THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2015 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2015/2016, unless stated otherwise 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 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

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e), (f), (g)** and **(h)** which follow.*

Kate, aged 46, has recently divorced and has two children, Sam, aged 16, and Julie, aged 14, who live with her.

Under the terms of the divorce settlement, Kate has recently received a lump sum of £400,000 which is all held in a deposit account with her bank. Kate is not receiving any maintenance payments for the children from her ex-husband. The children are in State schools and, as part of the divorce settlement, Kate is expected to fund the children's university education from the lump sum payment she received.

Kate owns the house that she and her children live in and it is valued at £200,000. There is no mortgage attached to the property. She would like to invest in a buy-to-let property as she has heard that this type of investment can provide good returns.

Kate has a stakeholder pension plan with a current value of £110,000. This is invested in a lifestyle fund. The stakeholder pension has a normal retirement age of 65, offers limited investment choices and has an annual management charge of 1.5%. Kate does not make any pension contributions at present and has no other pension schemes.

In addition to the lump sum of £400,000, under the terms of the divorce, Kate has been awarded a sum of £150,000 from her ex-husband's defined contribution pension plan. The pension provider has stated that this must be transferred to an alternative pension plan within the next three months.

Kate is employed part-time by a small company and earns £15,000 per annum gross. Her employer does not provide any employee benefits at present. She has no life cover or any other protection arrangements in place and is unsure whether she is entitled to any State benefits to support her income.

A mirror Will and a Lasting Power of Attorney were made a few years ago with her ex-husband as attorney but she has not updated either of these documents since they were set up.

Kate is a medium-risk investor and is not expecting to receive any inheritances.

Kate's financial aims are to:

- provide adequate financial protection until her children finish university;
- arrange for the transfer of her ex-husband's pension benefits;
- purchase a buy-to-let property;
- ensure she has an adequate income throughout her lifetime.

Questions

(a) State the key additional information that you would require to advise Kate on how to achieve the following financial aims.

(i) Provide adequate financial protection until her children finish university. **(7)**

(ii) Ensure she has adequate income throughout her lifetime. **(7)**

(b) Explain briefly to Kate, based on her current working arrangements, if she has any entitlement to State benefits at present to provide her with additional income. *No calculation is required.* **(5)**

(c) State **five** advantages and **five** disadvantages of Kate using a buy-to-let mortgage to purchase a rental property rather than buying a property outright. **(10)**

(d) **(i)** State **six** drawbacks of Kate's stakeholder pension remaining invested in a lifestyle fund. **(6)**

(ii) Explain to Kate why it may be beneficial to transfer the value from her ex-husband's pension plan into a self-invested personal pension plan (SIPP). **(6)**

(e) Explain to Kate why the holding in her existing cash deposit account may be unsuitable for her circumstances. **(10)**

(f) Recommend and justify **one** suitable protection policy to protect Kate and the children both in the event of Kate's death as well as serious illness. **(12)**

QUESTIONS CONTINUE OVER THE PAGE

(g) Explain what effect Kate's divorce will have on her existing Will and Lasting Power of Attorney. **(6)**

(h) State **six** actions Kate could take to reduce or mitigate the potential Inheritance Tax liability on her estate. **(6)**

Total marks available for this question: 75

Case study 2 can be found on pages 8 – 9

Case study 2

*Read the following carefully, then carry out **ALL** of the tasks **(a), (b), (c), (d), (e)** and **(f)** which follow.*

Donald, aged 58, and Jackie, aged 55, are married and have two adult children, who are both married and financially independent. They also have four young grandchildren. Donald has recently suffered a heart attack and now takes daily medication. Donald has returned to work, although he is planning to retire in the near future and would like to consider the various options available to him for providing an income for himself and Jackie in retirement.

Donald is employed by a large retailer and receives a salary of £65,000 per annum gross. Jackie is an accounts manager and receives a salary of £25,000 per annum gross.

Donald has a personal pension plan with a fund value of £450,000 which is invested in three funds: a UK equity fund, an emerging markets fund and a with-profits fund. Donald and his employer both contribute 5% of his gross basic salary to this plan. Jackie has a stakeholder pension plan with a fund value of £47,000 and she contributes £50 per month net. Jackie's employer does not currently offer a pension or any other benefits.

Donald and Jackie own their home as joint tenants. This is mortgage-free and valued at £350,000. They plan to leave as much of their estate as possible to their two children and have both made mirror Wills, which leave their assets to each other and thereafter to their children in equal shares. Donald and Jackie are keen to ensure that their assets can be managed on their behalf, should either of them suffer from further illness.

Donald has a medium attitude to risk and Jackie has a low to medium attitude to risk. They have both stated that they are interested in socially responsible investments.

They have the following assets:

Investments	Ownership	Amount
Stocks and shares ISA – UK property fund	Donald	£49,000
Investment trust – Global equity income fund	Donald	£54,000
Unit Trust – European equity fund	Donald	£47,000
OEIC – UK smaller companies fund	Donald	£34,000
Stocks and shares ISA – Corporate bond fund	Jackie	£65,000
Onshore investment bond (unitised with-profits fund)	Joint	£80,000
Bank current account	Joint	£5,000
Bank deposit account	Joint	£60,000

Their financial aims are to:

- ensure that they have sufficient income in retirement;
- improve their tax-efficiency;
- preserve the value of their estate for their children;
- invest in a socially responsible manner.

