Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2023 Examination Guide

SPECIAL NOTICES

Candidates entered for the January 2024 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.

R06 – Financial planning practice

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination, it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. 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.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook 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. 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 examination preparation. The Examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. 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 use your own tax tables in the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

- The paper is made up of two written case studies.
- The paper will carry a total of 150 marks.
- Each question clearly shows the maximum marks which can be earned.

Two weeks before the examination

The case studies

The case studies, containing client information which will form the basis of the examination questions, will be available on the CII website and in RevisionMate.

How should I use my time over the two-week period?

It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the case studies.

How should I use the case studies to help me prepare?

- Study the client circumstances presented in the case study.
- Consider the financial objectives of the clients and look for other possible areas of need.
- Look for technical areas that you may wish to revise, e.g. investment portfolios, pensions.

Practice some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.

Preparing the groundwork – considering possible solutions

Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices, Directgov website, National Savings and Investments liaison office.

For each of the possible solutions, consider how appropriate it might be to the client.

Understand the skills the examination seeks to test

The examination is based on two case studies for fictional clients whose details you will have received two weeks prior to the examination day. The case studies will enable you to familiarise yourself with the clients' circumstances.

Test yourself under timed conditions
To gain most benefit from this exercise you should:

- Study the details in the case studies over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper, taking into account the financial objectives provided.
- Compare your answers against the model answers once the three hours have elapsed. The model answers will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently detailed and if the technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the case studies are available to focus on the client details and prepare yourself for the examination day.

On-screen written exam familiarisation (Demo 1)

The familiarisation test allows you to experience using the assessment platform before your exam. Please note that while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality. This test is for the purpose of familiarisation with the assessment platform only. You can also access past exam papers here:
https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/exam-papers-and-test-specifications/

You can access the familiarisation test at any time.

https://www.cii.co.uk/learning/qualifications/assessment-information/on-screen-written-exams-by-remote-invigilation/exam-familiarisation/

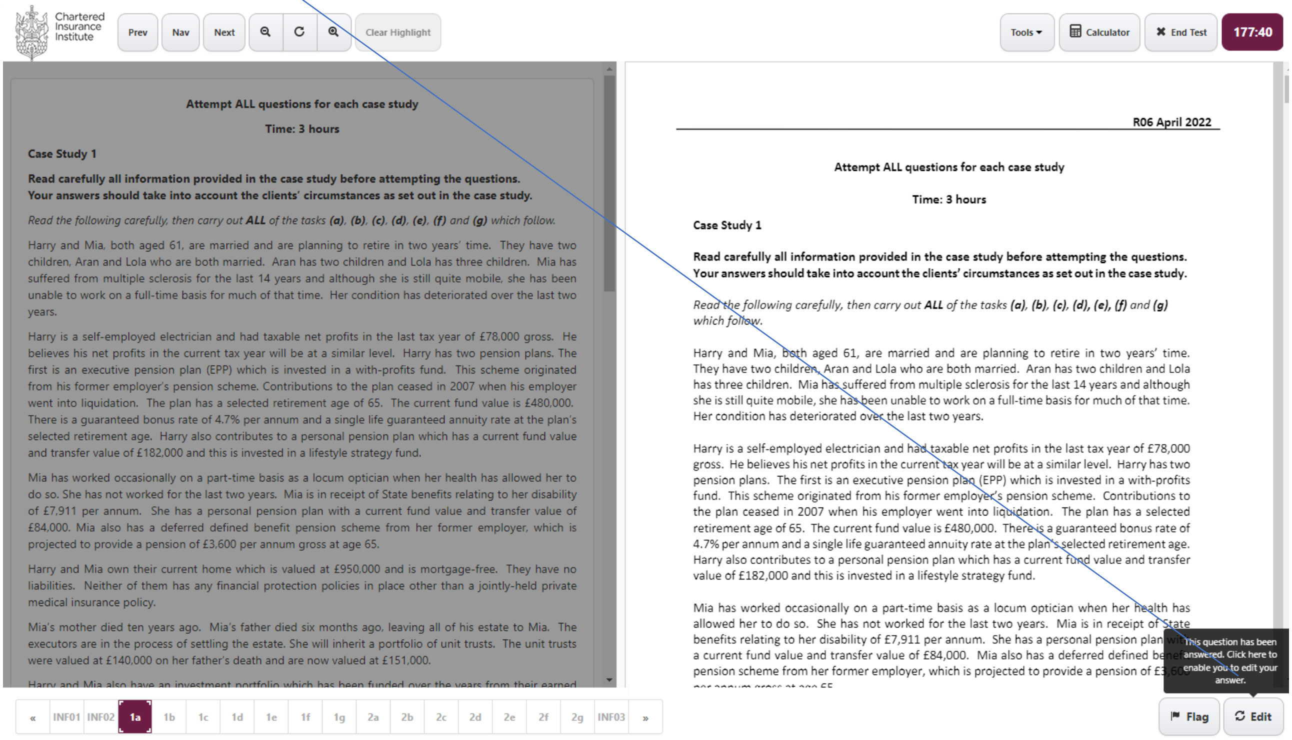
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The familiarisation test is designed to allow you to go through the end-to-end process from logging in to answering test questions, before the day of your exam. **We strongly advise that you try the familiarisation test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical issues.**

