Chartered Insurance Institute

R06

Diploma in Regulated Financial Planning

Unit 6 – Financial planning practice

July 2024 Examination Guide

SPECIAL NOTICES

Candidates entered for the October 2024 examination should study this examination guide carefully in order to prepare themselves for the examination.

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

R06 – Financial planning practice

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

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

Before the examination

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

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

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

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

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

Know the structure of the examination

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

Two weeks before the examination

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

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

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

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

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

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

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

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

Test yourself under timed conditions

To gain most benefit from this exercise you should:

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

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

On-screen written exam familiarisation (Demo 1)

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

You can access the familiarisation test at any time.

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

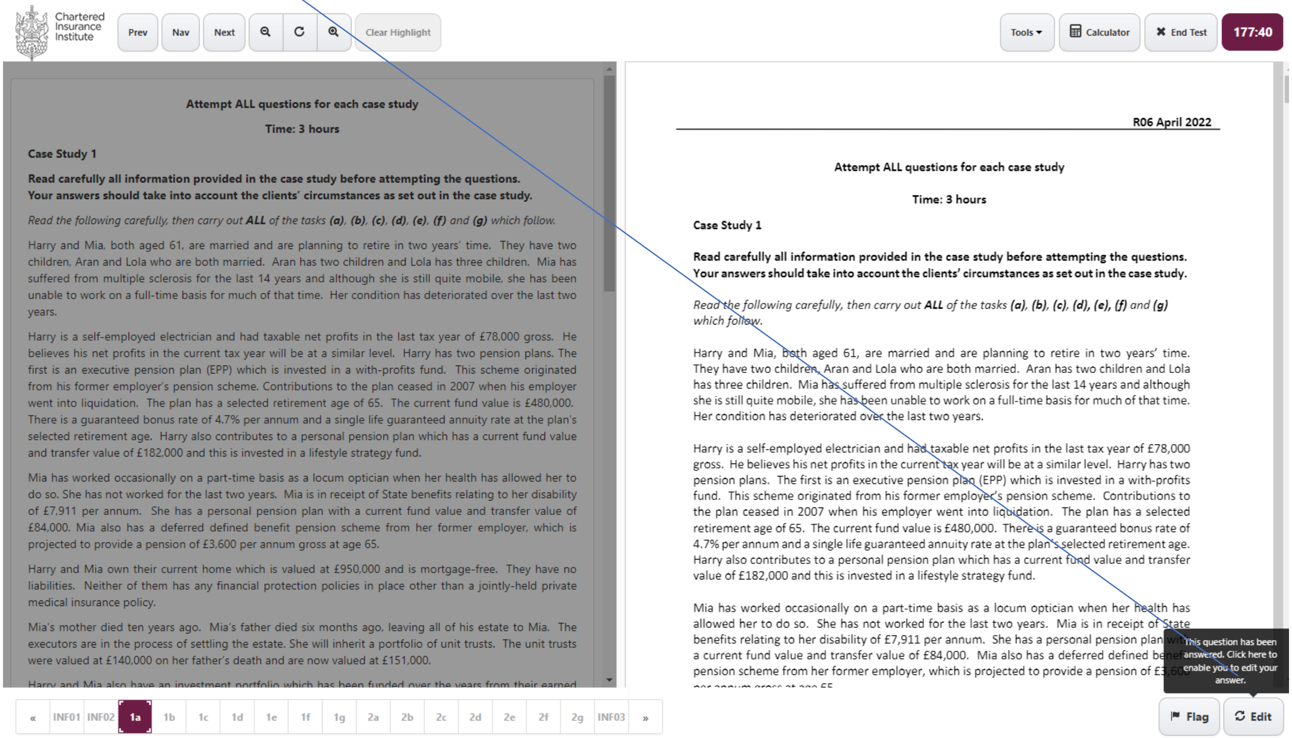
Although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

