Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2024 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2023/2024, 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.

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.
- It is important to show all steps in a calculation, even if you have used a calculator.
- Tax tables are provided at the back of this question paper.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL questions for each case study

Time: 3 hours

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.

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

Andrea, aged 64, is recently divorced from her husband, Carl. She has two sons and four grandchildren. Andrea is in good health and is adjusting well to her new circumstances. Her divorce was amicable, and a full financial settlement has been agreed.

Andrea is employed full-time as a manager in a marketing agency. She receives a gross salary of £56,000 per annum. Andrea is a member of her employer's qualifying workplace pension scheme and both she and her employer each contribute 5% of her gross salary to the scheme. Andrea's pension fund has a current value of £340,000 and is invested in a range of UK and global equity funds. Andrea's employer also offers membership of a group private medical insurance (PMI) scheme, but Andrea has never considered joining this as she has been covered under her ex-husband's group PMI scheme. This cover is shortly due to cease following the completion of their divorce. Andrea is also a member of her employer's death-in-service scheme which will pay out three times basic salary on death whilst in service.

As part of Andrea's divorce settlement, she has received the family home which has a value of £500,000 and is mortgage-free. She has also been awarded a share of her ex-husband's investment portfolio which is held in a range of shares in individual UK pharmaceutical companies and several open-ended investment companies (OEICs). These shares and OEICs have been transferred to Andrea but she is unsure if they are suitable to meet her needs and objectives. Andrea did not receive any element of Carl's pension benefits as part of the divorce, and she has no future entitlement to any of his pension arrangements.

Andrea has a range of Stocks & Shares ISA holdings which are invested in several UK equity tracker funds. These are held on a low-cost platform. Andrea is unhappy with the recent performance of these funds.

Andrea has updated her Will following her divorce which now leaves all her assets split equally between her two sons.

Andrea has a cautious attitude to risk and has no interest in Environmental, Social and Governance (ESG) investments although you have discussed this in detail with her.

Andrea has the following assets:

Assets	Value (£)
Home	500,000
Current account	60,000
Deposit savings account	120,000
UK Equities – pharmaceutical companies *	95,000
OEIC – UK & global equity tracker funds *	75,000
OEICs – UK corporate bond funds *	55,000
Stocks & Shares ISA – UK equity tracker funds	115,000

**Recently transferred from Carl.*

Andrea's financial aims are to:

- ensure she can generate a sustainable income throughout retirement;
- review the suitability of the assets she has received from Carl as part of the divorce settlement;
- improve the tax-efficiency of her current financial arrangements.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.
Questions

(a) State the additional information that a financial adviser would require in order to advise Andrea on the suitability of the assets that she has received from Carl in the divorce settlement to meet her financial objectives. **(15)**

(b) Explain, in detail, to Andrea the current and future tax treatment of the individual equities and OEICs that she has received from Carl. **(12)**

(c) Explain the key reasons why Andrea should invest some of her current cash holdings in other asset classes. **(8)**

(d) Explain the issues that Andrea should take into consideration when exploring the options available to her for future PMI cover, following the termination of her membership of Carl's employer's scheme. **(10)**

(e) State **six** benefits and **six** drawbacks for Andrea of retaining the existing portfolio of individual pharmaceutical shares. **(12)**

(f) Explain to Andrea why it is important to review her pension arrangements in advance of retirement. **(8)**

(g) Recommend and justify a range of actions that Andrea could take to improve the tax-efficiency of her financial arrangements. **(12)**

Total marks available for this question: 77

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.

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

Joshua and Amina, both aged 36, are married with three children, aged nine, seven and five. They are all in good health.

Joshua is a builder who runs his own limited company. The ownership of the company is shared between himself and Amina who acts as company secretary and deals with the company's administration. The limited company has an annual turnover of £90,000 per annum and Joshua draws a salary of £65,000 per annum gross. He does not draw any dividends. Amina does not draw any salary or dividends from the business. Amina is finding the company administration to be increasingly onerous, and both Joshua and Amina are considering the merits of closing the company and for Joshua to continue to work, but on a self-employed basis.

Joshua has a company qualifying workplace pension scheme with a current value of £20,000. This is invested in a target date retirement fund. He and the company both make the minimum required contributions under the qualifying workplace pension scheme rules. They have not set up any other employee benefits via the company.

