THE CHARTERED INSURANCE INSTITUTE

CII

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

April 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2017 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.

AF5 – Financial planning process

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

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

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk or from Customer Service. 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
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
The best way to understand what the examiners require is to study the CII Examination Guides. You can purchase copies of Examination Guides online at www.cii.co.uk. CII members can download free copies of past Examination Guides online at www.cii.co.uk/knowledge. 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. The examiner's comments on candidates' actual performance in each question should be noted carefully.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of each examination paper and 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 take your own tax tables into the examination.*

Note the assumed knowledge
For this Advanced Diploma in Financial Planning, candidates are assumed to have already the knowledge gained from studying the relevant units of the Advanced Diploma, Diploma and Certificate in Financial Planning or the equivalent.

Understand the nature of assessment
Assessment is by means of a three-hour written paper. 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.

Familiarise yourself with the fact-find
The examination has been specially written by practitioners with relevant technical knowledge and experience. It is then put through a rigorous editing procedure by a panel of active practitioners to ensure that the fact-find is both technically and structurally correct. At least one qualified practitioner then acts as a scrutineer by sitting the paper in advance and writing a report on it. The scrutineer's comments are taken into account in producing the final examination paper.

Appreciate the standard of the examination
Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a sophisticated scheme of investment.* These clients require a critical appraisal of the various financial planning options available to them.

Test yourself under timed conditions
You should test your report writing skills under timed conditions. A good way to do this and to assess your technical knowledge at the same time is to set yourself a mock examination using the Examination Guide. To gain the most benefit from this exercise you should:

- Study the fact-find detail 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 answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently holistic and if your 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 fact-find details arrive to focus on the client details and prepare yourself for the examination day.

Understand the skills the exam seeks to test

The examination is based on a fact-find for imaginary clients whose details you will have received two weeks prior to the exam date. The fact-find will contain all the client details available. The actual financial objectives of the client will be supplied in the actual examination.

Tasks in the exam will not require candidates to produce a full financial plan. They will instead be focussed on the various elements in the syllabus which are based on the following steps in the financial planning process:

- The relationship between adviser and client.
- Evaluation of the client's objectives.
- Understanding the client's financial status.
- Putting forward appropriate recommendations.
- Reviewing the financial plan.

They may also be focused on other aspects of the syllabus which we believe are key to the customer receiving an effective financial planning service. These include an explanation of technical terms, selection of appropriate remuneration terms etc.

In this way, we are able to test key aspects of the financial planning process. If all aspects of the process are carried out thoroughly, an effective financial plan will be produced.

It is anticipated that at each exam session, a significant proportion of the total marks will be allocated to putting forward recommendations supported by relevant evidence. In this exercise, candidates will always be rewarded for thinking logically about the various objectives and potential solutions to the client.

Two weeks before the examination

What will I receive?
A fact-find will be available to candidates two weeks before the examination and it can be viewed at www.cii.co.uk/qualifications/unit-financial-process-(af5). It will contain client information which will form the basis of the report you will be required to prepare in the examination.

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 fact-find. Treat the fact-find as though it belongs to a real client whom you will be meeting shortly for the first time.

How should I use the fact-find to help me prepare?

- Study the client details to find areas of need identified by the clients and look for other potential areas of need.
- Look for technical areas you may wish to revise, e.g. trusts, partnerships.
- Practise some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.
- Do not attempt to 'learn' the answers to such calculations but make sure you are confident with the method and know what to include in your workings. You should be able to see from the fact-find whether the clients are higher-rate taxpayers or close to the threshold. You will be able to ascertain the financial position on death and whether there is likely to be an income shortfall which needs addressing.
- If the client has an investment portfolio, ensure that you are familiar with all the investments held within the portfolio. For example, you should understand the risk profile, tax treatment, accessibility and yield of each investment.

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 etc.

AF5 Examination Technique Exam Guide
To help you prepare for the AF5 examination a FREE AF5 Examination Technique Exam Guide is available to download on the following link www.cii.co.uk/qualifications/unit-financial-process-(af5).

In the examination

What will I receive?

The fact-find
You will not be able to take your pre-released copy of the fact-find into the examination with you. You will be issued with an identical fresh copy. There will not be any new or different information contained within the fact-find.

Supplementary information
A summary of the client's key financial objectives will be supplied as part of the examination paper. You should spend some time studying this information before you commence your financial plan.

The tasks
The instructions are focused on the main steps required to write a financial plan. Mark allocations will be shown and you should use these to guide you on how long to spend on each section of your report. The task that gains most marks is invariably that requesting candidates to outline their key recommendations, supported by relevant evidence.

Answer format
You should provide sufficient technical details to enable you, in the role of financial adviser, to analyse your clients' needs and to demonstrate that the recommendations you make are appropriate and holistic. Merely reproducing quantities of technical detail which is not directly relevant or would be provided through stock paragraphs or appendices in a finished report will not achieve high marks.

Marks will be awarded for demonstrating the holistic consequences of your analysis and recommendations, i.e. how one part of the financial planning process affects all the other parts: how they all interrelate and interact.

