

Chartered
Insurance
Institute

AF4

Advanced Diploma in Financial Planning

Unit AF4 – Investment Planning

May 2022 Examination Guide

SPECIAL NOTICES

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

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

AF4 – Investment planning

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Telephone: 020 8989 8464

Email: customer.serv@cii.co.uk

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully

This 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.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas, however 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.

Note the assumed knowledge

For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

Read widely

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook 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. It is vital that your knowledge is widened beyond the scope of one book. 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 exam 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 information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination paper. 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 take your own tax tables into the examination.*

Know the structure of the examination

Assessment is by means of a three-hour written paper in two sections. All questions are compulsory:

Section A consists of one case study, worth 80 marks. You will be expected to carry out a variety of tasks, after analysing the information provided.

Section B consists of two shorter case studies worth a total of 80 marks. Again you will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment information and Exam policies for candidates

The details of administrative arrangements and the regulations which form the basis of your examination entry are available online at www.cii.co.uk/qualifications/assessment-information/introduction/. This is *essential reading* for all candidates. For further information contact Customer Service.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper 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 been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the three questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i)) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

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.

Where you are asked to perform a calculation, it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

Calculators

If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, **non-programmable** calculator. The use of electronic equipment capable of being programmed to hold alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

EXAMINERS' COMMENTS

Candidates' overall performance

Overall, candidates performed well in this paper.

The question paper tested core and peripheral content from across the syllabus, allowing well-prepared candidates the opportunity to perform to a pass standard, while offering the better-prepared candidates the capability to excel without prejudicing less good candidates.

It was pleasing to see, in the calculation questions, the majority of candidates showed all the relevant workings. Those candidates who did not perform well either used incorrect variables in the correct formula or the incorrect formula.

In candidates, who were not well prepared there were two common behaviours:

Firstly, superficial knowledge resulting in vague answers. Many candidates answers did not contain sufficient points to be able to be awarded the majority of the available marks, often far fewer distinct points than the number of available marks.

Secondly, in questions relating to investment risks, the regurgitation – often verbatim - of previous Examination Guides model answers relating to risk.

It is important to read the question in full, including the *italics*, ensuring that the answer is aligned with the requirements of the question, i.e. focused and not generic.

Fewer candidates wrote expansive, narrative-style answers, in favour of more candidates answering with a succinct, bullet-point focused style. This produces more effective exam technique and in general results in more marks being awarded.

A well-prepared candidate having undertaken robust revision would have been able to achieve the pass standard.

Question 1

In part (a) candidates performed very well, with the majority of candidates achieving over half of the available marks. Those candidates who did not perform well generally set out a variety of examples of a specific factor rather than different factors.

In part (b) candidates performed very well. Most candidates who used the correct formula achieved the maximum marks available. Those candidates who did not perform well used the wrong operator for the income paid out and/or 5 rather than 7 months for the period of the second investment.

Part (c) was answered very well by most candidates. In part (c)(i), almost all candidates were awarded over half of the available marks; those who did not, generally got the tax treatment of the PID element incorrect, believing it to be paid gross, and/or the wrong rate of taxation for the dividend element, despite Akari's tax status being identifiable from the case study.

Candidates performed adequately in part (c)(ii), with most identifying that it is not subject to both Income Tax and Capital Gains Tax. Better prepared candidates also identified that the 20% can be reclaimed with only a small number correctly identifying the mark for this being by the ISA manager, rather than by Akari personally.

In part (c)(iii) the majority of candidates gained over half of the available marks with a good proportion being awarded the maximum marks available. In part (c)(iv) candidates performed adequately and it was pleasing to see a number of candidates identify 'Void' and 'Income', as well as the related descriptions even if they were often the wrong way around. Candidates who did not perform well generally listed generic investment risks as well as regurgitated from previous Examination Guide model answers in respect of investment related risks, which were not aligned with the requirements of the question or relevant to the case study.

Part (d) was performed adequately by candidates. In part (d)(i) the majority of candidates were awarded all the available marks. In part (d)(ii) most candidates achieved over half of the available marks. In part (d)(iii) candidates did not perform well. Knowledge of GAARP was superficial with many candidates simply stating the words 'growth' and 'reasonable price' from the question in the hope of being awarded marks. Candidates who did not perform well also tended to explain either traditional value and growth strategies. This syllabus area was tested for the first time and may be tested again in a subsequent sitting.

