R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

October 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the January 2025 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

R06 – Financial planning practice

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

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

Before the examination

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely
It is vital that your knowledge is widened beyond the scope of one book. *It is quite unrealistic to expect that the study of a single coursebook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic, or an alternative viewpoint is sought. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your examination preparation. The Examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to use your own tax tables in the examination, these are provided in the portal as you sit the exam (see page 6).*

Know the structure of the examination

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

Two weeks before the examination

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

How should I use my time over the two-week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the case studies.

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

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

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

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

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

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

Test yourself under timed conditions

To gain most benefit from this exercise you should:

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

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

On-screen written exam familiarisation

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/

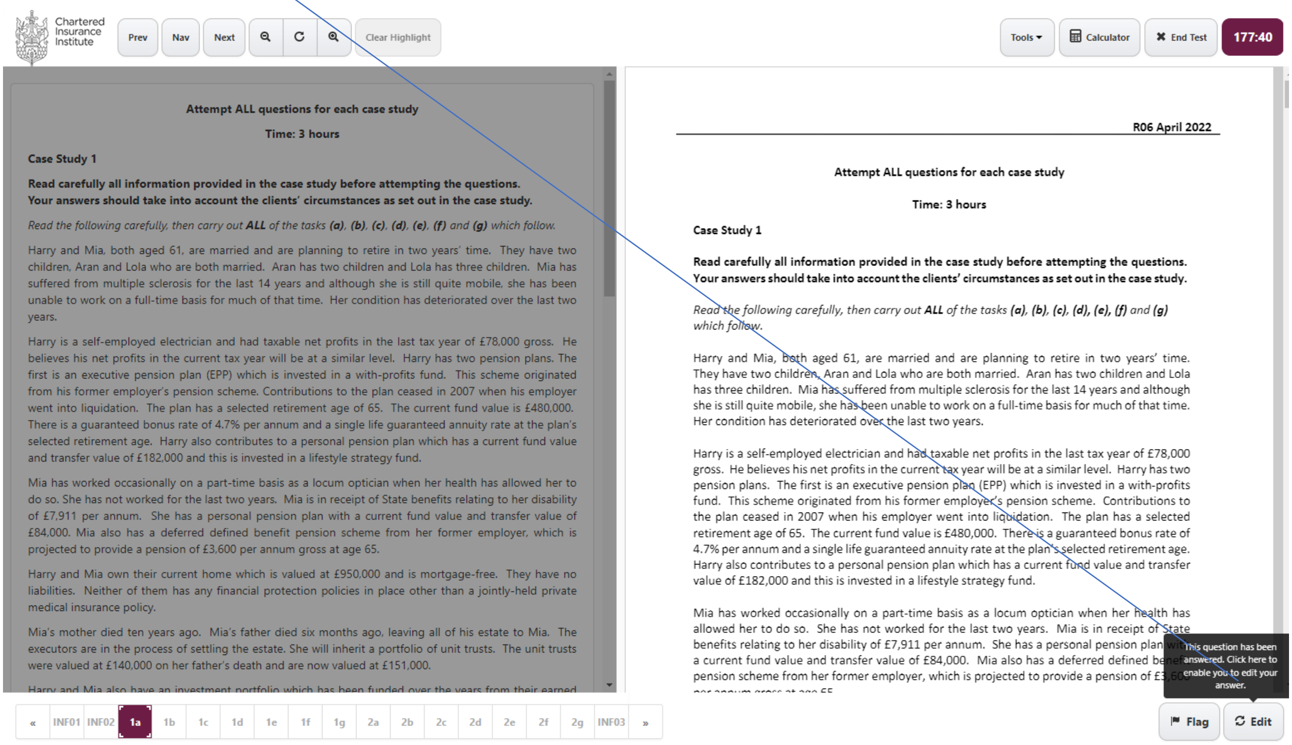
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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.