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

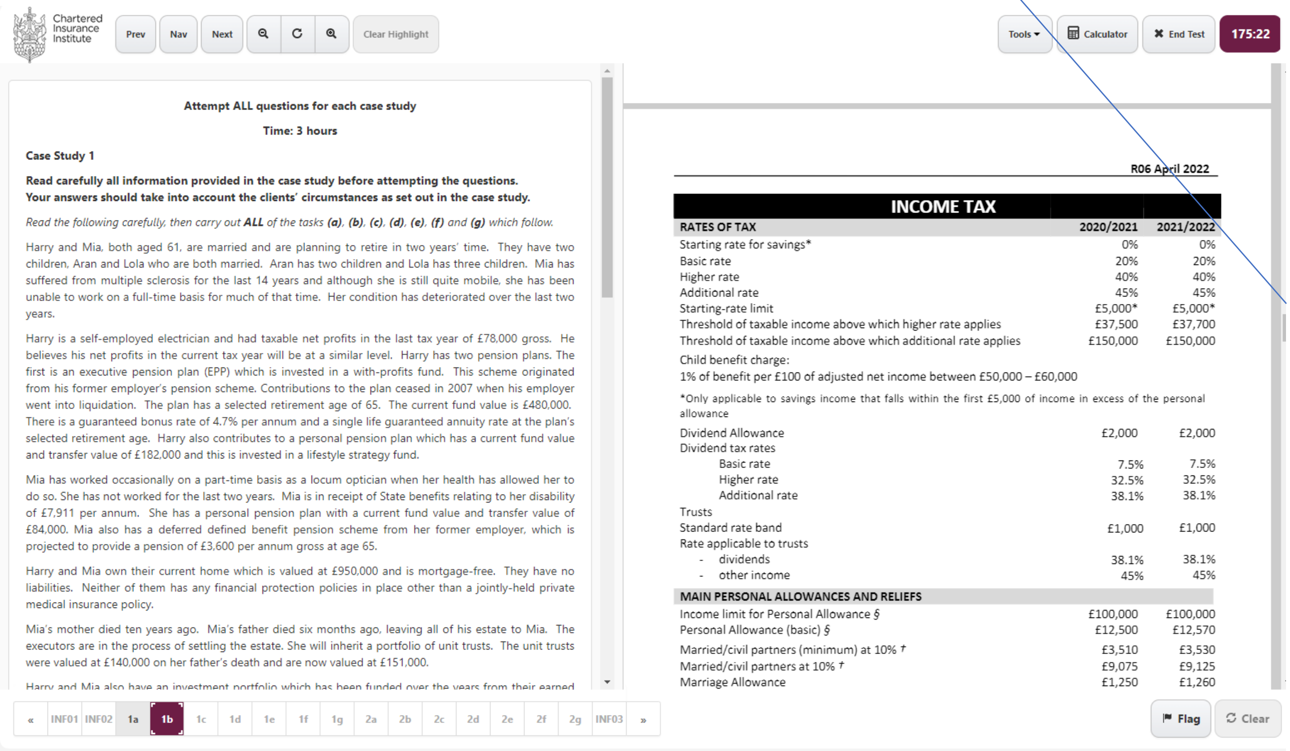
Please note you are strongly advised <u>not to</u> use a laptop provided by your employer.

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.

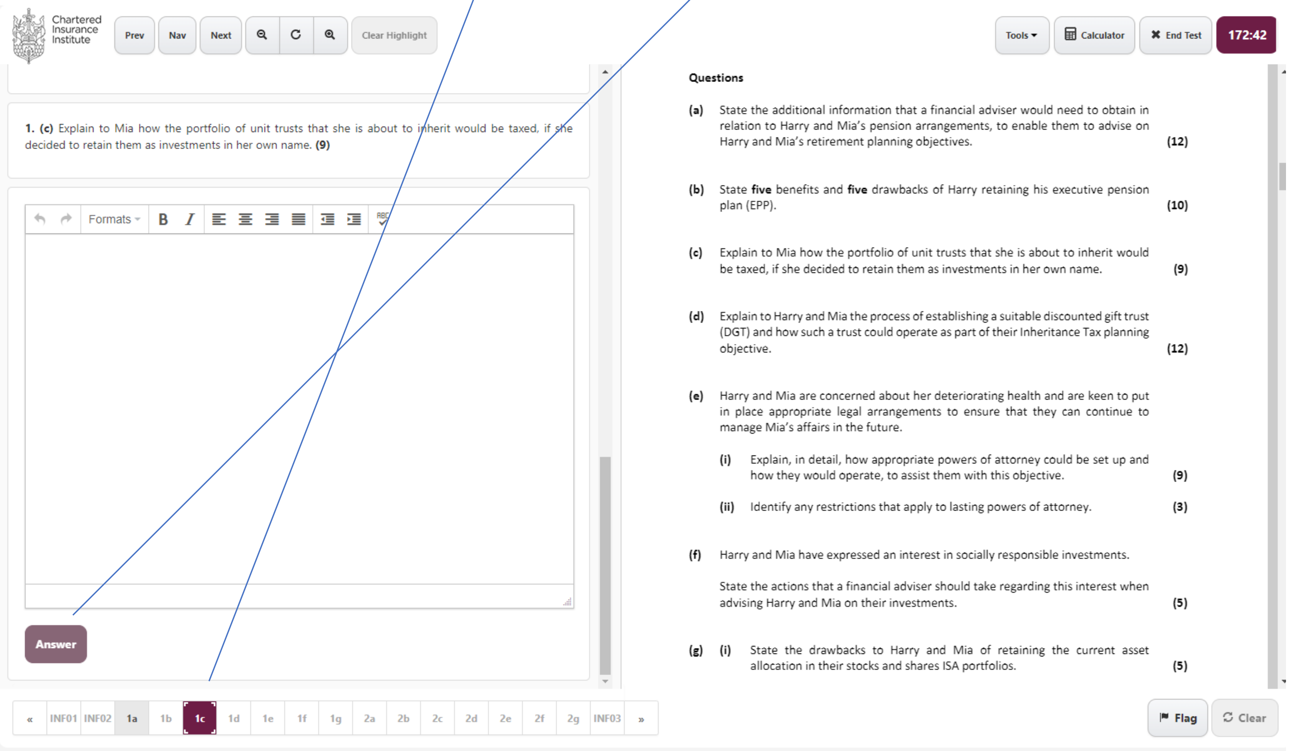
1. From the familiarisation test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them. To return to edit any answer you have already typed, you must press 'Answer' for the question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



