Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2023 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

R06 – Financial planning practice

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination, it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your examination preparation. The Examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.

Two weeks before the examination

The case studies

The case studies, containing client information which will form the basis of the examination questions, will be available on the CII website and in RevisionMate.

How should I use my time over the two-week period?

It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the case studies.

How should I use the case studies to help me prepare?

- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions

Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the examination seeks to test

The examination is based on two case studies for fictional clients whose details you will have received two weeks prior to the examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

Test yourself under timed conditions

To gain most benefit from this exercise you should:

- Study the details in the case studies over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper, taking into account the financial objectives provided.
- Compare your answers against the model answers once the three hours have elapsed. The model answers will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies are available to focus on the client details and prepare yourself for the examination day.

On-screen written exam familiarisation (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here: https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

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

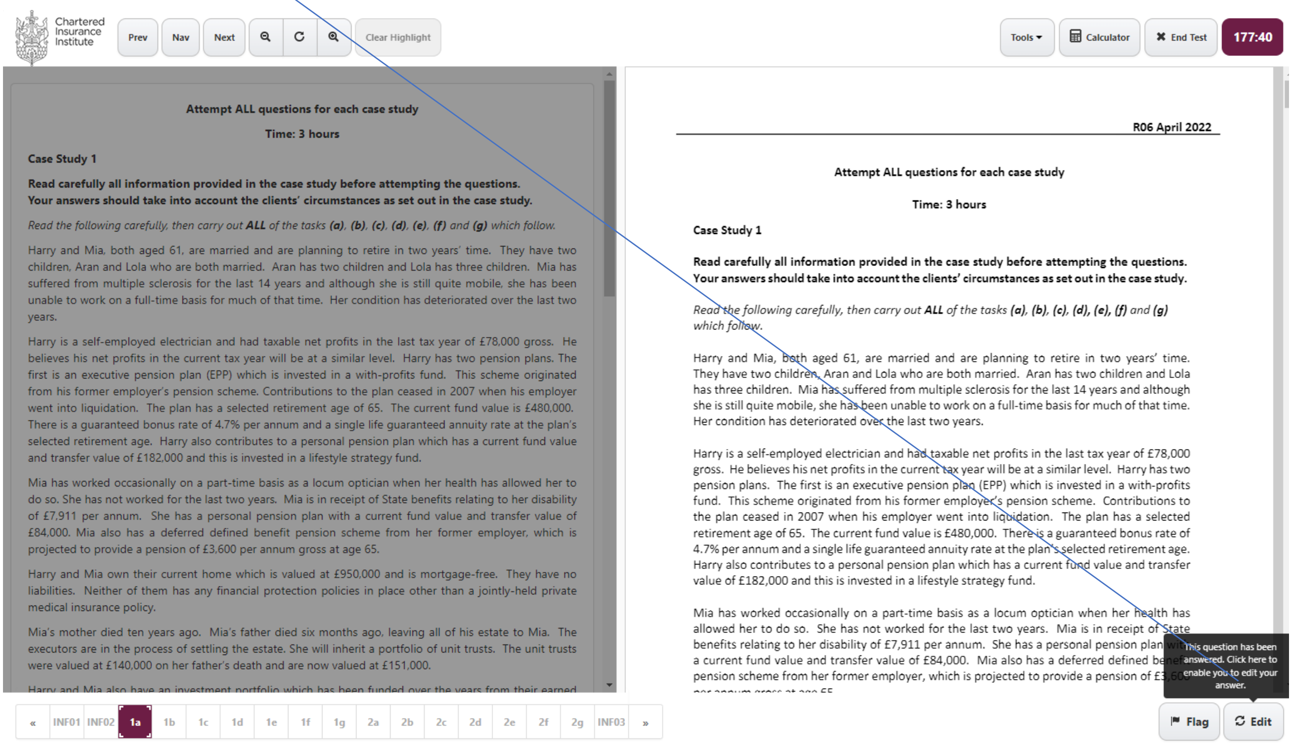
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The familiarisation 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 familiarisation 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.**