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

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

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

EXAMINERS' COMMENTS

Candidates overall performance:

Candidate performance was very good overall and it was pleasing to note that a large number of candidates had studied the Fact-Find in detail prior to the examination and were well prepared for the range of questions on this particular paper.

Many candidates performed very well on the more challenging areas of this paper and demonstrated good financial planning knowledge across a wide range of subject areas.

Weaker performance was demonstrated by a number of candidates in respect of the mortgage planning for this couple (question 6). The Fact-Find highlighted a number of weaknesses in respect of this couple's planning for the repayment of their mortgage and only a relatively small number of candidates provided detailed answers here. This was slightly disappointing as this was a key area of weakness for this couple and was clearly indicated in the Fact-Find.

Question 1

This was a two-part question and overall performance here was good.

Part (a) focused on fact-finding and many candidates performed very well here.

Part (b) asked candidates to identify the key benefits to Paul of increasing his personal pension contributions to his employer's group personal pension scheme. Again, most candidates performed very well here and identified the key points without any difficulty. It was pleasing to note that candidates did not have any difficulty in applying the client information provided in the Fact-Find to assist them with their answers.

Question 2

This question focused on the investment portfolio that Paul had recently inherited from his father.

Part (a)(i) asked candidates to evaluate the suitability of the inherited investment portfolio for Paul. Many candidates performed well.

Part (a)(ii) asked for an evaluation of the tax-efficiency of the inherited investment portfolio.
A number of candidates did not provide sufficient detail and limited their answers to general statements such as 'dividends may be taxable', rather than referring to Paul's personal liability as a higher-rate taxpayer.

Part (b) asked candidates to recommend and justify any changes to the inherited investment portfolio to ensure it is suitable and tax-efficient. Again, many candidates limited their answers to general statements surrounding tax-efficiency rather than making their recommendations specific to these clients. This lack of detail led to relatively poor performance on the part of a number of candidates.

Question 3

This question related to Paul and Karen's plan to purchase a buy-to-let property and their options for funding the purchase.

Part (a) asked candidates to identify the key drawbacks of using a buy-to-let property as part of their retirement planning strategy. Most candidates performed very well here and achieved high marks.

Part (b)(i),(ii) and (iii) asked candidates to explain the tax implications in respect of Income Tax in part (i), Capital Gains Tax in part (ii) and Inheritance Tax in part (iii) of withdrawing monies from Paul's inherited Self Invested Personal Pension (SIPP) to purchase the property.

Candidates generally performed very well here and identified the correct tax position in respect of each of these taxes.

Part (c) asked candidates to identify the key benefits of using a buy-to-let mortgage to fund this purchase.

Many candidates performed well here and were able to identify the tax and financial benefits of using this type of mortgage. It was pleasing to note that many candidates appreciated the fact that this couple would not incur any Capital Gains Tax liability or be subject to market timing issues if they used the mortgage, rather than disinvesting funds from their investment portfolio.

Question 4

This question was a two-part question focusing on Paul's mother's Lasting Power of Attorney and issues surrounding Inheritance Tax following the recent death of Paul's father.

Part (a) asked candidates to explain how Paul's mother can ensure that she has the continuing protection of a Lasting Power of Attorney following her husband's death. Many candidates performed very well here and clearly explained the process required to put a new Lasting Power of Attorney in place. It was slightly disappointing to note that a number of candidates were unaware of the difference between the Office of the Public Guardian and the Court of Protection and how both of these bodies operate, given their importance in managing the affairs of older and possibly more vulnerable individuals.

Part (b)(i) asked candidates to explain how Paul's recent inheritance will affect his late father's transferable Nil Rate Band. It was very pleasing to note that the majority of candidates were able to explain in detail the impact that this would have. Most candidates correctly identified that the SIPP would be excluded from any calculation of transferable Nil Rate Band as well as any assets passed directly to Paul's mother.

Part (b)(ii) asked candidates to state how the transferable Nil Rate Band can be claimed to mitigate any Inheritance Tax liability on Paul's mother's estate in future. Unfortunately many candidates were unaware that this cannot be claimed until Paul's mother's death and should be claimed by her executors. Many candidates incorrectly stated that this could be claimed by Paul's mother via HMRC whenever she wished.

Question 5

This was a two-part question focusing on the use of cashflow modelling by Paul and Karen to assist them in planning their financial future.

Part (a) asked candidates to identify the main factors and assumptions that should be discussed with Paul and Karen when formulating a cashflow model. Most candidates performed very well here and achieved high marks.

Part (b) asked candidates to explain to Paul and Karen the risks of relying solely on cashflow modelling to help them to meet their financial objectives.

Many candidates performed well here and correctly explained that cashflow modelling was purely a guide and should not be relied upon due to the lack of guarantee that any of the assumptions would be accurate over the long-term.

Question 6

This question focused on Paul and Karen's intended mortgage repayment strategy. The Fact-Find identified that this couple had an interest-only mortgage with a repayment vehicle of a Corporate Bond fund into which they paid monthly contributions. It was clear from the Fact-Find that it was highly unlikely that this would provide sufficient funds to repay the mortgage.

