Chartered Insurance Institute
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July 2024

AF5: Financial planning process
Practice Test 3

2024/2025 Revision Aid
Based on October 2019 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://shop.ciigroup.org/financial-planning-process-af5-af5.html** 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.

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AF5 - FINANCIAL PLANNING PROCESS

FACT-FIND – Practice Test 3

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

PART 1: BASIC DETAILS		
	Client 1	**Client 2**
Surname	Hayes	Hayes
First name(s)	Simon	Grace
Address	Langdale Crescent, Bath	Langdale Crescent, Bath
Date of birth	03.09.74	30.06.74
Domicile	UK	UK
Residence	UK	UK
Place of birth	Bristol	Taunton
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Rugby	Theatre

Notes:

Simon and Grace are married with two children. They both work full-time and are planning to retire when Simon reaches age 60. They have appointed you to review their existing financial arrangements to ensure that they are able to meet their retirement objectives.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Harry	Son	18		Good	Student	Yes
Emma	Daughter	16		Good	Student	Yes

Notes:

Harry has just started university. Harry has taken out a student loan to cover his tuition fees. Simon and Grace will pay Harry's accommodation and living costs whilst he is at university. Emma is planning to go to university in 2023*.

**Candidates should note that this Fact Find was used in the October 2019 exam paper. For the purposes of revision, candidates should assume that Emma will be going to University when she reaches age 18.*

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Publisher	Admissions Manager
Job title	Managing Director	Manager
Business name	Wickrow Publishing Ltd	Lake College
Business address	Bath	Bath
Year business started	2014	
Remuneration		
Salary	£54,000	£36,000
State Pensions		
Overtime		
Benefits		
Benefits-in-kind	N/A	N/A
Pension Scheme	See Part 11	See Part 11
Life cover	N/A	See Part 8
Private Medical Insurance	N/A	N/A
Income Protection Insurance	N/A	N/A
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Partnership/Sole trader	N/A	N/A
Other Earned Income		

Notes:

Simon is the sole owner of Wickrow Publishing Ltd which publishes academic textbooks. Simon set up the company in 2014 and employs staff on short-term contracts whenever required. He has no permanent employees. Simon plans to build up the business with a view to selling it to fund his retirement.

Grace works full-time as an Admissions Manager at a local college. Grace has worked for the same college for the last 12 years. She receives death-in-service of three times her basic salary as well as membership of her employer Qualifying Workplace Pension Scheme.

Previous Employment	Client 1	Client 2
Previous employer	Academic Publications Ltd	
Job title	Print-setter	N/A
Length of service	11 years	
Pension benefits	See Part 11	

Notes:

Grace worked part-time as a researcher before she joined the college. She has no other pensions.

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant		
Bank	Securebank	Securebank
Doctor		
Financial Adviser		
Solicitor	Wilson Woods LLP	Wilson Woods LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		**Client 2**		**Joint**	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions						
Private Pensions						
Salary (gross)	4,500		3,000			
Benefits-in-kind						
Savings income (gross)						806
Rental (gross)						
Dividends		13,950				5,625

Notes:

The savings income is interest derived from their joint Deposit Savings Account.

Simon's dividend income of £12,000 is paid on an annual basis from his company and he also receives dividends of £1,950 from his portfolio of individual stocks and shares.

The joint dividend income is paid from the Global Growth OEIC funds.

	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			1,304			
Council tax						2,500
Buildings and contents insurance						560
Gas, water and electricity						1,800
Telephone			60			
TV licence and satellite			55			
Property maintenance						1,000
Regular Outgoings						
Life assurance (see Part 8)						
Health insurance (see Part 9)	25					
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				1,000	800	
Petrol and fares	300	200				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			700			
Pension contributions (see Part 11)		120				
Other Expenditure						
Magazines and newspapers						
Entertainment			100		600	
Clubs and sport				500	100	
Spending money	300	300				
Clothes						1,000
Financial support for Harry			1,000			
Other (Holidays)						2,500
Total Monthly Expenditure	625	620	3,219			
Total Annual Expenditure	7,500	7,440	38,628	1,500	1,500	9,360
Total Outgoings						**65,928**

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

Notes:

Simon and Grace will provide some financial support to Harry whilst he is at university. They may decide to repay his student loan for him when he graduates. They will also provide support for Emma when she starts university.

Simon and Grace do not plan any other major expenditure in the next few years.