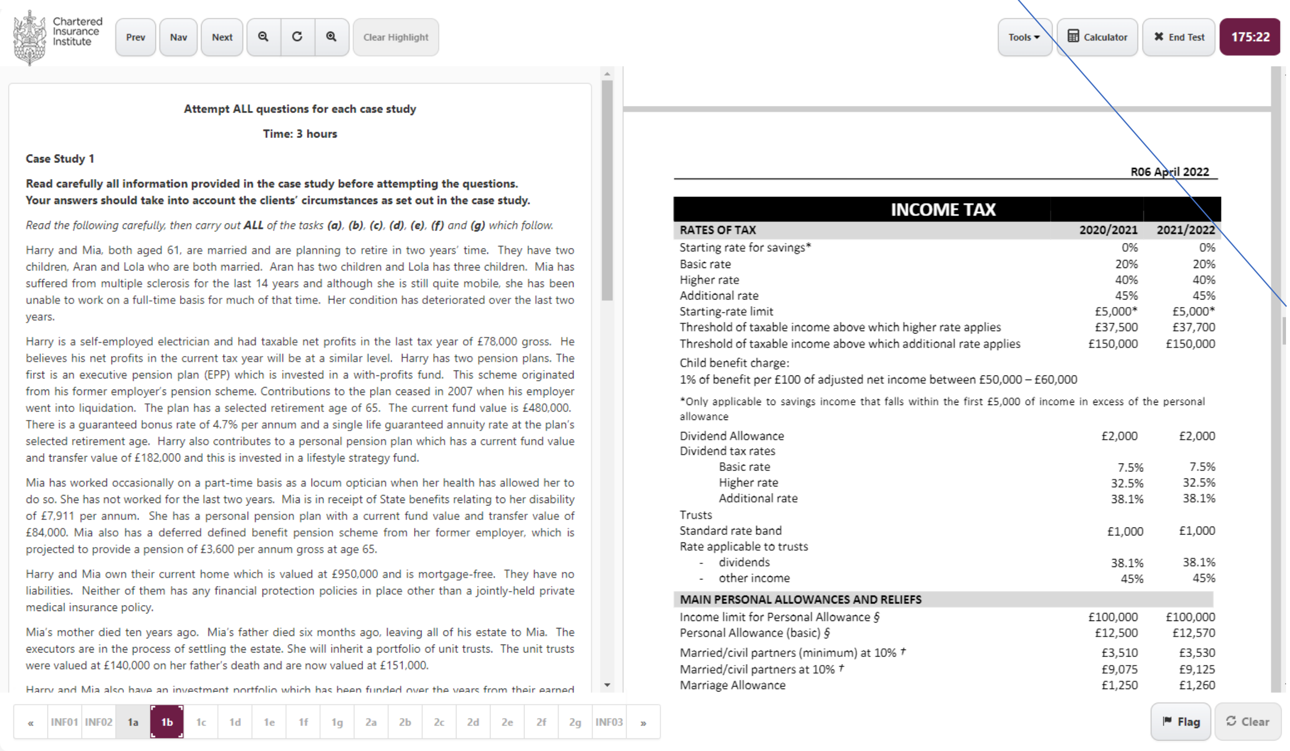
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

