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July 2025

AF5: Financial planning process

Practice Test 3

2025/2026 Revision Aid
Based on June 2021 examination

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Advanced Diploma in Financial Planning

> ☆ **Important:**
>
> These revision questions have been put together by an experienced trainer to provide a prompt for exam practice. However, please ensure that you bear in mind any changes to law, tax and practice that may have taken place since publication or update.
>
> Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

This PDF document has been designed to be accessible with screen reader technology. If for accessibility reasons you require this document in an alternative format, please contact us on online.exams@cii.co.uk to discuss your needs.

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Useful tips as you prepare for the AF5 exam

1. **Schedule sufficient revision time** to use your notes and learning and support materials to refresh your learning and consider how what you have learned applies to the case studies.
2. **Familiarise** yourself with the format and the navigation options navigation of an onscreen written exam:

   Familiarisation Test

   The familiarisation test:

   - Allows you to experience using the assessment platform before your exam.
   - Is for the purpose of familiarisation with the assessment platform only.
   - 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.

   > ⓘ **Note:**
   > Although the familiarisation test is modelled on AF1, the example is relevant for every candidate preparing to sit on-screen written exams by remote invigilation. Whilst there might be slight differences in layout, it will make you familiar with the platform.

   Follow these instructions to take the Familiarisation Test.

   - Click here to access the Familiarisation Test.
   - Once the test is open, click 'start'.
   - Explore the platform to practice navigation and general functionality.
   - 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**.

   > ☆ **Important:**
   > If completing your exam via remote invigilation, 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.
3. **Visit the** Assessment Information - Before the exam area of the CII website, which has important further practical information and support.
4. **Prepare exam technique** using the support of the Exam Guides on the AF5 unit page **https://www.cii.co.uk/learning/qualifications/unit-AF5/** which include examiner guidance and time-saving tips such as abbreviations.

Unit AF5 – Financial planning process FACT-FIND

Practice Test 3

☆ **Important:**

The AF5 fact-find contains client information which will form the basis of the report you will be required to prepare in the exam. You will not be able to take a copy of the fact-find into the exam with you. The fact-find will be provided in the online exam. There will not be any new or different information contained within the fact-find.

AF5 - FINANCIAL PLANNING PROCESS

FACT-FIND – Practice Test 3

You are a financial adviser authorised under the Financial Services and Markets Act 2000 (FSMA). You completed the following fact-find when you met Julie Simons.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Simons	
First name(s)	Julie	
Address	Leeds	
Date of birth	01.03.1971	
Domicile	UK	
Residence	UK	
Place of birth	Manchester	
Marital status	Divorced	
State of health	Good	
Family health	Good	
Smoker	No	
Hobbies/Interests	Running, cycling	

Notes:

Julie has recently finalised her divorce from her ex-husband, Peter. She has agreed a financial settlement with Peter and the divorce has been settled amicably.

Julie has appointed you to review her finances, following the divorce, as she wishes to ensure that the monies she has received from the divorce settlement are managed appropriately. Julie did not take any financial advice during the divorce process.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	Health	Occupation	Financially dependent?
Oliver	Son	13	Good	N/A	Yes
Noah	Son	11	Good	N/A	Yes

Notes:

Julie and Peter have two children. They have agreed to joint custody of the boys, but they will continue to live with Julie in the former family home. Peter will pay monthly maintenance of £1,000 per month until Noah is 18 in 2028.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Marketing Manager	
Job title		
Business name	Helva Services Ltd	
Business address		
Year business started		
Remuneration		
Salary	£45,000 (gross) per annum	
State Pensions		
Overtime		
Benefits		
Benefits-in-kind		
Pension Scheme	See Part 11	
Life cover	See Part 8	
Private Medical Insurance	N/A	
Income Protection Insurance	N/A	
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		

Notes:

Julie has worked for her current employer, Helva Services Ltd for 15 years. Julie has also worked for the past 10 years on a part-time basis for her ex-husband's printing company, WPQ Printing Ltd as the company secretary until she ceased work last month. She was receiving a salary of £10,000 per annum (gross). This is a Limited Company which was passed to her husband from his late father.