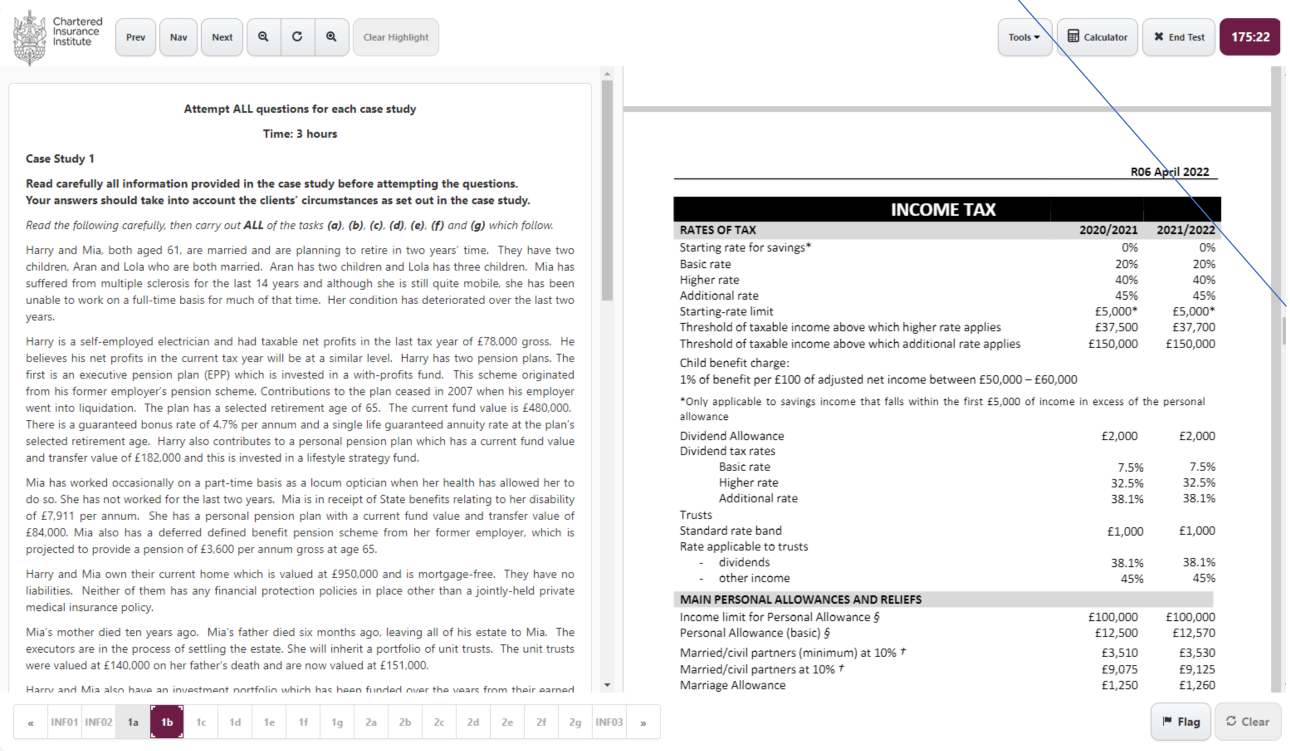
Please note you are strongly advised <u>not to</u> use a laptop provided by your employer.

