THE CHARTERED INSURANCE INSTITUTE

CII

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

November 2011 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2011/2012, unless stated otherwise and should be answered accordingly.

Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.

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 R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper.
- 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.
- 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.

Attempt ALL questions for each case study

Time: 3 hours

Case study 1

Louise, aged 26, lives with her fiancé, Simon, aged 29, and they are shortly expecting their first child.

Louise is a supervisor for a high street fashion store and earns a salary of £20,000 per annum. She is a member of the company's stakeholder pension scheme into which she pays 5% of gross salary which is matched by her employer. A death-in-service scheme is also in place providing one times basic salary.

Louise will return to work after the birth of her child as both sets of grandparents will help with childminding. Louise's parents have stated that they also wish to make an investment for the child's future.

Simon is employed as a chemist. Following a promotion last year, his basic salary has been increased to £45,000 per annum. He is a member of a group personal pension into which his employer pays 7.5% of his gross salary, but Simon does not contribute himself. The company also provides group life cover of two times salary. The normal retirement age is 65. Simon's employer is in the process of setting up a Private Medical Insurance scheme for their employees.

Simon and Louise live in an apartment currently valued at £170,000. They have a repayment mortgage with £130,000 outstanding. The term remaining is 20 years. In view of Louise's pregnancy, they want to move to a house with more bedrooms and a garden. They have savings of £10,000 in a joint building society account and Simon has been investing £300 per month into an ISA investing in an Asia Pacific fund, which is valued at £12,500. They need to accumulate further savings for a deposit on a new property.

They currently have surplus income of around £750 each month.

They do not have any protection plans in place or any Wills.

They are both in good health and have a low to medium attitude to risk. They do not require any advice on income protection.

Their financial aims are to:

- maintain sufficient income during Louise's maternity leave;
- provide financial security in the event of death or serious illness;
- save for their house purchase in a tax efficient manner;
- set up an investment for their expected child.

Questions

(a) **(i)** Identify the additional information that an adviser would require in order to advise Louise on the Statutory Maternity Pay she will be entitled to whilst on maternity leave. **(5)**

(ii) Explain how the pension contributions and employee benefits will be affected whilst Louise is on statutory maternity leave. **(6)**

(b) State the factors that Simon should consider when deciding whether or not to join his employer's proposed Private Medical Insurance scheme. **(9)**

(c) Identify the additional information that an adviser would require in order to advise Simon and Louise on their life cover needs. **(4)**

(d) Recommend and justify the long term protection cover Louise and Simon will need as a **minimum** in the event of:

(i) the death of either of them; **(12)**

(ii) the serious illness of either of them. **(5)**

(e) Louise's parents are considering placing an investment into a bare trust for their new grandchild. Explain the factors that they should take into account when considering the suitability of such a trust. **(10)**

(f) **(i)** Identify the additional information that an adviser would require in order to advise Simon and Louise on saving for their house deposit. **(6)**

(ii) State the investment risk factors that apply to Simon's Stocks & Shares ISA. **(4)**

(iii) List the cost factors that would need to be taken into account if Simon effects a fund switch within his Stocks & Shares ISA. **(2)**

(g) Recommend and justify suitable actions for Louise and Simon to take with regard to their current and future savings and investments for a house deposit. **(10)**

Total marks available for this question: 73

Questions continue over the page

Case study 2

Colin and Jane are both aged 54 and married with two grown-up children who are financially independent. Colin is self-employed and works as an artist, selling paintings to make a living. His net taxable profits for the 2011/2012 tax year will be £75,000. Jane is employed by the local newspaper and earns £12,000 per annum.

A number of Colin's paintings have sold for a significant profit and he and Jane have built up an investment portfolio as follows:

Owner	**Type**	**Value £**
Colin	Onshore Investment Bond, UK Equities	83,000
Colin	UK Equity Unit Trust	44,000
Colin	Cash ISA	22,000
Joint	Current Account	4,000
Jane	Cash ISA	30,000
Jane	Emerging Markets OEIC	77,000

In addition, Colin and Jane jointly own their house, valued at £830,000, as tenants in common. They have a small offset mortgage of £22,000 and their current account is linked to this.

Colin is paying £400 net per month into a personal pension which has a current fund value of £220,000. He would like to retire at age 65, but appreciates that he may have to carry on working if his overall assets are not sufficient. Jane pays £100 net per month into her employer's group personal pension scheme.

Colin and Jane have a low to medium attitude to risk.

Their financial aims are to:

- maximise tax efficiency;
- maintain their current standard of living in retirement;
- assess the suitability of their existing investment portfolio;
- mitigate any potential Inheritance Tax liability;
- decide whether Colin should incorporate his business.