In part (e) candidates performed well, with almost all candidates gaining over half of the available marks. In part (e)(i), whilst almost all candidates identified the three forms of EMH, a sufficient number stated other investment terminology, e.g. 'beta' and 'standard deviation' as well as various principles of CAPM/MPT, which meant that these were not automatic marks. In part (e)(ii) almost all candidates identified the correct strategy, Passive, with resultant reasons, although a small number of candidates gave valid reasons why passive would be more effective yet stated Active as the strategy. As part (e)(ii) tested across EMH forms without differentiating between the individual form(s), as would usually be tested, it offered candidates the opportunity to perform well.

Candidates performed adequately in part (f). In part (f)(i) candidates performed surprisingly well given this was being tested for the first time, with a reasonable number of candidates achieving over half of the available marks. Those who did not perform well generally either showed superficial knowledge and/or did not attempt the question-part. In part (f)(ii) candidates did not perform well as again only superficial knowledge was demonstrated. Those candidates who did not perform well generally described the operation of a with-profits fund and/or the assets likely to be held within it.

In part (g) candidates did not perform well. As with part (f) this was tested for the first time but whereas in part (f)(i) candidates appeared to have some awareness of with-profits, in part (g) they did not exhibit awareness of money market funds. Most candidates who did not perform well listed various types of asset and fund that they believed could be held by the two types of fund, with a number stating 'gilts'; 'treasury bills' and 'certificates of deposit' but only a small number of candidates offered any periods for the maturity and life. This syllabus area is given detailed coverage in the study text and some well-prepared candidates did perform well.

Question 2

In part (a) candidates performed well. In part (a)(i) the majority of candidates achieved over half of the available marks. Better prepared candidates were able to identify the marks for inflation and sequencing risk. Candidates who did not perform well generally stated client-related factors, in effect answering part (a)(ii). In part (a)(ii) a number of candidates were awarded maximum marks. As with part (a)(i), candidates who did not perform well generally either answered with investment-related factors, in effect duplicating their answers from part (a)(i).

Overall candidates performed very well in part (b). In part (b)(i) the majority of candidates identified an inflation-related real asset as well as index-linked gilts. In part (b)(ii) most candidates gained over half of the available marks with a good proportion being awarded all the available marks. It was pleasing to see candidates use the case study to produce these answers.

In part (c) candidates performed very well. This syllabus area is tested frequently and candidates generally either know this rule in full or not at all. On this occasion, candidates who did not perform well generally were awarded the mark for up to 10%, often then offering an incorrect number of individual companies and/or a minimum total of greater than 16 stocks.

In part (d) candidates performed adequately. In part (d)(i) almost all candidates achieved the maximum marks available, which was pleasing as the data contained in the table offered candidates two different way of performing the calculation. Candidates who did not perform well either used the incorrect variables from the table and/or did not show all their working so were not able to be awarded all the available marks.

In part (d)(ii) candidates did not perform well with few candidates being awarded any marks. This syllabus area was tested for the first time and indicated poor existing knowledge, with many candidates stating the principles or limitations of CAPM/MPT. In part (d)(iii) candidates performed well, with the majority of candidates being awarded the majority of the available marks. As with part (d)(ii), candidates who did not perform in part (d)(iii) offered limitations of CAPM/MPT or in several instances, alpha.

In part (e) candidates performed well. The majority of candidates achieved over half of the available marks. Only a few candidates did not perform well, with those generally stating client-relating factors and not fund-related factors.

Question 3

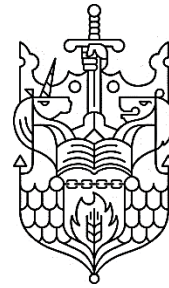
Part (a) was answered well by candidates. In part (a)(i) candidates performed adequately although the ability to explain the concept of dilution was not as good as the ability to calculate its effect as required by part (a)(ii). Those candidates who did not perform well either described dilution in generic terms rather than in relation to the exercising of warrants or made incorrect statements, e.g. 'it increases the share price'. In part (a)(ii), candidates performed very well with the majority achieving full marks.

