

# **AF5**

## **Advanced Diploma in Financial Planning**

**Unit AF5 – Financial planning process**

**October 2016 Examination Guide**

**SPECIAL NOTICES**

**Candidates entered for the April 2017 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.**

## AF5 – Financial planning process

### Contents

Important guidance for candidates .....	3
Examiners' comments .....	8
Fact Find .....	11
Question paper .....	22
Model answers .....	28
Tax tables .....	36

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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

#### Exam rules and procedures

It is important that when entering for the exam you familiarise yourself with the CII's service, in particular the rules and procedures that are in place. Visit [www.cii.co.uk/assessment-information](http://www.cii.co.uk/assessment-information) for full details.

#### Study the syllabus carefully

It is crucial that you study the relevant syllabus carefully, which is available online at [www.cii.co.uk](http://www.cii.co.uk) or from Customer Service. 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

If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook 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. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

#### Make full use of the Examination Guide

The best way to understand what the examiners require is to study the CII Examination Guides. You can purchase copies of Examination Guides online at [www.cii.co.uk](http://www.cii.co.uk). CII members can download free copies of past Examination Guides online at [www.cii.co.uk/knowledge](http://www.cii.co.uk/knowledge). 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. The examiner's comments on candidates' actual performance in each question should be noted carefully.

#### Know the layout of the tax tables

Familiarise yourself with the tax tables printed at the back of each examination paper and 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 take your own tax tables into the examination.*

**Note the assumed knowledge**

For this Advanced Diploma in Financial Planning, candidates are assumed to have already the knowledge gained from studying the relevant units of the Advanced Diploma, Diploma and Certificate in Financial Planning or the equivalent.

**Understand the nature of assessment**

Assessment is by means of a three-hour written paper. 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.

**Familiarise yourself with the fact-find**

The examination has been specially written by practitioners with relevant technical knowledge and experience. It is then put through a rigorous editing procedure by a panel of active practitioners to ensure that the fact-find is both technically and structurally correct. At least one qualified practitioner then acts as a scrutineer by sitting the paper in advance and writing a report on it. The scrutineer's comments are taken into account in producing the final examination paper.

**Appreciate the standard of the examination**

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a sophisticated scheme of investment.* These clients require a critical appraisal of the various financial planning options available to them.

**Test yourself under timed conditions**

You should test your report writing skills under timed conditions. A good way to do this and to assess your technical knowledge at the same time is to set yourself a mock examination using the Examination Guide. To gain the most benefit from this exercise you should:

- Study the fact-find detail 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 answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently holistic and if your 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 fact-find details arrive to focus on the client details and prepare yourself for the examination day.

**Understand the skills the exam seeks to test**

The examination is based on a fact-find for imaginary clients whose details you will have received two weeks prior to the exam date. The fact-find will contain all the client details available. The actual financial objectives of the client will be supplied in the actual examination.

Tasks in the exam will not require candidates to produce a full financial plan. They will instead be focussed on the various elements in the syllabus which are based on the following steps in the financial planning process:

- The relationship between adviser and client.
- Evaluation of the client's objectives.
- Understanding the client's financial status.
- Putting forward appropriate recommendations.
- Reviewing the financial plan.

They may also be focused on other aspects of the syllabus which we believe are key to the customer receiving an effective financial planning service. These include an explanation of technical terms, selection of appropriate remuneration terms etc.

In this way, we are able to test key aspects of the financial planning process. If all aspects of the process are carried out thoroughly, an effective financial plan will be produced.

It is anticipated that at each exam session, a significant proportion of the total marks will be allocated to putting forward recommendations supported by relevant evidence. In this exercise, candidates will always be rewarded for thinking logically about the various objectives and potential solutions to the client.

## Two weeks before the examination

### What will I receive?

A fact-find will be available to candidates two weeks before the examination and it can be viewed at [www.cii.co.uk/qualifications/unit-financial-process-\(af5\)](http://www.cii.co.uk/qualifications/unit-financial-process-(af5)). It will contain client information which will form the basis of the report you will be required to prepare in the examination.

