates to explain, in detail, to Jim and Carol why they might wish to purchase an annuity using some of their pension funds to meet some of their retirement income needs. General performance was good although many candidates failed to recognise that by taking this option, Jim and Carol would retain some pension funds for Inheritance Tax (IHT) efficiency and potential future tax-efficient investment growth.

In part (c) candidates were asked to explain to Jim and Carol why it is important for them to regularly review the level of income that they draw from their pension funds, if they decide to set up flexi-access drawdown (FAD) arrangements. Many candidates performed well although some provided only limited responses and thus did not achieve many marks.

Part (d) required candidates to outline the reasons why Jim and Carol's current investment holdings may not be suitable to meet their retirement needs. Overall performance was good although a number of candidates failed to identify any of the tax issues which were clear considerations for suitability for Jim and Carol, such as unused allowances and tax charges for both Jim and Carol which could be mitigated.

In part (e) candidates were asked to explain how a Deed of Variation (DOV) should be set up, and to identify the key information that must be included in this document. Although the Case Study made clear that IHT was a concern for Jim and Carol, it was noted that less well-prepared candidates did not have any understanding of a DOV or how it could be used. Many candidates achieved good marks but a minority struggled with this and provided both limited and incorrect answers.

In part (f) candidates were asked to identify the key factors that Jim and Carol should take into consideration when reviewing the ongoing suitability of their Whole of Life (WOL) policy, when the policy reaches its first review date later this year. Overall performance was good and most candidates recognised most of the key factors for consideration.

In part (g) candidates were asked to recommend and justify the actions that Jim and Carol could take to improve the tax-efficiency of their existing financial arrangements. Overall performance was very good and most candidates scored high marks. This is an important area for testing in R06 and it was pleasing to note that performance was of a high standard.

Question 2

In part (a) candidates were asked to state the additional information a financial adviser would require, in order to advise Jenny on identifying a suitable level of emergency fund. Mixed performance was in evidence as this was clearly an issue for Jenny following her divorce. Many candidates failed to identify basic issues such as her current expenditure and her job plans as she has only just returned to work.

Part (b) required candidates to explain to Jenny why it is important to review her current protection arrangements. Many candidates performed well and were able to provide good responses.

Part (c) asked candidates to identify five benefits and five drawbacks for Jenny of taking out an individual PMI policy in her own name. Some disappointing performance from candidates who failed to recognise that amongst other issues, this may not be an affordable option for Jenny, based on her current circumstances.

In part (d) candidates were asked to outline the key factors that you would take into consideration when devising a long-term investment strategy for Jenny. Mixed performance overall as many candidates failed to point out basic issues such as costs and her plans for saving/investing such as using lump sums or regular savings.

Part (e) asked candidates to outline the options that Jenny has available to her in respect of the pension sharing order and to state the factors that a financial adviser should take into account when making a recommendation. Well-prepared candidates performed to a high standard here and had no difficulties with this question. This was clearly identified as a key issue for Jenny in the Case Study and most candidates had researched this topic in detail in advance of the exam.

In part (f) candidates were asked to explain to Jenny why a student loan for Sasha might be a more suitable option than funding her daughter's tuition fees and expenses herself from her lump sum from the divorce. Overall performance was good although some less well-prepared candidates were not able to explain the rules around student loans and their repayment terms. This indicated a lack of preparation as this was highlighted in the Case Study.

Part (g) was a standard review question which asked candidates to state eight issues that an adviser should discuss with Jenny 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), (f)** and **(g)** which follow.*

Jim and Carol, both aged 62, are married and are planning to retire in six months' time. They have two adult children, aged 35 and 32 who are financially independent and one grandchild. Both Jim and Carol have recently stopped smoking.

Jim is employed as a staff manager and receives a gross salary of £62,000 per annum. He is a member of his employer's workplace pension scheme and contributes 7% of his gross salary to the scheme. His employer matches this contribution. Additionally, Jim is due to receive a bonus of £6,000 before he retires and is considering investing this into the workplace pension scheme. His pension has a current value of £340,000 and this is invested in a UK equity fund and a global equity fund.