Julie owns 20% of the shares in WPQ Printing Ltd and the remainder of the shares are held by her ex-husband, Peter. Julie has received an annual dividend of £5,000 from the shares for the past few years. Julie has agreed with her ex-husband as part of the divorce settlement that she will retain the shares and pass these to the boys in 2028 once Noah attains age 18.

Previous Employment	Client 1	Client 2
Previous employer		
Job title	Marketing Executive	
Length of service	14 years	
Pension benefits	See Part 11	

Notes:

Julie transferred her deferred pension benefits from her former employer into her current employer's workplace pension scheme. See Part 11.

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant	Fawsley & Co	
Bank	Access Bank	
Doctor	Dr Knowles	
Financial Adviser		
Solicitor	Henson Davies LLP	
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		Client 2		Joint	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions						
Pensions/Annuities						
Salary (gross)		45,000				
Maintenance	1,000					
Benefits-in-kind						
Savings income (interest)		1,300				
Rental (gross)						
Dividends		7,680				

Notes:

Julie's salary is from Helva Services Ltd although she was receiving an additional income of £10,000 per annum (gross) from her ex-husband's printing company, WPQ Ltd until a month ago. This has now ceased.

Julie is receiving a monthly maintenance payment of £1,000 from her ex-husband to support the two boys.

Julie's dividend income is derived from a company dividend from WPQ Printing Ltd as well as dividends from her AIM shares and the Stocks and Shares ISA. The income from the Stocks and Shares ISA is currently reinvested.

	Client 1	Client 2
Income Tax	**£**	**£**
Personal allowances		
Taxable income		
Tax		
National Insurance		
Net Income		
Notes:		

Expenditure

	Monthly £			Annually £		
Household Expenditure	**Client 1**	**Client 2**	**Joint**	**Client 1**	**Client 2**	**Joint**
Mortgage/Rent						
Council tax	183					
Buildings and contents insurance				350		
Gas, water and electricity	140					
Telephone	50					
TV licence and satellite	60					
Property maintenance				1,500		
Regular Outgoings						
Life assurance (see Part 8)						
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				980		
Petrol and fares	120					
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping	1,200					
Pension contributions (see Part 11)	150					
Other Expenditure						
Magazines and newspapers				208		
Entertainment				750		
Clubs and sport for Noah and Oliver	150					
Spending money	500					
Clothes				2,000		
Other (Holidays)				4,800		
Total Monthly Expenditure	2,553					
Total Annual Expenditure	30,636			10,588		
Total Outgoings				**41,224**		

Do you foresee any major/lump sum expenditure in the next two years?

Notes:
Julie is not planning any major expenditure over the next two years, but she wishes to make sure she has sufficient income to meet her needs and the needs of the children until they reach age 18.

PART 6: ASSETS					
	Assets	**Client 1 £**	**Client 2 £**	**Joint £**	**Income (Gross) £**
1.	Main residence	400,000			
2.	Contents/car	50,000			
3.	Current account	15,000			0
4.	Deposit Savings Accounts – various	200,000			1,200
5.	Cash ISA – Instant Access	40,000			100
6.	Stocks and shares ISAs – UK Cautious Multi-Asset funds	120,000			2,160
7.	Individual Shareholdings – AIM shares (various)	65,000			520
8.	Shares in WPQ Printing Ltd	85,000			5,000

Notes:

Julie is currently holding the cash settlement of £200,000 from her divorce spread between a range of Deposit Savings accounts with different banking institutions. These are all variable rate accounts and earning low rates of interest. This payment was made to Julie to offset any rights to Peter's pension entitlement as part of the financial settlement for the divorce.

The ownership of the family home has been transferred to Julie's sole name. This is mortgage-free.

Peter had a portfolio of AIM shares which has been transferred to Julie as part of the divorce settlement. These shares had a base cost when purchased by Peter of £30,000. They have all performed well and Peter is keen for Julie to retain these and pass them to the boys in her Will to maintain the Inheritance Tax-efficiency of these holdings.