PART 6: ASSETS					
	Asset	**Client 1 £**	**Client 2 £**	**Joint £**	**Income (Gross) £**
1.	Main residence			525,000	
2.	Contents/car	45,000	50,000	75,000	
3.	Current account			4,000	
4.	Deposit Savings Account			62,000	806
5.	National Savings & Investments Premium Bonds	40,000			
6.	Stocks and shares ISAs – UK Equity Growth OEIC (accumulation units)	78,000			
7.	Stocks and shares ISAs – UK Ethical Investment fund – OEIC (accumulation units)		52,000		
8.	OEICs – Global Growth funds			225,000	5,625
9.	Offshore Investment Bond – Global Managed fund			96,000	
10.	Individual UK company shares	65,000			1,950

Notes:

Simon and Grace hold their property as joint-tenants and they have a repayment mortgage of £275,000 on this property (see Part 7).

Simon purchased the Premium Bonds with the proceeds of a recent inheritance from his late uncle. He is unsure if he should retain these for the longer-term.

Simon and Grace have used their ISA allowances in full for the past few years but have not yet used their ISA allowance for the current tax year.

The Global Growth OEICs were purchased for a base cost of £120,000 in 2010. They are invested in several funds which have performed well over the past few years. No withdrawals have been made from these holdings which are held directly with individual fund companies.

Simon and Grace invested £55,000 into the Offshore Investment bond five years ago with a view to providing funds for Harry and Emma's university education. No withdrawals have been made to date from the bond.

Simon has built up holdings in various UK company shares over many years. These are individually held in certificated form. He has never made any changes to these and receives dividends throughout the year from the various holdings.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			Securebank
Type of mortgage			Repayment
Amount outstanding			£275,000
Start date			2018
Term/maturity			25 years
Monthly payment			£1,304
Interest rate			3%
Life policies			None

Notes:

Simon and Grace have a fixed-rate repayment mortgage. The fixed rate expires in 2024. They do not have a life policy to cover this 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:

Simon and Grace have no other outstanding loans.

Other Liabilities (e.g. tax)

Notes:

Simon and Grace have no other outstanding liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust ?	Surrender Values £
1.	Grace		108,000	N/A	Age 65		No	N/A

Notes:

Grace has a death-in-service policy from her employer. This will pay three times her basic salary whilst she remains in service with the company.

Simon and Grace are aware that they have insufficient Life Cover and wish to address this.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
ASU	Simon	2,000 per month	2014	7 years*	30 days	25 per month

Notes:

Simon took out an Accident, Sickness and Unemployment (ASU) policy when he first set up the business. He is aware that this policy may be unsuitable for him and has asked you to review this.

**Candidates should note that this Fact Find was used in the October 2019 exam paper. For the purposes of revision, candidates should assume that Simon's ASU policy still remains in force.*

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

Notes:

Simon and Grace do not currently make any regular savings.

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:
Simon and Grace do not have any 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:
Simon and Grace do not have any additional voluntary contribution plans.

Personal Pensions

	Client 1	Client 2
Type	Personal Pension	Group Personal Pension
Company	Assure Life	Monarch Life
Fund	Adventurous Managed fund	UK Commercial Property fund
Contributions	£250 p.m. employer contribution	5% Employer/5% Employee
Retirement age	65	65
Current value	£24,000	£47,000
Date started	April 2014	January 2007
Notes:		

Simon set up a new personal pension plan for himself when he started Wickrow Publishing Ltd. His company pays an employer contribution of £250 per month. He is considering the possibility of increasing the employer contributions now the business is established.

Grace is a member of her employer's Qualifying Workplace Pension scheme and contributes 5% of her basic salary. Her employer matches this contribution. Grace wishes to review her fund choice within her pension plan. She originally selected a UK Commercial Property fund. She is interested in a new range of Targeted Absolute Return funds that are available under her scheme.

Nominations are up-to-date on both of these pension plans in favour of each other.

Previous pension arrangements

	Client 1	Client 2
Employer	Academic Publications Ltd	
Type of scheme	Personal Pension plan	
Date joined scheme	April 2003	
Date left	January 2014	
Current Value	£67,000	
Notes:		

Simon has two deferred personal pension plans from his previous periods of employment with a total value of £87,000. The larger pension has a value of £67,000 from his period of employment with Academic Publications Ltd.

