



Chartered
Insurance
Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

April 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the July 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

Important guidance for candidates	3
Examiner comments	9
Question paper	13
Model answers	17
Glossary of terms	22
Test specification	23
Tax tables	25

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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.

- 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.

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Prev Nav Next Q C Q Clear Highlight

Tools Calculator End Test 177:40

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), (f) and (g) which follow.

Harry and Mia, both aged 61, are married and are planning to retire in two years' time. They have two children, Aran and Lola who are both married. Aran has two children and Lola has three children. Mia has suffered from multiple sclerosis for the last 14 years and although she is still quite mobile, she has been unable to work on a full-time basis for much of that time. Her condition has deteriorated over the last two years.

Harry is a self-employed electrician and had taxable net profits in the last tax year of £78,000 gross. He believes his net profits in the current tax year will be at a similar level. Harry has two pension plans. The first is an executive pension plan (EPP) which is invested in a with-profits fund. This scheme originated from his former employer's pension scheme. Contributions to the plan ceased in 2007 when his employer went into liquidation. The plan has a selected retirement age of 65. The current fund value is £480,000. There is a guaranteed bonus rate of 4.7% per annum and a single life guaranteed annuity rate at the plan's selected retirement age. Harry also contributes to a personal pension plan which has a current fund value and transfer value of £182,000 and this is invested in a lifestyle strategy fund.

Mia has worked occasionally on a part-time basis as a locum optician when her health has allowed her to do so. She has not worked for the last two years. Mia is in receipt of State benefits relating to her disability of £7,911 per annum. She has a personal pension plan with a current fund value and transfer value of £84,000. Mia also has a deferred defined benefit pension scheme from her former employer, which is projected to provide a pension of £3,600 per annum gross at age 65.

Harry and Mia own their current home which is valued at £950,000 and is mortgage-free. They have no liabilities. Neither of them has any financial protection policies in place other than a jointly-held private medical insurance policy.

Mia's mother died ten years ago. Mia's father died six months ago, leaving all of his estate to Mia. The executors are in the process of settling the estate. She will inherit a portfolio of unit trusts. The unit trusts were valued at £140,000 on her father's death and are now valued at £151,000.

Harry and Mia also have an investment portfolio which has been funded over the years from their earned income.

« INF01 INF02 **1a** 1b 1c 1d 1e 1f 1g 2a 2b 2c 2d 2e 2f 2g INF03 »

Tools Calculator End Test 177:40

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Tools Calculator End Test 177:40

Flag Edit

- 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.

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Prev Nav Next Q C Q Clear Highlight

Tools Calculator End Test 175:22

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« INF01 INF02 **1a** **1b** 1c 1d 1e 1f 1g 2a 2b 2c 2d 2e 2f 2g INF03 »

Tools Calculator End Test 175:22

Flag Clear

R06 April 2022

INCOME TAX		
	2020/2021	2021/2022
RATES OF TAX		
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	£37,500	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000
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		
Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	7.5%
Higher rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	38.1%
- other income	45%	45%
MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,500	£12,570
Married/civil partners (minimum) at 10% †	£3,510	£3,530
Married/civil partners at 10% †	£9,075	£9,125
Marriage Allowance	£1,250	£1,260

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.

The screenshot displays the exam interface. On the left, a question editor for question 1c is visible, featuring a text input area and a red 'Answer' button. On the right, a list of questions is shown, with question 1c highlighted in a red box. The interface includes navigation buttons at the top and a timer in the top right corner.

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

The screenshot shows a dropdown menu with two options. The first option, 'R06 Financial planning practice', is highlighted with a red box. The second option is 'on-screen written exam demonstration (Demo 1)'. The menu is titled 'CII'.

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 very good with many candidates able to achieve high marks across the paper. This indicated a high level of preparation in advance of the examination. It was noted that a number of candidates experienced difficulties with questions relating to protection issues and identifying suitable protection products based on client circumstances. This is a key area of financial planning, and some candidates would benefit from a careful review of how a range of standard protection products operate and how these can be used to meet client needs and objectives.