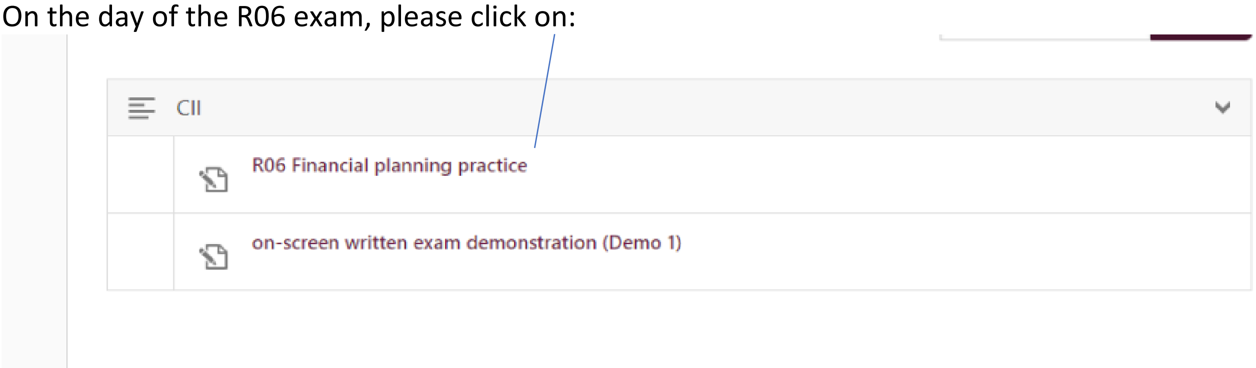
2. Tax tables and the Case Studies are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam. Scroll up and down using the navigation bar.



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 paper. Candidates who had prepared well for this examination in prior study of the Case Studies did well and achieved high marks across the paper.

It was noted that a number of candidates did not perform particularly well in areas relating to personal protection. This was disappointing as the issue of protection in relation to specific client circumstances was clearly laid out in Case Study Two. Some candidates would benefit from a review of protection products as well as a review of any State Benefits that might be available to clients who experience illness and disability and how these products and benefits could be used to assist clients when they experience difficulties. This is an important area of financial planning.

Case Study 1

1 (a)
Candidates were asked to state the additional information that a financial adviser would require in order to advise Max on the suitability of his current financial arrangements to meet his retirement income 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 explain to Max how his current pension lifestyle fund operates and identify the reasons why this particular fund may not be suitable to meet his long-term objectives. Overall performance was good here with the majority of candidates understanding that Max is no longer planning to retire at his original retirement date and that the fund would likely be unsuitable for him and his revised objectives.

1 (c)
This question asked candidates to recommend and justify how Max could adjust the investment strategy within his OEIC and investment trust portfolio to generate additional tax-efficient income for him in retirement. General performance was mixed here with many candidates focusing their answers on issues such as Max's pension, rather than his OEIC and investment trust portfolio. As a result, they were unable to achieve high marks.