Simon also has a smaller pension with an approximate value of £20,000 with Ross Life. Simon does not have any up-to-date details of this pension plan. He has not reviewed either of these pensions since he set up his business in 2014. The Academic Publications and Ross Life pensions are invested in several UK and Global Equity funds. He wishes to simplify the administration of these two pension funds and has asked you to advise him on how this could be achieved.

Simon has made nominations on each of these pension plans in favour of Grace.

State Pension

	Client 1	Client 2
Basic Pension		
Total		
Notes		

Simon and Grace have never checked their State Pension entitlement.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes
Notes:		
Simon and Grace have up-to-date Wills leaving everything to the survivor.		

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

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

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances (see below)	None	None
Notes:		
Simon and Grace do not expect to inherit any large sums in the near future.		

PART 13: ATTITUDE TO RISK

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

Notes:
Simon and Grace have recently completed a full risk-profiling assessment and have been identified as having different risk profiles. Simon is a high-risk investor. Grace is a medium-risk investor. Grace is keen to ensure that her investments are managed as ethically as possible.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.10.19	
Client agreement issued	01.10.19	
Data Protection Act	01.10.19	
Money laundering	01.10.19	
Consultations		
Dates of meetings	01.10.19	
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 2024/2025, unless stated otherwise and should be answered accordingly.
>
> It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

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 clients have the following financial objectives:

Immediate objectives

- To review the suitability and tax-efficiency of their current savings and investments.
- To ensure that the family has sufficient protection in place.

Longer-term objectives

- To implement a suitable strategy to enable Simon and Grace to retire at age 60.
- To ensure that their investment holdings remain suitable for the long-term.
- To ensure that Simon is able to sell his business as tax-efficiently as possible.

Attempt ALL tasks

Time: 3 hours

1. Identify the additional information that you would require to enable you to assess if Simon and Grace will be able to retire at age 60. **(12)**

2. Simon is considering setting up a self-invested personal pension (SIPP) to consolidate his pension plans.

(a) Identify the reasons why a SIPP may not be suitable for Simon. **(12)**

(b) Explain to Simon and Grace why it is important to carry out regular reviews of their pension arrangements. **(8)**

3. (a) Identify the drawbacks for Grace of continuing to invest in the Commercial Property fund in her group personal pension plan. **(10)**

(b) Explain to Grace why she might consider using a Targeted Absolute Return fund in her group personal pension plan. **(8)**

(c) Explain to Simon and Grace how 'pound-cost-averaging' from investing regular contributions could be used to assist them in their objective of retiring at age 60. **(8)**

4. (a) Explain, in detail, to Simon and Grace how they could consolidate their existing ISAs, OEICs and individual shares onto an investment platform and why this may be suitable for them in meeting their long-term objectives. **(14)**

(b) Identify the key factors that Grace should consider when selecting ethical investments. **(7)**

(c) Recommend and justify the actions that Simon and Grace should take in respect of their pensions and investments to increase the prospect of them having sufficient income to retire at age 60. **(12)**

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

5. **(a)** Explain to Simon how a future sale of his business will be treated for Capital Gains Tax. **(6)**

(b) Explain to Simon how he can maintain Business Relief following the sale of his business to mitigate future Inheritance Tax. **(6)**

6. **(a)** Explain, in detail, how Simon and Grace could use their Offshore Investment Bond to provide tax-efficient funds to support Harry and Emma whilst they are at university. **(10)**

(b) Identify the key factors that Simon and Grace should consider before deciding if they will provide funds to repay Harry's student loan after he graduates from university. **(8)**

7. Simon and Grace are concerned that they may not have adequate protection in place to cover their current and future needs.

(a) Comment on the suitability of Simon and Grace's existing protection arrangements. **(10)**

(b) Explain the benefits for Simon if he sets up a Relevant Life policy for himself through his company. **(7)**

(c) Recommend and justify a suitable protection policy that Simon could set up via his company to provide a long-term regular income benefit in the event of incapacity to replace his existing Accident, Sickness and Unemployment policy. **(14)**

8. Explain to Simon why National Savings & Investments Premium Bonds may not be suitable for him in meeting his longer-term objectives. **(8)**

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

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

- Level of income/capital required/future expenditure.
- Contribution history/amount of carry forward.
- Additional employer matching for Grace.
- Value of Simon's business.
- State Pension entitlement/BR19.
- Willingness to transfer holdings to Grace/she is a basic rate taxpayer.
- (Likely) costs of university.
- Plans to repay mortgage.
- Performance/asset allocation/fund choice/charges.
- Any protected tax-free cash?
- Expected/required growth rate on investments/projections.
- Inflation/market conditions.
- Capacity for loss/use of other assets/downsizing.