### 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 fact-find. Treat the fact-find as though it belongs to a real client whom you will be meeting shortly for the first time.

### How should I use the fact-find to help me prepare?

- Study the client details to find areas of need identified by the clients and look for other potential areas of need.
- Look for technical areas you may wish to revise, e.g. trusts, partnerships.
- Practise some key calculations, e.g. Income Tax and Inheritance Tax liabilities, which might inform the client's final financial plan.
- Do not attempt to 'learn' the answers to such calculations but make sure you are confident with the method and know what to include in your workings. You should be able to see from the fact-find whether the clients are higher-rate taxpayers or close to the threshold. You will be able to ascertain the financial position on death and whether there is likely to be an income shortfall which needs addressing.
- If the client has an investment portfolio, ensure that you are familiar with all the investments held within the portfolio. For example, you should understand the risk profile, tax treatment, accessibility and yield of each investment.

### 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 etc.

### AF5 Examination Technique Exam Guide

To help you prepare for the AF5 examination a FREE AF5 Examination Technique Exam Guide is available to download on the following link [www.cii.co.uk/qualifications/unit-financial-process-\(af5\)](http://www.cii.co.uk/qualifications/unit-financial-process-(af5)).

## In the examination

### What will I receive?

#### The fact-find

*You will not be able to take your pre-released copy of the fact-find into the examination with you. You will be issued with an identical fresh copy. There will not be any new or different information contained within the fact-find.*

#### Supplementary information

A summary of the client's key financial objectives will be supplied as part of the examination paper. You should spend some time studying this information before you commence your financial plan.

#### The tasks

The instructions are focused on the main steps required to write a financial plan. Mark allocations will be shown and you should use these to guide you on how long to spend on each section of your report. The task that gains most marks is invariably that requesting candidates to outline their key recommendations, supported by relevant evidence.

#### Answer format

You should provide sufficient technical details to enable you, in the role of financial adviser, to analyse your clients' needs and to demonstrate that the recommendations you make are appropriate and holistic. Merely reproducing quantities of technical detail which is not directly relevant or would be provided through stock paragraphs or appendices in a finished report will not achieve high marks.

Marks will be awarded for demonstrating the holistic consequences of your analysis and recommendations, i.e. how one part of the financial planning process affects all the other parts: how they all interrelate and interact.

Where you are asked to perform a calculation it is important to show **all** the steps in your answer. The majority of the marks will be allocated for demonstrating the correct method of calculation.

Provided handwriting is legible, candidates will **not** lose marks if it is 'untidy'. Similarly, marks are not lost due to poor spelling or grammar.

#### Calculators

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 alphabetical or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements. The majority of the marks will be allocated for demonstrating the correct method of calculation.

## EXAMINERS' COMMENTS

### Candidates' overall performance

Candidates performed very well in general on this paper and it was pleasing to note some excellent performance from a number of candidates.

It was clear that the majority of candidates had taken time to review the fact find in detail and identified the issues that would be of significance for their clients.

### Task 1

Part (a) asked for the benefits and drawbacks for fees. Part (a)(i) was hourly rate and part (a)(ii) was fund based. Many candidates answered (a)(i) and (a)(ii) very well with some candidates achieving maximum marks. This syllabus area has been tested before and candidates appear to have covered this well.

Part (b) asked for client specific factors that can affect a person's attitude to risk. This is a standard question that everyone in an advisory role should be aware of and many candidates performed well. However, some candidates did not gain high marks as they tended to just state obvious points such as how much is actually being invested.

### Task 2

These were fact-finding questions.

Part (a) was based on repaying the mortgage and part (b) was based on Inheritance Tax planning and passing their estates to their intended beneficiaries. Parts (a) and (b) were generally well answered by candidates.