1 (d)
This question required candidates to outline the key reasons why Max should monitor the suitability of his holdings in the AIM stocks on a regular basis. Overall performance was good, although only a minority of candidates recognised that Max did not require the IHT efficiencies that would be potentially available from these stocks due to his current Will arrangements.

1 (e)
Candidates were asked to explain to Max why he should review his nominations and Will. It was disappointing to note that only a limited number of candidates were able to recognise why this was important for Max. Further study would be of benefit here for candidates to gain a greater understanding of the importance of regular reviews of both Wills and nominations.

1 (f)
Candidates were asked to explain to Max the process that will be followed to wind up his estate on his death and how his estate would be treated for Inheritance Tax purposes. It was pleasing to note that good performance was demonstrated here with most candidates able to explain why no Inheritance Tax would be due on Max's estate, based on his current Will arrangements.

1 (g)
Candidates were asked to recommend and justify a range of actions that Max could take to improve the tax-efficiency of his financial arrangements. The majority of candidates performed well here and were able to provide detailed answers.

Case Study 2

2 (a)
Candidates were asked to state briefly the reasons why you might consider Karina to be a vulnerable client. Overall performance here was good with most candidates understanding the reasons why Karina might be vulnerable, based on her current circumstances.

2 (b)(i)
This question required candidates to explain to Karina how any payment she receives from her employer's income protection scheme will be paid to her and how it will be treated for tax purposes. Some mixed performance here as many candidates failed to explain in sufficient detail how Karina would receive these benefits and many candidates had only a limited understanding of how this type of policy would be treated for tax purposes.

2 (b) (ii) This question required candidates to outline to Karina how the proportionate benefit under her employer's income protection scheme operates and how this may be of use to her during her recovery. Only a small number of candidates understood this feature of income protection schemes. Candidates would benefit from a careful review of this type of policy and its' range of benefits.

2 (c)
This question asked candidates to explain to Karina why she may be eligible to receive Personal Independence Payment (PIP) and the benefits that it might provide for her. Some disappointing performance here as only a limited number of candidates had researched and understood the possible availability of PIP for Karina and the benefits that this could provide. Given Karina's current circumstances as set out in the Case Study, it is important for candidates to explore all options and benefits that might be available to provide financial support for Karina whilst she recovers from her injury.

2 (d)
Candidates were asked to state the reasons why Amir and Karina should not consider taking a mortgage payment holiday at the present time. Overall performance was good here.

2 (e)
This question asked candidates to recommend and justify a range of actions that Amir and Karina could take to improve their current retirement savings. Performance here was good and well-prepared candidates did not have any difficulties answering this question.

2 (f)
This question required candidates to explain to Amir why he should consider switching a portion of his current global fixed-interest fund within his pension plan into an equity-based fund. Many candidates performed well and were able to achieve good marks.

2 (g)
This was a standard review question which asked candidates to identify eight key issues that a financial adviser should discuss with Amir and Karina at the 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 2023/2024, unless stated otherwise in the question, and should be answered accordingly. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

If you are sitting via remote invigilation please

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

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

For candidates sitting via remote invigilation or at a test centre

- This paper consists of **two** case studies and carries a total of 150 marks.
- You are advised to spend approximately 90 minutes on the questions for each case study. You are strongly advised to attempt **all** parts of each question in order to gain maximum possible marks for each question. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams**.
- For each answer, please type in the full question number you are answering e.g. **1a**
- **Please note each answer must be typed in the correct corresponding answer box.**
- If you are wearing a headset, earphones, smart watch please take them off. No watches are allowed.
- Please familiarise yourself with **all** questions before starting the exam.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL questions for each case study

Time: 3 hours

Case Study 1

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

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

Max, aged 65, is a single man with no children and has never been married. Max is in very good health. Max's mother is living in a nursing home, and Max holds joint power of attorney for her, along with his brother. Max is employed full-time as a systems analyst. He receives a gross salary of £60,000 per annum. He is a member of his employer's workplace pension scheme and contributes 10% of his gross salary to the scheme. His employer contributes 5% of his gross salary to the scheme. Max's pension fund has a current value of £420,000 and is invested in a lifestyle fund with a planned retirement date of 1 September 2024. Max 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. He has completed a nomination in favour of his brother for both the death in service scheme and his employer's pension scheme.

Max is due to reach State Pension age in September this year. Max is not planning to retire for the foreseeable future.

