THE CHARTERED INSURANCE INSTITUTE

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

January 2016 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)** and **(f)** which follow.*

James, aged 47, is married to Alex, aged 45. They have two children, Amy, aged 16, and Liam, aged 15. Both children are intending to go to university.

James has recently changed employer, and is now employed as the financial director of a large UK company, with a basic salary of £140,000 gross per annum. He receives three months' basic salary in the event of sickness absence from work and is a member of his employer's group personal pension plan. James is also a member of the company's death-in-service scheme, which provides a benefit of three times his basic salary. James has recently been offered a Save As You Earn (SAYE) Sharesave scheme by his employer.

Alex is employed as a lecturer and receives a basic salary of £28,000 gross per annum. She is a member of her employer's defined benefit pension scheme. Alex has two times salary as a death-in-service benefit and her employer pays one month's salary in the event of sickness absence.

James and Alex own their own home which is valued at £800,000. They have a mortgage of £200,000 outstanding on a capital and interest basis, with 11 years remaining, which is appropriately covered by a joint life first death mortgage protection assurance policy. This policy provides life cover only.

James and Alex are planning to support Amy and Liam through university. They are also keen to try and help them with a deposit for their first homes when they leave university. James and Alex have been considering different investment options to help fund the house deposits.

James has a bank deposit account with a balance of £75,000. Alex has a unit trust invested in a UK Smaller Companies Fund valued at £40,000. Both James and Alex each have a cash ISA, with a balance of £20,000 in each. No ISA investments have been made in the current tax year 2015/2016. James invested £20,000 in an investment trust in 2005 and this is now valued at £76,000.

Both James and Alex believe that they have a medium to high attitude to risk, however neither of them have undergone a risk-profiling exercise. They have both made Wills.

Their financial aims are to:

- provide financial security for the family in the event of death or serious illness;
- review the suitability and tax-efficiency of their investments;
- provide sufficient income for their retirement;
- provide financial support for their children to help them purchase their first homes.

Questions

(a) **(i)** State the additional information you would require to advise James and Alex on their aim of helping to fund a deposit for their children's first homes. **(12)**

(ii) Explain to James and Alex how a Help to Buy ISA operates. **(8)**

(b) Recommend and justify **one** suitable protection policy for James, to provide a lump sum should he suffer from a serious illness. **(15)**

(c) Explain to James how a Save As You Earn (SAYE) Sharesave scheme operates and the benefits of him joining this scheme. **(10)**

(d) Explain to James and Alex the actions that they could **both** take to improve the tax-efficiency of their savings and investments. **(12)**

(e) **(i)** State the factors that would typically influence James and Alex's attitude to investment risk. **(7)**

(ii) Outline the process that a financial adviser should follow, when using a computer-based risk-profiling tool, to determine James and Alex's attitude to investment risk. **(6)**

(f) State the areas that you should discuss with James at his next review meeting regarding his retirement planning. **(7)**

Total marks available for this question: 77

QUESTIONS CONTINUE OVER THE PAGE

Case study 2

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

Paul, aged 59, is married to Ann, aged 55. They have one son, Dominic, aged 18, who is financially independent. Ann's mother June, aged 80, moved in with them last year following an accident. It is unlikely that June will be well enough to be able to return to her own home. Paul and Ann's home is mortgage-free and currently valued at £600,000.

Paul works for a large UK company and earns a basic salary of £85,000 gross per annum. Paul's employer operates a defined benefit pension scheme along with a death-in-service benefit of four times his basic salary. Paul's recent pension statement indicates that his pension income, at the scheme's normal retirement age (NRA) of 65, will be £39,000 gross per annum, assuming that he remains in service to NRA. Paul would like to retire from his current employment at age 60, but plans to continue working as a self-employed consultant.

Ann has recently given up her job to care for her mother full-time; she does not intend to return to work in the foreseeable future. Ann has a personal pension plan, with a current value of £163,000, which is invested in a cautious managed fund. Ann is not making any pension contributions at present. Ann would like to use her pension plan to provide an income for her whilst she cares for June.

June's home is due to be sold shortly and has an agreed sale value of £125,000. June has no other assets and her only income is her Basic State Pension.

Paul and Ann have an investment portfolio that they have built up from regular investments and an inheritance from Paul's parents, who both died five years ago. Paul and Ann are not expecting any further inheritances as June is planning to leave her estate to Dominic on her death.

Their current assets are as follows:

Assets	**Ownership**	**Current Value (£)**
Home	Joint tenancy	600,000
Bank current account	Joint	14,000
Bank savings account	Joint	90,000
Onshore Investment bond – invested in a unitised with-profits fund	Joint	100,000
National Savings & Investments Premium Bonds	Paul	30,000
ISA - Open-ended investment companies (OEICs)	Paul	115,000
Open-ended investment companies (OEICs)	Paul	82,000
National Savings & Investments Premium bonds	Ann	25,000
ISA - Open-ended investment companies (OEICs)	Ann	72,000

Paul is a medium-risk investor and Ann is a cautious-risk investor. Paul's investment funds are held in a range of UK growth funds and Ann's investment funds are held in a range of UK high-yielding corporate bond funds.

Paul and Ann's financial aims are to:

- seek to mitigate any future potential Inheritance Tax liability for the benefit of their son;
- provide an income for Ann whilst she cares for her mother;
- ensure that they will receive an adequate income in retirement;
- ensure that both Ann and June receive all of the State benefits to which they are entitled.

Questions

(a) State the additional information that a financial adviser would require on Paul's employer's defined benefit scheme and Ann's existing personal pension to advise them on their retirement planning. **(12)**

(b) Ann is looking to take benefits from her pension now.

Explain why a flexi-access drawdown arrangement might be a more suitable option for her, rather than using a lifetime annuity. **(8)**

(c) **(i)** State the eligibility criteria that June must meet to successfully claim Attendance Allowance. **(6)**

(ii) Identify the State benefit to which Ann might be entitled as June's carer, and explain the eligibility criteria for her to claim this benefit. **(6)**

(d) Recommend and justify how Paul and Ann could generate a tax-efficient income from their existing pensions and investments, to supplement Paul's earnings from his consultancy work, until his occupational pension scheme's normal retirement age. *Assume that Paul remains a higher rate tax payer.* **(14)**

(e) State **six** benefits and **six** drawbacks of using a joint life second death whole of life policy, on a maximum cover basis, in trust for Dominic, to mitigate Paul and Ann's future potential Inheritance Tax liability. **(12)**

(f) Paul and Ann are considering switching their onshore investment bond out of their unitised with-profits fund.

State the key factors that a financial adviser should take into consideration when reviewing the suitability of taking this course of action. **(8)**

(g) Comment on the suitability of Ann holding only high-yielding corporate bond funds within her ISA. **(7)**

Total marks available for this question: 73

The tax tables can be found on pages 9 - 15

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

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