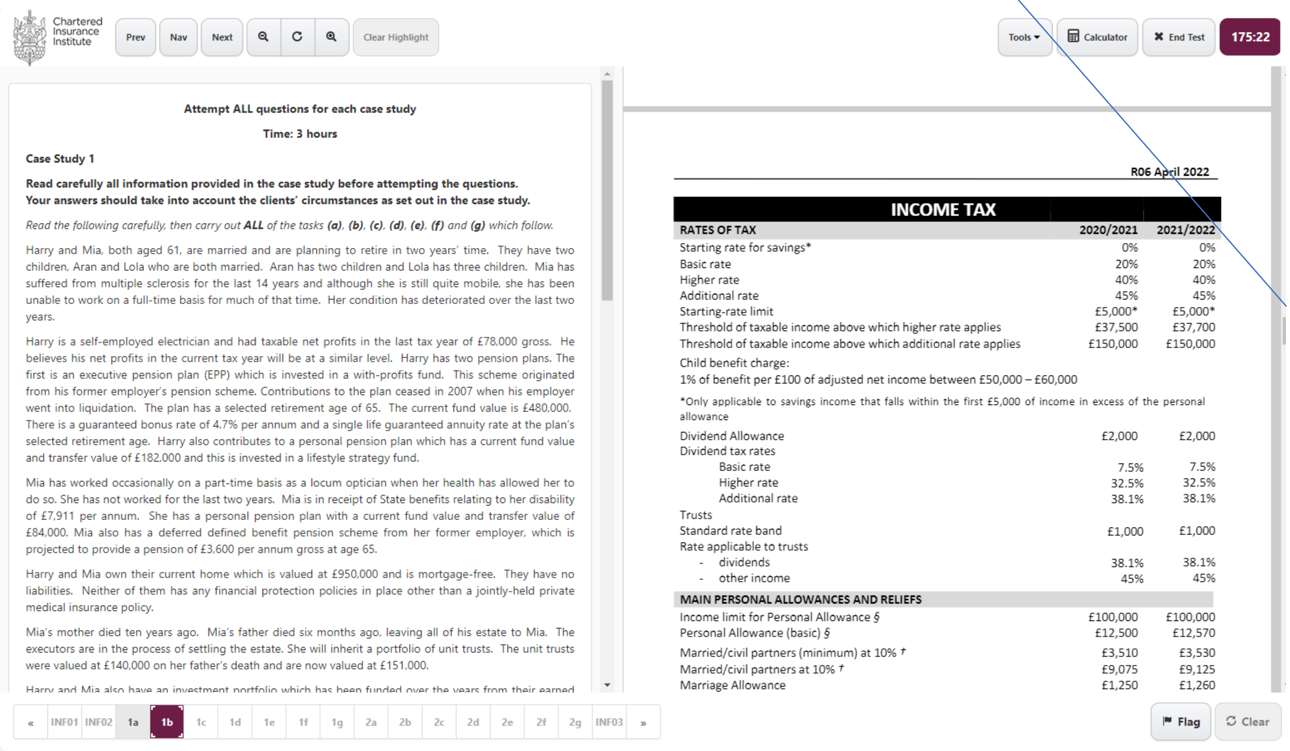
Please note you are strongly advised not to use a laptop provided by your employer.

Laptops and IT equipment provided by your employer typically include security protocols that conflict with any remote invigilation software. You should also avoid using a corporate Wi-Fi or any other internet connection that may include firewalls that you cannot personally control.