Max has a home which is mortgage-free with a current value of £300,000. He also has a portfolio of open-ended investment companies (OEICs) and investment trusts, all of which are invested in UK and global equity funds. These have all performed well and have a total current value of £190,000. The portfolio pays dividends which Max reinvests into the portfolio each year. He is keen to rebalance his portfolio to reduce the level of risk and ensure that he can generate additional income when he decides to retire. Max has asked for your advice on how he can achieve this in a tax-efficient manner.

Max has a range of Stocks & Shares ISA holdings invested in individual equities, which are all high-risk UK smaller companies. Some of these are Alternative Investment Market (AIM) stocks. Max manages this portfolio himself and it is held on a platform.

Max has made a Will leaving the majority of his estate to a UK registered charity with a bequest of £100,000 to his brother in the event that he survives Max.

Max has an adventurous attitude to risk and does not have any interest in Environmental, Social and Governance (ESG) investments.

Max has the following assets:

Assets	Value (£)
House	300,000
Current account	12,000
Deposit account	65,000
National Savings & Investments Premium Bonds	50,000
Stocks & Shares ISA – Individual UK Equities	150,000
OEICs – UK Equity funds	100,000
Investment Trusts – Global Equity funds	90,000

Max's financial aims are to:

- ensure he can generate a sustainable income throughout retirement;
- adjust his investment portfolio to generate additional income in retirement;
- improve the tax-efficiency of his current financial arrangements.

Questions

(a) State the additional information that a financial adviser would require in order to advise Max on the suitability of his current financial arrangements to meet his retirement objectives. **(15)**

(b) Explain to Max how his current pension lifestyle fund operates and identify the key reasons why this particular fund may not be suitable to meet his long-term objectives. **(8)**

(c) Recommend and justify how Max could adjust the investment strategy within his OEIC and investment trust portfolio to generate additional tax-efficient income for him in retirement. **(12)**

(d) Outline the key reasons why Max should monitor the suitability of his holdings in the AIM stocks on a regular basis. **(8)**

(e) Explain to Max why he should review his nominations and Will. **(8)**

(f) Explain to Max the process that will be followed to wind up his estate on his death and how his estate would be treated for Inheritance Tax purposes. *No calculations are required.* **(10)**

(g) Recommend and justify a range of actions that Max could take to improve the tax efficiency of his financial arrangements. **(15)**

Total marks available for this question: 76

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.*

Amir and Karina are both aged 38 and are married. They do not have any children. Amir is in good health, but Karina has recently suffered a back injury and has been on sick leave from work for the past eight weeks.

Amir is employed as an engineer and earns £75,000 per annum (gross). Karina is employed as a product designer and earns £52,000 per annum (gross). Karina is currently receiving her full salary despite being on sick leave. This will cease in four weeks' time and her employer's income protection insurance scheme will commence, which will provide her with 50% of her current salary whilst she remains unable to work.

Amir is a member of his employer's workplace pension scheme and contributes 5% of his gross salary to the scheme. His employer contributes 3% of his gross salary to the scheme. Amir's pension fund has a current value of £95,000 and is invested in a global fixed-interest fund. He is also a member of his employer's death-in-service scheme which will pay out three times his basic salary on death whilst in service.

Karina is a member of her employer's workplace pension scheme, and she contributes 5% of her gross salary to the scheme. Her employer contributes 4% of her gross salary to the scheme. Karina's pension fund has a current value of £48,000 and is invested in an ethical equity fund. She is also a member of her employer's death-in-service scheme which will pay out four times basic salary on death whilst in service.

Amir and Karina have a repayment mortgage with an outstanding balance of £190,000 on their home which is currently valued at £270,000. They have been making overpayments to the mortgage over the past few years and are able to take a payment holiday of up to three months from the mortgage, should they wish to do so. The mortgage is protected in full by a decreasing term assurance policy which was set up when they took out the mortgage. They have no other protection policies in place.

Karina has a strong interest in Environmental, Social and Governance (ESG) investments, but this is not an area of interest or concern for Amir. They are both high-risk investors.

Neither Karina nor Amir have used their ISA allowances for the current tax year. They both hold Fixed-Rate Cash ISAs which are due to mature in January 2025.

Amir and Karina have set up mirror Wills which leave all assets to the survivor on first death and to their siblings on second death. They hold up-to-date Lasting Powers of Attorney for each other.

