Chartered Insurance Institute

# R06

# Diploma in Regulated Financial Planning

## Unit 6 – Financial planning practice

**July 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.*

Max, aged 65, is a single man with no children and has never been married. Max is in very good health. Max's mother is living in a nursing home, and Max holds joint power of attorney for her, along with his brother. Max is employed full-time as a systems analyst. He receives a gross salary of £60,000 per annum. He is a member of his employer's workplace pension scheme and contributes 10% of his gross salary to the scheme. His employer contributes 5% of his gross salary to the scheme. Max's pension fund has a current value of £420,000 and is invested in a lifestyle fund with a planned retirement date of 1 September 2024. Max is also a member of his employer's death-in-service scheme which will pay out four times his basic salary on death whilst in service. He has completed a nomination in favour of his brother for both the death in service scheme and his employer's pension scheme.

Max is due to reach State Pension age in September this year. Max is not planning to retire for the foreseeable future.

Max has a home which is mortgage-free with a current value of £300,000. He also has a portfolio of open-ended investment companies (OEICs) and investment trusts, all of which are invested in UK and global equity funds. These have all performed well and have a total current value of £190,000. The portfolio pays dividends which Max reinvests into the portfolio each year. He is keen to rebalance his portfolio to reduce the level of risk and ensure that he can generate additional income when he decides to retire. Max has asked for your advice on how he can achieve this in a tax-efficient manner.

Max has a range of Stocks & Shares ISA holdings invested in individual equities, which are all high-risk UK smaller companies. Some of these are Alternative Investment Market (AIM) stocks. Max manages this portfolio himself and it is held on a platform.

Max has made a Will leaving the majority of his estate to a UK registered charity with a bequest of £100,000 to his brother in the event that he survives Max.

Max has an adventurous attitude to risk and does not have any interest in Environmental, Social and Governance (ESG) investments.

Max has the following assets:

| Assets | Value (£) |
|---|---|
| House | 300,000 |
| Current account | 12,000 |
| Deposit account | 65,000 |
| National Savings & Investments Premium Bonds | 50,000 |
| Stocks & Shares ISA – Individual UK Equities | 150,000 |
| OEICs – UK Equity funds | 100,000 |
| Investment Trusts – Global Equity funds | 90,000 |

Max's financial aims are to:

- ensure he can generate a sustainable income throughout retirement;
- adjust his investment portfolio to generate additional income in retirement;
- improve the tax-efficiency of his 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 Max on the suitability of his current financial arrangements to meet his retirement objectives. **(15)**

**(b)** Explain to Max how his current pension lifestyle fund operates and identify the key reasons why this particular fund may not be suitable to meet his long-term objectives. **(8)**

**(c)** Recommend and justify how Max could adjust the investment strategy within his OEIC and investment trust portfolio to generate additional tax-efficient income for him in retirement. **(12)**

**(d)** Outline the key reasons why Max should monitor the suitability of his holdings in the AIM stocks on a regular basis. **(8)**

**(e)** Explain to Max why he should review his nominations and Will. **(8)**

**(f)** Explain to Max the process that will be followed to wind up his estate on his death and how his estate would be treated for Inheritance Tax purposes. *No calculations are required.* **(10)**

**(g)** Recommend and justify a range of actions that Max could take to improve the tax efficiency of his financial arrangements. **(15)**

**Total marks available for this question: 76**

**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)** and **(g)** which follow.*

Amir and Karina are both aged 38 and are married. They do not have any children. Amir is in good health, but Karina has recently suffered a back injury and has been on sick leave from work for the past eight weeks.

Amir is employed as an engineer and earns £75,000 per annum (gross). Karina is employed as a product designer and earns £52,000 per annum (gross). Karina is currently receiving her full salary despite being on sick leave. This will cease in four weeks' time and her employer's income protection insurance scheme will commence, which will provide her with 50% of her current salary whilst she remains unable to work.

Amir is a member of his employer's workplace pension scheme and contributes 5% of his gross salary to the scheme. His employer contributes 3% of his gross salary to the scheme. Amir's pension fund has a current value of £95,000 and is invested in a global fixed-interest fund. He is also a member of his employer's death-in-service scheme which will pay out three times his basic salary on death whilst in service.

Karina is a member of her employer's workplace pension scheme, and she contributes 5% of her gross salary to the scheme. Her employer contributes 4% of her gross salary to the scheme. Karina's pension fund has a current value of £48,000 and is invested in an ethical equity fund. She is also a member of her employer's death-in-service scheme which will pay out four times basic salary on death whilst in service.

Amir and Karina have a repayment mortgage with an outstanding balance of £190,000 on their home which is currently valued at £270,000. They have been making overpayments to the mortgage over the past few years and are able to take a payment holiday of up to three months from the mortgage, should they wish to do so. The mortgage is protected in full by a decreasing term assurance policy which was set up when they took out the mortgage. They have no other protection policies in place.

Karina has a strong interest in Environmental, Social and Governance (ESG) investments, but this is not an area of interest or concern for Amir. They are both high-risk investors.

Neither Karina nor Amir have used their ISA allowances for the current tax year. They both hold Fixed-Rate Cash ISAs which are due to mature in January 2025.

Amir and Karina have set up mirror Wills which leave all assets to the survivor on first death and to their siblings on second death. They hold up-to-date Lasting Powers of Attorney for each other.

Amir and Karina have the following assets:

| Assets | Ownership | Value (£) |
|---|---|---|
| House | Joint | 270,000 |
| Current account | Joint | 4,000 |
| Deposit account | Joint | 35,000 |
| Cash ISA – Fixed Rate for 2 years | Amir | 22,000 |
| Stocks & Shares ISA – Global Equity funds | Amir | 65,000 |
| Cash ISA – Fixed Rate for 2 years | Karina | 22,000 |
| Stocks & Shares ISA – UK Ethical Equity funds | Karina | 39,000 |

Their financial aims are to:

- review the suitability of their current investment holdings;
- make adjustments to their financial arrangements during Karina's absence from work;
- improve their current retirement savings plans.

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

**Questions**

**(a)** State briefly the reasons why you might consider Karina to be a vulnerable client. **(7)**

**(b)** **(i)** Explain to Karina how any payment she receives from her employer's income protection insurance scheme will be paid to her and how it will be treated for tax purposes. **(10)**

Karina's employer's income protection scheme provides a proportionate benefit if the relevant conditions are met.

**(ii)** Outline to Karina how the proportionate benefit operates and how this may be of use to her during her recovery. **(6)**

**(c)** Explain to Karina why she may be eligible to receive Personal Independence Payment (PIP) and the benefits that it might provide for her. **(10)**

**(d)** State the reasons why Amir and Karina should not consider taking a mortgage payment holiday at the present time. **(10)**

**(e)** Recommend and justify a range of actions that Amir and Karina could take to improve their current retirement savings provision. **(14)**

**(f)** Explain to Amir why he should consider switching a portion of his current global fixed-interest fund within his pension plan into an equity-based fund. **(9)**

**(g)** Identify **eight** key issues that a financial adviser should discuss with Amir and Karina at their next annual review. **(8)**

**Total marks available for this question: 74**

# 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.<br>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% |