### Task 3

Part (a)(i) was an evaluation of the Income Tax efficiency of their savings and investments. Many candidates did not provide enough detail and therefore did not achieve higher marks. Most, but not all candidates, appear to understand the new dividend tax rules. Despite 'savings' being mentioned in the question some candidates ignored Hans and Eileen's bank accounts or provided too brief answer points regarding these.

Part (a)(ii) asked for brief comments on the diversification within their savings and investment portfolio and whether this portfolio met their risk profiles. This was generally well answered but again some candidates ignored the savings element in the answer.

Part (b) asked for the Capital Gains Tax (CGT) implications and tax efficiency of transferring unit trusts and OEICs from Hans to Eileen. Most candidates did well with this question.



#### Task 4

Part (a) asked for a recommendation and justification of Eileen paying voluntary contributions to enhance her State Pension entitlement. Many candidates did not answer this question part very well. The triple lock guarantee increase was often missed, as well as that this provided good value for money and matched Eileen's attitude to risk.

Part (b) required candidates to explain the tax-efficiency of taking sporadic lump sums via uncrystallised fund pension lump sum (UFPLS). This was a new question and many candidates did well but some candidates confused UFPLS with flexi-access drawdown (FAD).

Part (c) required an explanation of the small pots rule and the taxation of the benefits. This question was well signposted and many candidates achieved high marks.

Part (d) concerned the Pension Protection Fund (PPF) for Hans's defined benefits scheme. Again, this was well signposted and many candidates answered this question well. Some candidates incorrectly stated that Hans's benefits would be capped, despite Hans retiring at his normal retirement date, so he would receive the full 100% entitlement.

#### Task 5

Part (a) required five benefits and five drawbacks of assigning their UK onshore bond to a discounted gift trust using a discretionary trust. Many candidates did not provide enough detail to achieve higher marks, especially for the drawbacks.

Part (b)(i) asked to recommend and justify a suitable policy to cover their Inheritance Tax liability. Again, not enough detail was provided by many candidates.

Part (b)(ii) asked for five key drawbacks to this action. This was a straight forward question that some candidates seemed to have difficulty with. It seems that some candidates often knew the benefits of taking a course of action but not necessarily the drawbacks involved. The fact that the Inheritance Tax bill is still payable was surprisingly often missed.

#### Task 6

Part (a) concerned the actions Hans and Eileen could take to ensure that their estates are passed to their intended beneficiaries. Many candidates did not provide sufficient detail and despite being advised '*no new investments or life policies will be taken out*' some candidates still recommended new investments and/or life policies.

Part (b) was about the financial considerations of a £30,000 loan being made to Eileen's son. This question had mixed responses. Some candidates provided great detail about why a gift would be better, which did not answer this question.

**Task 7**

This question was about Lasting Powers of Attorney (LPA).

Part (a) had mixed responses. The fact that Lasting Powers of Attorney (LPA) are less complex and cheaper than having to go via the Court of Protection was often missed. Some candidates referred to the wrong name for a property and financial affairs LPA which was surprising as it was referred to in part (b).

Part (b) asked for four common financial transactions that an attorney can make. This question was generally well answered.

**Task 8**

This was a standard style of review question, asking for the benefits of having regular reviews. This question was well answered by most candidates, although more candidates should have performed better for this usual end of exam style question.

## THE CHARTERED INSURANCE INSTITUTE

## AF5 - FINANCIAL PLANNING PROCESS



## FACT - FIND

October 2016

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 Porter recently.

PART 1: BASIC DETAILS		
	Client 1	Client 2
Surname	Porter	Porter
First name(s)	Hans	Eileen
Address	6 Queens Fort Drive, Worthing	6 Queens Fort Drive, Worthing
Date of birth	01.11.1951	03.04.1954
Domicile	UK	UK
Residence	UK	UK
Place of birth	UK	UK
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Golf	Horse riding

**Notes:**

Hans and Eileen have been married for 25 years. Eileen retired on her 62<sup>nd</sup> birthday to help look after her grandchildren and Hans is retiring on his 65<sup>th</sup> birthday.