Julie has invested on a frequent basis in ISA holdings and has built up a portfolio of UK Cautious Multi-Asset funds. The income from these ISA holdings is currently reinvested into new units within the same funds. Julie has not made any ISA contributions for the current tax year.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see Part 8)			

Notes:
Julie does not have a mortgage.

Other Loans	Client 1	Client 2	Joint
Lender			
Type of loan			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Payment protection			

Notes:
Julie has no outstanding loans or debts.

Other Liabilities (e.g., tax)

Notes:

PART 8: LIFE ASSURANCE POLICIES							
Life/Lives assured	**Ownership**	**Sum assured £**	**Premium £**	**Term**	**Start date**	**In trust?**	**Surrender Values £**
Julie	Employer	135,000	N/A	N/A	2006	Yes	N/A
Notes:							
Julie has a death-in-service plan with her current employer. This will pay a lump sum of 3 x basic salary on her death whilst in service. Julie does not believe that she has nominated a beneficiary for this plan.							

PART 9: HEALTH INSURANCE POLICIES						
Type	**Life Covered**	**Current Sum Assured £**	**Start Date**	**Term/Review**	**Deferred Period**	**Premium £**
Notes:						
Julie was covered by a comprehensive company Private Medical Insurance plan through her ex-husband's company. She is no longer an employee of the company so cannot receive this benefit although Noah and Oliver are still covered until they are aged 18, as a child benefit via Peter. Julie has the option to purchase individual cover from the same insurer without further underwriting. She has asked for your views on the merits of this.						

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
Notes:							
Julie is not making any regular savings following the divorce.							

PART 11: PENSION DETAILS

Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		

Notes:
Julie has no occupational pension schemes.

Additional Voluntary Contributions (including free standing additional voluntary contributions).

	Client 1	Client 2
Type		
Company		
Fund		
Contribution		
Retirement date		
Current value		
Date started		

Notes:
Julie has no Additional Voluntary Contributions.

Personal Pensions

	Client 1	Client 2
Type	Group Personal Pension	
Company	Assure Life	
Fund	UK FTSE-100 Tracker (50%) UK Corporate Bond fund (50%)	
Contributions	5% employer/5% employee	
Retirement date	Age 67	
Current value	£160,000	
Date started	2006	

Notes:

Julie has only limited pension savings at present and is concerned that she will be unable to retire at age 60 as she had originally planned. Julie has asked you to look into this and recommend a strategy that will enable her to retire as close to age 60 as possible.

Julie's existing employer workplace pension plan is invested in a UK FTSE-100 Tracker fund and a UK Corporate Bond fund. She does not monitor the performance of the pension plan and has never changed the fund allocation since it was set up.

The plan is currently nominated for Peter, her ex-husband, as Julie has not yet contacted the Pension Trustees to notify them of her divorce.

Julie transferred the value of her former employer pension scheme into the Assure Life scheme a few years ago to reduce the administration in her pension arrangements.

Previous pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		
Date joined scheme		
Date left		
Current Value		

Notes:

State Pension

	Client 1	Client 2
State Pension		

Notes

Julie has never checked her State Pension entitlement but assumes that she will have full entitlement as she has always worked full-time.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	
Notes:		

Julie's Will has not been changed since her divorce. This currently leaves her entire estate to Peter but in the event of his death, the estate is left to the two boys in equal shares.

Julie and her ex-husband set up Lasting Powers of Attorney for both Property and Financial Affairs and Health and Welfare some years ago. These were registered with the Office of the Public Guardian and appoint each other as their Attorney. These have not been amended following the divorce.

Trusts	Client 1	Client 2
Are you a beneficiary under a trust?	No	
If yes, give details		
Are you a trustee?		
If yes, give details		
Notes:		

Gifts	Client 1	Client 2
Give details of gifts made and received	None	

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances expected	None	
Notes:		

Julie's parents are both alive and in good health. She does not expect to receive any inheritances from them for the foreseeable future.

PART 13: ATTITUDE TO RISK

What level of risk are you prepared to take to achieve your financial objectives?