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

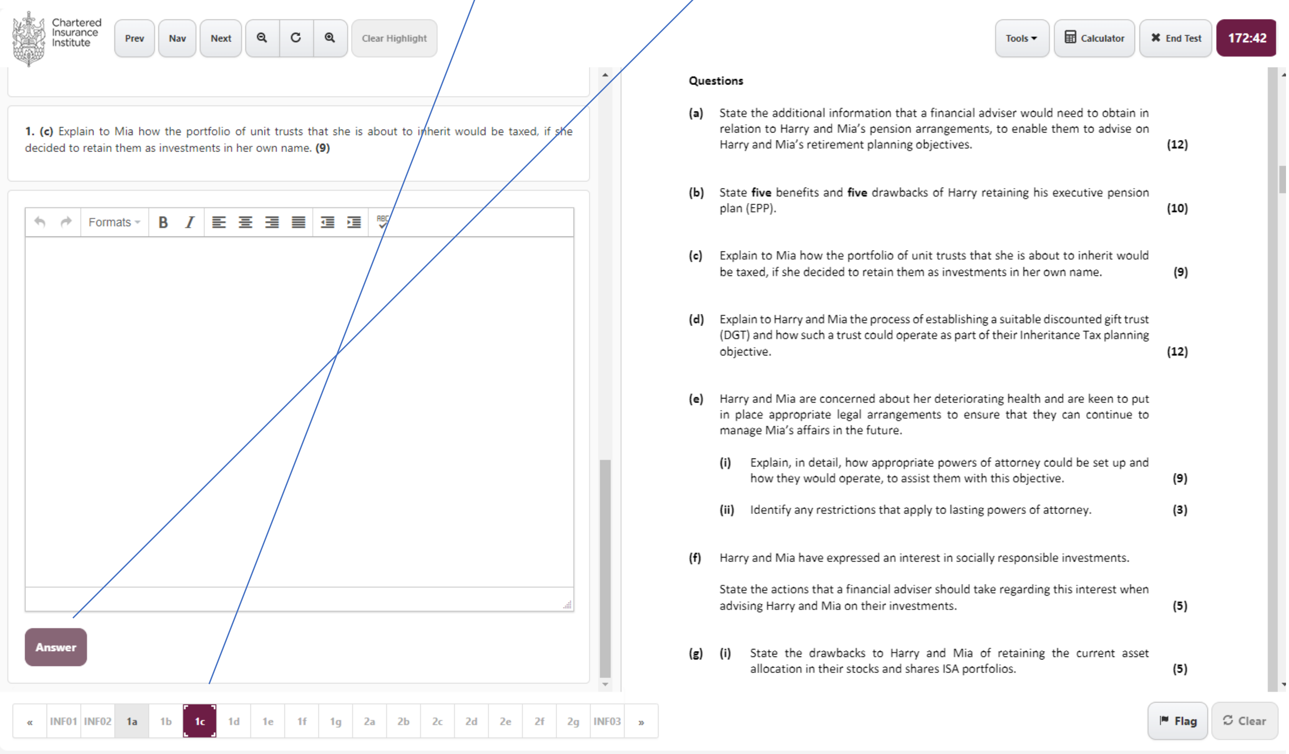
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press ‘Answer’ for the question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



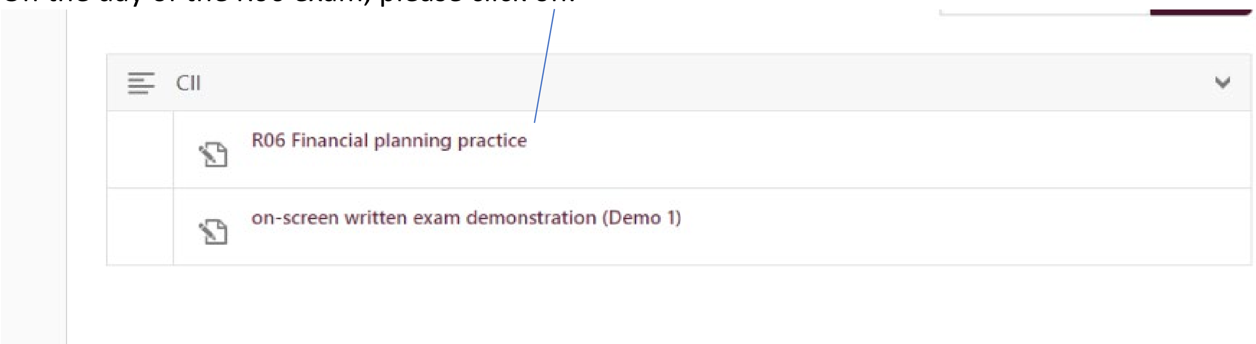
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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



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



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

In the examination

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

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

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

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

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

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

Answer format
Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use ‘bullet points’ or short paragraphs. The model answers indicate what is acceptable for the different types of question.

Marks are not lost due to poor spelling or grammar.

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

EXAMINERS' COMMENTS

Candidates' overall performance

General performance was good with many candidates able to achieve a satisfactory performance across the exam. It was noted that candidates who had prepared well for this examination with prior study of the Case Studies achieved high marks across the exam.

It was disappointing to note that a number of candidates did not prepare well in advance of the exam and had not reviewed the Case Studies in sufficient detail. Many candidates failed to recognise that the couple in Case Study Two did not intend to marry and therefore failed to understand that interspousal exemptions would be unavailable. This indicated a poor level of preparation on the part of a number of candidates.

Case Study 1

1 (a)

Candidates were asked to state the additional information that a financial adviser would require in order to advise Cameron and Nancy on the suitability of their current arrangements to meet their financial objectives. Most candidates performed very well here and were able to identify most of the additional information that would be required.