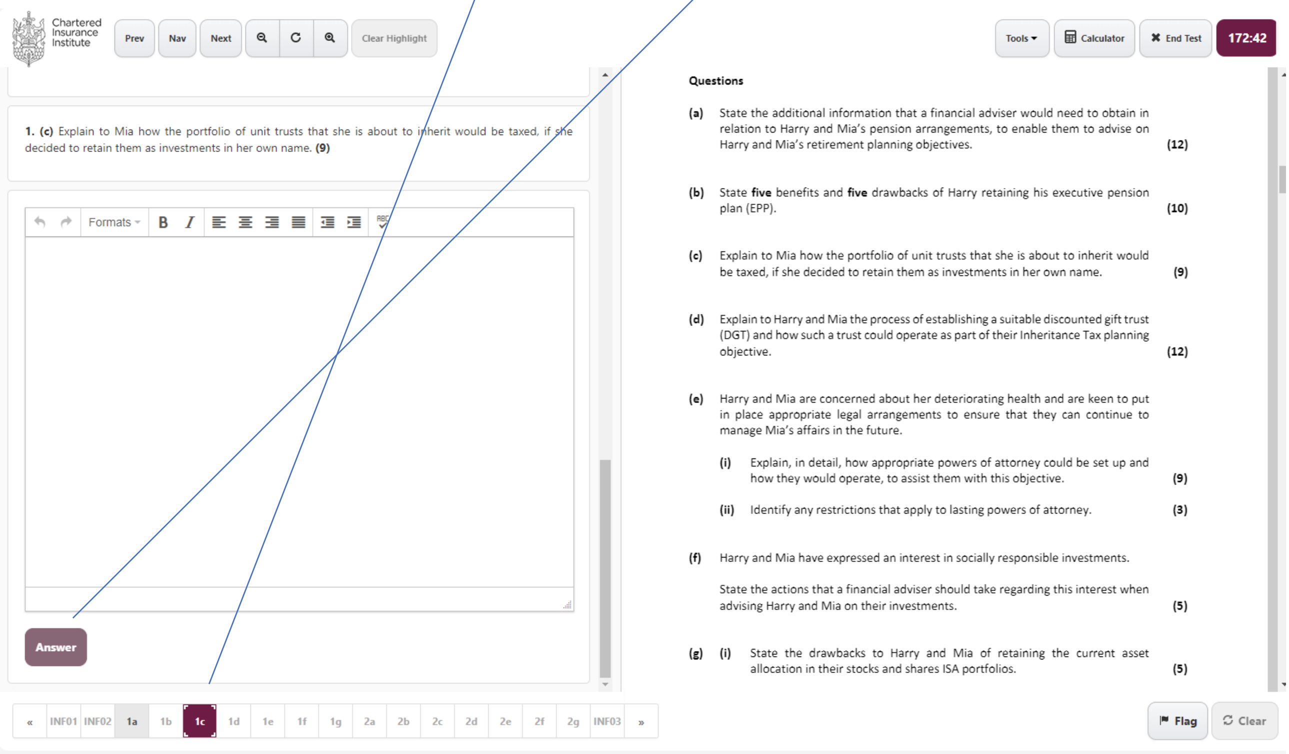
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press ‘Answer’ for the question you are already in otherwise it will not let you select a previous question you have answered to edit. Every 10 seconds, the system auto saves any unsaved work.



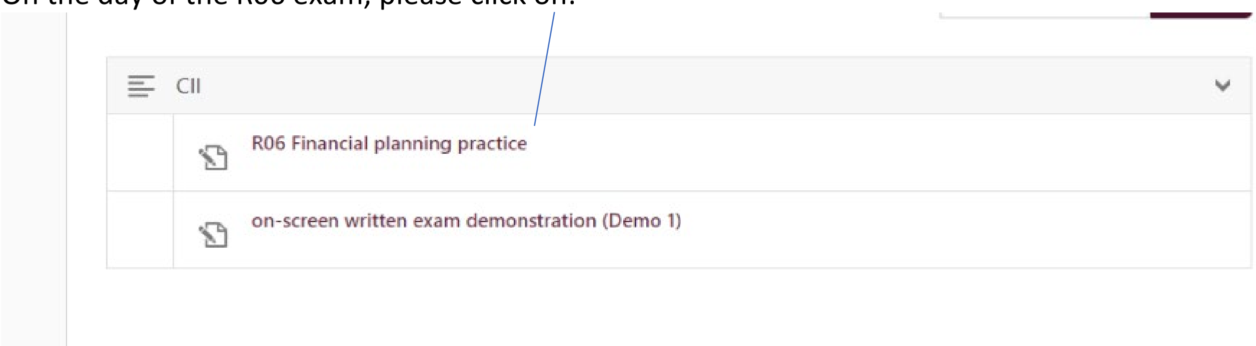
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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 of a reasonable standard although it was noted that a number of candidates appear to have carried out limited preparation in advance of the examination by failing to review the Case Studies in sufficient detail.

Some candidates struggled with areas that were clearly of major concern to the clients, based on the information set out in the Case Studies. This was particularly in evidence in Case Study One where candidates were told that the clients were considering the use of a Trust to provide funds for their grandchildren in future years. Well-prepared candidates had no difficulty in identifying suitable Trust arrangements and explaining how these could be used but a number of candidates failed to carry out sufficient research in advance of the examination to enable them to identify appropriate Trust arrangements or how these could be used by the clients.