Model answer for Question 2

(a)
- Costs to transfer/exit fees.
- Higher ongoing charges/existing schemes may be cheaper.
- Value is too low for self-invested personal pension.
- No guarantee of better performance/drag on growth (due to charges).
- Unlikely to buy commercial property/does he need full range of SIPP investments?
- Suitable fund choice in existing plans/can match attitude to risk.
- Flexi-access drawdown not needed yet/no need to transfer.
- More admin/complex/time consuming.
- Potential loss of protected tax-free cash.
- May be more difficult to transfer from SIPP in future.
- Market timing/could lose out during transfer process.
- SIPP unlikely to accept *in specie* transfer/insured funds.

(b)
- Changes in personal/financial circumstances/objective/attitude to risk.
- Monitor performance/identify underperforming funds.
- Rebalance/change funds.
- Identify any shortfall in pension arrangements/on target.
- Increase pension contributions/carry forward.
- Costs/charges/cheaper products available/new products available/existing product still suitable.
- Lifetime allowance*/annual allowance issues/protection available/tapering.
- Economic/legislative changes/tax.

** Candidates should note that this question was based on legislation in force in October 2019. No further tax charges will be applied under the Lifetime Allowance following the Spring Budget of 2023 although the Lifetime Allowance checks must still be carried out until 6th April 2024.*

Model answer for Question 3

(a)
- Can be illiquid/sale restrictions/suspension.
- Pricing issues/can move to a bid basis/bid-offer spread.
- Lack of asset class diversification.
- No geographical diversification/UK only.
- High ongoing charges/transaction costs.
- Forced sales will reduce value of fund.
- Cash holdings dilute returns.
- Property value is subjective/valuer’s opinion.
- Taxation risk/changes in taxation rules.
- May not match her attitude to risk/may not match her ethical views.

(b)
- Diversification of assets/can use derivatives.
- Global spread/geographic diversification.
- Reduces volatility/smoothed return.
- Target return over known investment period.
- Can match attitude to risk/planned retirement date/ethical.
- Active management/professional investment manager.
- Can provide positive returns in all/falling market conditions.
- Lower charges (than commercial property fund).

(c)
- Savings discipline/process.
- Benefit from volatility/more units purchased in falling market.
- Avoids market timing risk/investing lump sum just before crash/downturn.
- Suitable for long-term investment.
- Contributions can increase/decrease/flexibility.
- Reduces risk of investing in higher-risk funds/enables higher risk funds to be purchased.
- Evens out/averages cost of unit purchases.
- Unlikely to invest lump sums at present/lack of affordability.

Model answer for Question 4

(a)

- Can re-register ISAs/transfer;
- retains tax efficiency.

- Can transfer open-ended investment companies (OEICs) *in specie/*re-register.
- No market timing risk.
- No Capital Gains Tax (CGT) triggered by transfer/OEIC has a capital gain.
- Can Bed & ISA from OEIC funds.

- Can transfer shares *in specie/*using Stock Transfer form.
- Shares convert to a nominee arrangement/easy to buy and sell.

- Quick transfer process/minimal effort for Simon and Grace.
- Online access/easier to monitor/fund switches/rebalance/inter spouse transfers.
- Lower cost/large fund discount.
- Simplified tax reporting/consolidated reports/access to research.
- Wide fund choice/cash account/can match attitude to risk.
- Improved growth.

(b)

- Her level of engagement/commitment.
- Negative/positive screening/ESG/what does she want to exclude?/shades of green.
- Higher risk/more volatile/smaller companies.
- Limited fund choice.
- Difficult to assess large companies/opaque.
- Limited diversification.
- Potentially lower returns/higher charges.

(c)

- Increase personal pension contributions.
- 40% Tax relief for Simon/20% tax relief for Grace/she may benefit from employer matching contribution.
- Check BR19/pay voluntary contributions if necessary.

- Invest cash/Premium Bonds for greater returns.
- Use ISA allowance for tax efficiency.
- Move OEIC to Grace as she is a basic rate taxpayer.
- Inter spousal transfer/no CGT.
- Excess dividends taxed at 8.75%/saving 25% for Simon.
- Use CGT exemption/excess gains charged at 10% for Grace.
- Monitor fund performance/charges/ensure appropriate diversification.
- Ongoing future reviews.