1 (b)

This question required candidates to identify the key reasons why it might be appropriate to include Cameron and Nancy's children in future meetings with their financial adviser. Overall performance was mixed here as candidates with a good understanding of Consumer Duty were able to provide detailed answers. Other candidates gave vague answers that failed to appreciate that this was an important issue to protect Cameron and Nancy and ensure that appropriate advice and decisions for their future planning were made.

1 (c)

This question asked candidates to outline the issues that Cameron and Nancy should consider when deciding whether they should loan monies to their grandchildren, rather than gifting monies for them to purchase their first properties. General performance was mixed here with some candidates failing to recognise that a loan would remain fully in their estate at all times. Only a limited number of candidates recognised that this objective may not be affordable for Cameron and Nancy, depending on the level of the gifts or loan.

1 (d)

Candidates were asked to recommend and justify a range of actions that Cameron and Nancy could take to mitigate their potential Inheritance Tax (IHT) liability. Most candidates performed well here although only a minority of candidates recognised that a Whole of Life policy would only mitigate a potential IHT liability if it was held in Trust.

1 (e)

Candidates were asked to explain to Cameron and Nancy how a whole of life assurance policy could be used to assist them with their IHT planning objective. Excellent performance overall.

1 (f)
Candidates were asked to explain to Cameron and Nancy why their existing portfolio of unit trusts may not be suitable for their longer-term objectives. Most candidates did well here but it was noted that some failed to achieve high marks as they did not identify the exact tax rates that applied to these holdings and which therefore made them unsuitable for the future.

1 (g)
Candidates were asked to identify a range of actions that Cameron and Nancy could take to improve the sustainability of their retirement income. The majority of candidates performed reasonably well on this question, but a number of candidates failed to identify the exact tax benefits that would be achieved by a particular course of action.

Case Study 2

2 (a)
Candidates were asked to explain to Kabir why it is important to update his Will and death benefit nominations in the near future. Overall performance here was mixed. Some candidates would benefit from a careful review of the impact of divorce on both Wills and nominations as there was a lack of understanding on these issues demonstrated by a number of candidates.

2 (b)
This question required candidates to recommend and justify a suitable protection product that Kabir could set up, which provides a monthly income, to ensure the continuation of the ongoing maintenance payments to his ex-wife in the event of his death. Excellent overall performance by candidates on this question.

2 (c)
This question asked candidates to explain to Kabir a range of actions that he could take to improve his pension benefits following the implementation of the pension sharing order. Good performance here from the majority of candidates.

2 (d)
Candidates were asked to state five benefits and five drawbacks for Kabir of using Junior ISAs to build up funds to meet Anika and Rashi’s future university costs. Overall performance was mixed, with many candidates failing to recognise that Junior ISAs do not fall under the £100 parental rule for interest payments. A large number of candidates also confused the Lifetime ISA with a Junior ISA. This was disappointing and a careful review of ISA rules would be of benefit to a number of candidates.

2 (e)
This question asked candidates to identify and explain the actions that Kabir could take to improve the tax-efficiency of his individual equity holdings in the various UK smaller companies. General performance here was poor as many candidates focused their answers on other elements of Kabir’s financial arrangements rather than focusing on the UK smaller companies shares. Some candidates failed to understand that interspousal exemptions are not available to Kabir and Emma as they are not married and the Case Study states clearly that they do not intend to marry in the future.

2 (f)
This question required candidates to explain to Emma the benefits for her of setting up a personal pension plan. Excellent overall performance here but some candidates would benefit from a review of the carry forward rules as Emma is currently not eligible to take advantage of this particular allowance.

2 (g)
This was a standard review question which asked candidates to identify eight key issues that a financial adviser should discuss with Kabir and Emma at their next annual review. Performance here was excellent and most candidates were able to achieve high marks.

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 2024/2025, 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.*

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

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

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

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

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

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

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

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

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

Their financial aims are to:

- ensure they can maintain their current standard of living throughout retirement;
- ensure that as much of their estate as possible can be passed to their two children on second death;
- improve the tax-efficiency of their current financial arrangements.

Questions

(a) State the additional information that a financial adviser would require in order to advise Cameron and Nancy on the suitability of their current arrangements to meet their financial objectives. **(13)**

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

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

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

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

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

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

Total marks available for this question: 74

Case Study 2

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

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

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

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

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

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

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

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

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

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

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

Amir and Karina have the following assets:

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

Their financial aims are to:

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

Questions

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

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

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

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

(e) Identify and explain the actions that Kabir could take to improve the tax-efficiency **(10)**

of his individual equity holdings in the various UK smaller companies.

