Chartered Insurance Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

October 2017 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2018 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.

AF7 – Pension planning

Contents

Published March 2018

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners assess candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

Before the examination

Study the syllabus carefully
This 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.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas, however you should be prepared to read around the subject. This is important particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge
For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

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

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

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible, and then comparing your answers to the model ones, should be seen as an essential part of your exam preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can purchase copies of the most recent Examination Guides online at www.cii.co.uk. CII members can download free copies of older Examination Guides online at www.cii.co.uk/knowledge.

Know the layout of the tax tables

Familiarise yourself with the information contained within the tax tables printed at the back of each Examination Guide. These tax tables will be provided to candidates as part of the examination paper. 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.*

Know the structure of the examination
Assessment is by means of a two-hour written paper in two sections. All questions are compulsory:

Section A consists of 38 marks.
Section B consists of two case studies worth a total of 62 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

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 more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

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.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper;
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time.

Take great care to answer the question that has been set.

- Many candidates leave the examination room confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before putting pen to paper.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates' should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many question have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

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

General

The AF7 Pension Transfer examination is designed to test a mixture of technical knowledge and information analysis and evaluation skills that would be required by an individual advising on the transfer of safeguarded pension benefits.

The examination has two sections. The first containing four short questions and the second containing two case study-based questions.

The following comments have been made by the senior examiner for this examination as a guide for candidates attempting the examination in the future and should be considered carefully as part of the preparation for sitting this examination.

Question 1

Candidates were asked to state the Financial Conduct Authority (FCA) suitability report and insistent client requirements relating to pension transfers. This is an area that advisers should be familiar with when providing pension transfer advice and most candidates answered this question well, with most gaining more than half marks.

Question 2

The calculation and assumptions of a Cash Equivalent Transfer Value (CETV) and the differences with Transfer Value Analysis (TVA) were tested in this question. Knowledge of this is fundamental to anybody providing advice in this area or working with pension transfers. It was pleasing to see that most candidates did have a reasonable knowledge of this area however there were a limited number who did not. This examination should not be attempted without a good understanding of the basic areas such as this.

Question 3

An employer covenant and its relevance to unreduced transfer values was tested in this question. Most candidates did not understand the relevance of it, with the majority gaining marks for explaining what it is rather than going on to explain why it is important.

Question 4

This question asked for candidates to list information that would be required about a defined contribution plan with safeguard rights and then what steps must be followed to transfer the fund to another plan and access benefits flexibly.

Many candidates answered both parts of this question well, however some did not know what an executive pension plan was and thought it was a defined benefit pension scheme and answered it accordingly. Some gave a description of the steps in the normal advice process rather than the steps relating to safeguard rights and transferring to access the fund flexibly which was explained in the question. Candidates must ensure they read questions carefully in all examinations and in this examination specifically, should be familiar with all types of pension plan where safeguarded rights may be found. Although an executive pension plan was used in this question, it was really about the information that would be required about any defined contribution plan with safeguarded benefits.

Question 5

Candidates were asked to provide a list of "additional information that would be required from Lizzie" before advising on the transfer of a defined benefit pension scheme. Many candidates provided a long list of generic information that would be needed when advising on transfers, but to gain good marks the keys were "additional information" which means information not given already and "from Lizzie" which means that it would be information that would be asked of Lizzie rather that the existing scheme or somewhere else. Questions should be read carefully before attempting so that candidates answer only what is asked and time is not wasted.

Question 6

This question required candidates to identify and explain "factors" that had been given in the case study that were relevant to the pension transfer advice. Many candidates just wrote a list of generic items of information that would be needed which gained no marks. To gain good marks candidates needed to consider information given in the case study and pick out relevant elements of it. 'Factors questions are different from 'general information' type questions as they are very specific to the case study scenario.

Question 7

The limitations of a TVAS report in relation to exceeding the lifetime allowance were tested in this question. This is an area that has come under much scrutiny over the past year especially following the implementation of pension freedoms. The FCA are consulting on a replacement that is more fit for purpose than the current report. Most candidates gained less than half marks in this question.

Question 8

Death benefit options and nomination forms were tested in this question and most candidates performed well.

Question 9

Candidates were asked to list six benefits and six drawbacks of transferring a defined benefit scheme. Most candidates did well and gained over half marks with better prepared candidates obtaining higher marks, relating their benefits and drawbacks directly to the case study. It is good practice to relate answers to the case study information given where ever possible across all examination units as this normally results in the highest marks.