In part (b) candidates performed well in this question-part. The majority of candidates achieved over half of the available marks with a good proportion achieving the maximum marks available. Candidates who did not perform well either did not attempt the question-part or gave generic characteristics of preference shares, e.g. 'no voting rights' and 'fixed coupon' rather than specific types of preference shares and their respective characteristics.

Part (c) was answered well by most candidates. In part (c)(i) most candidates applied the correct formula and showed all their workings. Those candidates who did not perform well generally used the incorrect variables. In part (c)(ii) candidates performed adequately, with those candidates who did not perform well either they did not show all their workings, or as in part (c)(i), used the incorrect variables. A number of candidates used an incorrect unit for their answer, e.g. pounds or pence, and so were not able to be awarded the final mark.

In part (d) candidates performed adequately. Part (d)(i) was answered well with the majority achieving over half of the available marks and better prepared candidates achieving full marks. Those candidates who did not perform well believed the index in index-linking relates to either interest rates or a stock market index. In part (d)(ii) candidates did not perform well with the majority of candidates offering generic, vague statements about macro-economics or the relationship between yields and interest rates. In part (d)(iii) candidates performed well and those who did not perform well generally stated the differences were FSCS investor protection and/or a stock market listing.

Part (e) was answered well by candidates. Almost all candidates were awarded the majority of the available marks. Candidates who did not perform well incorrectly stated the purchase of assets outside of the scope of a UK strategic bond manager and/or got the actions the wrong way around, e.g. 'increase duration' or 'decrease high yield'.



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Advanced Diploma in Financial Planning

Unit AF4 – Investment planning

May 2022 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions

- Three hours are allowed for this paper.
- Do not begin writing until the invigilator instructs you to.
- Read the instructions on page 3 carefully before answering any questions.
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

Unit AF4 – Investment planning

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
 - Section A: 80 marks
 - Section B: 80 marks
- You are advised to spend approximately 90 minutes on Section A and 90 minutes on Section B.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. 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.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

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

SECTION A

This question is compulsory and carries 80 marks

Question 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. Please carry out ALL of the tasks (a), (b), (c), (d), (e), (f) and (g) which follow.

Akari, aged 42, works in the IT sector. He is employed on a salary of £60,000 per annum. He is an existing retail client of Yana, an independent financial adviser with an authorised advisory firm. Akari is due an annual review of his investment portfolio that consists of collective funds held within a General Investment Account (GIA) and a stocks and shares ISA.

Within the GIA, Akari invested into a global managed fund just over a year ago. Information on the fund's performance over the year is set out in Table 1 below:

Table 1

Initial investment	Income paid out over the year	Second investment after 5 months	Valuation at end of the year
£25,000	£700	£10,000	£38,200

Akari has received the final repayment from an open-ended commercial property fund that has recently wound-up. He would like to re-invest into commercial property and has asked Yana to research other types of fund structure, including real estate investment trusts, in advance of the forthcoming annual review meeting.

Akari would like to know more about the management within his investment funds and upon reading the fund factsheets, has noticed that some funds have different investment styles and one is managed on a top-down basis. Akari has read about the efficient market hypothesis but does not fully understand its impact upon investing.

In addition, Akari holds a with-profits investment bond. This was taken out approximately 20 years ago with a £10,000 inheritance, although he knows little about it and has asked Yana to explain more about how this product works. Akari has previously thought about investing more into the investment bond but the provider no longer offered the product although it did provide him with details of its money market funds as a potential alternative.

Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.

- (a) Outline **nine** factors that Yana would take into consideration when conducting the annual review meeting with Akari. (9)
- (b) Calculate, **showing all your workings**, the money-weighted rate of return (MWR) for the global managed fund. (10)
- (c) (i) State the Income Tax treatment of the **two** types of income payment that can be made by a real estate investment trust (REIT) for Akari if held within his GIA. (6)
- (ii) Outline the tax benefits to Akari if he were to hold a REIT within his stocks and shares ISA compared to within his GIA. (3)
- (iii) List **four** types of fund structure with which a retail client could gain access to the commercial property sector. *Exclude open-ended investment companies (OEICs) and REITs from your answer.* (4)
- (iv) Identify **four** main types of investment risk that would be relevant to open-ended direct commercial property funds and describe briefly **each** of these main types of risk. (8)
- (d) (i) State the main stages of the top-down investment process of a global managed fund. (4)
- (ii) Explain briefly the momentum investment style. (4)
- (iii) Explain briefly the growth at a reasonable price (GAARP) investment style. (4)
- (e) (i) Identify the **three** main forms of the efficient market hypothesis (EMH). (3)
- (ii) State whether an active or a passive investment strategy would be most effective for an equity-based investor if EMH is deemed to be correct and explain the reasons why. (6)