Case Study 1

1 (a)

Candidates were asked to state the additional information that a financial adviser would require in order to advise Andrea on the suitability of the assets that she has received from Carl in the divorce settlement. Many candidates performed well here but some provided general answers that did not relate to Andrea's current circumstances or the assets that she has received from Carl. Only a limited number of candidates recognised the need to obtain information on the base cost of the assets received from Carl as this would be important information required to enable appropriate advice to be provided to Andrea.

1 (b)

This question required candidates to explain in detail to Andrea the current and future tax treatment of the individual equities and OEICs that she has received from Carl. Overall performance was very good.

1 (c)

This question required candidates to explain the key reasons why Andrea should invest some of her current cash holdings in other asset classes. Some excellent performance here with the majority of candidates recognising important issues such as the fact that her cash deposits would likely exceed the limits for the Financial Services Compensation Scheme.

1 (d)

This question required candidates to explain the issues that Andrea should take into consideration when exploring the options available to her for future Private Medical Insurance (PMI) cover, following the termination of membership of Carl's employer's scheme. General performance was good with most candidates able to explain the issues without any difficulty.

1 (e)

Candidates were required to state six benefits and six drawbacks for Andrea of retaining the existing portfolio of individual pharmaceutical shares. Most candidates performed very well.

1 (f)

Candidates were asked to explain to Andrea why it is important to review her pension arrangements in advance of retirement. Good performance here but it was disappointing to note that many candidates failed to identify the need to review Andrea's State Pension entitlement in advance of retirement.

1 (g)

Candidates were asked to recommend and justify a range of actions that Andrea could take to improve the tax-efficiency of her financial arrangements. The majority of candidates performed very well and were able to give detailed answers.

Case Study 2

2 (a)

Candidates were asked to explain in detail to Joshua and Amina how they could make use of the existing Limited company structure to improve their current financial arrangements. Overall performance was good, but some candidates failed to give sufficient detail to score high marks.

2 (b)

This question required candidates to explain briefly to Joshua how his future profits would be treated for tax purposes if he decides to become self-employed. Some mixed performance here as many candidates failed to provide sufficient detail to achieve many marks. A careful review of tax treatment for income under self-employment would be of benefit for a number of candidates.

2 (c)

This question asked candidates to state five advantages and five disadvantages for Amina of investing the bonus in her employer's workplace pension scheme, rather than taking this as salary. Good performance here from the majority of candidates.

2 (d)

Candidates were asked to explain to Joshua how the target date fund held by his qualifying workplace pension scheme operates. Mixed performance as some candidates did not understand how this type of fund operates and some further study would be of benefit in this area.

2 (e)

This question asked candidates to explain to Amina why she should review the fund choices in her Stocks & Shares ISA and pension fund on a regular basis. Overall performance here was good and well-prepared candidates did not have any difficulties with this question.

2 (f)

This question asked candidates to identify the key areas of weakness in Joshua and Amina's current protection arrangements. Many candidates performed well, but only a limited number of candidates were able to identify the lack of protection in respect of Joshua's business which was a major weakness in the current arrangements.

2 (g)

Candidates were asked to recommend and justify a suitable protection product that would provide a tax-free lump sum for Amina in the event of Joshua's death prior to the children attaining age 18. Some good performance here although it was noted that a significant number of candidates were unable to identify an appropriate product that would pay a lump sum on death. Some candidates recommended a range of products rather than one single product. It was disappointing that many candidates recommended either Income Protection or a Critical Illness policy, neither of which were appropriate for the needs identified in the question. Some candidates would benefit from a review of the benefits offered by a range of standard protection products to meet various client needs and objectives.