Question 10

Fixed Protection 2016 and Individual Protection 2016 were tested in this question with candidates being asked to explain why Billy was unable to apply for either protection based on the information provided. Most candidates answered this question well, however some muddled up the rules for each transitional protection. It is important that candidates understand current and historic transitional protections for this examination.

Question 11

Candidates were asked to explain what the 'safe withdrawal rate' is and how it is calculated. Although this concept has been around for some time it has only become widely discussed in the UK since the implementation of pension reforms in 2015 and is relevant to pension transfers at retirement in terms of income sustainability. Some candidates did very well in this question and gained full marks, but the majority only gained two or three marks due to lack of clarity and detail. Candidates should ensure they are accurate and clear when answering questions and use the number of marks as a guide to the level of detail required.

Question 12

Stress testing of cashflow modelling was tested with the candidates being asked to list six stress tests that could be applied to a cashflow model. This again is important to understand in terms of pension transfers in relation to sustainability of income. Most candidates did well in this question with many getting full or almost full marks.

THE CHARTERED INSURANCE INSTITUTE

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

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SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, 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.

Instructions

- Two 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 AF7 – Pension transfers

Instructions to candidates

Read the instructions below before answering any questions

Three hours are allowed for this paper which carries a total of 100 marks as follows:

Section A: 38 marks
Section B: 62 marks

- You are strongly advised to attempt **all** questions to gain maximum possible marks. 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.

- Additional information relevant to pension planning is also included 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.

SECTION A

The following questions are compulsory and carry a total of 38 marks

Questions

1. A financial adviser has recommended that a defined benefit pension transfer does not proceed. However, the client wants to transfer to their personal pension plan against the advice received.

(a) State the pension transfer suitability report requirements in relation to pension transfers that are contained in the Financial Conduct Authority's (FCA) Conduct of Business Rules (COBS). **(4)**

(b) Outline the **three** key steps that the FCA expects a firm to take when advising an 'insistent client'. **(3)**

2. Jennifer's defined benefit pension scheme has provided her with a cash equivalent transfer value (CETV) of £565,000. She has received a transfer value analysis system (TVAS) report in relation to her deferred benefits. The critical yield is 9.5% based on her selected pension age of 63.

(a) Describe to Jennifer how a CETV is calculated. **(9)**

(b) Explain briefly how the assumptions used to calculate the critical yield in a TVAS differ from those used to calculate a CETV. **(3)**

3. An underfunded defined benefit pension scheme continues to offer unreduced cash equivalent transfer values to deferred members because of a strong employer covenant.

Explain what is meant by the term employer covenant and its relevance to the scheme's ability to pay unreduced cash equivalent transfer values. **(7)**

4. Jonathan, aged 65, has been a member of his employer's Executive Pension Plan (EPP) since 1979 and is considering accessing his pension benefits flexibly.
His current fund value is £675,000 and has a guaranteed annuity rate.

(a) State the additional information that you would require in respect of the EPP before advising Jonathan in relation to drawing his pension benefits. **(7)**

(b) State, giving your reasons, the steps that Jonathan must take before he would be able to transfer his fund into a suitable pension plan to allow him to access his pension benefits flexibly. **(5)**

Total marks available for this question: 38

SECTION B

All questions in this section are compulsory and carry an overall total of 62 marks

Case study 1

Read carefully all information provided in the case study before attempting the questions.
Your answers should take into account the clients circumstances as set out in the case study.

Lizzie, aged 46, lives with her partner Jo, aged 43. Lizzie is divorced and has two children, aged 15 and 12, from her previous marriage. She wants all of her assets to pass to her children following her death as Jo is independently wealthy.

Lizzie is currently a self-employed accountant. She previously worked in a large firm and has the following deferred defined benefit pension:

Date of joining scheme	1 September 1992
Date of leaving scheme	30 June 2014
Total pension at date of leaving	£32,000 per annum
Spouse's pension	50% of member's pension
Children's pension	25% per child, payable to age 23
Revaluation and escalation	Statutory minimum
Normal pension age Early retirement Available	65 From age 60 with an actuarial reduction of 4% per annum
Cash equivalent transfer value (CETV)	£925,000
Critical yield	8.5% per annum

Lizzie plans to grow her business for the next ten years and would then like to gradually reduce her working hours until retiring fully no later than age 60.

Lizzie has a low to medium attitude to risk and limited investment experience.