Carol is employed as a recruitment officer and receives a gross salary of £75,000 per annum. She is a member of her employer's workplace pension scheme and contributes 5% of her gross salary to the scheme. Her employer contributes 7% of her gross salary to the scheme. Her pension has a current value of £280,000 and is invested in a fixed-interest fund.

Jim and Carol own their current home as joint tenants and it is mortgage-free and valued at £650,000.

Carol's father died recently and she is due to receive an inheritance of £200,000 in cash. She is the sole beneficiary of her father's estate.

Jim and Carol set up a joint life last survivor whole-of-life policy some years ago as they were concerned about their potential Inheritance Tax (IHT) liability. This policy is due for its first review later this year.

Jim and Carol have built up a range of investments in ISAs. In addition, Jim holds an open-ended investment company (OEIC) fund and Carol holds some individual shares which she inherited from her late mother a number of years ago. They believe that these holdings may not be suitable for them once they have retired. They have not yet used their ISA allowances for the current tax year.

Jim and Carol are medium to adventurous risk investors and believe they have sufficient capacity for loss to invest in risk-based assets throughout retirement. They have no immediate desire to invest in Environmental, Social and Governance (ESG) investments.

Jim and Carol have up-to-date Wills and lasting powers of attorney. They wish to ensure that as much of their estate as possible can be passed to their two children on second death.

Jim and Carol currently have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	650,000
Current account	Joint	10,000
Cash ISA	Jim	30,000
Cash ISA	Carol	70,000
Stocks & Shares ISA – UK Smaller Companies funds	Jim	220,000
Stocks & Shares ISA – Money Market funds	Carol	170,000
OEIC – UK Fixed-Interest funds	Jim	100,000
Individual Shares – UK Bank shares	Carol	75,000

Their financial aims are to:

- ensure that they have an adequate income in retirement;
- review the suitability of their investments in advance of their retirement;
- consider a range of options in respect of Carol's inheritance and to review their potential Inheritance Tax (IHT) liability.

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require to enable them to advise Jim and Carol on how they could generate an adequate income in retirement. **(14)**

(b) Explain, in detail, to Jim and Carol why they might wish to purchase an annuity using some of their pension funds to meet some of their retirement income needs. **(11)**

(c) Explain to Jim and Carol why it is important for them to regularly review the level of income that they draw from their pension funds, if they decide to set up flexi-access drawdown (FAD) arrangements. **(11)**

(d) Outline the reasons why Jim and Carol's current investment holdings may not be suitable to meet their retirement needs. **(10)**

(e) Carol has decided to pass her inheritance directly to her two children.

Explain how a deed of variation should be set up, and identify the key information that must be included in this document. **(10)**

(f) Identify the key factors that Jim and Carol should take into consideration when reviewing the ongoing suitability of their whole-of-life policy, when the policy reaches its first review date later this year. **(10)**

(g) Recommend and justify the actions that Jim and Carol could take to improve the tax-efficiency of their existing financial arrangements. **(12)**

Total marks available for this question: 78

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.*

Jenny, aged 48, has recently finalised her divorce. Jenny and her ex-husband, Faizal have agreed a financial settlement which has been approved by the court. Jenny and Faizal have a 17-year-old daughter, Sasha, who lives with Jenny.

Jenny has received the family home in the divorce settlement. This is mortgage-free and is valued at £400,000. She has also received a lump sum of £175,000 which represents her share of the other marital assets. This is currently held in her deposit account. Jenny will not receive any maintenance from Faizal as a condition of the divorce settlement.

Jenny has also been awarded a pension sharing order in respect of Faizal's defined contribution pension scheme. Her entitlement is 50% of the value of his pension scheme. Jenny's entitlement is currently worth £180,000. The current pension provider has contacted Jenny and asked her to confirm her intentions with this pension fund.