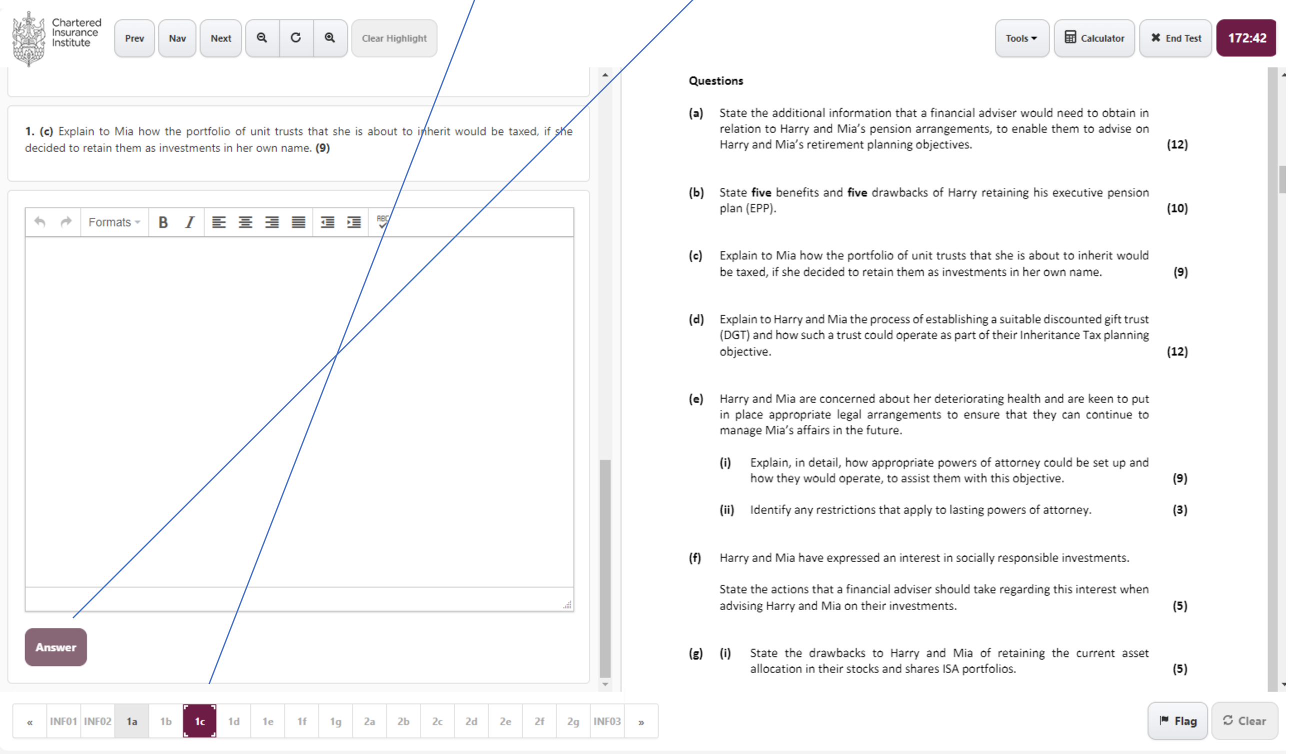
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit. Every 10 seconds, the system auto saves any unsaved work.



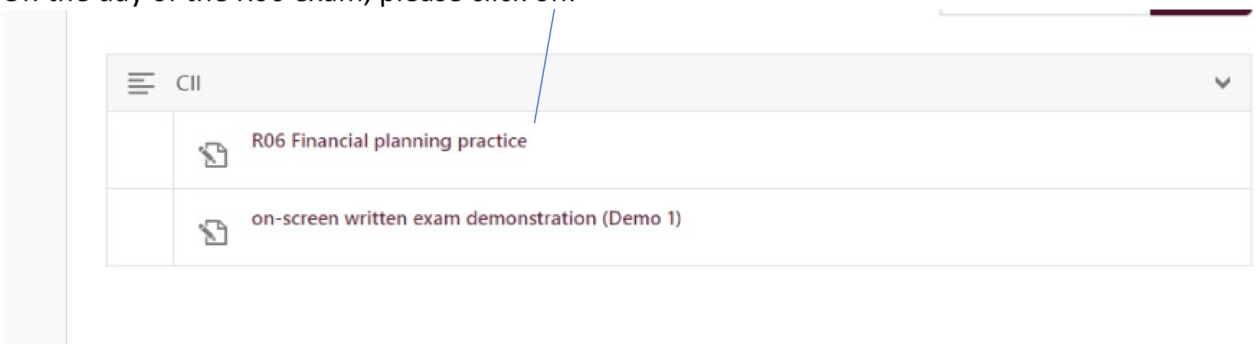
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



3. Once you have typed in your answer ensure you click the red ‘**Answer**’ box, this will save your answer and move you onto the next question. Unless you press ‘Answer’, you will not be permitted to move onto other questions. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the R06 exam, please click on:



5. The above screenshot shows the point before the exam has started; you may wish to take a moment at this screen to jot down any notes on paper that may assist you during the exam. Please note the exam timer will not start until you click the exam titled: **R06 Financial planning practice**.

In the examination

The case studies

You will not be able to take your pre-released copy of the case studies into the examination with you. The case studies will be provided on screen in the examination. There will not be any new or different information contained within the case studies. The instructions are focused on the client objectives identified from the case studies.