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

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

Total marks available for this question: 76

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)

- Expenditure/surplus income/budget/affordability/emergency fund.
- Amount of planned gifts/loans to grandchildren/when do they intend to gift monies/previous gifts made/Annual Gifting Allowances.
- Family health/longevity/plans for long-term care.
- Interest rate on saving account.
- Base cost of Unit Trusts/gains on Unit Trusts.
- Use of CGT exemption/any losses carried forward.
- Downsizing/equity release.
- Any inheritances expected.
- Willing to transfer to Nancy for tax efficiency.
- Charges.
- Asset allocation/diversification.
- Priority of objectives (inheritance for children vs. retirement income)/willing to use Trusts/lose access to capital.
- Capacity for Loss.

(b)

- Vulnerability.
- They will assist/support Cameron and Nancy/new process for Cameron and Nancy (no financial advice before).
- Consumer Duty.
- IHT planning will impact children/intergenerational planning/can make potential use of children's allowances (e.g. ISA/pension).
- Aids understanding for children/better planning.
- Children may be Attorneys/they are beneficiaries/may be executors.
- Can aid Trust planning/they may be Trustees/make use of Trusts.

(c)

- Amount of loan/gift?
- Affordability issues for Cameron and Nancy/concerned about income sustainability/loss of capital.
- Loan will be repaid/can grandchildren afford to repay?/Loan can be 'forgiven' at later date.
- Interest could be charged.
- Loan remains in estate for IHT.
- Loan protects monies if grandchildren divorce/buy property with partner/ bankruptcy.
- Can place charge on property to protect loan/need for formal agreement?
- Gift will be outside the estate after 7 years/gift is a Potentially Exempt Transfer (PET).
- Gifts can use £3K Annual Gifting Allowance (AGA).
- Loan affects borrowing affordability for grandchildren.

(d)

- Use £3K Annual Gifting Allowance/£6K/small gifts exemption (£250)/use gifts out of income (if they have surplus income).
- Can make Potentially Exempt Transfers/Chargeable Lifetime Transfers.
- IHT reduces over 7 years.
- Loan Trust.
- Loan Trust growth outside estate/can withdraw capital if needed.
- Use Discounted Gift Trust (DGT).
- Immediate discount on IHT (based on age/income chosen)/ Full gift to DGT is exempt after 7 years.
- DGT provides regular income stream.
- Whole of Life Joint Life Last Survivor policy in Trust.
- Pays lump sum to meet IHT.
- Invest in AIM shares.
- Outside estate after 2 years.

(e)

- Joint Life last survivor basis/second death.
- In Trust for children/executors.
- No need for Probate.
- Sum assured to match IHT liability.
- Guaranteed premiums/reviewable premiums.
- To ensure affordability/to keep costs low.
- Indexation.
- To keep pace with growth of estate.
- Estate can be distributed in full to beneficiaries.
- Premium can be paid by children.
- Policy can be cancelled if no longer needed/policy cannot be cancelled by insurer.
- Allows time for other measures to be put in place (gifting).

(f)

- Not tax-efficient/not held in ISA/liable to IHT.
- Held in joint names so higher tax paid/transfer more to Nancy.
- Dividend exceeds £500 Dividend Allowance.
- Dividends taxable at 33.75% for Cameron/8.75% for Nancy.
- CGT on any gains of 10%/20%.
- CGT exemption of £3K/£6k.
- All equity-based/lack of diversification (no other asset classes).
- Income stream not guaranteed.
- Currency risk on Global funds.
- May not match Attitude to risk (ATR)/volatile investment.

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

(g)

- Use ISA/Bed & ISA.
- Tax-free income and growth.
- Reduce cash holdings/excess cash/identify emergency fund needs/reduce Premium Bond holdings.
- Cash not keeping pace with inflation.
- Use annual CGT exemption of £3k.
- Invest in Purchased Life Annuity (PLA).
- Guaranteed income for life/can include indexation/portion will be tax-free (return of capital).
- Transfer more Unit Trusts to Nancy.
- Reduces dividend tax to 8.75%/saves 25%/CGT to 10%.
- Transfer more cash funds to Nancy.
- He exceeds Personal Savings Allowance (PSA)/he pays 40% tax/she pays 20% tax.