Model answer for Question 5

(a)
- Can use Entrepreneurs' Relief/Business Assets Disposal Relief (BADR).
- Simon is sole owner/>5% and two+ years ownership.
- Can use Capital Gains Tax (CGT) exemption/offset losses.
- Pays CGT at 10%/saving 10% as he is higher rate taxpayer.
- Company must not hold excessive investments/cash.
- No CGT on death.

(b) *Candidates would have gained full marks (6 max) for any six of the following:*
- As asset has been held for over two years.
- Qualifying trading asset.
- Inheritance Tax (IHT)-free/saving 40% IHT over nil rate band.
- Roll-over sale proceeds into qualifying Business Relief/Enterprise Investment Scheme /AIM shares.
- Must re-invest within 3 years.
- Retains Business Relief (BR)/IHT relief.
- Can pass BR qualifying asset to Grace/children on death.

Model answer for Question 6

(a)
- Assign whole segments of the Bond to children.
- Assignment is not a chargeable event.
- Assignment is not a gift for IHT purposes.
- Tax liability passes to children.
- They have their own Personal Allowance/potentially no tax for the children.
- Saving tax of 40% for Simon/20% for Grace.
- Assign bond to Grace as she is a basic rate taxpayer.

- Draw 5% tax-deferred income from Bond.
- Withdrawals are cumulative/no withdrawals to date;
- 25%/30%/£13,750/£16,500*.

**Candidates should note that these calculations are based on the timeframe as set out in the Fact Find for October 2019.*

(b)
- How much is the loan?/What is the interest rate?
- Harry may never have to repay/earnings may never reach threshold.
- Debt will be cancelled after 30 years.
- Student Loan does not affect Harry's credit rating.
- Loss of capital/may impact their own retirement objectives/affordability/tax considerations.
- Loss of potential investment growth.
- Will they do same for Emma?
- Political risk/loans may be cancelled in future.

Model answer for Question 7

(a)

- Simon is main bread winner/need both salaries to cover expenditure.
- No Income Protection.
- Accident Sickness Unemployment (ASU) policy is unsuitable/limited term only/no unemployment cover.
- ASU pays out only once/cover can be cancelled by insurer.
- No Critical Illness cover/inadequate cover in event of serious illness.
- Grace's Death-In-Service lost if she leaves company.
- Life cover/mortgage protection inadequate.
- No Private Medical Insurance.
- Simon has no key man cover to protect business/has no employer benefits/most cost-effective option.
- Pensions can provide lump sum on death.

(b)

- Provides additional life cover/inadequate life cover at present.
- Premiums paid by company/saves premium cost for Simon.
- Deductible against Corporation Tax for company/allowable expense.
- Policy pays out to beneficiary/in Trust/Simon can nominate beneficiary.
- Payment is tax-free to beneficiary.
- Not a Benefit in Kind/no tax charge for Simon.
- No impact on pensions lifetime allowance.

(c)

- Executive Income Protection.
- Premiums deductible against Corporation Tax/business expense.
- Pays out income to company.
- Company uses income to pay Simon's salary.
- Cover is not restricted to salary/can cover dividends/pension contributions/NICs.
- Own occupation basis for widest cover/most suitable.
- Taxable to Income Tax and NI for Simon/Paid under PAYE.
- Maximum 3-month deferred period due to limited income/they have savings.
- Maximum cover to maintain lifestyle/replace profits.
- Term to planned retirement/60.
- Simon is in good health/simple underwriting.
- Guaranteed premiums to ensure ongoing affordability.
- Index-linked to maintain spending power.
- Not a Benefit in Kind for Simon.

Model answer for Question 8

- They have excess cash/emergency fund.
- No interest/income paid on Premium Bonds
- No potential for capital growth.
- Unknown returns/may not win a prize.
- Inflation risk/returns unlikely to match inflation.
- Simon needs positive/real returns to retire at age 60.
- Suitable for short-term holding/not suitable for long-term.
- Does not match his attitude to risk.

Tax Tables

☆ **Important:**

The Tax Tables which follow are applicable to the examinations during September 2024 through to August 2025.

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).

† 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 £37,000 (£34,600 for 23/24) 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)	£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%

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