Part (a) asked candidates to explain to Paul and Karen why their existing savings plan may be unsuitable to repay their mortgage. Few candidates provided sufficient detail to achieve high marks here. Many did not give responses which were specific to these particular clients, such as identifying the fact that this investment would be taxable as interest, and therefore potentially taxable to Paul at 40%, as he is a higher rate taxpayer.

Part (b) asked candidates to recommend and justify the actions that Paul and Karen could take to increase the probability of repaying their mortgage at the end of the term. It is important to note here that candidates were instructed to assume that Paul and Karen would retain their existing interest-only mortgage. Unfortunately, many candidates ignored this instruction and gave a range of answers based on the assumption that they would simply use the inherited portfolio to repay the mortgage immediately. Only a few candidates focused on the key issues here such as making changes to the existing investment strategy and improving tax-efficiency of the investment by making use of both ISA's and Karen's lower-rate tax status.

Part (c) asked candidates to explain briefly why Paul and Karen might consider switching to a repayment mortgage. Most candidates performed very well in this question part and identified the key points without any difficulty.

Question 7

This was a three-part question focusing on Paul and Karen's financial protection arrangements.

Part (a) asked candidates to comment briefly on any weaknesses in Paul and Karen's current protection arrangements. Most candidates performed very well and identified the majority of the key weaknesses.

Part (b) asked candidates to identify the additional information that you would require regarding Paul's critical illness policy to enable you to advise him on the continuing suitability of this policy. Again, most candidates performed very well and identified most of the key information in respect of this policy.

Part (c) asked candidates to recommend and justify a suitable insurance policy to provide regular income to protect the family lifestyle in the event of Paul suffering a long-term illness and being unable to continue to work. Most candidates correctly identified the need for an Income Protection policy and gave details of this policy and how it should be set up.

Unfortunately, a number of candidates incorrectly identified a Family Income Benefit policy as a suitable option and were unaware that this does not pay out for long-term sickness as this is a life policy that provides an income only on the death of the life assured.

Question 8

This was a standard 'review' question which required candidates to identify the issues that you should discuss in detail with Paul at the next financial review in respect of his inherited SIPP. It is important to note here that candidates were instructed to assume that there are no changes to their personal circumstances or financial position at this review. Many candidates performed reasonably well and provided sufficient detail to achieve good marks by focusing on the SIPP itself and economic and taxation changes that might have an impact on the SIPP and its' ongoing suitability for Paul.

FACT FIND

You are a financial adviser authorised under the Financial Services and Markets (FSMA) Act 2000. You completed the following fact-find when you met Mr and Mrs Blyth recently.

PART 1: BASIC DETAILS		
	Client 1	**Client 2**
Surname	Blyth	Blyth
First name(s)	Paul	Karen
Address	10 Milton Road, Nottingham	10 Milton Road, Nottingham
Date of birth	01.03.1976	03.02.1978
Domicile	UK	UK
Residence	UK	UK
Place of birth	Nottingham	Nottingham
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Running, canoeing	Running, cycling
Notes:		
Paul's father has recently died, aged 76, leaving a range of assets to Paul in his Will. Paul's mother is alive and healthy and has inherited the residual estate from her late husband. Paul and his mother are keen to ensure that he is able to assist her with her financial affairs in future years.		

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
James	Son	8	02.03.2009	Good	N/A	Yes
Olivia	Daughter	5	10.11.2011	Good	N/A	Yes
Emma	Daughter	3	21.09.2013	Good	N/A	Yes
Notes:						

PART 3: EMPLOYMENT DETAILS		
	Client 1	**Client 2**
Employment		
Occupation	Supermarket Manager	Part-time Teacher
Job title	Manager	Music Teacher
Business name	Midland Markets	
Business address		
Year business started		
Remuneration		
Salary	£55,000 (basic salary)	
State Pensions		
Overtime		
Benefits		
Benefits-in-kind		
Pension scheme (see Part 11)	Yes	
Life cover (see Part 8)	4 times basic salary	
Private Medical Insurance		
Permanent Health Insurance		
Self Employment		
Net relevant earnings		£6,000
Accounting date		December
Partnership/Sole trader		Sole trader
Other Earned Income		
Notes:		

Paul has worked for Midland Markets since he left school. Karen works from home part-time as a music teacher and she intends to return to teaching music full-time on a self-employed basis when Emma starts school at age five.

	Client 1	**Client 2**
Previous Employment		
Previous employer		
Job title		Supply Teacher
Length of service		8 years
Pension benefits		(see Part 11)
Notes:		

Karen used to work full-time as a music supply teacher through an agency on a self-employed basis.

Karen set up a personal pension plan to which she contributed whilst she was working full-time but has not contributed to this since James was born in 2009 (see Part 11).