2 (h)

This was a standard review question which asked candidates to identify eight issues that a financial adviser should discuss with Joshua and Amina at the next annual review. Performance here was generally excellent with most candidates able to identify 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, and then carry out **ALL** of the tasks (a), (b), (c), (d), (e), (f) and (g) which follow.*

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

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

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

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

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

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

Andrea has the following assets:

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

**Recently transferred from Carl.*

Andrea’s financial aims are to:

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

Questions

- (a) State the additional information that a financial adviser would require in order to advise Andrea on the suitability of the assets that she has received from Carl in the divorce settlement to meet her financial objectives. **(15)**
- (b) Explain, in detail, to Andrea the current and future tax treatment of the individual equities and OEICs that she has received from Carl. **(12)**
- (c) Explain the key reasons why Andrea should invest some of her current cash holdings in other asset classes. **(8)**
- (d) Explain the issues that Andrea should take into consideration when exploring the options available to her for future PMI cover, following the termination of her membership of Carl’s employer’s scheme. **(10)**
- (e) State **six** benefits and **six** drawbacks for Andrea of retaining the existing portfolio of individual pharmaceutical shares. **(12)**
- (f) Explain to Andrea why it is important to review her pension arrangements in advance of retirement. **(8)**
- (g) Recommend and justify a range of actions that Andrea could take to improve the tax-efficiency of her financial arrangements. **(12)**

Total marks available for this question: 77

Case Study 2

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

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

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

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

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

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

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

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

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

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

Joshua and Amina have the following assets:

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

Their financial aims are to:

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

Questions

- (a) Explain, in detail, to Joshua and Amina how they could make use of the existing Limited company structure to improve their current financial arrangements. **(12)**
- (b) Explain briefly to Joshua how his future profits would be treated for tax purposes if he decides to become self-employed. **(6)**
- (c) State **five** advantages and **five** disadvantages for Amina of investing the bonus in her employer’s workplace pension scheme, rather than taking this as salary. **(10)**
- (d) Explain to Joshua how the target date fund held by his qualifying workplace pension scheme operates. **(8)**
- (e) Explain to Amina why she should review the fund choices in her Stocks & Shares ISA and pension fund on a regular basis. **(8)**
- (f) Identify the key areas of weakness in Joshua and Amina’s current protection arrangements. **(7)**
- (g) Recommend and justify a suitable personal protection product that would provide a tax-free lump sum for Amina in the event of Joshua’s death prior to the children attaining age 18. **(14)**
- (h) Identify **eight** key issues that a financial adviser should discuss with Joshua and Amina at their next annual review. **(8)**

Total marks available for this question: 73

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)
- Current income needs/current capital needs/emergency fund.
 - Retirement income needs/capital needs in retirement.
 - Planned retirement age.
 - Base cost of holdings on transfer from Carl (did they use spousal exemption?)
 - When was divorce finalised? (for CGT purposes).
 - Current capital gains on holdings/any registered losses
 - Use of CGT exemption.
 - Use of ISA allowance.
 - Dividend yield on pharmaceutical shares/ interest on OEIC.
 - Interest rate on savings.
 - Asset allocation/fund breakdown/fund choices/diversification.
 - Platform/are shares directly held?/Administration difficulties on shares/is Andrea willing to deal with the admin?
 - Downsizing.
 - Charges.
 - Capacity for loss (CFL).

Candidates would have gained full marks for any twelve of the following:

- (b)
- Income from shares and Equity OEICs are treated as dividend income.
 - She has dividend allowance of £1K/ £500.
 - Excess dividend income taxed at 33.75%
 - Corporate Bond OEIC produces 'savings income'/interest.
 - She has £500 Personal Savings Allowance.
 - Excess income taxed at 40%.
 - Gains subject to CGT.
 - She receives investments at Carl's base cost.
 - She has CGT exemption of £6,000/ £3000.
 - Can offset losses/ does she have capital losses?
 - CGT at 20%.
 - ISA/Bed & ISA.
 - All assets liable to IHT on death/No CGT on death.