Jenny has recently returned to full-time employment as a data manager for a technology company. She receives a gross salary of £46,000 per annum. Jenny is a member of her employer's workplace pension scheme and contributes 5% of her gross salary to the scheme. Her employer matches this contribution. Her pension has a current value of £115,000 and this is invested in a cautious managed fund. Her employer offers no additional workplace benefits.

Sasha is planning to go to university next year and Jenny is concerned that she does not want Sasha to graduate with a high level of debt. Jenny is considering the merits of funding a large portion of Sasha's tuition fees and university living expenses herself, instead of allowing Sasha to use student loans.

Jenny is reviewing her protection needs following the completion of her divorce. Prior to the divorce, she was covered under her ex-husband's employer's group private medical insurance policy, but this is no longer the case. Sasha retains her cover under this policy until she leaves university. Jenny is no longer the nominated beneficiary under any of Faizal's workplace benefits.

Jenny is a cautious to medium risk investor and she does not have any concerns in respect of Environmental, Social and Governance (ESG) investments. Following her recent divorce, her capacity for loss is moderate.

Jenny has the following assets:

Assets	Value (£)
Home	400,000
Current account	15,000
Deposit savings account	175,000
Cash ISA	45,000
NS&I Premium Bonds	25,000
Stocks & Shares ISA – UK Tracker fund	48,000

Jenny's financial aims are to:

- ensure her protection arrangements are adequate for her needs;
- consider investment options following the divorce settlement;
- execute the pension sharing order.

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 Jenny on identifying a suitable level of emergency fund. **(10)**

(b) Explain to Jenny why it is important to review her current protection arrangements. **(10)**

(c) Identify **five** benefits and **five** drawbacks for Jenny of taking out an individual Private Medical Insurance (PMI) policy in her own name. **(10)**

(d) Outline the key factors that you would take into consideration when devising a long-term investment strategy for Jenny. **(14)**

(e) Jenny is unsure about the options available to her in respect of her pension sharing order.

Outline the options she has in respect of the pension sharing order and state the factors that a financial adviser should take into account when making a recommendation. **(10)**

(f) Jenny is considering using some of the cash lump sum from her divorce to pay her daughter's university tuition fees and university living expenses.

Explain to Jenny why a student loan might be a more suitable option. **(10)**

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

Total marks available for this question: 72

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

Model answer for Question 1

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

- Current expenditure/affordability.
- Level of income/capital required in retirement.
- Dividend income/Interest Rate on cash.
- Liabilities/any debts/any planned gifts.
- Pension contribution history/carry forward available.
- Employer matching (maximum)/salary sacrifice.
- Use of Capital Gains Tax (CGT) allowances/any carry forward losses.
- Use of other assets/inheritances expected/downsizing/plans for Carol's inheritance.
- Fund choice/fund options available.
- Charges/switching charges.
- Complexity/simplicity.
- Need for guaranteed/flexible income/current annuity rates
- BR19/State Pension.
- Nominations.
- Health status/family health/longevity.
- Guaranteed Annuity Rate (GAR)/protected tax-free cash.

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

- Meets essential expenditure/helps with budgeting.
- Provides guaranteed income.
- Peace of mind/simplicity.
- No investment risk.
- Can be index-linked/inflation protection.
- Can provide spouse's benefits/can provide capital guarantees.
- Potential for growth in residual (non-annuity) pot.
- Cheap/no ongoing charges.
- No ongoing need for advice.
- Enhanced annuity may be available.
- Enables further annuity purchases if rates rise/health deteriorates/keeps options open/short term annuity until State Pension (SP) starts.
- Retains some pension fund for Inheritance Tax (IHT) purposes.