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant		
Bank	SecureBank	SecureBank
Building Society		
Doctor	Dr Knowles	Dr Knowles
Estate Agent		
Financial Adviser		
Insurance Agent		
Solicitor	Hendry Davies LLP	Hendry Davies LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		**Client 2**		**Joint**	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions						
Private Pensions						
Salary		55,000		6,000		
Benefits-in-kind						
Savings income (gross)		390		264		
Rental (gross)						
Dividends paid		7,220		115		

Notes:

Paul's dividend income is derived from his unit trust and ISA holdings, along with the estimated dividends that he is due to receive from his inherited investment portfolio. Paul's savings income is derived from interest paid on the bank account along with interest on the corporate bond holdings.

Karen's income comes from interest from the bank account and corporate bond funds and dividends from her ISA holdings.

	Client 1	**Client 2**
Income Tax	**£**	**£**
Personal allowances	11,000	11,000
Taxable income		
Tax		
National Insurance		
Net Income		
Notes:		

Expenditure

	Monthly £	**Annually £**

Household Expenditure	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent			375			
Council tax			150			
Buildings and contents insurance						450
Gas, water and electricity						2,000
Telephone			25			
TV licence and satellite			60			
Property maintenance						1,200
Regular Outgoings						
Life assurance (see Part 8)			85			
Health insurance (see Part 9)	30					
Savings Plans (see Part 10)			200			
Car tax, insurance and maintenance				1,200	750	
Petrol and fares	200	100				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)	110					
Other Expenditure						
Magazines and newspapers						
Entertainment			250			
Clubs and sport				300	200	
Spending money	200	100				
Clothes						1,000
Maintenance						
Other (Holidays)						2,500
Total Monthly Expenditure	540	200	1,745			
Total Annual Expenditure	6,480	2,400	20,940	1,500	950	7,150
Total Outgoings						39,420

Notes:
Do you foresee any major/lump sum expenditure in the next two years?
Notes:
Paul and Karen are keen to purchase a buy-to-let property in the next few months as there is a thriving rental market in their local area catering for the student population.
They are planning to purchase a property with a value of £180,000 and are considering various options for funding this purchase.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			185,000	
2.	Contents/car	28,000	10,000	18,000	
3.	Current account – SecureBank	4,000	3,000		
4.	Easy Access Savings Account – SecureBank	15,000			150
5.	Easy Access Savings Account – SecureBank		2,400		24
6.	Unit trust holdings – equity funds	140,000			5,600
7.	OEICs – corporate bonds			12,000	480
8.	Individual shares – UK equities	60,000			1,500
9.	Stocks & Shares ISAs – UK recovery fund	8,000			120
10.	Stocks & Shares ISAs – UK smaller companies fund		9,000		115

Notes:

Paul has recently inherited a portfolio valued at £200,000 from his late father. This portfolio is invested in a range of unit trusts along with a number of individual shares. The unit trusts are invested in a range of emerging market equity income funds and UK smaller companies funds. They are held with a number of different fund managers. The portfolio of individual shares was built up by Paul's father over many years and holds a range of UK blue chip and UK smaller companies.

Paul has not had an opportunity to review any of these inherited holdings but is keen to do so to ensure that they are suitable for his needs.

Paul and Karen invest on a monthly basis into an open-ended investment company (OEIC) investing in corporate bonds. They plan to repay their mortgage using this holding. If this portfolio performs well, they would like to repay the mortgage before the maturity date in 2029.

Paul and Karen's Stocks & Shares ISA's are invested in a UK recovery fund and a UK smaller companies fund. These ISA holdings are intended to supplement their retirement income and Paul and Karen contribute to these on an ad-hoc basis but have not made any contributions in the tax year 2016/2017.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			SecureBank
Type of mortgage			Interest-only
Amount outstanding			£150,000
Start date			April 2004
Term/maturity			April 2029
Monthly payment			£375
Interest rate			3%
Life policies (see part 8)			Yes

Notes:
Paul and Karen have an interest rate fixed at 3% per annum until 2018 when their mortgage reverts to the standard variable rate.

Other Loans	Client 1	Client 2	Joint
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			

Notes:
Paul and Karen have no other loans.

Other Liabilities (e.g. tax)

Notes:
Paul and Karen have no other outstanding liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	Joint	Joint	150,000	85 p.m.	25 years	April 2004	No	0

Notes:

Paul and Karen took out a joint life first death level term assurance policy to cover their mortgage when they set it up.

Paul has a death-in-service scheme funded by his employer which is linked to the company pension scheme. This pays 4 times basic salary whilst Paul is employed by Midland Markets. Paul has not completed a nomination of beneficiary in favour of Karen for the death-in-service scheme.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £
Critical illness	Paul	50,000	January 2010	20 years	N/A	30 p.m.

Notes:

Paul took out a critical illness policy in 2010 with a view to providing a lump sum to support the family in the event of him suffering a serious illness. He has not reviewed this policy since he purchased it.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Monthly Amount £	Sum Assured	Maturity Date	Current Value £
OEIC	SecureTrust	Joint	Corporate bond	200	N/A	N/A	12,000

Notes:

Paul and Karen invest £200 per month into an OEIC with SecureTrust with a view to building up a fund to repay their mortgage when it matures in April 2029.