Assuming you have prepared adequately, you will only do justice to yourself in the examination if you follow two crucial common-sense rules:

1. **Spend your time in accordance with the number of marks given next to each question.** The number of marks allocated is the best indication of how much time you should spend on each question. If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking, so a long answer is a waste of time. Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the examination 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 elapsed, go on to the next question and return to the incomplete question, if you have time.

2. **Take great care to answer the precise question set.** The model answers provided in this Examination Guide are quite focused and precise; alternative answers will only be acceptable if they still answer the question. *However well a candidate writes on a particular topic, if it does not provide a satisfactory answer to the precise question as set, the candidate will not achieve the marks allocated*.

Order of answering questions

Answer the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which are felt to be challenging until the more familiar questions have been attempted but *remember not to spend excessive time on the questions you are most confident about.* You are able to flag questions and then go back to them.

Answering different question parts

Always read all parts of a question before starting to answer it otherwise, you may find that after answering part (a), the answer you have given is more appropriate to part (b) and it may be necessary to duplicate some of the answer.

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.

Marks are not lost due to poor spelling or grammar.

Calculators

The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

EXAMINERS' COMMENTS

Candidates' overall performance:

General performance across the paper was good and it was pleasing to note that the majority of candidates had carried out detailed preparation in advance of the examination and reviewed the Case Studies with care.

Some candidates struggled with areas where they were asked to examine the clients' particular circumstances and identify areas of weakness. This type of application-based question can often cause difficulties for candidates as they focus on generic responses, rather than identifying key issues relating specifically to the client information provided in the Case Studies.

Question 1

In part (a) candidates were asked to state the additional information that a financial adviser would require in order to advise David and Ruby on the suitability of their financial arrangements to meet their long-term retirement income needs. Many candidates performed well and were able to provide detailed answers that covered a range of issues.

Part (b) required candidates to explain in detail to David and Ruby how any sale of Ruby's Buy-to-Let property would be treated for Capital Gains Tax (CGT) purposes. Overall performance was good although it was disappointing to note that a small number of candidates were not aware of the CGT surcharge of 8% on sales of Buy-to Let property. Many candidates also failed to understand that improvements to the property would be eligible to be set against the gain but general maintenance would not be eligible.

Part (c) required candidates to outline the key reasons why Ruby might wish to purchase a lifetime annuity with the proceeds of her personal pension plan. Good performance with most candidates able to provide a range of reasons why this would be a sensible course of action.

Part (d) asked candidates to identify the key reasons why the holding in the UK commercial property unit trust may not be suitable for David and Ruby. Overall performance was good but it was noted that many candidates did not recognise that David and Ruby had a high overall exposure to property.

In part (e) candidates were asked to recommend and justify a range of actions that David and Ruby could take to improve the tax-efficiency of their current financial arrangements. Well prepared candidates had no issues with this question and provided a wide range of actions.

In part (f) candidates were required to explain in detail to David and Ruby how appropriate powers of attorney could be set up and how they would operate to assist them with managing their affairs in future. Although many candidates did well, it was disappointing to note that many candidates provided only brief answers to this question and failed to provide sufficient detail to achieve high marks. Only a small number of candidates recognised the restrictions on this type of arrangement in respect of limitations for gifting and Inheritance Tax planning (IHT).

Question 2

In part (a) candidates were asked to identify the key client-specific factors which may prevent Ravi and Chloe from meeting their financial objectives. Some mixed performance as some candidates performed very well but others provided only very limited generic answers and did not focus on Ravi and Chloe's current position.

Part (b) required candidates to explain to Ravi and Chloe how the Marriage Allowance could be used to improve their current tax position. It was pleasing to note that the majority of candidates performed well here and were able to achieve high marks.

Part (c) asked candidates to explain to Ravi and Chloe why it is important for them to continue to make regular savings into their Stocks and Shares ISA. Some good performance although only a few candidates identified the fact that these savings were currently affordable to them as they had received a large cash gift from Ravi's parents.

In part (d) candidates were asked to explain to Ravi and Chloe the actions they could take when their fixed-rate mortgage deal expires in December, to ensure that their mortgage payments continue to be affordable. Some good performance with most candidates able to explain a range of potentially suitable options.

Part (e) asked candidates to identify the key areas of weakness in Ravi and Chloe's current financial protection arrangements. Overall performance was very good although only a limited number of candidates were able to recognise the potential liability to Inheritance Tax (IHT) on the gift received from Ravi's parents.

Part (f) asked candidates to recommend and justify a suitable protection policy to provide a regular income in the event of Ravi suffering a long-term illness and explain how this could be set up in an affordable manner. Many candidates performed well but it was noted that a large number of candidates were unable to identify the correct protection product. A range of incorrect products such as Family Income Benefit (FIB), Critical Illness Cover (CIC) and a level term policy were identified as possible products – none of which would meet this need.