Questions

(a) Identify and explain any errors and inconsistencies in the information provided in the case study. **(6)**

(b) State the additional information that an adviser would require in order to advise Colin and Jane on their retirement planning. **(12)**

(c) State **six** benefits and **four** drawbacks of Colin incorporating his business into a limited company. **(10)**

(d) Outline the actions that Colin and Jane could take to mitigate their potential Inheritance Tax liability and to maximise the value of their children's inheritance. *No calculation is required.* **(13)**

(e) Comment on the suitability of their existing investment portfolio and recommend actions which should be taken to improve its tax efficiency. *No calculation is required.* **(13)**

(f) Outline the process that a financial adviser should follow to assess whether or not Colin has a retirement income shortfall. **(13)**

(g) State the issues which should be addressed at an annual review with Colin and Jane in 12 months' time. **(10)**

Total marks available for this question: 77

The tax tables can be found on pages 9 - 13

INCOME TAX

RATES OF TAX	2010/2011	2011/2012
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	50%
Starting-rate limit	£2,440*	£2,560*
Threshold of taxable income above which higher rate applies	£37,400	£35,000
Threshold of taxable income above which additional rate applies	£150,000	£150,000

**restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.*

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£6,475	£7,475
Personal Allowance (age 65-74) §	£9,490	£9,940
Personal Allowance (aged 75 and over) §	£9,640	£10,090
Married/civil partners (minimum) at 10% †	£2,670	£2,800
Married/civil partners (age 75 and over) at 10%	£6,965	£7,295
Income limit for age-related allowances	£22,900	£24,000
Blind Person's Allowance	£1,890	£1,980
Enterprise Investment Scheme relief limit on £500,000 max	20%	30%
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.
† where at least one spouse/civil partner was born before 6 April 1935.

Child Tax Credit (CTC)		
- family element	£545	£545
- family element baby addition	£545	Withdrawn
CTC usually reduced by 41% of joint income (6.67% for 2010/2011) over	£50,000	£40,000

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£102	£442	£5,304
Primary threshold	£139	£602	£7,225
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£817	£3,540	£42,475

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate
Up to 139.00*	Nil	Nil
139.01 – 770.00	12%	10.4%
770.01 – 817.00	12%	12%
Above 817.00	2%	2%

** This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £102 per week. This £102 to £139 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	*Money purchase*
Below 136.00**	Nil	Nil	Nil
136.01 – 770.00	13.8%	10.1%	12.4%
770.01 – 817.00	13.8%	13.8%	13.8%
Excess over 817.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.50 where earnings exceed £5,315 per annum.
Class 3 (voluntary)	Flat rate per week £12.60.
Class 4 (self-employed)	9% on profits between £7,225 - £42,475 plus 2% on profits above £42,475.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000

ANNUAL ALLOWANCE CHARGE
20% - 50% member's tax charge on the amount of total pension input in excess of the annual allowance.

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, which is subsequently taxed under PAYE.

INHERITANCE TAX

RATES OF TAX ON DEATH TRANSFERS	2010/2011	2011/2012
Transfers made after 5 April 2011		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTIONS		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£55,000	£55,000
- UK-registered charities	No limit	No limit
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	£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%

CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO_2) emissions. There is no reduction for high business mileage users.

For 2011/2012:
The percentage charge is 15% of the car's list price for CO_2 emissions at or below the qualifying level of 125g/km.

- Cars with CO_2 emissions of less than 75g/km have an appropriate percentage of 5%.
- Cars with CO_2 emissions of 76g/km to 120g/km have an appropriate percentage of 10% and thereafter the rate is 15% increasing by 1% for every 5g/km to the current maximum of 35% (emissions of 225g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards . However, the maximum charge remains 35% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£18,800 for 2011/2012) e.g. car emission 155g/km = 21% on car benefit scale. 21% of £18,800 = £3,948

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance Contributions (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

2011/2012 Rates

Cars	
On the first 10,000 business miles in tax year	45p per mile
Each business mile above 10,000 business miles	25p per mile
Motor Cycles	24p per mile
Bicycles	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2011/2012
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£100,000
Plant & machinery (reducing balance) per annum	20%
Patent rights & know-how (reducing balance) per annum	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	10%
Energy & water-efficient equipment	100%
Zero emission goods vehicles (new)	100%
Qualifying flat conversions, business premises & renovations	100%

Motor cars: Expenditure on or after 01/04/09 (Corporation Tax) or 06/04/09 (Income Tax)

CO_2 emissions of g/km:	110 or less *	111-160	161 or more
Capital allowance:	100% first year	20% reducing balance	10% reducing balance

* If new

Research & Development:	Capital expenditure	100%

MAIN SOCIAL SECURITY BENEFITS

		2010/2011	2011/2012
		£	£
Child Benefit	first child	20.30	20.30
	subsequent children	13.40	13.40
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	N/A	Up to 53.45
	Aged 25 or over	N/A	Up to 67.50
	Main Phase		
	Work Related Activity Group	N/A	Up to 94.25
	Support Group	N/A	Up to 99.85
Attendance Allowance	lower rate	47.80	49.30
	higher rate	71.40	73.60
Retirement Pension	single	97.65	102.15
	married	156.15	163.35
Pension Credit	single person standard minimum guarantee	132.60	137.35
	married couple standard minimum guarantee	202.40	209.70
	maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		97.65	100.70
Jobseekers Allowance	Age 16 - 24		53.45
	Age 25 or over	65.45	67.50

CAPITAL GAINS TAX

EXEMPTIONS	2010/2011	2011/2012
Individuals, estates etc	£10,100	£10,600
Trusts generally	£5,050	£5,300
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	18%/28%*	28%
Trustees and Personal Representatives	18%/28%*	28%
Entrepreneurs' Relief – Gains taxed at:	10%	10%
Lifetime limit	£5,000,000 / £2,000,000**	£10,000,000

For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.

**   18% rate applies to disposals on or before 22/06/10. 28% thereafter.*
*** For disposals 06/04/10 to 22/06/10: £2,000,000. £5,000,000 until 05/04/11*

CORPORATION TAX

	2010/2011	2011/2012
Full rate	28%	26%
Small companies rate	21%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	27.5%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2011/2012
Standard rate	20%
Annual Registration limit	£73,000

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