- (f) (i) State the **two** types of bonus for a with-profits policy and describe briefly **each** type, including when they can be applied. (8)
- (ii) Explain briefly the main differences between conventional and variable unitised with-profits funds. (5)
- (g) State the **two** main types of money market fund and identify the key differences in the maturity and life of their respective assets. (6)

Total marks available for this question: (80)

SECTION B

**Both questions in this section are compulsory
and carry an overall total of 80 marks**

Question 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d) and (e) which follow.

Trevor is a retail client of an authorised advisory firm. In advance of his forthcoming retirement, Trevor has scheduled a meeting with his financial adviser, Damba. While Trevor expects to receive an income of £3,000 per annum from an occupational pension scheme as well as the full new State Pension, the majority of his retirement income will be derived from his investment portfolio.

Over the years, Trevor has accumulated £400,000 within the investment portfolio. Damba knows from previous meetings that Trevor has spoken about having a target income from the portfolio of 'somewhere between £15,000 and £20,000 per year', although their discussions have never resulted in identifying a specific figure. One of the objectives of the forthcoming meeting will be to quantify this need in more detail.

Approximately two-thirds of Trevor's portfolio is held in a mix of UK direct equities that he has invested in over the years using his stocks and shares ISA allowance, with the other third held in cash. Trevor has always been happy with his investment strategy, but Damba is concerned at the lack of diversification in the portfolio and is considering adding collective funds as part of a decumulation strategy.

Trevor is concerned about the impact rising inflation would have on his portfolio and resulting income.

One of the funds Damba is evaluating uses a multi-factor investment model. The factsheet infers that the fund aims to control volatility but does not state its beta. Details from the fund factsheet are set out in Table 1 below:

Table 1

Expected return of fund	Historical return of fund	Risk-free rate	Expected return of market
4.7%	3.8%	0.2%	5%

Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answer to **two** decimal places.

- (a) (i) State **five** investment-related factors that Damba would take into consideration when assessing a sustainable withdrawal rate. (5)
- (ii) Identify **four** client-related factors that would be relevant when considering an investment strategy. (4)
- (b) (i) Describe briefly **four** changes that Damba may consider when constructing a portfolio designed for an outlook of a sustained rise in inflation, compared with Trevor's current asset allocation. (4)
- (ii) Identify **five** benefits of using collective funds, compared to holding direct equities, for Trevor's investment portfolio. *Assume that the funds would be held within the ISA and exclude taxation from your answer.* (5)
- (c) Explain the diversification rules for a retail Undertakings for the Collective Investment of Transferable Securities (UCITS) OEIC, based upon the minimum number of permissible holdings and the relevant percentages. (5)
- (d) (i) Calculate, **showing all your workings**, the beta for the multi-factor fund. (6)
- (ii) State the **two** common principles that apply across multi-factor models. (2)
- (iii) Explain briefly the limitations of beta as a measure of risk. (3)
- (e) Explain briefly the main investment-related factors that Damba would take into consideration when deciding whether to choose active or passive strategies for the collective funds. (6)

Total marks available for this question: 40

Question 3

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d), and (e) which follow.

Karla is an investment adviser with an authorised firm of independent financial advisers. The firm holds discretionary management permission and Karla is responsible for the UK equities component of the firm's managed portfolio service (MPS). One portfolio has owned ordinary shares in Cantilever Growth Trust plc, a UK-listed investment trust, for several years. As a result of its recent share price performance, the Trust has announced the eligibility for existing warrant holders to exercise their conversion option. Karla wants to understand the impact of the conversion on the current holding in the company.

Details of the capital structure of Cantilever Growth Trust are set out in Table 1 below:

Table 1

Ordinary shares issued	Warrants issued	Net Asset Value per share	Total capital employed	Long term borrowing	Warrant subscription price
36,000,000	720,000	112.5p	£49,000,000	£8,500,000	70p

Analysis of Cantilever Growth Trust's most recent financial statements reveals that it has issued preference shares. In addition, it proposed resuming its ordinary dividend in 2022 having suspended it last year.