It was also noted that in Case Study Two, the client was currently on maternity leave and so could potentially be eligible for Statutory Maternity Pay (SMP). A number of candidates were unable to explain how the client might be eligible for this benefit or how much she might be able to claim.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require in order to advise Declan and Carmen on the suitability of their financial arrangements to meet their long-term needs. Many candidates performed well and were able to provide detailed answers that covered a range of issues.

Part (b) required candidates to identify five benefits and five drawbacks for Carmen of paying Class 3 National Insurance contributions (NIC's) to increase her State Pension. General performance was good.

Part (c) required candidates to recommend and justify a range of actions that Declan and Carmen can take to improve the long-term sustainability of their existing income in retirement. Some mixed performance with many candidates failing to identify a range of actions and focusing on just one or two areas of Declan and Carmen's financial arrangements. Only a limited number of candidates recognised that the clients are holding a high level of cash which may impact the long-term sustainability of their income.

Part (d)(i) required candidates to explain to Declan and Carmen how they should calculate any potential CGT liability on their unit trust funds. Overall performance was good and most candidates were able to provide a detailed explanation of how the liability should be calculated.

In part (d)(ii) candidates were asked to identify any actions which they could take to reduce the potential CGT liability on a future encashment. General performance was good.

In part (e)(i) candidates were asked to explain to Declan and Carmen why they should consider setting up a discretionary trust to pay for their grandchildren's university costs. Well prepared candidates had no issues with this question and provided detailed answers but unfortunately a number of candidates appear to have done very little research in advance of the examination and were unable to provide sufficient detail to achieve high marks. The clients had stated their interest in setting up a Trust in the Case Study that was provided in advance of the examination but it was clear that a number of candidates had failed to carry out sufficient research on this particular area of financial planning.

In part (e)(ii) candidates were asked to explain why they may wish to use an offshore investment bond within the discretionary trust. Limited performance from a number of candidates who demonstrated very poor understanding of the merits of using a Bond arrangement for this type of trust. This is an area where a number of candidates would benefit from further study to understand the operation and tax status of both the Trust arrangement and any underlying asset holdings.

Question 2

In part (a) candidates were asked to identify the key factors that Sam and Kerry should consider when deciding on an appropriate level of emergency fund. Mixed performance as some candidates performed very well but others provided only generic answers and did not focus sufficiently on Sam and Kerry's current position. This type of application-based question can prove to be challenging for candidates who have not prepared sufficiently well in advance of the examination and this was in evidence here.

Part (b) required candidates to identify five benefits and five drawbacks for Sam if he agrees to sacrifice his annual bonus into his workplace pension scheme. Good performance overall and this question did not present any difficulties for the majority of candidates.

Part (c) asked candidates to explain to Sam and Kerry the advantages of making monthly pension contributions rather than making lump sum pension contributions. Some good performance although a number of candidates focused on one area only such as the impact of pound cost averaging and failed to explain other advantages such as the fact that Sam and Kerry require flexibility which would not be offered by a lump sum option.

In part (d) candidates were asked to explain to Sam and Kerry why their current mortgage protection policy may not be suitable for their needs and outline how their protection arrangements in respect of the mortgage could be improved. Some very good performance with most candidates able to explain why the current policy was unsuitable and how it could be improved.

Part (e) asked candidates to recommend and justify a suitable protection product to provide a regular income to support the family in the event of either Sam and Kerry's death. Overall performance was good with most candidates able to identify the use of a Family Income Benefit (FIB) policy.

Part (f) asked candidates to outline the key difficulties that Sam and Kerry might encounter when setting up a suitable Environmental, Social and Governance (ESG) portfolio which meets their requirements. Most candidates achieved reasonable marks and understood the difficulties in identifying suitable funds for investment.

In part (g) candidates were asked to explain to Kerry her potential entitlement to Statutory Maternity Pay (SMP) once her employer's maternity pay of 50% of basic salary ceases in four months' time. Very mixed performance with a large number of candidates being unable to provide any details of SMP at all. This was disappointing as Kerry's current situation was set out clearly in the Case Study.