Notes:
Julie has completed a full risk-profiling assessment and has been identified as a medium to high-risk investor although she acknowledges that her capacity for loss has reduced following the divorce. Julie is interested in investing in an ethical manner but is currently more concerned with improving her investment returns as she is planning to retire at age 60. She has advised you that her ethical views should be taken into consideration but are not the most important factor for her. Julie is keen to understand if her current investments follow any ethical guidelines so she can make an informed decision on this issue.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	19.05.2021	
Client agreement issued		
Data Protection Act		
Money laundering		
Dates of meetings		
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

Unit AF5 – Financial planning process Practice Test 3

> ☆ **Important:**
>
> All questions in this paper are based on English law and practice applicable in the tax year 2025/2026, unless stated otherwise and should be answered accordingly.
>
> It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

Instructions to candidates

Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks as follows:
- You are strongly advised to attempt all questions to gain maximum possible marks. 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.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf, and you should read them carefully before attempting the tasks.**
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each question on a new page and leave six lines blank after each question part.

> ☆ **Important:**
>
> **Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences on separate lines wherever possible.**

CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your client has the following financial objectives:

Immediate objectives

- To review the suitability and tax-efficiency of Julie's current financial arrangements following her divorce.
- To ensure adequate protection is in place for herself and her children.
- To ensure Julie is able to protect the ongoing maintenance payments from her ex-husband.

Longer-term objectives

- To invest a portion of the lump sum payment from Julie's divorce settlement.
- To put in place a suitable investment strategy for her pensions and personal investments.
- To ensure that she has adequate income to retire at age 60.

Attempt ALL tasks

Time: 3 hours

1. **(a)** Identify the additional information that you would require in order to advise Julie on the tax-efficiency of her current financial arrangements. **(12)**

(b) Explain to Julie the key weaknesses in her current financial and protection arrangements, following her divorce. **(12)**

2. **(a)** Recommend and justify a suitable protection policy that Julie could set up to provide a regular payment of £1,000 per month to cover the maintenance payments from her ex-husband in the event of his death. **(9)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

(b) Explain to Julie why she should review her current Will, nominations, and Lasting Powers of Attorney, following her divorce. **(10)**

3. **(a)** Identify **five** key benefits and **five** key drawbacks for Julie of using a portion of the lump sum from her divorce to top up her existing pension contributions. **(10)**

(b) Explain to Julie why she could consider investing some of her existing pension fund into a range of global equity funds. **(10)**

4. Julie received a portfolio of individual AIM shares as part of the divorce settlement. Her ex-husband, Peter, is keen for Julie to retain these for the Inheritance Tax benefits for Noah and Oliver.

(a) Explain, in detail, to Julie, the issues that she should take into consideration before making a decision on either retaining or selling these AIM shares. **(12)**

(b) Identify a range of alternative options that might offer Julie a more suitable method of mitigating any potential Inheritance Tax liability in future. **(11)**

5. Julie is planning to retire at age 60 but is aware that her current financial arrangements are likely to be inadequate.

(a) Recommend and justify a range of suitable actions that Julie could take with her pensions, savings, and investments, to improve the prospect of achieving her target of retiring at age 60. **(14)**

Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.

(b) State the process that you would follow to enable you to establish the shortfall in Julie's current pension arrangements. **(14)**

6. **(a)** Outline the key benefits for Julie of continuing to hold the shares in WPQ Printing Ltd for the next seven years. **(8)**

(b) Explain to Julie how a future transfer of the WPQ Printing Ltd shares will be treated for Income Tax and Capital Gains Tax purposes, assuming these are transferred to Noah and Oliver as planned. *Candidates should base their answer on current tax regulations.* **(6)**

7. **(a)** Explain to Julie the factors that she should take into consideration before deciding on whether she should take out an individual Private Medical Insurance policy through her former company scheme provider. **(10)**

(b) Describe to Julie why certain elements of her existing investment portfolio may not meet her ethical criteria and identify alternative options which may be more suitable for an ethical investor. **(8)**

8. **(a)** State the main reasons why you should consider Julie to be a 'vulnerable' client at present. **(7)**