Model answer for Question 2

(a)

- Ensure it meets his wishes.
- Now divorced/Will not invalidated by divorce.
- Hannah treated as if deceased/maybe treated as intestate.
- Hannah is his current beneficiary (Will and Death-In-Service (DIS)).
- Trust needed in Will to protect children.
- Kabir can nominate trustee of his choice.
- May need to change executors/cannot be Hannah.
- Nominate children as beneficiaries on DIS/Pension.
- Trustees may still pay to Hannah as she has dependent children/Hannah could spend money intended for children/trustees would use discretion.
- Joint property can go into Trust for Emma's lifetime on Kabir's death.

(b)

- Family Income Benefit.
- Single Life/Kabir is life assured.
- Tax-free payment.
- In Trust for Hannah/children/Life of Another.
- Speedy payment/no delays/avoids probate.
- Sum Assured of £18,000 per annum (minimum)/£1,500 per month.
- Term of 7 years/to age 18 for Anika.
- Index-linked.
- To keep pace with inflation.
- Guaranteed premiums.
- To ensure affordability.
- Waiver Of Premium (WOP).
- To pay premiums in event of sickness/disability.

(c)

- Increase personal contributions.
- Can use his personal equity holdings/cash.
- Can use carry forward (if available).
- Invest up to his salary (£85K).
- Tax relief at 40%.
- Check for higher employer matching.
- Is salary sacrifice available?
- Reduces National Insurance (NI)/employer may share NI savings.
- Pound cost averaging.
- Exposure to higher risk markets.
- Potential for growth.
- Matches his adventurous Attitude to Risk.

(d) **Benefits:**

- Tax efficient/potential for growth.
- Does not use own allowances/no £100 parental rule/anyone can contribute.
- Range of funds/cash and stocks and shares.
- £9,000 allowance is likely to be sufficient.
- Flexible/can vary contributions/lump sum or regular.

Drawbacks:

- Children can choose funds from 16/loss of investment control from age 16.
- No access if needed earlier than 18/children can access at 18.
- Children may not use for university.
- Investment risk/inflation risk on cash.
- Charges/need for advice.

(e)

- Bed & ISA.
- No Income Tax or CGT in ISA.
- Identify base costs of individual shares.
- Any capital losses registered.
- Can use losses against gains/can carry forward indefinitely.
- Use CGT exemption of £3k.
- Sell each year to rebase purchase cost.
- Increase pension contributions to extend Basic Rate band.
- Reduce dividend tax from 33.75% to 8.75%.
- Reduces CGT charge from 20% to 10%.

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

- Currently no benefits/may not have sufficient income in retirement.
- Cannot rely on inheritance from parents.
- No benefit due from Kabir/he is nominating children.
- 40% tax relief.
- Tax-free for Income Tax/CGT.
- Gives ability to use carry forward in future years (inheritance due).
- Potential for growth.
- Can invest in ESG funds/funds can match Attitude to risk.
- Long timeframe for investment/age 57-58/pound cost averaging.
- Flexible contributions (suits her self-employed status).
- Can provide flexible retirement benefits (FAD/UFPLS/annuity).
- PCLS available/can generate tax efficient retirement income.
- Can nominate beneficiary/IHT free.

(g)

- Change in personal circumstances/health/marriage.
- Change in income/expenditure/tax status/salary increases for either.
- Attitude to risk/Capacity for loss.
- Rebalance/asset allocation/performance.
- Protection for maintenance in place?/Plans for property purchase.
- Use of allowances/ISA/CGT/Pension.
- Charges.
- Change in legislation/taxation/new products/economic conditions/interest rates.

Glossary of terms

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

- ATR – Attitude to risk
- APS – Additional Permitted Subscription
- BRT – Basic rate taxpayer
- BIK – Benefit in kind
- CETV – Cash equivalent transfer value
- CLT – Chargeable Lifetime Transfer
- CFL – Capacity for loss
- CGT – Capital Gains Tax
- DOV – Deed of variation
- DIS – Death-in-Service
- DFM – Discretionary Fund Manager
- 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

	October 2024 Examination - R06 Financial Planning Practice
Question No.	**Syllabus learning outcomes being examined**
1.	1. Obtain appropriate client information and understand clients’ needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client’s situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients’ objectives and adapt to changes in circumstances.
2.	1. Obtain appropriate client information and understand clients’ needs, wants, values and risk profile essential to the financial planning process. 2. Synthesise the range of client information, subjective factors and indicators to provide the basis for financial planning assumptions and decisions. 3. Analyse a client’s situation and the advantages and disadvantages of the appropriate options. 4. Formulate suitable financial plans for action and explain and justify recommendations. 5. Implement, review and maintain financial plans to achieve the clients’ objectives and adapt to changes in circumstances.