Further financial information relating to Cantilever Growth Trust is out in Table 2 below:

Table 2

Revenue	Costs	Profit attributable to all shareholders	Preference share dividend	Proposed 2022 dividend
£26,200,000	£9,600,000	£5,450,000	£2,100,000	8p per share

In the most recent meeting of the authorised firm's investment committee, Samuel, the manager responsible for the UK fixed interest component of the firm's MPS, decided to alter the weighting between investment and sub-investment grade corporate bonds. In addition, Samuel suggested selling conventional gilts and purchasing index-linked gilts in response to the breakeven inflation rate and economic outlook but he did not provide further information.

Questions

To gain maximum marks for calculations you **must** show **all** your workings and express your answers to **two** decimal places.

- (a) (i) Explain briefly the concept of dilution in respect of the exercising of warrants. (3)
- (ii) Calculate, **showing all your workings**, the **diluted** net asset value (NAV) per share. Assume all of the warrants are exercised. (8)
- (b) List **three** types of preference share and state **one** principal characteristic of **each** type. (6)
- (c) (i) Calculate, **showing all your workings**, the operating profit margin for Cantilever Growth Trust. (5)
- (ii) Calculate, **showing all your workings**, the dividend cover for Cantilever Growth Trust **prior** to the conversion of any warrants. (5)
- (d) (i) Identify the main differences between conventional and index-linked gilts. (4)
- (ii) Explain briefly what is meant by the term 'breakeven inflation rate' and state what it measures. (4)
- (iii) Describe **two** main differences between investment grade and sub-investment grade bonds. (2)
- (e) State **three** investment-based actions that the manager of a UK strategic bond fund would most likely take in anticipation of a sustained economic recovery. (3)

Total marks available for this question: 40

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 scored full marks for any nine of the following:*

- Any change in needs/objectives/requirements/circumstances/State of health/dependents/marital status.
- Any changes in assets & liabilities/income & expenditure/emergency fund
- Any capital gains made/unused gains/use of CGT/ISA allowance.
- Any changes in legislation/Budget/products.
- Review of investment performance against goals/target/benchmark.
- Rebalance of portfolio.
- On-going suitability.
- Any change in ESG/ethical considerations.
- Re-establish AtR/CfL.
- Level of service/advice proposition/adviser charges.
- Market/economic outlook/sentiment.

(b) $\text{£}700 + \text{£}38,200 - \text{£}25,000 - \text{£}10,000 = \text{£}3,900$
 $\text{£}25,000 + (\text{£}10,000 \times 7/12) = \text{£}30,833.33$
 $(\text{£}3,900 / \text{£}30,833.33) \times 100 = 12.648648 = 12.65\%$

(c) (i) **Exempt/PID/Ring-fenced**

- Paid net of 20%/BRT.
- Subject to further 20%/marginal rate tax.
- PSA not available/non-savings income.

Dividend

- Paid gross.
- Taxed at 32.5%.
- Dividend allowance/£2,000 available.

(ii) *Candidates would have scored full marks for any three of the following:*

- ISA manager;
- can reclaim 20%.
- Income/PID/dividend/not subject to Income Tax.
- Gains is tax free/not subject to CGT.

- (c) (iii) *Candidates would have scored full marks for any four of the following:*
- Unit trust.
 - Investment trust.
 - PAIF.
 - UCITS/SICAV.
 - Exchange traded fund.
 - Life/pension funds.
- (iv) *Candidates would have scored full marks for any eight of the following:*
- **Accessibility**
 - Unable to withdraw funds/dealing gated/suspended.
 - **Liquidity/pricing**
 - Fund unable to sell assets at fair price/bid price/dilution levy/hard to sell.
 - **Valuation**
 - Material uncertainty/unable to provide NAV.
 - **Void**
 - Loss of tenant/property empty.
 - **Income**
 - Loss of yield/unable to collect rent/reduction in rental income.
 - **Economic**
 - Assets cyclical/sensitive to business cycle.
- (d) (i)
- Asset class allocation.
 - Geographical allocation.
 - Sector weightings.
 - Individual stock/security selection.
- (ii) *Candidates would have scored full marks for any four of the following:*
- Trend/price movement;
 - likely to continue/further gains to come.
 - Sell before trend ends/reverses.
 - Ignores fundamental/intrinsic value.
 - Shorter term.
- (iii)
- Pay premium/higher price for;
 - stock with specific advantages/qualities.
 - Mix/combination of value and growth.
 - Longer term.