They have made lump sum payments into this when Karen was still working full-time but have not been able to afford to do this in recent years.

PART 11: PENSION DETAILS

Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		

Notes:
Paul and Karen do not have any occupational pension scheme entitlements.

Additional Voluntary Contributions (including free standing additional voluntary contributions).

	Client 1	Client 2
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		

Notes:
Paul and Karen do not have any additional voluntary contribution schemes.

Personal Pensions

	Client 1	Client 2
Type	Group Personal Pension	Personal Pension
Company	ACM Life	ACM Life
Fund	Cautious Managed	Balanced Lifestyle
Contributions	3% employer/3% employee	Nil
Retirement age	65	60
Current value	£58,000	£28,000
Date started	1998	2001

Notes:

Paul is a member of his employer's Group Personal Pension scheme and receives a 3% employer contribution. His employer will match Paul's contribution up to a maximum of 5% of basic salary. Paul's employer has confirmed that their scheme meets the auto-enrolment requirements.

Karen set up her own personal pension when she started supply teaching. She has not contributed to this plan since she ceased full-time work when James was born.

Nominations have not been completed for either of these schemes.

Other pension arrangements

	Client 1	Client 2
Type	Self-invested personal pension	
Company	RGP Life	
Fund	See notes below	
Current Value	£225,000	

Notes:

Paul has inherited his late father's self-invested personal pension (SIPP) as he was nominated as the sole beneficiary with the full agreement of his mother. This SIPP was in capped drawdown on his father's death last year at age 76. The SIPP is invested in a range of individual equities, commercial property funds and UK equity income funds.

Paul has contacted the trustees of the pension and advised them that he wishes to move this plan into nominee flexi-access drawdown with immediate effect. Paul has not yet nominated a successor on this scheme.

State Pension

	Client 1	Client 2
Basic Pension		
SERPS/S2P		
Graduated Pension		
Total		

Notes

Paul and Karen have not checked their entitlement to State Pension.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes

Notes:
Paul and Karen set up new Wills following the recent death of his father. Their Wills leave all assets to each other on first death and then to the children in equal shares on second death.

Trusts	Client 1	Client 2
Are you a beneficiary under a trust?	No	No
If yes, give details.		
Are you a trustee?	No	No
If yes, give details.		

Notes:

Gifts	Client 1	Client 2
Give details of gifts made and received	None	None

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected	£200,000	None
Further inheritance from Paul's mother	£750,000	

Notes:

Paul has recently received an inheritance of £200,000 from his father who died at age 76. This was in the form of an 'in specie' transfer of unit trust holdings as well as a portfolio of individual shares. Paul also received his late father's SIPP plan with a value of £225,000 as the nominated beneficiary. Paul's father's remaining assets passed to Paul's mother under joint ownership.

Paul is expecting a further inheritance from his mother of approximately £750,000 in future years.

His mother is in good health and Paul is not expecting to receive this inheritance for a number of years.

Paul's late father was the sole Attorney for his mother under her registered Lasting Power of Attorney.

Paul is an only child and is the sole beneficiary for his mother's Will.

PART 13: ATTITUDE TO RISK

What level of risk are you prepared to take to achieve your financial objectives?

Notes:
Paul believes that he is a medium-risk investor but has little experience in selecting or monitoring investments. Karen is a cautious investor and is keen to take as little risk as possible with their finances.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.04.2017	
Client agreement issued	01.04.2017	
Data Protection Act	01.04.2017	
Money laundering	01.04.2017	
Consultations		
Dates of meetings	01.04.2017	
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

THE CHARTERED INSURANCE INSTITUTE

CII

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

April 2017 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2016/2017, 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.

Candidates should answer based on the legislative position immediately BEFORE the 2017 budget.

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 AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.

- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.

- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**

- **Client objectives are provided overleaf and you should read them carefully before attempting the tasks.**

- Read carefully all tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task 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 task on a new page and leave six lines blank after each task.

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.

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

Immediate objectives

- To review the suitability and tax-efficiency of the investments that Paul has recently inherited.
- To ensure that the family has sufficient protection in place should Paul be unable to work due to illness.
- To purchase a buy-to-let property.

Longer-term objectives

- To implement a suitable strategy to repay the mortgage on their main residence.
- To ensure they are able to generate an adequate income in retirement.
- To assess the family cashflow position in relation to their objectives.
- To ensure that Paul is able to manage his mother's affairs if necessary in the future.