(b) Identify **seven** key issues that you would discuss with Julie in respect of her ongoing income needs at your next annual review meeting. **(7)**

Total marks: 160

Model Answers

> ☆ **Important:**
>
> **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)
- Profitability of WPQ Printing/legal agreement on share transfer.
- Date of separation/divorce/were shares received pre divorce?
- Will she continue to receive dividends?/how much?
- Julie pays Dividend Tax of 8.75%/33.75% on excess dividends.
- Pension contribution history/carry forward available?
- Will employer match higher contribution?/salary sacrifice available?
- Do AIM shares all qualify for Inheritance Tax (IHT) purposes?/holding period for AIM shares/are AIM shares eligible for ISA?
- Has she claimed child tax credit/her salary is now below £50,000?
- Has she claimed 25% reduction in Council Tax/sole adult?
- Use of Capital Gains Tax (CGT) exemption/any losses carried forward?
- Any gifts planned/use of IHT exemptions/Trusts.
- Capital Gain on WPQ Printing shares?/acquisition cost.

(b) *Candidates would have scored full marks for any twelve of the following:*
- She is sole breadwinner/rely on her salary/single parent.
- Limited life cover/death in service (DIS) only.
- No Critical illness cover/no Income Protection cover.
- Her capital will be eroded in event of illness.
- Julie relies on maintenance from Peter/no protection for maintenance.
- Limited pension benefits.
- Will/Lasting Power of Attorney (LPA) out of date/ex-spouse is main beneficiary.
- Nomination on pension is out of date/nomination needed on DIS.
- Loss of Private Medical Insurance (PMI).
- Loss of salary from WPQ Printing/dividends not guaranteed.
- Inflation risk on cash holdings/poor return/excess cash.
- Limited affordability/limited budget.
- Unsuitable investments/AIM shares/does not match attitude to risk (ATR).
- Portfolio/assets not tax efficient.
- £1m Financial Services Compensation scheme cover on divorce only lasts 6 months.

Model answer for Question 2

(a)

- Family Income Benefit on Peter's life.
- Julie is the policy owner/life of another basis/in Trust.
- Peter may be willing to pay premiums himself.
- Underwriting is based on Peter's health.
- Insurable interest applies.
- No need for Probate/no delays/Life of Another basis paid directly to Julie.
- Term of 7 years/until Noah is 18/2028.
- Tax-free payment.
- Guaranteed premiums to ensure affordability for Julie.

(b)

- Will is out of date/needs updating.
- Treated as if Peter has died/Peter is removed/cannot benefit.
- Need a Trust for children/bereaved minor's trust.
- Appoint Trustees of choice for children's money.
- Executors may need to be changed.
- Update nominations on pension/Death in Service.
- Nomination improves benefit options.
- Instructions on transfer of shareholdings to boys.
- Revoke existing Lasting Powers of Attorney (LPA)/set up new LPA/LPA terminated.
- Peter may not follow Julie's wishes.

Model answer for Question 3

(a) **Benefits:**

- Increases chance of retiring at 60/Selected Retirement Date/stated retirement age.
- Potential tax-free growth/Tax relief/extends Basic Rate (BR) band.
- Employer matching/lower charges/less admin.
- Carry forward available.
- IHT-free (under current regulations)/reduces current IHT liability (under current regulations)/Income Tax-efficient on death.

Drawbacks:

- Limited affordability/loss of liquidity/loss of access to capital;
- until 57.
- No pound cost averaging/investment risk/limited capacity for loss (CFL).
- Only 25% Pension Commencement lump sum (PCLS) and income is fully taxable.
- Contributions limited by annual allowance/earnings limit.

(b)

- Global diversification/can invest in any area.
- Currently all UK equities/corporate bond.
- Reduces concentration risk/larger selection of companies.
- Greater growth prospects/developing markets/tech stocks.
- Different economic cycles globally/reduced correlation.
- Needs growth to retire at 60/she has sufficient time for volatility.
- Can invest in Environmental Social Governance (ESG)/ethical.
- Can match her attitude to risk (ATR)/current funds do not match ATR.
- Professional/active/passive management/no Alpha for tracker fund.
- Global equity may pay higher dividends/benefit from currency movement.