- (e) (i)
 - Weak.
 - Semi-strong.
 - Strong.
- (ii)
 - Passive.
 - Stockpicking does not work.
 - Not possible to outperform market/generate alpha.
 - Market is efficient/market prices in all information.
 - Technical analysis does not work.
 - Transaction costs offset outperformance/outweigh benefit.
- (f) (i) *Candidates would have scored full marks for any eight of the following:*
- **Annual/reversionary**
 - Regular;
 - variable.
 - Once applied cannot be removed.
 - **Terminal/Final**
 - One-off;
 - paid on maturity;
 - death;
 - surrender/redemption.
 - Not guaranteed.
- (ii) *Candidates would have scored full marks for any five of the following:*
- UWP has units/CWP does not.
 - UWP bonus in advance/CWP bonus in arrears.
 - UWP bonus can be changed/CWP cannot.
 - UWP bonus applied to unit price;
 - daily/over course of year.
 - CWP bonus added to sum assured.
 - UWP easier to switch fund.
 - UWP easier to calculate current value/more transparent.
- (g)
 - **Short-term**
 - Up to 60 days maturity.
 - Up to 120 days life.
 - **Standard**
 - Up to 6 months maturity.
 - Up to 12 months life.

Model answer for Question 2

- (a) (i) *Candidates would have scored full marks for any five of the following:*
- Initial yield/natural income.
 - Expected return/growth rate.
 - Taxation.
 - Asset allocation.
 - Charges.
 - Inflation/interest rate outlook.
 - Sequencing/volatility risk.
 - Time horizon.
- (ii) *Candidates would have scored full marks for any four of the following:*
- Age/state of health.
 - Marital status/any dependants.
 - Any other assets/liabilities.
 - Any emergency fund.
 - ESG/ethical preferences.
 - AtR/CfL.
- (b) (i) *Candidates would have scored full marks for any four of the following:*
- Reduce/hold less cash.
 - Diversify into real asset classes.
 - Hold inflation-linked bonds.
 - Own equities with rising/sustainable dividends.
 - Set aside initial income requirement in cash/take profits/use gains to support income.
- (ii) *Candidates would have scored full marks for any five of the following:*
- Access different asset classes.
 - Reduction in systematic risk.
 - Minimisation of non-systematic risk.
 - Access to different sectors/styles/niche.
 - Professional management.
 - FSCS/investor protection.
 - Less admin/involvement.
- (c)
- Minimum 16 holdings.
 - Maximum/up to 10%;
 - in four companies;
 - Maximum/up to 5%;
 - in twelve/rest/others.

- (d) (i) $\text{Beta} = 4.7 - 0.2 / (5 - 0.2)$
 $\text{Beta} = (4.5 / 4.8)$
 $\text{Beta} = 0.9375/0.94$

Alternative:

$$4.7 = 0.2 + \text{Beta} (5 - 0.2)$$

$$4.7 = 0.2 + \text{Beta} (4.8)$$

$$4.5 = \text{Beta} \times 4.8$$

$$(4.5 / 4.8) = \text{Beta}$$

$$0.9375/0.94 = \text{Beta}$$

- (ii) *Candidates would have scored full marks for any two of the following:*

- Investors require extra return;
- for extra risk.
- Focus on risks that cannot be eliminated by diversification.

- (iii)
 - Measure of market risk alone/ignores other factors/risks.
 - Assumes risk-free rate is correct/suitable.
 - Not stable or accurate predictor of future beta.

- (e) *Candidates would have scored full marks for any six of the following:*

Active

- Fund objective/mandate/strategy.
- Manager experience/reputation.
- Alpha/IR/Sharpe/performance/track record.

Passive

- Replication strategy/Tracking error.
- Is market efficient?
- Counterparty risk.

Either

- Diversification/asset allocation.
- Costs/charges.
- Choice/use of benchmark.

Model answer for Question 3

(a) (i) *Candidates would have scored full marks for any three of the following:*

- Company issues new shares.
- Existing shareholders;
- own less of company/shares worth less;
- unless buy additional/new shares.