Part (h) was a standard review question which asked candidates to state eight issues that a financial adviser should discuss with Sam and Kerry at the next annual review. Performance was generally very good with most candidates able to provide a range of issues for discussion.

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 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)*** *and* ***(e)*** *which follow.*

Declan and Carmen, both aged 67, are married and have recently retired. They have three adult children and four grandchildren. Declan and Carmen are both in good health.

Declan receives a State Pension of £10,300 per annum gross and also receives an income from his former employer's defined benefit pension scheme of £45,000 per annum gross. Carmen receives a State Pension of £6,200 per annum gross as she has an incomplete National Insurance record due to extended periods with no paid employment. Carmen also receives a small annuity of £2,500 per annum gross which is on a single life, level basis.

Declan and Carmen own their home and it is mortgage-free. The property is valued at £570,000.

Declan and Carmen have a range of stocks and shares ISA holdings and a portfolio of unit trusts. They have fully used their ISA allowance for the current tax year. The portfolio of unit trusts is showing total capital gains of £140,000 and is jointly held. They take a fixed regular monthly income of £500 each from their ISA portfolios as well as taking the ongoing dividend income from the portfolio of unit trust funds. The unit trust dividend income is approximately £12,750 per annum gross, which is split equally between them.

Declan and Carmen have up-to-date Wills which leave all assets to the survivor on first death and then in equal shares to their three children on second death.

Declan and Carmen are considering the use of a trust to provide funds to assist their grandchildren with future university fees. They are willing to invest up to £200,000 for this purpose but are keen to ensure that they retain a degree of control over the trust and any payments to their grandchildren.

Declan and Carmen have a medium attitude to risk and neither of them has a strong interest in Environmental, Social and Governance (ESG) investments.

Declan and Carmen have the following assets:

Assets	**Ownership**	**Value (£)**
Home	Joint	570,000
Current account	Joint	40,000
Deposit savings account	Joint	60,000
Stocks & Shares ISA – UK Equity Income funds	Declan	300,000
Stocks & Shares ISA – Global Equity funds	Carmen	335,000
Unit Trust funds – UK and European Equity funds	Joint	425,000

Their financial aims are to:

- ensure that they have sufficient income throughout retirement;
- set up a suitable trust arrangement to provide funds for their grandchildren;
- improve the tax efficiency of their financial arrangements.

PLEASE ENSURE YOU TYPE EACH ANSWER PER QUESTION IN THE CORRECT ANSWER BOX

Questions

(a) State the additional information that a financial adviser would require in order to advise Declan and Carmen on the suitability of their financial arrangements to meet their long-term needs. **(15)**

(b) Identify **five** benefits and **five** drawbacks for Carmen of paying Class 3 National Insurance contributions to increase her State Pension. **(10)**

(c) Recommend and justify a range of actions that Declan and Carmen can take to improve the long-term sustainability of their income in retirement. **(14)**

(d) Declan and Carmen understand that there is a potential Capital Gains Tax (CGT) liability on their unit trust funds.

(i) Explain to Declan and Carmen how they should calculate any potential CGT liability on their unit trust funds. *No calculations are required.* **(6)**

(ii) Identify any actions which they could take to reduce the potential CGT liability on a future encashment. **(5)**

(e) **(i)** Explain to Declan and Carmen why they should consider setting up a discretionary trust to pay for their grandchildren's university costs. **(12)**

(ii) Explain to Declan and Carmen why they may wish to use an offshore investment bond within the discretionary trust. **(10)**

Total marks available for this question: 72

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), (g)** and **(h)** which follow.*

Sam and Kerry, both aged 38, are married with three young children. Kerry has been on maternity leave for the past three months due to the arrival of their third child, who is eight weeks old. All of the family are in good health.

Sam is employed as an engineer and receives a salary of £85,000 per annum gross. He is a member of his employer's workplace pension scheme and contributes 5% of his gross salary to the scheme via salary sacrifice. His employer matches this contribution and also invests the employer National Insurance savings as a result of the salary sacrifice into Sam's pension. Sam's pension fund has a current value of £120,000 and is invested in a range of global equity tracker funds.