Amir and Karina have the following assets:

Assets	Ownership	Value (£)
House	Joint	270,000
Current account	Joint	4,000
Deposit account	Joint	35,000
Cash ISA – Fixed Rate for 2 years	Amir	22,000
Stocks & Shares ISA – Global Equity funds	Amir	65,000
Cash ISA – Fixed Rate for 2 years	Karina	22,000
Stocks & Shares ISA – UK Ethical Equity funds	Karina	39,000

Their financial aims are to:

- review the suitability of their current investment holdings;
- make adjustments to their financial arrangements during Karina's absence from work;
- improve their current retirement savings plans.

Questions

(a) State briefly the reasons why you might consider Karina to be a vulnerable client. **(7)**

(b) **(i)** Explain to Karina how any payment she receives from her employer's income protection insurance scheme will be paid to her and how it will be treated for tax purposes. **(10)**

Karina's employer's income protection scheme provides a proportionate benefit if the relevant conditions are met.

(ii) Outline to Karina how the proportionate benefit operates and how this may be of use to her during her recovery. **(6)**

(c) Explain to Karina why she may be eligible to receive Personal Independence Payment (PIP) and the benefits that it might provide for her. **(10)**

(d) State the reasons why Amir and Karina should not consider taking a mortgage payment holiday at the present time. **(10)**

(e) Recommend and justify a range of actions that Amir and Karina could take to improve their current retirement savings provision. **(14)**

(f) Explain to Amir why he should consider switching a portion of his current global fixed-interest fund within his pension plan into an equity-based fund. **(9)**

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

Total marks available for this question: 74

NOTE ON MODEL ANSWERS
The model answers given are those which would achieve maximum marks. However, there are alternative answers to some question parts which would also gain high marks. For the sake of clarity and brevity not all of these alternative answers are shown. An oblique (/) indicates an equally acceptable alternative answer.

Model answer for Question 1

(a)
- Current income needs/capital needs/care costs for mother? emergency fund needs.
- Retirement income needs/plans for long-term care costs.
- Planned retirement age.
- Longevity/family health.
- Base cost of individual OEIC/Investment Trust (IT) holdings/current gains on holdings/any losses.
- Use of CGT exemption/use of ISA allowance/Pension contribution history.
- Interest rate on deposit account.
- Dividend yield on individual holdings/OEIC/IT/shares.
- Asset allocation of OEICs/range of funds available.
- Flexible/guaranteed income needed.
- BR19/State Pension entitlement.
- Any inheritances expected/downsizing.
- Charges.
- Priority of objectives.
- Capacity for loss.

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

(b)
- Max is planning to retire after set life styling date/not retiring in September 2024.
- Fund reduces risk towards retirement.
- Fund aims to have 25% in cash at retirement date/holds £105k in cash.
- Inflation risk on cash.
- Limited equity content now/Fund may not be invested suitably now.
- Limited potential for growth.
- Max is an adventurous investor/does not match ATR.
- May be unsuitable for Flexi-Access Drawdown (FAD)/phased retirement/may be geared to annuity purchase.
- Fund switches are automatic/do not consider market conditions/Max has no control over switching or investments.

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

(c)

- Use ISA allowance/Bed & ISA.
- ISA provides tax-free income and growth.
- Use CGT exemption £3K/£6k
- Draw tax-free lump sums (within CGT exemption).
- CGT at 20%/10%
- Register capital losses (to use against future gains).
- Diversify funds (all equity).
- Invest in Fixed-Interest holdings/Interest-yielding funds.
- Can use Personal Savings Allowances (PSA) of £500/£1,000 on Fixed-Interest holdings.
- Savings interest taxed at 40%/20%
- Switch to dividend-generating equity funds/income units.
- Use Dividend Allowance of £500/ £1000
- Dividend Tax rate of 33.75%/8.75%

(d)

- High risk/high volatility.
- Potential for capital loss.
- May not match ATR in future.
- He is unlikely to have IHT liability (unless he changes his Will)/is IHT a concern for Max?
- Are they all 'qualifying' for Business Relief/shares must be qualifying on death/may lose IHT qualifying status in future/ regulatory changes.
- Lack of diversification.
- Not designed to generate income/may pay low level of dividend/Max needs income in retirement.
- Liquidity issues/can be difficult to sell.