(ii) $(49,000,000 - 8,500,000) = 40,500,000$
 $720,000 \times 0.7 = 504,000$
 $40,500,000 + 504,000 = 41,004,000$
 $36,000,000 + 720,000 = 36,720,000$
 $(41,004,000 / 36,720,000) = \text{£}1.1167/111.67\text{p}$

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

- **Cumulative/non-cumulative;**
- Missed payments carried / not carried forward.

- **Participating/non-participating;**
- May / may not pay additional dividend.

- **Convertible**
- Right to convert to ordinary shares

- **Redeemable/non-redeemable;**
- Repaid at a set date or by company / no redemption date/undated.

(c) (i) $(26,200,000 - 9,600,000) = 16,600,000$
 $(16,600,000 / 26,200,000) = 0.63359$
 $\times 100 = 63.36\%$

(ii) $5,450,000 - 2,100,000 = 3,350,000$
 $36,000,000 \times 0.08 = 2,880,000$
 $(3,350,000 / 2,880,000) = 1.163194 = 1.163\text{x}$

Alternative:

$5,450,000 - 2,100,000 = 3,350,000$
 $(3,350,000 / 36,000,000) \times 100 = 9.30556$
 $(9.30556 / 8) = 1.163\text{x}$

- (d) (i) *Candidates would have scored full marks for any four of the following:*

Conventional

- Coupon fixed.
- Capital repayment/redemption at par/100p.

Index-linked

- Coupon variable;
- linked to inflation/RPI;
- three/eight months before payment.
- Capital repayment/redemption linked to inflation.

- (ii) *Candidates would have scored full marks for any four of the following:*

- Difference/gap/spread between;
- nominal yield;
- on conventional gilts;
- and real yield;
- on index-linked gilts.
- Expectation of inflation/future inflation rate;
- to breakeven on purchase price.

- (iii) *Candidates would have scored full marks for any two of the following:*

- Investment grade rated BBB- /Baa 3 or higher.
- Investment grade lower default risk.
- Investment grade lower coupon/yield.
- Investment grade longer issue.
- Investment grade lower correlation with equities.

- (e) *Candidates would have scored full marks for any three of the following:*

- Increase high yield/sub-investment grade.
- Move down credit spectrum/sell gilts/increase credit risk.
- Reduce interest rate risk/shorten duration.
- Reduce inflation risk/buy index-linked.
- Increase equity correlation/buy convertible bonds.
- Increase beta/reduce cash.

Glossary of terms

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

1. AA – Annual allowance
2. ACD – Authorised capital director
3. AER – Annual equivalent rate
4. AMC – Annual management charge
5. APR – Annual percentage rate
6. APS – Additional permitted subscription
7. ART – Additional-rate tax
8. AtR – Attitude to risk
9. BRT – Basic-rate tax
10. CAPM – Capital Asset Pricing Model
11. CDS – Credit default swap
12. CfL – Capacity for loss
13. CGT – Capital Gains Tax
14. CPI – Consumer Prices Index
15. CTF – Child trust fund
16. DA – Dividend allowance
17. DB – Defined benefit
18. DC – Defined contribution
19. DCF – Discounted cash flow
20. D/E – Debt-to-equity
21. DJIA – Dow Jones Industrial Average
22. DIM – Discretionary investment management
23. DFM – Discretionary fund manager
24. EBIT/EBITDA – Earnings before interest and tax/depreciation and amortisation
25. EIS – Enterprise investment scheme
26. EMH – Efficient market hypothesis
27. ESG – Environmental, social and governance
28. ETC – Exchange traded commodity
29. ETF – Exchange traded fund
30. ETN – Exchange traded note
31. ETP – Exchange traded product
32. EPS – Earnings per share
33. FAD – Flexi-access drawdown
34. FCA – Financial Conduct Authority
35. FoF – Fund of funds
36. FOS – Financial Ombudsman Service
37. FSCS – Financial Services Compensation Scheme
38. FTSE – Financial Times Stock Exchange
39. GAARP – Growth at a reasonable price
40. GDP – Gross domestic product
41. GIA – General investment account
42. HRT – Higher-rate tax
43. HTBISA – Help to Buy individual savings account
44. IA – Investment Association
45. ICVC – Investment company with variable capital
46. IHT – Inheritance Tax