Sam is also a member of his employer's death-in-service scheme which will pay out three times basic salary on death whilst in service. Sam receives a bonus each year and this year's bonus is likely to be approximately £10,000 gross. Sam has been offered the option of sacrificing this bonus into his pension fund.

Kerry is employed as a sales manager and receives a salary of £38,000 per annum gross. As she is currently on maternity leave, her employer is paying 50% of her basic salary for the next four months. She is a member of her employer's workplace pension scheme. Kerry and her employer each make pension contributions of 6% of her gross salary. These contributions are continuing to be paid throughout the maternity leave, based on her reduced level of salary. Kerry's pension fund has a current value of £62,000 and is invested in a managed fund. Her employer does not offer any other benefits.

Due to the young age of their children, Sam and Kerry are both concerned about their ability to meet their future childcare costs in the event of either of them dying.

Sam and Kerry have a repayment mortgage of £180,000 on their home which is currently valued at £240,000. The mortgage is on a fixed interest rate of 2.7% until July 2024. The mortgage is partially covered by a single-life level term life assurance policy with a sum assured of £100,000 which pays out on Sam's death. Kerry has no financial protection policies of any kind.

Sam and Kerry have limited surplus income whilst Kerry is on maternity leave but expect this position to change when she returns to work later this year. They are both medium to high-risk investors and are keen to build up their savings and investments with a view to possible early retirement. Sam and Kerry have not used their ISA allowances for the current tax year.

Sam and Kerry are interested in Environmental, Social and Governance (ESG) investments and are particularly keen to avoid investment into any tobacco or gambling stocks.

Sam and Kerry have up-to-date Wills which leave all assets to the survivor on first death and then in trust for the children in the event of both deaths occurring before the children reach age 18.

Sam and Kerry have the following assets:

Assets	Ownership	Value (£)
Home	Joint	240,000
Current account	Joint	12,000
Deposit savings account	Joint	18,000
Stocks & Shares ISA – Multi-Asset funds	Sam	36,000
Stocks & Shares ISA – Emerging Market funds	Kerry	52,000

Their financial aims are to:

- improve the suitability and tax-efficiency of their current financial arrangements;
- review their protection arrangements and ensure that adequate financial protection is in place;
- review their existing investments to take account of their ethical views.

Questions

(a) Identify the key factors that Sam and Kerry should consider when deciding on an appropriate level of emergency fund. **(12)**

(b) Identify **five** benefits and **five** drawbacks for Sam if he agrees to sacrifice his annual bonus into his workplace pension scheme. **(10)**

(c) In respect of their retirement planning, explain to Sam and Kerry the advantages of making monthly pension contributions rather than making lump sum pension contributions. **(10)**

(d) Explain to Sam and Kerry why their current mortgage protection policy may not be suitable for their needs and outline how their protection arrangements in respect of the mortgage could be improved. **(10)**

(e) Recommend and justify a suitable protection product to provide a regular income to support the family in the event of either Sam or Kerry's death. **(16)**

(f) Outline the key difficulties that Sam and Kerry might encounter when setting up a suitable Environmental, Social and Governance (ESG) portfolio which meets their requirements. **(7)**

(g) Explain to Kerry her potential entitlement to Statutory Maternity Pay (SMP) once her employer's maternity pay of 50% of basic salary ceases in four months' time. **(5)**

(h) Identify **eight** key issues that a financial adviser should discuss with Sam and Kerry at the next annual review. **(8)**

Total marks available for this question: 78

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 fifteen of the following:*

- Current expenditure/capital needs/affordability/budget.
- When do they wish to set up Trust for grandchildren? how will Trust be funded?/which assets?
- Interest rate on cash.
- Indexation on Defined Benefit (DB) scheme.
- Spouse's pension on DB scheme.
- Funding status of DB scheme/Pension Protection Fund (PPF).
- Details of Carmen's National Insurance (NI) record/how many years can she buy back?
- Cost of NI contributions to fill gaps.
- Use of Capital Gains Tax (CGT) exemption.
- CGT losses registered/losses carried forward/base costs of all Unit Trusts.
- Use of other assets/inheritances expected/downsizing.
- Use of gifting allowances/any previous Potentially Exempt Transfers (PETs)/Chargeable Lifetime Transfers (CLTs).
- Platform/how are ISA & Unit Trusts held?
- Charges/costs.
- Capacity for loss (CFL).
- Priorities.