Questions

(a) Identify the additional information that you would need to advise Donald and Jackie on how to generate sufficient income in retirement. **(12)**

(b) **(i)** State **seven** advantages and **seven** disadvantages of using flexi-access drawdown to take Donald's retirement benefits rather than using a lifetime annuity. **(14)**

(ii) State the death benefit options that would be available if Donald transfers his pension to a flexi-access drawdown plan and the taxation treatment of these death benefits. **(6)**

(c) **(i)** Comment briefly on the suitability of Donald and Jackie's personal investments. **(5)**

(ii) Recommend and justify how the tax-efficiency of their investments could be improved in the current tax year 2015/2016. *Ignore Inheritance Tax in your answer.* **(12)**

(d) State why Donald and Jackie should each consider arranging a Lasting Power of Attorney and explain briefly how these would be set up. **(8)**

(e) **(i)** List **six** key areas for investment which may be **excluded** by socially responsible investment managers. **(6)**

(ii) State **five** drawbacks of using a socially responsible investment strategy. **(5)**

(f) Donald has retired and entered a flexi-access drawdown arrangement.

Identify **seven** issues relating to this arrangement that you should discuss with Donald and Jackie at your annual review meeting. **(7)**

Total marks available for this question: 75

The tax tables can be found on pages 11 – 17

INCOME TAX

RATES OF TAX	2014/2015	2015/2016
Starting rate for savings*	10%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,880*	£5,000*
Threshold of taxable income above which higher rate applies	£31,865	£31,785
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000

**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 if born after 5 April 1948) §	£10,000	£10,600
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,600
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) at 10% †	£3,140	£3,220
Married/civil partners at 10% †	£8,165	£8,355
Transferable tax allowance for married couples/civil partners	N/A	£1,060
Income limit for age-related allowances §	£27,000	£27,700
Blind Person's Allowance	£2,230	£2,290
Enterprise Investment Scheme relief limit on £1,000,000 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.

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,750	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,010	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£112	£486	£5,824
Primary threshold	£155	£672	£8,060
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£815	£3,532	£42,385

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate (final salary)
Up to 155.00*	Nil	Nil
155.01 – 770.00	12%	10.6%
770.01 – 815.00	12%	12%
Above 815.00	2%	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £112 per week. This £112 to £155 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 156.00**	Nil	Nil	Nil
156.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 815.00	13.8%	13.8%	13.8%
Excess over 815.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.80 where profits exceed £5,965 per annum.
Class 3 (voluntary)	Flat rate per week £14.10.
Class 4 (self-employed)	9% on profits between £8,060 - £42,385. 2% on profits above £42,385.

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
2012/2013	£1,500,000	£50,000
2013/2014	£1,500,000	£50,000
2014/2015	£1,250,000	£40,000
2015/2016	£1,250,000	£40,000 *§*

ANNUAL ALLOWANCE CHARGE

20% - 45% member's tax charge on the amount of total pension input in excess of the annual allowance.

MONEY PURCHASE ANNUAL ALLOWANCE	2014/2015	2015/2016
	N/A	£10,000*

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.

§ increased to £80,000 from 6 April - 8 July 2015. If not used, can be carried forward to 9 July 2015 - 5 April 2016, subject to a maximum of £40,000.
** transitional rules apply to the calculation for pre/post 8 July 2015 position.*

CAPITAL GAINS TAX

EXEMPTIONS	2014/2015	2015/2016
Individuals, estates etc	£11,000	£11,100
Trusts generally	£5,500	£5,550
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	28%	28%
Trustees and Personal Representatives	28%	28%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2014/2015	2015/2016
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

For deaths after 5 April 2015, a lower rate of 36% applies where at least 10% of deceased's net estate is left to 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
- 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 2015/2016:

- The percentage charge is 5% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 9%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 13%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 14% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 210g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% 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 (£22,100 for 2015/2016) e.g. car emission 100g/km = 15% on car benefit scale. 15% of £22,100 = £3,315.

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 contribution's (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2014/2015 Rates	2015/2016 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
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2014/2015	2015/2016
Plant & machinery (excluding cars) 100% annual investment allowance (first year) *§*	£500,000	£500,000
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	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 01 April 2015 (Corporation Tax) or 06 April 2015 (Income Tax)

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

§ From 01 January 2016 allowance will decrease to £200,000.

CORPORATION TAX

	2014/2015	2015/2016
Full rate	21%	20%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	21.25%	20%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2014/2015	2015/2016
Standard rate	20%	20%
Annual registration threshold	£81,000	£82,000
Deregistration threshold	£79,000	£80,000

MAIN SOCIAL SECURITY BENEFITS

		2014/2015	2015/2016
		£	£
Child Benefit	First child	20.50	20.70
	Subsequent children	13.55	13.70
	Guardian's allowance	16.35	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.35	Up to 57.90
	Aged 25 or over	Up to 72.40	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 101.15	Up to 102.15
	Support Group	Up to 108.15	Up to 109.30
Attendance Allowance	Lower rate	54.45	55.10
	Higher rate	81.30	82.30
Retirement Pension	Single	113.10	115.95
	Married	180.90	185.45
Pension Credit	Single person standard minimum guarantee	148.35	151.20
	Married couple standard minimum guarantee	226.50	230.85
	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		111.20	112.55
Jobseekers Allowance	Age 18 - 24	57.35	57.90
	Age 25 or over	72.40	73.10
Statutory Maternity, Paternity and Adoption Pay		138.18	139.58