Amina is a pharmacist and earns £49,000 per annum gross. Amina is a member of her employer's qualifying workplace pension scheme and makes regular contributions of 6% of her gross salary which are matched by her employer. Amina's pension fund has a current value of £58,000 and is invested in a UK Ethical Equity fund. Amina is due to receive a bonus of £5,000 gross next month from the pharmacy. She receives bonuses based on company performance on a regular basis. Amina is a member of her employer's death-in-service scheme which will pay out four times basic salary on death whilst in service.

Joshua and Amina have a repayment mortgage of £240,000 on their property which has a current value of £360,000. They have a fixed-rate mortgage of 4.6% for the next three years. The mortgage is fully covered by a joint-life decreasing term policy.

Joshua and Amina are aware that Joshua has no financial protection arrangements other than for the mortgage. They wish to review their protection arrangements to ensure that these are adequate to meet the family's needs going forwards.

Amina has an interest in Environmental, Social and Governance (ESG) investments, but Joshua has stated that this is not a concern for him. They are both medium to high-risk investors.

Joshua and Amina have set up mirror Wills which leave all assets to the survivor on first death and to their three children in the event of both deaths. The Will sets out guardianship arrangements for the children in the event of both deaths before the children attain age 18.

Joshua and Amina have the following assets:

Assets	Ownership	Value (£)
House	Joint	360,000
Current account	Joint	2,000
Deposit savings account	Joint	65,000
Stocks & Shares ISA – global ethical funds	Amina	75,000
Stocks & Shares ISA – UK managed fund	Joshua	66,000

Their financial aims are to:

- review and improve their existing protection arrangements;
- review the ongoing suitability of the company structure for Joshua's business;
- improve their current retirement savings provision.

PLEASE ENSURE YOU TYPE YOUR ANSWER TO EACH QUESTION IN THE CORRECT ANSWER BOX.

Questions

(a) Explain, in detail, to Joshua and Amina how they could make use of the existing Limited company structure to improve their current financial arrangements. **(12)**

(b) Explain briefly to Joshua how his future profits would be treated for tax purposes if he decides to become self-employed. **(6)**

(c) State **five** advantages and **five** disadvantages for Amina of investing the bonus in her employer's workplace pension scheme, rather than taking this as salary. **(10)**

(d) Explain to Joshua how the target date fund held by his qualifying workplace pension scheme operates. **(8)**

(e) Explain to Amina why she should review the fund choices in her Stocks & Shares ISA and pension fund on a regular basis. **(8)**

(f) Identify the key areas of weakness in Joshua and Amina's current protection arrangements. **(7)**

(g) Recommend and justify a suitable personal protection product that would provide a tax-free lump sum for Amina in the event of Joshua's death prior to the children attaining age 18. **(14)**

(h) Identify **eight** key issues that a financial adviser should discuss with Joshua and Amina at their next annual review. **(8)**

Total marks available for this question: 73

INCOME TAX

RATES OF TAX	2022/2023	2023/2024
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	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£125,140

High income child benefit charge: 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

**Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.*

Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,570	£12,570
Married/civil partners (minimum) at 10% *†*	£3,640	£4,010
Married/civil partners at 10% *†*	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 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.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly
Lower Earnings Limit (LEL)	£123
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 242.00*****	Nil
242.00 – 967.00	12% / 10%**
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*
***From 6 April 2023 to 5 January 2024 12% rate applies, from 6 January 2024 to 5 April 2024, 10% rate applies.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 175.00**	Nil
Over £175.00	13.8%

*** Secondary threshold.*

CLASS 2 (self-employed)	
Flat rate per week	£3.45
Small profits threshold per year	£6,725
Lower profits limit per year	£12,570

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	9% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

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 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance charge removed after 5 April 2023. Any excess over the lifetime allowance that would have been subject to a lifetime allowance charge of 55% prior to 2023/2024 will be taxable as the member's pension income via PAYE.*

Maximum tax-free pension commencement lump sum in 2023/2024 is £268,275 unless a higher amount is protected.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**

**From 6 April 2016 the annual allowance is reduced for those with income above a certain level. Between 2020/21 and 2022/23 the annual allowance will be reduced by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income' is also over £200,000.*
***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

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.

MONEY PURCHASE ANNUAL ALLOWANCE	2022/2023	2023/2024
	£4,000	£10,000

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
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:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
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*	£175,000	£175,000
- 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
- Annual small gifts exemption per donor	£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%

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work Related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

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