(b) **Benefits:**

- Increases her income.
- Low cost/good value for money.
- Inflation-linked income/meets need for further inflation-proofing.
- Meets attitude to risk (ATR)/no investment risk.
- Affordable.

Drawbacks:

- Loss of capital/liquidity.
- No benefit for Declan on Carmen's death/poor value for money if she dies early.
- Loss of investment growth.
- Annual increases set by Government/triple lock may be removed.
- Fully taxable to Income Tax/no flexibility for tax planning purposes.

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

- Reduce cash holdings/they hold too much cash/excess emergency fund.
- Cash is liable to inflation-risk/current high levels of inflation/limited potential for growth.
- Transfer cash deposits to Carmen.
- Higher Personal Savings Allowance (PSA) of £1,000/Declan has £500 PSA/starting rate may be available/she pays 20%/he pays 40%.
- Bed & ISA.
- Tax-free income and growth.
- Use CGT exemption each year/register CGT losses.
- Transfer some of Unit Trust portfolio to Carmen/interspousal transfer.
- Reduces Dividend Tax/she pays 8.75%/he pays 33.75%
- Reinvest Dividend income for growth.
- Purchase Purchased Life annuity.
- Class 3 NI voluntary contributions for Carmen/defer Declan's State Pension (SP).
- Provides additional income in future/low cost for NI.
- Make pension contributions of £3,600/£2,880
- 20% tax relief on contributions.

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

- Identify base costs of each Unit Trust/identify any reinvested Dividend Income.
- Deduct base cost from current value to identify gain.
- Gains split 50/50 (joint ownership).
- Calculate any previous capital gains taken in current tax year.
- Deduct any previous losses/losses carried forward/registered/deduct costs of sale.
- Deduct available CGT exemptions.
- Carmen taxed at 10%/Declan taxed at 20%

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

- Bed and ISA in the new tax year.
- Crystalise appropriate gains/maximise CGT allowances (£6,000/£3,000).
- Transfer partial ownership to Carmen.
- She is a Basic rate taxpayer (BRT)/she pays 10%/he pays 20% CGT.
- Register losses with HM Revenue & Customs.
- Could use Enterprise Investment scheme (EIS)/could transfer into discretionary trust (for CGT deferral/holdover relief).

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

- Can vary beneficiaries/flexibility.
- Distributions can be made to categories of individuals (grandchildren).
- Can add further grandchildren.
- They can be Trustees.
- Can add their adult children as Trustees.
- Retain control of Trust funds and distributions.
- Can invest in line with their ATR/future Trust needs/can control investment strategy.
- Ensures money does not automatically pass to grandchildren/no automatic entitlement/grandchildren cannot demand money.
- No immediate IHT liability (as under £325,000)/CLT.
- Out of estate after 7 years.
- All growth outside of estate.
- Can use their Annual Gift Allowances/£3,000 each
- Protects funds for grandchildren/not included for care home fees assessment.

(ii)

- No tax reporting required/simple admin.
- Reduced charges/costs/due to lower reporting requirements.
- Can assign to grandchildren in future.
- Assignment is taxed on recipient when encashed/likely to have Personal Allowance (PA) available/lower tax to pay.
- Recipient can retain segments for tax planning.
- No chargeable event on assignment.
- Gross roll-up.
- Can match ATR.
- Wide choice of funds/Discretionary Fund Manager (DFM).
- Fund switches do not trigger any CGT charges.

Case Study 2

(a)

- Current expenditure/planned capital expenditure.
- Current income/financial/employment position/job security.
- Kerry is on maternity leave/reduced household income.
- When will Kerry return to work?/part-time?
- They have young children /any more children planned?
- Sam’s death in service (DIS) is linked to employment (could be lost).
- Kerry has no life cover at present/limited protection arrangements.
- They have an outstanding mortgage/mortgage costs/likely increase in 2024.
- They have no other debts/any other debts?
- What is employer sick pay for Sam/Kerry?
- ISA’s are accessible/pensions available on death.
- Support from family/friends/State Benefits available.