(c)

- Income needs may change.
- Check growth within the plan/plan value/performance.
- Tax position/unused allowances/tax efficiency.
- Market conditions/inflation.
- Sequencing risk/pound cost ravaging/capital erosion/safe withdrawal rate (SWR)/sustainability.
- Income/capital available from other sources/inheritances received/State Pension (SP).
- Inheritance Tax (IHT) planning for children/reduced income protects IHT-free fund.
- Annuity rates/can they achieve a better rate from secure income?/to ensure ongoing suitability of flexi access drawdown (FAD)/impaired life annuity.
- Attitude to risk (ATR)/capacity for loss (CFL).
- Their health/family situation may change.
- Legislation may change.

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

- Portfolio does not match ATR.
- Lack of diversification.
- Excess cash holdings.
- Limited growth potential (mainly deposit based).
- Interest-rate risk/Inflation risk.
- Capital erosion on Money Market fund/charges may exceed returns on Money Market fund.
- Wasted ISA allowance for Carol (no tax benefit to holding Money Market fund).
- Capital Gains Tax (CGT) liability on UK Bank shares/could use interspousal transfer.
- Unused Dividend Allowance (Jim)/Dividend tax for Carol over £2,000.
- Carol not using her Personal Savings Allowance (PSA)/Jim may exceed his PSA (on Fixed-Interest fund).
- Jim pays 40% tax on excess interest on Fixed-Interest fund.
- Individual bank shares may be difficult to manage/monitor.

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

- Must be in writing/legal document/set up by solicitor.
- Signed/dated/witnessed.
- Must state what is being varied (cash).
- Must state children are to benefit.
- Treated as taking place on donor's death.
- Must be executed within two years (of donor's death) so will be effective.
- All affected beneficiaries must agree/only Carol as she is sole beneficiary.
- All affected beneficiaries must be at least 18.
- All affected beneficiaries must be of sound mind.
- No consideration for money or money's worth.
- Deed must contain a statement that it is to have effect for IHT (cash so no other tax implications).

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

- IHT position/review liability/further inheritances due/use of Deed of Variation? (DOV)
- What is sum assured? (SA)/is sum assured enough?
- Any gifts made/any planned gifts/pension contributions.
- What is the new premium?/affordability of new premium/fund performance.
- Next review date (every 5 years?)/frequency of future reviews.
- Can Sum Assured (SA) be reduced/changed?
- Is SA indexed?
- Surrender value.
- Are cheaper policies available?/rebroke.
- Current state of health/underwriting requirements.
- Is it in trust?/willingness of beneficiaries to pay premiums.
- Basis of policy (maximum/balanced?).

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

- Increase pension contributions/salary sacrifice/bonus sacrifice.
- 40% tax relief for both.
- Pension is Inheritance Tax (IHT) free.
- Use ISA allowances/Bed & ISA.
- Tax-efficient growth for ISA/pension.
- Transfer open ended investment company (OEIC) into joint names/transfer Bank shares into joint names.
- Transfer uses interspousal exemption.
- Use of CGT exemptions.
- Carol can use her Personal Savings Allowance (PSA) against interest from OEIC/£500.
- Jim can use his Dividend Allowance/£2,000.
- Use annual gifting allowances/£3,000/gifts out of income.
- Immediate reduction in estate/reduces IHT liability on 2nd death.
- Use Deed of Variation on Carol’s inheritance/use Discounted Gift Trust/Enterprise Investment Scheme;
- Value of inheritance never enters her estate with DOV/reduced IHT liability.

Case Study 2

(a)
- Current expenditure/planned expenditure/any surplus income?
- Does she plan to continue in full-time work?
- Estimated cost of University for Sasha.
- Assets earmarked for University costs?/how does she intend to fund this?/willing to consider student loans?/will Faizal contribute?
- Employer sick pay?/Child Benefit?/National Insurance (NI) records for State Benefits.
- Does she have any debts?
- Any inheritances due?/is she willing to downsize?
- Current state of health/any healthcare needs/does she want to replace Private Medical Insurance? (PMI).
- Job security/potential for promotion.
- Priority of objectives (e.g. protection/retirement).