Model answer for Question 4

(a) *Candidates would have scored full marks for any twelve of the following:*

- Is she required to retain shares under divorce agreement?
- Business Relief may apply/are they all 'qualifying' now?/must be qualifying on death/existing holding period.
- Level of administration/monitoring required/cost of advice.
- Performed well so should she retain?/take profit.
- Capital Gains Tax (CGT) applies/Julie's base cost/Julie's gain.
- She can use her CGT exemption of £3,000.
- Any losses to carry forward?/no CGT on death.
- High risk investment/potential for capital loss.
- Dividend income taxed at 8.75%/33.75%.
- Does not match her ATR/CFL/ethical views.
- Not tax efficient/not in ISA.
- Liquidity issues/difficult to sell.
- Dividend income is low/£520/she needs income.

(b)

- Increase pension contributions.
- Pension funds are outside estate for IHT (under current regulations).
- Can be nominated for boys/nominate Death-In-Service for boys.
- Use of £3,000 annual exemptions.
- Set up whole of life (WOL) policy in Trust for IHT liability.
- Paid outside estate.
- WOL premiums exempt for IHT purposes.
- She is in good health so premium should be affordable/can be set up on maximum basis for low starting cost.
- Retain shares in WPQ Printing Ltd.
- Eligible for Business Relief.
- Ensure house left to boys to use Residence Nil Rate Band (RNRB).

Model answer for Question 5

(a)
- Increased pension contributions for tax relief/tax free growth.
- Pound-cost-averaging to reduce volatility/increase returns.
- Ensure maximum employer matching for contributions.
- Use salary sacrifice to increase pension contributions/reduce National Insurance (NI).
- State Pension/BR19.
- Reduce investment in UK Corporate bonds as limited growth potential.
- Increase exposure to equities/greater diversification needed.
- Equities tend to outperform other assets over medium to longer-term/greater potential for capital growth.
- Reduce cash balances/switch cash ISA to stocks and shares ISA.
- Inflation risk on cash/poor returns from cash.
- Invest in ISA for tax-free growth/income.
- Reduce monthly expenditure.
- Current assets do not match attitude to risk (ATR).
- Consider CGT issues on sale of AIM shares.

(b)
- Desired level of income/need for capital.
- Current expenditure/affordability.
- Cashflow modelling.
- BR19/State Pension at 67.
- Growth assumptions based on attitude to risk/stress test/projections from existing provider to age 60.
- Inflation assumptions.
- Current or planned contributions/monthly/lump sum.
- Dividend income from WPQ Printing Ltd ceases in 7 years.
- Costs/pension costs/charges.
- Current/future tax status.
- Other sources of income/use of other assets.
- Calculate fund value/contributions needed to provide income.
- Based on annuity rates/safe withdrawal rate (SWR)/longevity.
- Compare projections with capital value required/establish shortfall.

Model answer for Question 6

(a)
- Agreed with ex-husband in divorce settlement.
- Ongoing dividends/additional income for her.
- Can use dividend allowance (DA)/£500 tax free.
- Can pass the shares to the children/retains business in family.
- Retains Business Relief in event of her death/IHT efficient.
- May be able to use Entrepreneurs Relief/Business Assets Disposal Relief to reduce CGT on sale/disposal.
- Can use her CGT exemption against gain.
- Could benefit from growth in value of company.

(b) *Candidates would have scored full marks for any six of the following:*
- Treated as a disposal for CGT.
- Can use Holdover relief if all parties agree.
- Taxable to CGT on Julie/taxable on boys if holdover relief used.
- Base cost and current value is calculated.
- Can use CGT exemption/can offset losses.
- No Income Tax liability on transfer.
- Boys base cost is set on date of transfer/Julie's base cost only in the event of holdover relief.
- Future dividends will be taxable on boys.