(b) **Benefits:**

- 40% Income Tax saving.
- National Insurance (NI) saving/employer may share NI saving.
- Investment growth/improves chance of early retirement.
- Tax-free pension wrapper.
- Can be inherited by Kerry tax-free in event of his death before 75.

Drawbacks:

- Immediate loss of bonus/no liquidity/bonus could meet some of their ongoing costs/could provide additional emergency fund/could fund protection needs.
- Cannot access until he is age 57/58/retirement age.
- Affordability/reduced household income as Kerry is on maternity leave/ they have no surplus income at present.
- Investment risk/potential for capital loss.
- Lower borrowing potential.

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

- Pound-cost-averaging.
- They can purchase more units when markets fall.
- Affordability/they cannot afford lump sum investments.
- Flexibility/they can stop and start contributions depending on circumstances.
- Potential for increased growth/greater prospect for improved retirement income.
- Avoids market timing risk/reduces risk of capital loss.
- Sam receives employer NI saving (unlikely on lump sum).
- Savings discipline.
- Simple admin/employer deducts from pay/no admin for Sam or Kerry.
- Employer matching/no employer matching on large lump sums.
- Salary increase = higher pension contributions.

(d)

- No cover for Kerry on existing policy/only pays out for Sam.
- Does not match outstanding mortgage/£180,000.
- May not match mortgage term/term of policy unknown.
- Kerry has no Death In Service (DIS).
- No Critical Illness Cover (CIC)/they need CIC.
- They have no Income Protection Insurance (IPI) policy/need IPI policy/Accident, Sickness Unemployment (ASU) insurance.
- Set up joint life first death policy.
- Decreasing Term matches repayment mortgage
- Both in good health/simple underwriting.
- New policy likely to be affordable.

(e)
- Family Income Benefit (FIB).
- Joint Life First Death.
- Provides cover in event of either death.
- Tax-free income.
- No cover for Kerry at present/no Death-In-Service (DIS).
- Low-cost cover.
- Can select sum assured to meet childcare costs/maintain lifestyle.
- Indexed.
- To keep pace with inflation.
- Term to meet financial dependency of children.
- Simple underwriting.
- No delays/speedy payment.
- Guaranteed premiums.
- Known cost/affordability.
- Waiver of Premium (WOP).
- Pays ongoing premiums in event of sickness/disability.

(f)
- Difficulty in identifying underlying stocks within funds.
- Opaque structure of large companies/may hold tobacco/gambling stocks.
- Ongoing monitoring required.
- Higher charges (higher monitoring required by fund managers).
- Risk of greenwashing.
- Limited fund availability within employer pension arrangements.
- Lack of diversification.

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

- Entitled to 39 weeks of Statutory Maternity Pay (SMP) in total.
- SMP remains in place for a further 2 months (8/9 weeks).
- Maximum SMP is lower of £156.66/£172.48 per week.
- Or 90% of average weekly earnings.
- She must have worked for employer for at least 26 weeks to qualify.
- Payment is subject to Income Tax and NI.

(h)
- Change in personal circumstances/health/family/any more children.
- Change in financial circumstances/income/expenditure/inheritances.
- Attitude to Risk (ATR)/Capacity for Loss (CFL).
- Performance of funds/asset allocation/rebalance/ethical position of funds.
- Has Kerry returned to work?/mortgage rate on offer at end of fixed-rate term.
- Charges.
- Use of tax allowances/ISA/CGT/pensions/did Sam sacrifice his bonus?
- Regulatory/legislation changes/market conditions/economic conditions/ new products.

Glossary of terms

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

- ATR – Attitude to risk
- APS – Additional Permitted Subscription
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- 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
- DTA – Decreasing Term Assurance
- 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
- IPI – Income Protection Insurance
- LPOA – Lasting Power of Attorney
- LTC – Long term care
- 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
- PET – Potentially Exempt Transfer
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- SMP – Statutory Maternity Pay
- TPD – Total Permanent Disability
- UFPLS – Uncrystallised fund pension lump sum
- VCT – Venture Capital Trust
- WOP – Waiver of Premium

July 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 October 2023 papers will be based on English law and practice applicable in the tax year 2023/2024, 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 mainresidence. 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. Therates 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%