(b)
- Limited affordability/she is the sole breadwinner/change of circumstances (divorce)/no maintenance from Faizal.
- No life cover/critical illness cover (CIC).
- Financially dependant daughter.
- High potential costs for Sasha (University)/will Faizal contribute?
- She has no employer benefits/likely to have limited sick pay.
- Loss of husband's Private Medical Insurance (PMI)/relies on NHS/needs speedy return to work.
- Potential loss of dependant benefits from Faizal's pension/death in service (DIS).
- No Income Protection (PHI)/Accident Sickness Unemployment (ASU) cover.
- Cannot access pensions at present (too young)/has she updated nominations/Will?
- Unlikely to receive State benefits due to level of assets/cash holdings exceed Financial Services Compensation Scheme (FSCS).

(c) **Benefits**
- Faster treatment/speedy return to work.
- Choice of hospital/Doctor.
- Budget plan/comprehensive plan available.
- Lump sum for overnight stay in NHS hospital.
- Wider range treatments/rehabilitation/helpline.

Drawbacks
- Cost of premium/expensive.
- Future affordability/may never claim/affordability for other financial objectives/premium reviews.
- Underwriting.
- May not meet claim criteria/exclusions/chronic conditions.
- Budget plan has limited cover.

(d)
- Vulnerability.
- Budget/affordability/current assets/liabilities.
- Timeframe/planned retirement age.
- Capital/income needs in future/how much for Sasha's university fund?
- Accessibility/need for liquidity/emergency fund needed.
- Inflation assumptions/growth assumptions.
- Lump sum or regular savings/pound cost averaging/phasing.
- Available tax allowances/ISA/Pension/CGT/Dividend allowance/her tax status.
- Investment experience/Capacity for Loss/Attitude to Risk.
- Diversification/asset allocation.
- Costs/charges/fees.
- Active vs Passive/management style/use of Discretionary Fund Management (DFM).
- Any inheritances due.
- Priority of objectives (retirement vs protection).

(e)
- Any other pension plans she holds.
- Can she retain pension fund with existing pension provider?
- Can she transfer to her current employer scheme?
- Stakeholder pension options/set up new pension plan.
- Costs/charges/discounts for larger investments.
- Planned retirement age/scheme Normal Retirement Date (NRD).
- Fund availability/range of investment options.
- Online access/platform.
- Flexible access in retirement/range of retirement options.
- Service levels of provider.

(f)
- No affordability issues for Sasha in obtaining student loan/easy access to loans/no impact on credit rating.
- No repayments until she is working.
- No interest paid until Sasha graduates.
- Earning threshold must be reached.
- Repay at rate of 9% of salary once earnings threshold reached.
- Debt wiped out after 30 years/40 years.
- Preserves her cash funds from divorce/no loss of capital.
- Jenny can invest money/potential for long-term growth/loss of growth if paid to Sasha.
- Jenny can use tax-free allowances for pension/ISA.
- Will help Jenny meet her long-term objectives.

(g)
- Change in personal circumstances/health/is daughter at university?
- Change in income/expenditure/tax status/capital needs/university costs.
- Has she invested cash from divorce?/has pension transfer been completed?/is protection in place?/lack of FSCS protection.
- ATR/CFL.
- Rebalance/asset allocation/performance.
- Use of allowances/ISA/pension/CGT.
- Charges.
- Change in legislation/taxation/regulation/new products/market conditions/economic conditions.

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

January 2023 Examination - R06 Financial Planning Practice	
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the April and July 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	12%
Above 967.00	2%

**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	13.8%
Excess over 967.00	13.8%

*** 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)	9.73% on profits between £11,908 and up to £50,270. 2.73% 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 £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as below:

- *First-time buyers benefit from SDLT relief on purchases up to £625,000 when purchasing their main residence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,000 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*

- *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.*

- *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.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%