(e)

- Ensure it meets his wishes/his circumstances might change/health/his estate value may change.
- Any other family members who could dispute Will/make claim? /Avoids disputes.
- Trustees (Death-In- Service and pension) have discretion.
- Pension Trustees cannot pay to Charity unless clearly nominated (if brother pre-deceases)/ check registered status of charity.
- Nomination if brother pre-deceases him?
- Should review Will to ensure it is IHT-efficient/IHT rules may change/ changes in legislation.
- Are executors up to date? /Appropriate executors
- Funeral wishes up to date?

(f)

- Assets valued by executors/all outstanding debts deducted from estate/funeral expenses/identify any failed Potentially Exempt Transfers (PETs).
- Pension/Death-In-Service (DIS)/AIM not included in the estate.
- IHT paperwork submitted to Probate Service/apply for Grant of Probate.
- Confirmation that Charity beneficiary is a registered charity.
- Gift to brother uses part of Nil Rate Band (£325K)/IHT-free.
- Residence Nil Rate Band (RNRB) cannot be used (no direct descendant beneficiary).
- No IHT on charity gift.
- Estate is IHT free (value falls within NRB).
- Debts paid (after Probate granted).
- Gift paid to brother/residual estate paid to charity.

(g)

- Increase pension contributions/salary sacrifice.
- Tax relief at 40%
- Reduce to Basic Rate Taxpayer.
- CGT reduces to 10%/PSA to £1,000/Dividend to 8.75%
- Use ISA/Bed and ISA.
- Tax free growth and income (pension and ISA).
- Use annual CGT exemption £3K/£6k
- Register any capital losses/sell holdings to crystallise losses.
- Reduce Cash holdings.
- Interest taxed at 40%/ PSA is £500.
- Invest in Venture Capital Trust (VCT).
- Tax-free dividends/30% income tax relief.
- VCT matches his ATR/he is an adventurous investor.
- Defer his State Pension.
- Reduces Income Tax liability.

Model answer for Question 2

(a)

- Currently off sick/back injury.
- Salary ceases in 4 weeks/50% of gross income from IPI from next month.
- Reduced affordability/reduced income/reduced Capacity for Loss/may need to erode savings.
- High outgoings/mortgage/may have costs to adapt home due to injury.
- No other personal protection (Private Medical Insurance).
- Unknown recovery period/could be long-term sick.
- Limited State Benefits.

(b)(i)

- Employer pays benefit.
- Paid to Karina under PAYE/taxed at source.
- Based on 50% salary/£26,000
- Taxed as Income Tax.
- Employee National Insurance (NI) continues to be paid.
- Employer NI continues to be paid.
- Karina maintains NI record (for State Pension purposes).
- Reduced Income Tax (20%) as income is below Higher Rate band.
- Not taxed as Benefit-In-Kind (BIK)/P11D.
- Employer maintains pension contribution.

(b)(ii)

- Scheme allows partial/gradual return to work.
- Salary paid by employer.
- IPI tops up to full 50% of salary (so no loss of IPI).
- IPI paid again in full if unable to work.
- No delay in payment if return to work fails (no deferred period).
- Could return to a lesser paid position (if unable to do previous job)/reduces pressure to return to work full time.

(c)

- She is under State Pension Age (over age 16).
- Will have been off sick for 3 months (by next month).
- Eligible if expected to be off sick for a further 9 months 12 months in total.
- Unable to perform some Activities of Daily Living (likely with back injury).
- Likely mobility issues/difficulty walking.
- Benefit is £68.10/£101.75 per week.
- Mobility rate is £26.90/£71.00 per week.
- Not means tested.
- Paid tax-free.
- No impact on employer Income Protection Insurance (IPI).

(d)

- Karina is receiving full salary for another month/IPI starts in a month.
- Mortgage is affordable.
- They have been over-paying.
- Can reduce monthly overpayments (temporarily).
- They have accessible assets (cash and ISA).
- Interest continues to accrue.
- Payment holiday increases outstanding mortgage/could extend term of mortgage.
- Mortgage payments will be higher at end of payment holiday.
- Impact on life policy/decreasing term/sum assured may be too low after payment holiday.

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

(e)

- Increase pension contributions.
- 40% tax relief for Amir/20% for Karina.
- Use salary sacrifice/employer matching.
- National Insurance (NI) saving/employer may rebate NI saving.
- Use ISA allowance.
- Tax-free income and growth (pension and ISA).
- Use Lifetime ISA.
- Both eligible as under 40.
- Receive 25% Government Bonus/ £4,000 max PA
- Can access Lifetime ISA at age 60/use as tax-free retirement pot.
- Switch from Fixed-Interest (F-I) funds for Amir/increase equity exposure.
- Low potential for growth on F-I/improves potential for growth.
- Monitor charges/ Use Tracker funds for lower charges.
- Transfer Deposit account to Karina.
- She has higher Personal Savings Allowance (£1,000).