Attempt ALL tasks

Time: 3 hours

1. As Paul and Karen wish to ensure that they are able to generate an adequate income in retirement:

(a) Identify the additional information you would require to enable you to advise Paul and Karen on this objective. **(14)**

(b) Describe **seven** key benefits for Paul of increasing his personal pension contribution to his employer's group personal pension scheme. **(7)**

2. With regard to the investment portfolio of £200,000 that Paul has recently inherited:

(a) **(i)** Evaluate the suitability of the inherited investment portfolio for Paul. **(5)**

(ii) Evaluate the tax-efficiency of the inherited investment portfolio for Paul. **(4)**

(b) Recommend and justify any changes that you would make to the inherited investment portfolio to ensure it is suitable and tax-efficient. **(13)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

3. Paul and Karen have stated that they wish to purchase a buy-to-let property.

(a) Identify **nine** key drawbacks of using a buy-to-let property as part of their retirement planning strategy. **(9)**

(b) If Paul and Karen decide to withdraw money from Paul's inherited self-invested personal pension scheme to fund the buy-to-let property, explain the tax implications that would arise in respect of:

(i) Income Tax; **(5)**

(ii) Capital Gains Tax; **(2)**

(iii) Inheritance Tax. **(2)**

(c) Identify **seven** key benefits of using a buy-to-let mortgage to fund this purchase. **(7)**

4. Paul and his mother are keen to ensure that Paul can assist with her financial affairs in the future and she also wants to ensure that her estate passes to Paul as tax-efficiently as possible on her death.

(a) Explain to Paul and his mother the impact of her husband's death on her Lasting Power of Attorney and the process she must follow to enable her to continue to have the protection of a Lasting Power of Attorney. **(6)**

(b) **(i)** Explain to Paul how his recent inheritance will affect his late father's transferable Nil Rate Band. **(5)**

(ii) State briefly how the transferable Nil Rate Band can be claimed to mitigate any Inheritance Tax liability on his mother's estate in future. **(3)**

5. Paul and Karen have heard about cashflow modelling and would like to use this to plan their financial future.

(a) Identify the main factors and assumptions that you should discuss with Paul and Karen when formulating a cashflow model. **(9)**

(b) Explain briefly to Paul and Karen the risks of relying solely on cashflow modelling to help them to meet their financial objectives. **(6)**

6. With regard to Paul and Karen's intended mortgage repayment strategy:

(a) Explain briefly to Paul and Karen why their existing savings plan may be unsuitable to repay their mortgage. **(7)**

(b) Recommend and justify the actions that Paul and Karen could take to increase the probability of repaying their mortgage at the end of the term**.** *(Candidates should assume that they will retain their existing interest-only mortgage.)* **(12)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

(c) Explain briefly why Paul and Karen might consider switching to a repayment mortgage. **(6)**

7. With regard to Paul and Karen's financial protection:

(a) Comment briefly on any weaknesses in Paul and Karen's current protection arrangements. **(10)**

(b) Identify the additional information you would require regarding Paul's existing critical illness policy to enable you to advise Paul on the continuing suitability of this policy. **(10)**

(c) Recommend and justify a suitable insurance policy to provide a regular income to protect the family's lifestyle in the event of Paul suffering a long-term illness and being unable to continue to work. **(12)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

8. Identify **six** issues that you should discuss in detail with Paul at the next financial review in respect of his inherited self-invested personal pension scheme. *(Candidates should assume that there are no changes in their personal circumstances or financial position at this review.)* **(6)**

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)
- Planned retirement date and how much income/capital/expenditure in retirement.
- Inflation expectations/in today's terms.
- State Pension entitlement/BR19.
- Willing to increase pension contributions to get employer match/up to 5%?
- Affordability/budget/cashflow/salary sacrifice.
- Use other assets/use buy-to-let/plans to use father's SIPP/use ISA.
- Asset allocation in pension funds/fund performance/fund switch.
- Fund charges/plan charges.
- Projections to retirement/ benefit statement.
- Nominations completed on pensions/death-in-service.
- Karen's expected salary when she returns to full-time employment.
- Planned career changes/changes to Paul's salary.
- Ethical preferences.
- Capacity for loss/assess his attitude to risk.

(b)
- 40% tax relief/tax free growth.
- Higher income in retirement/higher Pension Commencement Lump Sum (PCLS)/could retire earlier.
- May be lower charges.
- Receives extra 2% employer contribution/up to 5%.
- Reduces higher income tax charge on child benefit.
- Income Tax free if dies before 75/Inheritance Tax free (IHT).
- Reduced administration/taken from salary.

Model answer for Question 2

(a) (i)
- Individual shares/emerging markets do not meet attitude to risk.
- Lacks diversification/all equities/no cash or bonds/mainly UK.
- Smaller companies can be less liquid/bid-offer spread.
- Administration/time to monitor performance/Paul is an inexperienced investor.
- Not tax efficient

(ii)
- Not in ISA/tax wrapper so not tax-efficient.
- Dividends exceed £5,000 allowance and excess taxable at 32.5%/gains liable at 20%.
- In Paul's sole name so not using Karen's tax allowances.
- Capital Gains Tax (CGT) base cost is value on father's death/probate value.

(b)
- Use ISAs as they are Income Tax/Capital Gains Tax free/tax-efficient.
- ISAs can be passed on to surviving spouse.
- Transfer some unit trusts/shares to Karen.
- Interspousal exemption/no Capital Gains Tax /Karen inherits Paul's base cost.
- Can use Capital Gains Tax exemption/£11,100.
- Transfer to Karen saves 10% Capital Gains Tax.
- Karen can use her £5,000 dividend allowance.
- On excess over £5,000 she pays 7.5%/he pays 32.5%.
- Reduces Child Benefit tax charge.
- Rebalance for improved diversification.
- Rebalance portfolio to match ATR/too high risk.
- Use platform/wrap/discretionary fund manager.
- For ease of administration/cost savings/ability to switch/professional fund management.