Part (g) was a standard review question which asked candidates to state eight issues that a financial adviser should discuss with Ravi and Chloe at the next annual review. Performance was generally very good with most candidates able to provide a range of issues for discussion.

Unit R06 – Financial planning practice

Instructions to candidates

Read the instructions below before answering any questions.

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

If you are sitting via remote invigilation please

- **Write down the following number +44 (0)80 8273 9244. This is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem, please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- 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.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- For each answer, please type in the full question number you are answering e.g. **1a**
- **Please note each answer must be typed in the correct corresponding answer box.**
- If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.
- Please familiarise yourself with **all** questions before starting the exam.

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

David and Ruby, both aged 70, are married. They retired five years ago. They have two adult children and six grandchildren. David and Ruby are both currently in good health although Ruby has a minor heart condition.

David and Ruby each receive an income of £11,120 per annum gross from the State Pension. David has a personal pension with a current value of £300,000. He took the tax-free lump sum from this pension plan when he retired and is drawing an income of approximately £20,000 per annum gross from the plan by using flexi-access drawdown. The plan is invested in a range of equity and fixed-interest funds, which David manages himself. Ruby has a personal pension plan with a value of £120,000 from which she has not yet drawn any benefits although she is considering the merits of using the pension plan to purchase a lifetime annuity.

David and Ruby own their home, which is mortgage-free. The property is valued at £450,000. Ruby also owns a buy-to-let property which she inherited from her mother a number of years ago. The value of the property was £160,000 when Ruby inherited it. Ruby spent £25,000 on improvements to the property in advance of making it available for rental. The property is now vacant and Ruby is considering selling the property as she has found the administrative requirements of being a landlord to be increasingly difficult over the past few years. She has asked for your advice on the merits of either selling it or retaining it as a rental property.

David and Ruby have a range of Stocks & Shares ISA holdings which are invested in fixed-interest and UK gilt funds. They also hold a unit trust which is wholly invested in a UK commercial property fund. They have not yet used their ISA allowances for the current tax year.

David and Ruby have up-to-date Wills which leave all of their assets to the survivor on first death and then in equal shares to their two children on second death. They have not set up any powers of attorney but are considering doing so, following Ruby's diagnosis of a minor heart condition.

David and Ruby are concerned that they may run out of money in later retirement. They have asked you to explain to them how they could generate a stable and sustainable income for their long-term retirement income needs.

David and Ruby have a low to medium attitude to risk and neither of them has any interest in Environmental, Social and Governance (ESG) investments.

David and Ruby have the following assets:

Assets	Ownership	Value (£)
Home	Joint	450,000
Current account	Joint	20,000
National Savings & Investments – Income Bonds	David	200,000
Stocks & Shares ISA – UK Fixed-Interest funds	David	170,000
Stocks & Shares ISA – UK Gilt funds	Ruby	140,000
Unit Trust – UK Commercial Property fund	Joint	105,000
Buy-to-Let property	Ruby	310,000

Their financial aims are to:

- ensure that they have a sustainable income throughout retirement;
- consider the merits of either selling or retaining Ruby's buy-to-let property;
- review the suitability of their existing investment portfolio.

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 David and Ruby on the suitability of their financial arrangements to meet their long-term retirement income needs. **(14)**

(b) Explain in detail, to David and Ruby how any sale of Ruby's buy-to-let property would be treated for Capital Gains Tax purposes. *No calculations are required.* **(12)**

(c) Outline the key reasons why Ruby might wish to purchase a lifetime annuity with the proceeds of her personal pension plan. **(14)**

(d) Identify the key reasons why the holding in the UK commercial property unit trust may not be suitable for David and Ruby. **(8)**

(e) Recommend and justify a range of actions that David and Ruby could take to improve the tax-efficiency of their current financial arrangements. **(15)**

(f) Explain in detail, to David and Ruby, how appropriate powers of attorney could be set up and how they would operate to assist them with managing their affairs in future. **(10)**

Total marks available for this question: 73

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

Ravi and Chloe, both aged 32, are married with two children, Rina, aged four and James, aged two. All of the family are in good health.

Ravi is employed as a software designer and receives a gross salary of £51,000 per annum. He is a member of his employer's qualifying workplace pension scheme and contributes 5% of his gross salary to the scheme. His employer contributes 3% of his gross salary to the scheme. Ravi's pension fund has a current value of £72,000 and is invested in a range of UK and global managed funds. Ravi is also a member of his employer's death-in-service scheme which will pay out four times basic salary on death whilst in service.