- (c)
- She has too much cash/excess emergency fund.
 - Deposit account exceeds FSCS limit of £85K
 - Can match her ATR/Cash does not meet her ATR.
 - Limited growth potential on cash/potential for growth on investments.
 - Interest rate risk.
 - Inflation risk on cash/can reduce inflation risk with investments.
 - Exceeds her Personal Savings Allowance (PSA) of £500
 - Interest charged at 40%
- (d)
- Can she continue cover with Carl's provider?
 - Cost of individual private cover/cost of joining her employer scheme.
 - Affordability/is she willing to self-insure?
 - Existing scheme may cover pre-existing conditions/new scheme may not cover pre-existing conditions/new scheme will require underwriting/moratorium basis.
 - Level of cover available.
 - Has she made any claims under Carl's policy?/any current treatment?
 - Excess?
 - Benefit-In-Kind (BIK) tax charge?
 - Willing to rely on NHS/speedy return to work.
 - Employer cover will end when she retires/ limited timeframe/ can she continue with cover in retirement?
- (e) **Benefits:**
- Potential for growth/provides dividend income.
 - Can use her dividend allowance.
 - Can use CGT exemption/offset losses.
 - Can bed and ISA.
 - Low-cost/no cost to retain shares.
 - Diversification.

Drawbacks:

- Ongoing monitoring/ administration/ tax reporting/ must report dividend income via Self-Assessment.
- Dividend is taxable at 33.75%
- Not held within an ISA/not tax-efficient.
- Concentration risk/lack of diversification (all pharmaceuticals).
- Risk of capital loss/volatile holdings.
- Do not match ATR.

- (f)
- Update her nomination.
 - Check her NI record/BR19/may be able to purchase extra years/fill any gaps.
 - Can make higher contributions now/limited to salary/she has pensionable earnings/higher employer matching?
 - Tax relief available at 40%
 - Her ATR may change closer to retirement/does fund match ATR?
 - Charges.
 - Retirement income flexibility/do pensions offer FAD/UFPLS/plans to purchase annuity?
 - Performance/new funds available/better investment options/review to ensure sufficient income in retirement?
- (g)
- Bed & ISA OEIC/share holdings.
 - Increase pension contributions.
 - 20%/40% tax relief.
 - Pensions are outside estate for IHT purposes.
 - Tax-free income and growth (Pension and ISA).
 - Reduce income below Basic Rate band.
 - Recovers £1K PSA/she has £500 PSA now/reduces dividend tax from 33.75% to 8.75%
 - Use annual CGT exemption/Register any CGT losses.
 - Reduce cash balances/consider tax-free NS&I.
 - Reduces 40%/ 20% tax on savings.
 - Update pension nominations/use gifting allowances/Potentially Exempt Transfers (PETs)
 - IHT efficiency.

Model answer for Question 2

Candidates would have gained full marks for any twelve of the following:

- (a)
- Reduce salary/salary sacrifice.
 - Reduces Income Tax and National Insurance (NI).
 - Child Benefit eligibility.
 - Reduces employer NI.
 - Pay salary above Lower Earnings Limit (LEL) for NI credits.
 - Pay Dividends.
 - Can use Dividend Allowance (DA) for each of them.
 - Dividend Tax is lower than Income Tax.
 - No NI on dividends.
 - Increase employer pension contributions for Joshua/pay contribution for Amina.
 - Reduces Corporation Tax.
 - Can set up company protection policies (e.g. PHI/PMI).
 - Taxed as Benefit-In-Kind (BIK).

- (b)
- Taxed to Income Tax at 20%/40% each year/can use £12,570 Personal Allowance.
 - Cannot delay taking profits/ cannot retain profits/ treated as taxable when earned.
 - Can set work expenses against earnings.
 - Pays Class 2 & 4 NI/Pay class 4 NI.
 - No ability to take dividends/dividends taxed at lower rate (8.75%)
 - Cannot set up company benefits for tax purposes.
- (c)
- **Advantages:**
 - Builds up pension fund/potential for growth.
 - 40% tax relief/ can retain £1,000 Personal Savings Allowance (PSA).
 - Saves NI (if bonus sacrifice used).
 - Tax free wrapper.
 - Wide choice of funds/can match ATR/can invest in ESG.
 - **Disadvantages:**
 - Lack of liquidity/not accessible until retirement (57).
 - Could use to fund any capital needs/additional protection needs.
 - Impact on borrowing/may reduce future borrowing capacity.
 - Costs/charges on pension fund.
 - Potential capital loss (equity fund).
- (d)
- Joshua chooses a future retirement date.
 - Joshua can change fund if retirement date changes.
 - Active management/automatic switching/no input required from Joshua.
 - Invests in a wide range of asset classes.
 - Higher risk in earlier years/targeting growth.
 - Reduced risk in later years to preserve capital.
 - Investment strategy designed to protect investment growth.
 - Joshua can choose fund to match ATR.