Model answer for Question 7

(a)

- No further underwriting/continuing cover.
- Will cover pre-existing conditions/ comprehensive cover/ any exclusions?/ any restrictions.
- Limited time period to apply for continuing cover.
- Cost of cover/is it affordable?
- Can she find cheaper cover?/can she reduce cover?
- Has she ever made a claim?/policy excess?
- She is in good health/does she need comprehensive cover?
- Premiums will increase each year/may become unaffordable/she has recently turned 50/new pricing band.
- Is she willing to self-insure/self-fund?/priority.
- Does her current employer offer cover?

(b)

- Overall portfolio is not ethical.
- UK FTSE-Tracker is not Environmental Social Governance (ESG)/cannot screen for ESG.
- FTSE- 100 Index invests in tobacco/alcohol/oil.
- AIM stocks/UK Corporate Bond unlikely to be ESG.
- Multi-asset unlikely to be ethical/opaque.
- Discuss/explore Julie’s views on ESG.
- Use FTSE-4-Good/can screen for ethical issues.
- Consider ethical managed collective funds/for professional screening/could use Discretionary Fund Management (DFM).

Model answer for Question 8

(a)

- Recent divorce/single parent/young children/no advice taken on divorce.
- Limited Capacity for Loss (CFL).
- Affordability issues.
- Loss of income source/WPQ Printing Ltd/maintenance not guaranteed.
- Limited pension savings/Planning to retire at 60.
- AIM/WPQ shares are unsuitable assets/complex assets.
- She has limited protection.

(b)

- Current income/expenditure/capital required.
- Retirement at 60 still planned?/on target.
- Is Peter still paying maintenance?/did she set up life cover for maintenance?/ monthly cost.
- Affordability/budget/did she make lump sum pension contribution?/downsize/use of tax allowances.
- Performance/asset allocation/fund choice/ATR/CFL/new products/legislation changes.
- Yield on current ISA/cash deposits/AIM shares.
- Any plans to sell WPQ Printing Ltd/dividends from WPQ Printing Ltd?

Tax Tables

> ☆ **Important:**
>
> **The Tax Tables which follow are applicable to the examinations during September 2025 through to August 2026.**

INCOME TAX

RATES OF TAX	2024/2025	2025/2026
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge: 1% of benefit per £200 of adjusted net income between £60,000 – £80,000		

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

	2024/2025	2025/2026
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	£500	£500
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Income exemption up to**	£500	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

*** Where net income exceeds £500, the full amount is subject to Income Tax. Further, the £500 may need to be divided between other trusts in existence.*

MAIN PERSONAL ALLOWANCES AND RELIEFS	2024/2025	2025/2026
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,280	£4,360
Married/civil partners at 10% †	£11,080	£11,270
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£37,000	£37,700
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£3,070	£3,130
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. Married couple's/civil partners' allowance reduced by £1 for every £2 of adjusted net income over £37,700 (£37,000 for 24/25) until minimum reached.
**** Investment above £1,000,000 must be in knowledge-intensive companies.*

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£125
Primary threshold	£242
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 242.00*****	Nil
242.00 – 967.00	8%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £125 per week. This £125 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 £96.00**	Nil***
Over £96.00	15%

***Secondary threshold.*

****No employer NICs on the first £967 pw for employees generally under 21 years, apprentices under 25 years and veterans in first 12 months of civilian employment. No employer NICs on the first £481 pw for employees at freeports and investment zones in Great Britain in the first 36 months of employment*

Employment allowance £10,500 Per business – not available if sole employee is a director

CLASS 2 (self-employed) *	
Flat rate per week	£3,50
Small profits threshold per year	£6,845

Class 2 contributions are credited automatically where profits equal or exceed £6,845 per annum.
Class 2 contributions can be made voluntarily where profits are below £6,845 per annum.

Class 3 (voluntary)	Flat rate per week £17.75.
Class 4 (self-employed)	6% on profits between £12,570 and up to £50,270. 2% on profits above £50,270.

PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2012/2013 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 – 2023/2024*	£1,073,100

**Lifetime allowance abolished from 6 April 2024.*

	2024/2025	2025/2026
Lump sum and death benefit allowance (LSDBA)	£1,073,100	£1,073,100
Lump sum allowance (LSA)	£268,275	£268,275

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

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

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2014/2015 – 2022/2023	£40,000*
2023/2024	£60,000**
2024/2025	£60,000**
2025/2026	£60,000**

**Between 2016/17 and 2019/20 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £150,000 to a minimum of £10,000 where 'threshold income' is over £110,000.*

**Between 2020/21 and 2022/23 the annual allowance is 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.*

***From 2023/24 the annual allowance is reduced by £1 for every £2 of 'adjusted income' over £260,000 to a minimum of £10,000 if 'threshold income' is also over £200,000.*

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	**2024/2025**		**2025/2026**
Individuals, estates etc	£3,000		£3,000
Trusts generally	£1,500		£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000		£6,000
TAX RATES	**Pre 30/10/2024**	**Post**	**2025/2026**
Individuals:			
Up to basic rate limit	10%	18%	18%
Above basic rate limit	20%	24%	24%
Surcharge for residential property - Basic Rate	8%	n/a	0%
Higher Rate	4%	n/a	n/a
Surcharge for carried interest**	8%	4%	**32%
Trustees and Personal Representatives:			
Residential property	24%	24%	24%
Other chargeable assets	20%	24%	24%
Business Asset Disposal Relief*	10%		14%
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.*
*** For 25/26, rate for carried interest for all tax bands is 32%*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2024/2025	2025/2026
Transfers made on death		
- Up to £325,000 (nil-rate band)	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		
- Long-term UK resident spouse/civil partner	No limit	No limit
- Spouse/civil partner who is not a long-term UK resident (from long-term UK resident spouse/ civil partner)	£325,000	£325,000
- UK-registered charities	No limit	No limit
- Residence nil rate band*	£175,000	£175,000

**Available for estates up to £2,000,000 and then tapered at the rate of £1 for every £2 in excess until fully extinguished.*

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250

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

Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts made in excess of the nil rate band within 7 years of death:

- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

Quick succession relief:

- Years since IHT paid	0-1	1-2	2-3	3-4	4-5
- Inheritance Tax relief	100%	80%	60%	40%	20%

MAIN SOCIAL SECURITY BENEFITS

		2024/2025 £ (per week)	2025/2026 £ (per week)
Child Benefit	First child	25.60	26.05
	Subsequent children	16.95	17.25
	Guardian's allowance	21.75	22.10
Employment and Support Allowance	Assessment Phase Age 16 - 24	Up to 71.70	Up to 72.90
	Aged 25 or over	Up to 90.50	Up to 92.05
	Main Phase Work-related Activity Group	Up to 126.45	Up to 128.60
	Support Group	Up to 138.20	Up to 140.55
Attendance Allowance	Lower rate	72.65	73.90
	Higher rate	108.55	110.40
Basic State Pension	Category A full rate	169.50	176.45
	Category B (lower) full rate	101.55	105.70
New State Pension	Full rate	221.20	230.25
Pension Credit	Standard minimum guarantee - single	218.15	227.10
	Standard minimum guarantee - couple	332.95	346.60
	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	71.70	72.90
	Age 25 or over	90.50	92.05
Statutory Maternity, Paternity and Adoption Pay		184.03	187.18

CORPORATION TAX

	2024/2025	2025/2026
Small profit rate - for taxable profits below £50,000	19%	19%
Main rate - for taxable profits above £250,000	25%	25%

Companies with profits between £50,000 and £250,000 will pay tax at the effective rate of 26.5%. This provides a gradual increase in the effective Corporation Tax rate.

VALUE ADDED TAX

	2024/2025	2025/2026
Standard rate	20%	20%
Annual registration threshold	£90,000	£90,000
Deregistration threshold	£88,000	£88,000

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£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 £300,000 for properties up to £500,000 when purchasing their mainresidence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,001 and £500,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 5% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *Additional SDLT of 2% may apply to purchases by non-UK residents over £40,000.*
- *SDLT may be charged at 17% on interests in residential properties 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%

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