Chloe has not been in paid employment since Rina was born but she plans to return to work in three years' time when James starts school. Chloe has a small pension fund from her former employer's qualifying workplace pension scheme which has a current value of £28,000. This is invested in a global equity fund.

Ravi and Chloe do not anticipate any childcare costs in future as they have family members who are willing to provide childcare when Chloe returns to work. Ravi and Chloe are aware that their current financial protection arrangements are inadequate and have asked for your assistance in implementing appropriate protection solutions.

Ravi and Chloe have a repayment mortgage of £200,000 on their property with a 20-year term remaining. The property is currently valued at £370,000. The mortgage is on a fixed interest rate of 3% which is due to expire in December 2023. There are no extended early repayment charges. The mortgage is fully covered by a joint-life decreasing term life assurance policy. Ravi and Chloe are concerned at the prospect of future rises in mortgage payments when the fixed rate expires. They have asked for your advice on how to manage their budget to meet this eventuality.

Ravi and Chloe have no interest in Environmental, Social and Governance (ESG) investments. They both have a high attitude to investment risk. They make monthly investments into Stocks & Shares ISAs of £1,000 each. Ravi and Chloe are aware that these regular savings may not be affordable after the change in mortgage rate in December.

Ravi's parents recently gifted Ravi and Chloe the sum of £100,000 to either help them with their mortgage or to invest for the future. This sum is currently held in their joint deposit savings account.

Ravi and Chloe do not have Wills but are in the process of putting these in place.

Ravi and Chloe have the following assets:

Assets	Ownership	Value (£)
Home	Joint	370,000
Current account	Joint	25,000
Deposit Savings account	Joint	100,000
Cash ISA	Chloe	40,000
Stocks & Shares ISA – Asia Pacific equity funds	Chloe	85,000
Stocks & Shares ISA – Global Infrastructure funds	Ravi	70,000

Their financial aims are to:

- improve the suitability and tax-efficiency of their current financial arrangements;
- review their affordability to maintain their regular savings plan;
- improve their use of tax allowances.

Questions

(a) Identify the key client-specific factors which may prevent Ravi and Chloe from meeting their financial objectives. **(14)**

(b) Explain to Ravi and Chloe how the Marriage Allowance could be used to improve their current tax position. **(8)**

(c) Explain to Ravi and Chloe why it is important for them to continue to make regular savings into their Stocks and Shares ISA's. **(12)**

(d) Explain to Ravi and Chloe the actions that they could take when their fixed-rate mortgage deal expires in December, to ensure that their mortgage payments continue to be affordable. **(10)**

(e) Identify the key areas of weakness in Ravi and Chloe's current financial protection arrangements. **(10)**

(f) Recommend and justify a suitable protection policy to provide a regular income in the event of Ravi suffering a long-term illness and explain how this could be set up in an affordable manner. **(15)**

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

Total marks available for this question: 77

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) *Candidates would have gained full marks for any fourteen of the following:*

- Income needs/capital needs.
- Need for long-term care costs/estimated long-term care costs.
- Longevity/family health/details of Ruby's heart condition.
- Asset allocation.
- Income yield on David's pension fund/yield on Unit Trust.
- Gain on Unit Trust/base cost of Unit Trust.
- Use of Capital Gains Tax (CGT) exemption/capital losses registered.
- Willingness to transfer assets to joint names (Buy-to-Let/Income Bonds).
- Potential rental yield on Buy-to-Let (B2L)/what was rental income?/ongoing costs for B2L.
- Pension commencement lump sum (PCLS) available on Ruby's pension?/retirement options on Ruby's pension
- Future inheritances/willing to downsize.
- Priority of objectives/importance of leaving an inheritance (willing to annuitize/loss of pension funds).
- Charges.
- Pension nominations completed?
- Capacity for loss (CFL).

(b)

- Base cost is £160,000 (value on date she inherited from her mother).
- Can add £25,000 to base cost for improvements.
- Cannot add any maintenance costs.
- Deduct base cost.
- Can deduct costs of sale/estate agent/legal costs.
- Deduct from sale value/gives net chargeable gain.
- Can deduct her CGT exemption (£6,000)/deduct any CGT losses.
- Taxable at 18%/28% on Ruby.
- Sale proceeds would push Ruby into Higher Rate Tax (HRT).
- Can transfer to joint names (2 CGT exemptions).
- Interspousal exemption/no gain no loss.
- Tax must be paid to HM Revenue & Customs (HMRC) 60 days after completion of sale.

(c)

- Meets their objectives.
- Matches attitude to risk (ATR low to medium).
- Annuity provides guaranteed income.
- No investment risk/no risk of capital loss.
- She has a heart condition.
- May receive enhanced annuity.
- Annuity rates have increased/better rates available now.
- Could purchase investment linked annuity.
- Can provide income for David/spouse's pension.
- Capital guarantees available/guarantee periods.
- Can include indexation.
- No further admin/reviews/simple/easy to understand/peace of mind.
- No further costs to pension provider/financial adviser.
- Small proportion of their overall assets/preserves other assets for children/she has limited pension income.