Questions

5. List the additional information you would require from Lizzie before advising on the suitability of transferring her defined benefit pension scheme. **(8)**

6. Based on the information provided in the case study, explain the factors that an adviser should consider before making a recommendation on the potential transfer of Lizzie's defined benefit pension scheme. **(8)**

7. Explain the limitations of the critical yield produced by the transfer value analysis system (TVAS) report assuming the fund value under a SIPP is likely to exceed the lifetime allowance. **(6)**

8. Assuming Lizzie transferred to a self-invested personal pension (SIPP) and nominated her children to receive any death benefits:

(a) Outline the options available to the children, in the event of Lizzie's death before age 75. **(5)**

(b) Explain why the completion of a nomination form does not guarantee the children will receive the death benefits. **(4)**

Total marks available for this question: 31

Case study 2

Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the clients circumstances as set out in the case study.

Billy, aged 61, is married to Candice, aged 42. They have two children, aged 8 and 6.

Billy has worked as a civil engineer at the same company since leaving university and has now decided to retire. Recently, his health has deteriorated and he is concerned about his life expectancy.

He has been a member of his employers defined benefit pension scheme and has been offered the following retirement options:

Full immediate pension	£49,750
or	
Pension Commencement Lump Sum	£147,250
Plus reduced pension of	£37,480
Spouse’s pension	50% of pre-commutation pension
Children’s pension	None
Increases to pension in payment	Statutory minimum
Cash equivalent transfer value (CETV)	£1,492,500

Having reviewed their income and expenditure requirements, Billy and Candice believe they need an ongoing income of £35,000 per annum. They have some capital spending requirements but these are covered by the pension commencement lump sum leaving a liquid emergency fund of £25,000.

Billy wants to ensure that Candice and the children are financially secure following his death.

Both Billy and Candice have a medium attitude to risk and some prior investment experience.

Questions

9. List **six** benefits and **six** drawbacks of Billy transferring his defined benefit pension scheme to a personal pension plan to access benefits flexibly. **(12)**

10. If Billy were to crystallise all of his pension benefits using flexi-access drawdown, he would exceed the lifetime allowance and be liable to tax charges.

Explain to Billy why he is unable to apply for any currently available transitional protections to reduce these tax charges. **(7)**

11. Explain what is meant by 'safe withdrawal rate' in relation to pension drawdown and the method of calculation. **(6)**

12 As part of the advisory process, a lifetime cashflow model has been put in place for Billy and Candice.

State **six** stress tests that could be undertaken as part of an annual review of the cashflow plan. **(6)**

Total marks available for this question: 31

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) Suitable advice must be provided in writing and must contain the advantages and disadvantages of the recommendation, any material information and an analysis of the financial implications.

(b) An adviser should always first provide advice following the normal advice process and if a client wishes to act against that advice the risks and implications of their actions should be reconfirmed along with a clear statement that they are acting against advice.

Model answer for Question 2

(a) The deferred pension at date of leaving is revalued in line with the scheme rules to normal scheme pension age. The figure is then capitalised using a scheme appropriate annuity rate and then discounted to the date of the calculation using an appropriate assumed investment return for the timescale. This figure can be further adjusted in line with the scheme actuary recommendations due to scheme funding giving the final Cash Equivalent Transfer Value (CETV).

(b) The scheme sets the assumptions used within a CETV whereas a Transfer Value Analysis (TVAS) report uses Financial Conduct Authority (FCA) prescribed assumptions. The main assumptions are for inflation, national average earnings and then annuity interest rate.

Model answer for Question 3

The employer covenant is the sponsoring employer's legal obligation and financial ability to reduce and eliminate any scheme underfunding and to maintain the funding on a long-term basis. This means that trustees can be confident in future funding and do not need to reduce CETVs as the remaining members in the scheme are unlikely to be disadvantaged as a result.

Model answer for Question 4

(a) Information required:
- Any protected tax-free cash.
- Rate of guaranteed annuity.
- Terms of the guaranteed annuity e.g. death benefits.
- Any transfer penalties.
- Availability of pension flexibility options.
- Charges.
- Investment fund options.
- Plan death benefits.

(b) As the pension plan has safeguarded rights and the fund value is over £30,000 he must provide evidence to the ceding scheme showing that independent advice has been taken from a suitably qualified adviser with the relevant regulatory permissions.

Section B

Case Study 1

Model answer for Question 5

Additional information required:
- Income required and likely expenditure in retirement.
- Capital requirements in retirement.
- Any other assets and pensions Lizzie has.
- Any liabilities.
- State of health and family longevity.
- Any expected inheritances or future capital receipts e.g. sale of business.
- Any plans to take any pension benefits before age 60.
- Attitude towards the loss of guaranteed benefits and replacing them with flexible benefits.