All questions in the October 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	2023/2024	2024/2025
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£125,140	£125,140
High income child benefit charge: 1% of benefit per £200 of adjusted net income between £60,000 – £80,000		

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

	2023/2024	2024/2025
Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£1,000	£500
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	n/a
Income exemption up to**	n/a	£500
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

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

MAIN PERSONAL ALLOWANCES AND RELIEFS	2023/2024	2024/2025
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£4,010	£4,280
Married/civil partners at 10% †	£10,375	£11,080
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£34,600	£37,000
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,870	£3,070
Enterprise Investment Scheme relief limit on £2,000,000 max***	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ The Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age(under the income threshold).

NATIONAL INSURANCE CONTRIBUTIONS

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

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

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

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

***Secondary threshold.*

CLASS 2 (self-employed)*

Flat rate per week	£3.45
Small profits threshold per year	£6,725

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

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

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

PENSIONS

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

**Lifetime allowance removed from 6 April 2024.*

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

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

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

ANNUAL ALLOWANCE

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

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

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

ANNUAL ALLOWANCE CHARGE

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

CAPITAL GAINS TAX

ANNUAL EXEMPTIONS	2023/2024	2024/2025
Individuals, estates etc	£6,000	£3,000
Trusts generally	£3,000	£1,500
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000
TAX RATES		
Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property - Basic Rate	8%	8%
Higher Rate	8%	4%
Surcharge for carried interest	8%	8%
Trustees and Personal Representatives:		
Residential property	28%	24%
Other chargeable assets	20%	20%
Business Asset Disposal Relief*	10%	10%
Lifetime limit	£1,000,000	£1,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2023/2024	2024/2025
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

MAIN EXEMPTION		
Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£175,000	£175,000
- UK-registered charities	No limit	No limit

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

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

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

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

100% relief: businesses, unlisted/AIM companies, certain farmland/building
50% relief: certain other business assets

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

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

Quick succession relief:

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

MAIN SOCIAL SECURITY BENEFITS

		2023/2024	2024/2025
		£	£
Child Benefit	First child	24.00	25.60
	Subsequent children	15.90	16.95
	Guardian's allowance	20.40	21.75
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 67.20	Up to 71.70
	Aged 25 or over	Up to 84.80	Up to 90.50
	Main Phase		
	Work-related Activity Group	Up to 84.80*	Up to 90.50**
	Support Group	Up to 129.50	Up to 138.20
Attendance Allowance	Lower rate	68.10	72.65
	Higher rate	101.75	108.55
Basic State Pension	Category A full rate	156.20	169.50
	Category B (lower) full rate	93.60	101.55
New State Pension	Full rate	203.85	221.20
Pension Credit	Standard minimum guarantee - single	201.05	218.15
	Standard minimum guarantee - couple	306.85	332.95
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	67.20	71.70
	Age 25 or over	84.80	90.50
Statutory Maternity, Paternity and Adoption Pay		172.48	184.03

**If a claim has begun before 3rd April 2017 the individual will also be awarded the Work-related Activity Component payment which in 2023/2024 is £33.70, so total awarded for these individuals may be up to £118.50.*

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

CORPORATION TAX

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

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

VALUE ADDED TAX

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

STAMP DUTY LAND TAX

	Residential
Value up to £250,000	0%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Additional Stamp Duty Land Tax (SDLT) rules apply as follows:

- *First-time buyers benefit from SDLT relief on first £425,000 for properties up to £625,000 when purchasing their mainresidence. On purchases up to £425,000, no SDLT is payable. On purchases between £425,001 and £625,000, a flat rate of 5% is charged on the balance above £425,000.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*
- *SDLT is payable in England and Northern Ireland only. Land Transaction Tax(LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. Therates for LTT and LBTT are different to the rates shown above.*

	Non residential
Value up to £150,000	0%
£150,001 and £250,000	2%
£250,001 and over	5%