Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2024 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2024/2025 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.*

Cameron and Nancy, both aged 76, are married with two children and four grandchildren. Both of them are in good health and they both retired at age 65. They have never received financial advice before but now wish to use the services of a financial adviser to ensure that all of their financial objectives can be met in the most tax-efficient manner possible.

Cameron is in receipt of a gross annual income of £41,000 from his former employer's defined benefit pension scheme. This increases each year by the Retail Prices Index (RPI) and will provide a spouse's benefit of 50% of Cameron's pension which will continue to be paid to Nancy in the event of his death. Cameron is also receiving his State Pension of £11,300 per annum.

Nancy has a State Pension of £10,100 per annum in addition to a single life annuity, purchased from her pension with a former employer of £3,800 per annum gross. This is a level annuity, and the initial five-year guarantee period has expired.

Cameron and Nancy receive annual investment income of approximately £16,000 gross from dividends on their jointly held portfolio of unit trusts, as well as income of approximately £8,000 per annum each from their ISA portfolios. Cameron and Nancy use their ISA allowances each year by disinvesting from the jointly held unit trusts. They have not done so yet in respect of the current tax year.

Cameron and Nancy own their home which is mortgage-free. This has a current value of £500,000. They have no debts or liabilities.

Cameron and Nancy's grandchildren are all in their early twenties and are each planning to purchase their first homes in the next few years. They are keen to assist their grandchildren with these property purchases and have asked for your advice on how to achieve this.

Cameron and Nancy have up-to-date Wills which leave all assets to the survivor on first death and then to their two children on second death. They are concerned that their estate might be subject to Inheritance Tax on second death and wish to consider options to mitigate this.

Cameron and Nancy both have a medium attitude to risk but are willing to take a higher level of risk if this will assist them in meeting their objectives. Neither of them has an interest in Environmental, Social and Governance (ESG) investments.

Assets	Ownership	Value (£)
Home	Joint	500,000
Current account	Joint	18,000
Deposit savings account	Joint	120,000
Unit Trusts – UK & Global Equity Income funds	Joint	417,000
NS&I Premium Bonds	Cameron	25,000
Stocks & Shares ISA – UK FTSE-100 Tracker funds	Cameron	225,000
NS&I Premium Bonds	Nancy	25,000
Stocks & Shares ISA – UK Fixed-Interest funds	Nancy	200,000

Their financial aims are to:

- ensure they can maintain their current standard of living throughout retirement;
- ensure that as much of their estate as possible can be passed to their two children on second death;
- improve the tax-efficiency of their 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 Cameron and Nancy on the suitability of their current arrangements to meet their financial objectives. **(13)**

(b) Identify the key reasons why it might be appropriate to include Cameron and Nancy's children in future meetings with their financial adviser. **(7)**

(c) Outline the issues that Cameron and Nancy should consider when deciding whether they should loan monies to their grandchildren, rather than gifting monies for them to purchase their first properties. **(10)**

(d) Recommend and justify a range of actions that Cameron and Nancy can take to mitigate their potential Inheritance Tax liability. **(12)**

(e) Explain to Cameron and Nancy how a whole of life assurance policy could be used to assist them with their Inheritance Tax planning objective. **(12)**

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

(f) Explain to Cameron and Nancy why their existing portfolio of unit trusts may not be suitable for their longer-term objectives. **(10)**

(g) Identify a range of actions that Cameron and Nancy could take to improve the sustainability of their retirement income. **(10)**

Total marks available for this question: 74

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.*

Kabir, aged 47, has recently finalised his divorce from Hannah, aged 45. They have two children, Anika, aged 11 and Rashi, aged 13. The two children will continue to live with Hannah although Kabir shares joint custody of both children. The divorce was settled amicably, and a full financial settlement has been agreed and implemented. All of the family are in good health.

Kabir has moved into a rental property with his new partner, Emma. Emma is aged 43 and has never been married. They have no intention of marrying at any point in the future.

Hannah has remained with the children in the former family home which Kabir has transferred to her as part of the financial settlement in the divorce. The mortgage was paid off in full by Kabir as part of the divorce settlement and Kabir has no further financial or legal interest in the property. Kabir pays monthly maintenance of £1,500 to Hannah as part of the divorce settlement. This will continue until Anika is aged 18. At this point, he will support the children through university but will pay no further monies to Hannah.

Kabir is employed as a senior manager and earns a gross salary of £85,000 per annum. He is a member of his employer's qualifying workplace pension scheme but following the implementation of a pension sharing order as part of the divorce settlement, his pension has reduced in value to £120,000. Hannah's entitlement under the pension sharing order has been transferred to another pension provider. Kabir's pension plan is invested in a global equity tracker fund. He contributes 5% of his gross salary to the scheme and his employer contributes 4% of his gross salary. He 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.