Model answer for Question 3

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

Drawbacks
- No tax relief on initial investment/cannot be held within a tax wrapper.
- Rental income is taxable.
- Capital Gains Tax will apply on sale/no private residence relief/28%/18%.
- Illiquid/cannot sell part of property.
- Lack of diversification.
- Void periods/no guaranteed income.
- Maintenance/repair costs/regulatory costs for landlords/time/administration/ upfront costs/solicitor fees.
- Interest rates could rise (if funded by mortgage).
- Higher rate tax relief reducing on mortgage interest.
- Higher Stamp Duty/extra 3% for buy-to-let.

(b) **(i)**
- Father was over age 75 on death.
- No Pension Commencement Lump Sum (PCLS) available.
- All withdrawals taxable at Paul's marginal rate/Higher Rate Tax/40%.
- Could incur additional rate tax/45%/loss of Personal Allowance.
- Rental income on property is liable to Income Tax.

(ii)
- Self invested personal pension (SIPP) is Capital Gains Tax free
- Buy to let property liable to Capital Gains Tax at 28% for Paul/18% for Karen/Capital Gains Tax exemption available.

(iii)
- Self invested personal pension is Inheritance Tax free.
- Withdrawals from self-invested personal pension (SIPP) become liable to Inheritance Tax on death/form part of estate.

(c)
- Mortgage interest can be set against Income Tax/
- Interest rates currently low/competitive.
- Rental income can cover mortgage payments.
- No sale of investments so avoids poor market timing/Capital Gains Tax issues.
- Retain investments for other purposes.
- Retain tax-efficient investments/self-invested personal pension/ISA.
- Retain diversified portfolio/potential for capital growth/borrowing can increase investment returns.

Model answer for Question 4

(a)
- Lasting Power of Attorney ends on death of sole Attorney/invalid.
- Paul's mother has capacity/sound mind.
- Complete new lasting power of attorney paperwork/signed/witnessed.
- Appoint new Attorney/Paul/Replacement Attorneys.
- Property and financial affairs.
- Register with Office of the Public Guardian/pay lasting power of attorney fee

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

(i)
- Transfer on death has used some/percentage of father's Nil Rate Band/
- Includes £200,000 investment portfolio transferred to Paul.
- Excludes self-invested personal pension.
- Excludes assets transferred to spouse/spousal exemption.
- Based on percentage of Nil Rate Band;
- on mother's death.

(ii)
- Claimed/used on mother's death.
- By executors/personal representatives.
- Must be claimed within two years of mother's death.

Model answer for Question 5

(a)
- Target/how much for each objective/future expenditure.
- Term of investment/expected longevity/Normal Retirement Date (NRD)/mortgage repaid.
- Budget/affordability/current expenditure/current income levels/inheritance.
- Level of risk/attitude to risk.
- Capacity for loss.
- Expected growth rate (for investments).
- Assumptions for charges/fees.
- Inflation rates/earnings growth.
- Use of tax-efficient wrappers/allowances (Pension/ISA)/future tax rates.

(b)
- Assumptions can be incorrect.
- Provides estimate only/requires regular review.
- Personal objectives/circumstances can change.
- Cashflow model returns are linear.
- Tax rules/rates may change/not all systems account for tax wrappers.
- Market risk/systematic risk/political risk.
- Does not consider liquidity of assets/investments/liquidity risk.

Model answer for Question 6

(a)
- Limited potential for capital growth/income maybe paid out.
- Shortfall risk/low monthly saving.
- Not tax-efficient as not in an ISA.
- Held in joint names so interest could be taxable to 40% on Paul.
- Personal Savings Allowance for Paul is £500.
- Does not match attitude to risk.
- Lack of diversification.

(b) *Candidates would have gained full marks for any five of the following:*
- Reduce mortgage capital/overpay.
- Reduces interest paid.
- Switch to higher risk/growth funds for greater growth potential.
- Diversify holdings to reduce risk/volatility/to match attitude to risk.
- Use ISA's/pensions for tax-efficiency.
- Hold taxable investments in Karen's name to use her allowances/to take account of her tax status.
- Increase monthly contributions/invest lump sums.
- Switch out of poor performing funds/rebalance.
- Use platform/wrap.
- Reduce charges/greater fund choice/ease of switching.
- Re-mortgage at end of fixed-rate term/2018.
- Reduced mortgage interest rate/provides more disposable income.

(c)

- Guaranteed repayment/no shortfall risk/peace of mind/easy to understand.
- Matches Karen's attitude to risk/no investment risk/interest only does not match attitude to risk.
- Open-ended investment company (OEIC) available for other purposes.
- Pay less interest.
- Reduces debt/builds up equity in property/reduced loan to value/could re-mortgage at lower interest rate.
- They can afford it/within their budget.