Candidates would have gained full marks for any eight of the following:

- (e)
- High risk funds/her ATR may change.
 - Risk of capital loss/check performance/high levels of volatility/good performance.
 - She is an ethical investor/her ESG views may change.
 - Rebalance/ Funds may change ethical screening criteria/change of investment manager/ fund strategy.
 - Market conditions/economic conditions.
 - New funds available/new investment options.
 - Charges.
 - Currency risks (on ISA).
 - Diversification risk/concentration risk/geographical risk (on pension).

- (f)
- Insufficient life cover for Joshua/Amina has Death-In-Service/only protection is for mortgage.
 - No lump sum for Amina if Joshua dies.
 - No business protection/ no keyman cover.
 - No key employees to maintain the business/ likely failure of business.
 - No PHI/ASU for either.
 - No CIC/PMI for either.
 - No cover for childcare/fully dependant on both incomes/no Family Income Benefit.
- (g)
- Term Assurance/Whole of Life (WOL).
 - Single life basis/Joshua is life assured.
 - Term of 13 years (minimum)/for whole of life.
 - Sum assured sufficient to meet Amina's costs/cover loss of Joshua's income.
 - In Trust/life of another.
 - Speedy payment/no delays via Probate.
 - Guaranteed Premium.
 - Known cost.
 - Indexation.
 - To keep pace with inflation.
 - Waiver of Premium (WOP).
 - Pays premium in event of sickness.
 - Simple underwriting/he is in good health/young.
 - Terminal illness cover.
- (h)
- Change in personal circumstances/family/death/divorce/more children.
 - Change in financial circumstances/income/expenditure/change of job.
 - ATR/CFL.
 - Performance/fund values/rebalance.
 - Protection needs/did they close Limited Company?/ is Joshua self-employed?
 - Use of Tax allowances/pension/ISA.
 - Charges.
 - Change in legislation/taxation/regulation/market conditions/economy.

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
- 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
- LPOA – Lasting Power of Attorney
- 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
- RAC – Retirement annuity contract
- RNRB – Residence nil rate band
- SIPP – Self-invested personal pension plan
- SEIS – Seed Enterprise Investment Scheme
- TPD – Total Permanent Disability
- UFPLS – Uncrystallised funds pension lump sum
- VCT – Venture Capital Trust

April 2024 Examination - R06 Financial Planning Practice	
Question No.	Syllabus learning outcomes being examined
1.	<ol style="list-style-type: none"> 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.	<ol style="list-style-type: none"> 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 July 2024 papers will be based on English law and practice applicable in the tax year 2024/2025, 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	
<i>*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance.</i>		
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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

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

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

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*

***From 6 April 2023 to 5 January 2024 12% rate applies, from 6 January 2024 to 5 April 2024, 10% rate applies.*

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

*** Secondary threshold.*

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

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

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

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

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

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

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

***Reducing by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

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

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

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2022/2023	2023/2024
Individuals, estates etc	£12,300	£6,000
Trusts generally	£6,150	£3,000
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	28%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023	2023/2024			
Transfers made on death					
- Up to £325,000	Nil	Nil			
- Excess over £325,000	40%	40%			
- Reduced rate (where appropriate charitable contributions are made)	36%	36%			
Transfers					
- Lifetime transfers to and from certain trusts	20%	20%			
MAIN EXEMPTION					
Transfers to					
- UK-domiciled spouse/civil partner	No limit	No limit			
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000			
- main residence nil rate band*	£175,000	£175,000			
- UK-registered charities	No limit	No limit			
<i>*Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.</i>					
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 Support Group	Up to 107.60 Up to 117.60	Up to 84.80* 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 minimum guarantee - 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 main residence. 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. The rates 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%