(d) *Candidates would have gained full marks for any eight of the following:*

- Liquidity risk/can be gated.
- Unlikely to match attitude to risk (ATR).
- Over-exposure to property (B2L/home/Unit Trust).
- Potential for poor capital returns/better growth available elsewhere.
- Rental income level not guaranteed/they need stable income/better income yields available on lower-risk assets.
- Changing pattern of use of commercial property in UK post Covid/systematic risk.
- Lack of geographic diversification/all UK.
- Higher charges.
- Not tax efficient/not held in ISA.

(e) *Candidates would have gained full marks for any fifteen of the following:*

- Make pension contributions of £3,600/£2,880
- Tax relief of 20%
- Pension is IHT-free.
- Pension is immediately accessible.
- Stop/reduce withdrawals on David's Personal Pension (PP).
- Saves 20% Income Tax/preserves IHT free asset.
- Transfer Buy-to-Let property into joint names.
- Use both CGT exemptions on sale/no CGT on transfer/interspousal exemption/register any CGT losses from previous years.
- Stagger sales of Unit Trust over multiple tax years (for CGT purposes).
- Use ISA/Bed & ISA.
- Tax-free income and gains (ISA and pension).
- Use Annual Gifting Allowance (AGA)/£3,000
- Immediately exempt from IHT.
- Switch National Savings and Investments (NS&I) Income Bonds to Ruby/joint names.
- Saves Income Tax on savings income (she has lower income)/starting rate may be available for Ruby/David exceeds his Personal Savings Allowance (PSA).
- Claim Marriage Allowance (£252 max saving for David).

(f)

- Lasting Powers of Attorney (LPOA) Property and Financial Affairs should be set up.
- LPOA Health and Welfare should also be set up.
- Attorneys could be each other/could add children for security.
- Must be registered with Office of the Public Guardian (OPG).
- The financial LPOA can be used now (with permission).
- David or Ruby must be consulted on all decisions (if they have capacity).
- Health and Welfare only comes in force on David and Ruby losing mental capacity.
- Reasonable expenses can be charged by Attorney.
- Attorney can manage bank accounts/finances/pay bills/pay taxes.
- Large gifts cannot be made/restrictions on gifting/limited IHT planning options.

Case Study 2

(a)

- Health issues for either/children's health/long term illness/death.
- Security of Ravi's job/loss of Ravi's income/inability to work/sole earner.
- Inflation risk (on cash holdings)/poor investment performance.
- Increase in mortgage costs in December.
- Lack of disposable income/surplus income.
- Lack of protection/Chloe has no protection/no critical illness cover (CIC)/no Permanent Health Insurance (PHI)/ no Private Medical Insurance (PMI).
- Low level of assets.
- Unexpected costs/childcare costs/school fees/medical expenses.
- More children/longer term of dependency.
- Chloe not returning to work/Chloe has no income.
- Not using all tax-efficient allowances (pension/ISA/Lifetime ISA).
- Not using Chloe's Personal Allowances (Personal Allowance/Personal Savings Allowance/Marriage Allowance).
- No current Wills/no LPAs (Lasting Powers of Attorney).
- Unexpected tax bills (IHT on Potentially Exempt Transfer).

(b)

- Chloe is a non-taxpayer (not working).
- They are married/only available to married couples or civil partnerships.
- She has unused Personal Allowance/£12,570.
- She can transfer some of her unused Personal Allowance to Ravi.
- Ravi is Basic Rate taxpayer at present/not available if he becomes Higher Rate taxpayer.
- She can transfer £1,260 of Personal Allowance this tax year/10%
- Reduces Ravi's tax bill by £252/saves 20% Income Tax
- Can backdate 4 years (2019/2020 tax year)

(c) *Candidates would have gained full marks for any twelve of the following:*

- Tax-free.
- They have sufficient/excess emergency fund/affordable/they have surplus cash.
- Inflation risk on current cash holding/reduces inflation risk.
- Can match their ATR.
- Pound cost averaging.
- Reduces volatility/risk/reduced risk of capital loss.
- Potential for growth.
- Long timeframe for investment (both young).
- Accessible/liquidity.
- Can build diversified portfolio.
- Discretionary Fund Manager (DFM)/passive/active/different management styles.
- ISA allowance cannot be carried forward/not maximising ISA allowance at present.
- Can use Additional Permitted Subscription (APS) in event of death (tax free wrapper protected).