Model answer for Question 7

(a)

- No life cover for Karen (*other than mortgage*).
- Paul is main breadwinner and has insufficient life cover.
- Loss of Death in Service if he leaves employer.
- Mortgage term policy is for death only.
- No Income Protection.
- No Private Mortgage Insurance (PMI).
- No critical illness cover for Karen.
- Paul's critical illness cover is inadequate sum assured/term.
- Minimal State Benefits.
- No nomination for death-in-service/pensions/self-invested personal pension.

(b)

- Is life cover included?
- Medical conditions covered/definition of conditions.
- Exclusions/underwritten/is premium rated?
- Any new medical conditions since policy was taken out.
- Survival/deferred period.
- Premiums guaranteed/reviewable.
- Additional benefits/total permanent disability/child cover/waiver of premium.
- Indexation/escalating/increasing.
- Option to increase cover.
- Claims history of insurer.

(c)

- Income Protection/payment health insurance (PHI).
- Provides regular income to maintain lifestyle/Paul is main breadwinner.
- Income is tax free.
- Sum assured – maximum permitted/50 -75% of earnings.
- Term to retirement/age 65/State Pension Age.
- Own occupation basis to provide maximum chance of pay-out.
- Deferred period minimum three months for reduced premium/they have sufficient assets to cover/deferred period matches sick pay.
- Guaranteed premiums for affordability/known cost.
- Indexation to keep pace with inflation/maintain spending power.
- Partial payment/rehabilitation payment.
- To enable Paul to return to some form of work/part-time.
- Multiple claims/insurer cannot cancel.

Model answer for Question 8

- Investment performance/attitude to risk/ capacity for loss/rebalance portfolio/asset allocation.
- Change in economy/market conditions.
- Change in regulation/legislation/tax rules/pension allowances.
- Income/lump sums drawn/planned from self invested personal pension.
- Successor nominated on self invested personal pension/future generations nominated.
- Self invested personal pension charges/new products.

All questions in the April 2017 paper will be based on English law and practice applicable in the tax year 2016/2017, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are those that were used in April 2017 examinations. The October 2017 will use the published 2017/2018 Tax Tables which can be found online on the CII website: www.cii.co.uk.

INCOME TAX

RATES OF TAX	2015/2016	2016/2017
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	£31,785	£32,000
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) *§*	£10,600	£11,000
Personal Allowance (if born between 6 April 1938 and 5 April 1948) *§*	£10,600	£11,000
Personal Allowance (if born before 6 April 1938) *§*	£10,660	£11,000
Married/civil partners (minimum) at 10% *†*	£3,220	£3,220
Married/civil partners at 10% *†*	£8,355	£8,355
Transferable tax allowance for married couples/civil partners	£1,060	£1,100
Income limit for age-related allowances *§*	£27,700	£27,700
Blind Person's Allowance	£2,290	£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)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£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 Earnings Limit (UEL)	£827	£3,583	£43,000

Total earnings £ per week	**Class 1 Employee contributions**
Up to 155.00*	Nil
155.01 – 827.00	12%
Above 827.00	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**
Below 156.00**	Nil
156.01 – 827.00	13.8%
Excess over 827.00	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 - £43,000. 2% on profits above £43,000.

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 *§*
2016/2017	£1,000,000	£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	2015/2016	2016/2017
	£10,000*	£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	2015/2016	2016/2017
Individuals, estates etc	£11,100	£11,100
Trusts generally	£5,550	£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%	10%
Above basic rate limit	28%	20%
Surcharge for residential property and carried interest	0%	8%
Trustees and Personal Representatives	28%	20%
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	2015/2016	2016/2017
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%

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

MAIN EXEMPTIONS		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- 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 2016/2017:

- The percentage charge is 7% 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 11%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 16% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/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 (£22,200 for 2016/2017) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,200 = £3,774.

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

	2015/2016 Rates	2016/2017 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

	2015/2016	2016/2017
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£500,000	£200,000
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 2016 (Corporation Tax) or 06 April 2016 (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*

CORPORATION TAX

	2015/2016	2016/2017
Standard rate	20%	20%
Small companies rate	20%	N/A
Small companies limit	£300,000	N/A
Effective marginal rate	20%	N/A
Upper marginal limit	£1,500,000	N/A

VALUE ADDED TAX

	2015/2016	2016/2017
Standard rate	20%	20%
Annual registration threshold	£82,000	£83,000
Deregistration threshold	£80,000	£81,000

MAIN SOCIAL SECURITY BENEFITS

		2015/2016	2016/2017
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 102.15	Up to 102.15
	Support Group	Up to 109.30	Up to 109.30
Attendance Allowance	Lower rate	55.10	55.10
	Higher rate	82.30	82.30
Retirement Pension	Single	115.95	119.30
	Married	185.45	190.80
Single Tier State Pension	Single	N/A	£155.65
Pension Credit	Single person standard minimum guarantee	151.20	155.60
	Married couple standard minimum guarantee	230.85	237.55
	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		112.55	112.55
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	139.58