(f)

- Growth potential on equities/limited growth on Fixed-Interest (F-I).
- Matches ATR/current fund does not match ATR.
- Long-term investment.
- Inflation protection/ inflation risk on F-I.
- Interest rate risk/credit risk.
- Diversification/geographical diversification.
- Low correlation with F-I.
- Reinvested dividends can boost growth.
- No/low switch charges on pension.

(g)

- Change in personal circumstances/health/any children.
- Change in income/expenditure/tax status/salary increases for either.
- ATR/CFL.
- Rebalance/asset allocation/performance/ESG views.
- Has Karina returned to work/still receiving IPI/Claimed for Personal Independence Payment (PIP)/taken mortgage payment holiday?
- Use of allowances/Lifetime ISA/ISA/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

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

INCOME TAX

RATES OF TAX	2022/2023	2023/2024
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£37,700	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£125,140

High income child benefit charge: 1% of benefit per £100 of adjusted net income between £50,000 – £60,000

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

	2022/2023	2023/2024
Personal savings allowance (for savings income):		
Basic rate taxpayers	£1,000	£1,000
Higher rate taxpayers	£500	£500
Additional rate taxpayers	Nil	Nil
Dividend Allowance	£2,000	£1,000
Dividend tax rates		
Basic rate	8.75%	8.75%
Higher rate	33.75%	33.75%
Additional rate	39.35%	39.35%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	39.35%	39.35%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS	2022/2023	2023/2024
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic) §	£12,570	£12,570
Married/civil partners (minimum) at 10% †	£3,640	£4,010
Married/civil partners at 10% †	£9,415	£10,375
Marriage Allowance	£1,260	£1,260
Income limit for Married Couple's Allowance†	£31,400	£34,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,600	£2,870
Enterprise Investment Scheme relief limit on £2,000,000 max**	30%	30%
Seed Enterprise Investment relief limit on £200,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).
† where at least one spouse/civil partner was born before 6 April 1935.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

	2022/2023	2023/2024
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,935	£3,235
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£17,005	£18,725

NATIONAL INSURANCE CONTRIBUTIONS

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

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

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £123 per week. This £123 to £242 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the New State Pension.*
***From 6 April 2023 to 5 January 2024 12% rate applies, from 6 January 2024 to 5 April 2024, 10% rate applies.*

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

*** Secondary threshold.*

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

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

PENSIONS

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

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

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

ANNUAL ALLOWANCE

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

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

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

ANNUAL ALLOWANCE CHARGE

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

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

CAPITAL GAINS TAX

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

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2022/2023	2023/2024
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Reduced rate (where appropriate charitable contributions are made)	36%	36%
Transfers		
- Lifetime transfers to and from certain trusts	20%	20%

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

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

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Annual small gifts exemption per donor	£250	£250
Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

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

Reduced tax charge on gifts within 7 years of death:

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

Quick succession relief:

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

MAIN SOCIAL SECURITY BENEFITS

		2022/2023	2023/2024
		£	£
Child Benefit	First child	21.80	24.00
	Subsequent children	14.45	15.90
	Guardian's allowance	18.55	20.40
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 61.05	Up to 67.20
	Aged 25 or over	Up to 77.00	Up to 84.80
	Main Phase		
	Work Related Activity Group	Up to 107.60	Up to 84.80*
	Support Group	Up to 117.60	Up to 129.50
Attendance Allowance	Lower rate	61.85	68.10
	Higher rate	92.40	101.75
Basic State Pension	Category A full rate	141.85	156.20
	Category B full rate	85.00	93.60
New State Pension	Full rate	185.15	203.85
Pension Credit	Standard minimumguarantee - single	182.60	201.05
	Standard minimum guarantee - couple	278.70	306.85
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	61.05	67.20
	Age 25 or over	77.00	84.80
Statutory Maternity, Paternity and Adoption Pay		156.66	172.48

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

CORPORATION TAX

	2022/2023	2023/2024
Small profit rate - for taxable profits below £50,000	N/A	19%
Marginal rate – for taxable profits between £50,001 - £250,000	N/A	26.5%
Standard rate - for taxable profits above £250,000	19%	25%

VALUE ADDED TAX

	2022/2023	2023/2024
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

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

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

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