Model answer for Question 6

- She has a low to medium attitude to risk therefore losing guarantees may not be appropriate and is unlikely that the critical yield will be achievable.
- She has limited investment experience.
- She wants to pass her assets to her children, but the scheme offers limited death benefits for the children.
- There is no access to the scheme benefits before age 60 and she may wish to access them before age 60.
- There is an actuarial reduction applied to scheme benefits between age 60 and 65.
- She may wish to access her benefits flexibly.
- There is a potential lifetime allowance charge following transfer but no charge if she remains in the scheme.

Model answer for Question 7

Transfer Value Analysis (TVAS) does not take account of the fund reduction due to the lifetime allowance charge therefore the critical yield will be understated.

TVAS assumes an annuity is purchased on the same basis as the scheme benefits and does not take account of any flexibility options which may result in the critical yield being overstated.

Model answer for Question 8

(a) The fund could be paid as a lump sum, dependants lifetime annuity or dependants flexi-access drawdown as the children are dependent however they would become nominees when they become non-dependent.

(b) Nomination forms are an expression of wish and not legally binding. The trustees must investigate Lizzie's circumstances and they have the discretion to pay the death benefit to someone else if they deem it more appropriate.

Case Study 2

Model answer for Question 9

Benefits:

- Funds available should be able to sustain the income they need.
- Income from the plan can be varied.
- Would allow benefits to be left to children.
- Death benefits are likely to be higher and have flexible options.
- Death benefits will be tax-free if death is before age 75.
- Pension commencement lump sum (PCLS) will be greater subject to 25% of lifetime allowance.

Drawbacks:

- Loss of guaranteed pension and spouses pension.
- Loss of guaranteed escalation therefore inflation risk.
- Exposure to investment risk.
- Fund could run out i.e. longevity risk.
- Charges and complexity.
- Potential lifetime allowance tax charge.

Model answer for Question 10

- FP16 is not available as benefits have accrued in the scheme since 6 April 2016.
- IP16 is not available as the benefits are valued at 20 x scheme pension and were therefore valued as less than £1m on 5 April 2016.

Model answer for Question 11

It is the percentage of the initial investment that can be withdrawn each year over a period of 30 years taking account of inflation that does not lead to complete portfolio failure. Failure is defined as a 95% probability or more of total depletion of the fund.

Model answer for Question 12

- Future returns are lower than expected.
- More income is required than expected.
- Sudden loss of assets such as a stock market crash.
- Large unplanned capital requirement.
- Inflation is greater than expected.
- Living longer than expected.

All questions in the April 2018 paper will be based on English law and practice applicable in the tax year 2017/2018, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the April 2018 examinations.

INCOME TAX

RATES OF TAX	2016/2017	2017/2018
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	£32,000	£33,500
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

**not applicable if taxable non-savings income exceeds the starting rate band.*

Dividend Allowance		£5,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%
Trusts		
Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances†	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
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**
Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

Total earnings £ per week	**CLASS 1 EMPLOYER CONTRIBUTIONS**
Below 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.85 where profits exceed £6,025 per annum.
Class 3 (voluntary)	Flat rate per week £14.25.
Class 4 (self-employed)	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

**tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£4,000

ANNUAL ALLOWANCE CHARGE

20% - 45% determined by the member's taxable income and the amount of total pension input in excess of the annual allowance or money purchase annual allowance.

CAPITAL GAINS TAX

EXEMPTIONS	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
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	2016/2017	2017/2018
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
- main residence nil rate band*	£100,000	£100,000
- UK-registered charities	No limit	No limit

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

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 2017/2018:

- The percentage charge is 9% 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 13%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 18% 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 (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

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

	2016/2017 Rates	2017/2018 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

	2016/2017	2017/2018
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000	£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

MAIN SOCIAL SECURITY BENEFITS

		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
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 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
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	140.98

*Only applicable where spouse or civil partner died on or after 6 April 2007**

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CORPORATION TAX

	2016/2017	2017/2018
Standard rate	20%	19%

VALUE ADDED TAX

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.

Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.

SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%

Supplementary Information Pension Papers – AF7 2017/2018

Revaluation

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
After 5 April 2017	3. 5%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

Escalation

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment **State:** Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3% **State:** Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	**Scheme:** No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	**Scheme:** CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	**Scheme:** No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	**Scheme:** CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	**Scheme:** CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

Pension Protection Fund

Compensation cap at age 65 (2017/2018): £38,505.61

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%