(d)

- Make lump sum mortgage capital repayment.
- Improves loan to value (LTV)/reduces interest paid.
- No Early Repayment Charges (ERC) at end of fixed rate/no penalties to overpay.
- Identify what rates are available from current lender/check rates in the open market/more competitive rates available elsewhere?
- Consider offset mortgage.
- With offset mortgage, cash savings remain accessible in event of emergency/use cash savings to reduce interest (£100,000).
- Extend term of mortgage.
- Longer term reduces monthly payments (increases overall interest).
- Reduce monthly investments in stocks and shares (S&S) ISA to increase affordability.
- Switch to interest-only mortgage (if conditions are met).

(e) *Candidates would have gained full marks for any ten of the following:*

- Ravi is sole breadwinner/Chloe is not returning to work for another 3 years.
- Chloe has no life cover other than for mortgage.
- No Family Income Benefit (FIB)/no cover for childcare costs in event of Chloe’s death.
- They have high levels of debt/mortgage.
- No PHI/no CIC/mortgage cover does not include CIC/no redundancy cover.
- Ravi’s Death-in-Service (DIS) is inadequate to provide for family in event of his death.
- Ravi’s DIS is lost if he changes jobs/security of employment.
- No Private Medical Insurance (PMI).
- No protection in place for possible tax on Potentially Exempt Transfer (PET) (gift from parents).
- Limited affordability for new protection products.
- Limited State Benefits available.

(f) *Candidates would have gained full marks for any fifteen of the following:*

- PHI/Income Protection (budget PHI).
- Term to age 60/65/normal retirement date (NRD)/term of 2-5 years for restricted payment.
- Provides tax-free income.
- 50% to 66% of income cover.
- Own occupation/suited occupation.
- Widest level of cover/good chance of claim.
- Longest possible deferred period/6 months minimum.
- They have adequate emergency fund.
- Reduced cost for longer deferred period.
- Guaranteed premiums/reviewable premiums.
- Known cost/budgeting/reviewable reduces cost.
- Indexation.
- Cover will keep pace with inflation.
- Ravi is in good health/simple underwriting.
- Multiple claims/cannot be cancelled by insurer.
- Rehabilitation/proportionate benefit.

(g)

- Change in personal circumstances/health/more children/objectives.
- Change in income/expenditure/tax status/salary increases/has Chloe returned to work?/did they reduce the mortgage balance?
- Attitude to risk(ATR)/Capacity for Loss (CFL).
- Rebalance/asset allocation/performance.
- What is new mortgage rate?/protection needs.
- Use of allowances/ISA/Pension/transfer of Marriage Allowance.
- Charges.
- Change in legislation/taxation/new products/market conditions/Interest Rates.

Glossary of terms

Some abbreviations candidates can you use in financial planning online exams:

- ATR – Attitude to risk
- APS – Additional Permitted Subscription
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- CETV – Cash equivalent transfer value
- CLT – Chargeable Lifetime Transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- DTA – Decreasing Term Assurance
- EIS – Enterprise Investment Scheme
- ESG – Environmental, Social and Governance
- EPT – Excluded Property Trust
- EPA – Enduring Power of Attorney
- ERC – Early repayment charges
- EPP - Executive pension plan
- FAD – Flexi access drawdown
- FSCS – Financial Services Compensation Scheme
- FOS – Financial Ombudsman Service
- GAR – Guaranteed annuity rate
- HRT – Higher rate taxpayer
- IHT – Inheritance Tax
- IVA – Individual Voluntary Arrangement
- IPI – Income Protection Insurance
- LPOA – Lasting Power of Attorney
- LTC – Long term care
- LTA – Lifetime allowance
- MVR – Market value reduction
- MPAA – Money purchase annual allowance
- NICs – National Insurance contributions
- NPA – Normal pension age
- NRA – Normal retirement age
- NRB – Nil rate band
- OPG – Office of the Public Guardian
- OEIC – Open ended investment company
- PAYE – Pay As you Earn
- PPP – Personal pension plan
- PCLS – Pension commencement lump sum
- PA – Personal Allowance
- PSA – Personal Savings Allowance
- PET – Potentially Exempt Transfer
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- SMP – Statutory Maternity Pay
- TPD – Total Permanent Disability
- UFPLS – Uncrystallised fund pension lump sum
- VCT – Venture Capital Trust
- WOP – Waiver of Premium

	October 2023 Examination - R06 Financial Planning Practice
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients' needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client's situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients' objectives and adapt to changes in circumstances.

All questions in the January, April and July 2024 papers will be based on English law and practice applicable in the tax year 2023/2024, unless stated otherwise and should be answered accordingly.

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.*

	2022/2023	2023/2024
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.*

	2022/2023	2023/2024
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%
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
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%