Kabir has a portfolio of individual UK smaller company stocks which he manages himself. He reinvests all of the dividends into further shares.

Emma is a self-employed book editor and has taxable net profits of £60,000 per annum gross. Emma does not have any pension arrangements at present.

Neither Kabir nor Emma has any debts or liabilities although they are planning to purchase a property together in the next few years. This will require a joint mortgage of approximately £200,000.

Kabir is keen to ensure that his children are protected in the event of his death until they are both 21 years old. He also wishes to make sure that the majority of his estate is passed to his children on his death. He does not intend to make any provision for Emma in the future as she is likely to receive a large inheritance from her parents. Kabir has not updated his Will or nominations since the completion of his divorce from Hannah. His existing Will and nominations identify Hannah as his main beneficiary.

Kabir has an adventurous attitude to risk, and he is keen to invest aggressively to rebuild his asset base following his divorce. He has no interest in Environmental, Social and Governance (ESG) investments. Emma is a cautious investor with a strong interest in ESG investments.

Assets	**Ownership**	**Value (£)**
Current account	Emma	7,000
Deposit savings account	Emma	35,000
Stocks & Shares ISA – UK Ethical Equity fund	Emma	55,000
Current account	Kabir	25,000
Stocks & Shares ISA – Global Tracker fund	Kabir	37,000
Individual Equities – UK Smaller Companies	Kabir	140,000

Their financial aims are to:

- increase Kabir's pension funds following the implementation of the pension sharing order;
- ensure that the maintenance payments to Hannah are protected in the event of Kabir's death;
- ensure the children will receive Kabir's estate on his death.

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

Questions

(a) Explain to Kabir why it is important to update his Will and any death benefit nominations in the near future. **(10)**

(b) Recommend and justify a suitable protection product that Kabir could set up, which provides a monthly income, to ensure the continuation of the ongoing maintenance payments to his ex-wife in the event of his death. **(14)**

(c) Explain to Kabir a range of actions that he could take to improve his pension benefits following the implementation of the pension sharing order. **(12)**

(d) State **five** benefits and **five** drawbacks for Kabir of using Junior ISAs to build up funds to meet Anika and Rashi's future university costs. **(10)**

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

(e) Identify and explain the actions that Kabir could take to improve the tax-efficiency of his individual equity holdings in the various UK smaller companies. **(10)**

(f) Explain to Emma the benefits for her of setting up a personal pension plan. **(12)**

(g) Identify **eight** key issues that a financial adviser should discuss with Kabir and Emma at the next annual review. **(8)**

Total marks available for this question: 76

INCOME TAX

RATES OF TAX	2023/2024	2024/2025
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	£125,140	£125,140
High income child benefit charge: 1% of benefit per £200 of adjusted net income between £60,000 – £80,000		

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

	2023/2024	2024/2025
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	£1,000	£500
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	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

*** Where net income exceeds £500, the full amount is subject to Income Tax.*

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% *†*	£4,010	£4,280
Married/civil partners at 10% *†*	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance*†*	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
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).

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	8%
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.*

.

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

Class 2 contributions are credited automatically where profits equal or exceed £6,725 per annum.

Class 2 contributions can be made voluntarily where profits are below £6,725 per annum.

Class 3 (voluntary)	Flat rate per week £17.45.
Class 4 (self-employed)	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
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 removed from 6 April 2024.*

	2023/2024	2024/2025
Lump sum and death benefit allowance (LSDBA)	n/a	£1,073,100
Lump sum allowance (LSA)	n/a	£268,275

LSA and LSDBA may be higher if transitional protections are available.
Where pension benefits were crystallised prior to 6 April 2024 the LSA and LSDBA may be reduced.

Money purchase annual allowance	£10,000	£10,000

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£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.

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
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 - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
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	2023/2024	2024/2025
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

Gifts from surplus income are immediately exempt, as long as they are made from income, are made regularly and do not impact donor's standard of living.

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 made in excess of the nil rate band 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

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimumguarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	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	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

**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.*

***If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2024/2025 is £35.95, so total awarded for these individuals may be up to £126.45.*

CORPORATION TAX

	2023/2024	2024/2025
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%

Companies with profits between £50,000 and £250,000 will pay tax at the main rate, reduced by a marginal relief. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2023/2024	2024/2025
Standard rate	20%	20%
Annual registration threshold	£85,000	£90,000
Deregistration threshold	£83,000	£88,000

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%