- 47. ISA – Individual savings account
- 48. IPO – initial public offering
- 49. IFISA – Innovative finance individual savings account
- 50. IT – Income Tax
- 51. JISA – Junior individual savings account
- 52. LCF – Lifetime cash flow
- 53. LISA – Lifetime individual savings account
- 54. LTA – Lifetime allowance
- 55. MPC – Monetary Policy Committee
- 56. MPT – Modern portfolio theory
- 57. MSCI – Morgan Stanley Capital International
- 58. MVR – market value reduction
- 59. MPS – Model portfolio service
- 60. MSCI – Morgan Stanley Capital International
- 61. MVR – Market value reduction
- 62. MWR – Money-weighted rate of return
- 63. NASDAQ – National Association of Securities Dealers Automated Quotations
- 64. NAV – Net asset value
- 65. NICs – National Insurance contributions
- 66. NPA – Normal pension age
- 67. NRA – Normal retirement age
- 68. NRB – Nil rate band
- 69. NS&I – National Savings and Investments
- 70. OCF – Ongoing charges figure
- 71. OEIC – Open-ended investment company
- 72. OPA – Ordinary power of attorney
- 73. OEIC – open ended investment company
- 74. P/B – Price-to-book
- 75. P/E – Price-earnings/price-to-earnings
- 76. PAIF – Property authorised investment fund
- 77. PAYE – Pay As you Earn
- 78. PET – Potentially exempt transfer
- 79. PIA – Property Income Allowance
- 80. PID – Property income distribution
- 81. PPP – Personal pension plan
- 82. PCLS – Pension commencement lump sum
- 83. PRA – Prudential Regulation Authority
- 84. PA – Personal Allowance
- 85. PSA – Personal Savings Allowance
- 86. PTM – Panel of Takeovers and Mergers
- 87. QE – Quantitative easing
- 88. QT – Quantitative tightening
- 89. REIT – Real estate investment trust
- 90. ROCE – Return on capital employed
- 91. ROE – Return on equity
- 92. RPI – Retail Prices Index
- 93. S&P – Standard and Poor's
- 94. SICAV - Société d'investissement à capital variable
- 95. SD – Stamp Duty
- 96. SDLT – Stamp Duty Land Tax

- 97.** SDRT – Stamp Duty Reserve Tax
- 98.** SIPP – Self-invested personal pension plan
- 99.** SEIS – Seed enterprise investment scheme
- 100.** SRI – Socially responsible investing
- 101.** TER – Total expense ratio
- 102.** TWR – Time-weighted rate of return
- 103.** UCITS – Undertakings for collective investment in transferable securities
- 104.** UCIS – Unregulated collective investment scheme
- 105.** UFPLS – Uncrystallised fund pension lump sum
- 106.** VCT – Venture capital trust

All questions in the September 2022 paper will be based on English law and practice applicable in the tax year 2022/2023, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable for examinations from 1 September 2021 until 31 August 2022.

INCOME TAX

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

Child benefit charge:

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

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

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

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance †	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

† where at least one spouse/civil partner was born before 6 April 1935.

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

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

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee

Weekly

Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week

CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 184.00*	Nil
184.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £184 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

Total earnings £ per week

CLASS 1 EMPLOYER CONTRIBUTIONS

Below 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)

Flat rate per week £3.05 where profits exceed £6,515 per annum.

Class 3 (voluntary)

Flat rate per week £15.40.

Class 4 (self-employed)

9% on profits between £9,568 - £50,270.

2% on profits above £50,270.

PENSIONS

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

LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income.

ANNUAL ALLOWANCE

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

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

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

MONEY PURCHASE ANNUAL ALLOWANCE	2020/2021	2021/2022
	£4,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES

Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2020/2021	2021/2022
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.

MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

PRIVATE VEHICLES USED FOR WORK

2020/2021 Rates 2021/2022 Rates

Cars

On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile

Motorcycles

24p per mile 24p per mile

Bicycles

20p per mile 20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

2020/2021 2021/2022

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)

CO ₂ emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100%	18%	6%
	first year	reducing balance	reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

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

CORPORATION TAX

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

VALUE ADDED TAX

	2020/2021	2021/2022
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

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

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

Additional SDLT rules still apply as below.

Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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