**PART 2: FAMILY DETAILS****Children and other dependants**

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependant?
Damon	Son	35	15.07.1981	Good	Accountant	No
Justin	Son	32	10.06.1984	Good	Sales Executive	No
Dominic	Son	30	15.11.1985	Good	Builder	No

**Notes:**

The children are Eileen's from her first marriage. Her first husband died in 1986 when they were still married.

Her sons are married and each of them has two children. Hans has no children but is close to his sister and her two children.

<b>PART 3: EMPLOYMENT DETAILS</b>		
	<b>Client 1</b>	<b>Client 2</b>
<b>Employment</b>		
Occupation	Director	Retired
Job title	Technical Director	
Business name	Groots Engineering Ltd	
Business address	Church Street, London	
<b>Remuneration</b>		
Salary	£100,000	Nil
State Pensions	Nil	Nil
Overtime	Nil	Nil
<b>Benefits</b>		
Benefits-in-kind	£1,000	No
Pension scheme (see Part 11)	Yes	No
Life cover	2 times salary	No
Private Medical Insurance	Yes	No
Permanent Health Insurance	No	No
<b>Self Employment</b>		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
<b>Other Earned Income</b>		
<b>Notes:</b>		
<p>Hans is retiring on his 65<sup>th</sup> birthday. He will then start work as a self-employed consultant for his current employer on a part-time basis. Hans expects to earn £20,000 per annum over the next three years from his consultancy work. Hans does not own any shares in the company.</p> <p>Eileen retired on 3 April 2016 and has not worked since then.</p>		
	<b>Client 1</b>	<b>Client 2</b>
<b>Previous Employment</b>		
Previous employer	Wills Engineering	Worthing Chemicals
Job title	Engineer	Administrator
Length of service	9 years	20 years
Pension benefits (see Part 11)	No	Yes
<b>Notes:</b>		
<p>Hans has worked for his current employer for 30 years. Wills Engineering went into liquidation in 1986.</p> <p>Eileen has worked for a number of companies and took time off work to bring up her three children. Eileen has preserved pension benefits from her previous employments (see Part 11).</p>		

**PART 4: OTHER PROFESSIONAL ADVISERS**

	Client 1	Client 2
Accountant	Poole & Co	Poole & Co
Bank	Access Bank	Access Bank
Building Society		
Doctor	Dr Foster	Dr Foster
Solicitor	Davis LLP	Davis 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	8,333					
Benefits-in-kind		1,000				
Investment income (gross)		500		150		3,000
Rental (gross)						
Dividend payments		10,655		200		

**Notes:**

The figure of £3,000 under investment income is derived from the investment bond (see Part 6).

	Client 1 £	Client 2 £
<b>Income Tax</b>		
Personal allowances		
Taxable income		
Tax		
National Insurance		
<b>Net Income</b>		

**Notes:**

**Expenditure**

	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
<b>Household Expenditure</b>						
Mortgage/Rent			125			
Council tax			365			
Buildings and contents insurance						850
Gas, water and electricity						1,800
Telephone						600
TV licence and satellite						650
Property maintenance						1,500
<b>Regular Outgoings</b>						
Life assurance (see Part 8)			120			
Health insurance (see Part 9)						
Savings Plans (see Part 10)	500	500				
Car tax, insurance and maintenance				1,300	700	
Petrol and fares				1,600	500	
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping						8,000
Pension contributions (see Part 11)	833					
<b>Other Expenditure</b>						
Magazines and newspapers			45			
Entertainment						800
Clubs and sport				720		
Spending money						6,000
Clothes				650	800	
Maintenance						
Other (Holidays)						4,000
<b>Total Monthly Expenditure</b>	1,333	500	655			
<b>Total Annual Expenditure</b>	15,996	6,000	7,860	4,270	2,000	24,200
<b>Total Outgoings</b>						60,326
<b>Notes:</b>						

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

**Notes:**

They wish to repay their mortgage debt (see Part 7).

Hans and Eileen are planning to give £30,000 to her son Dominic for him to use in his business.

**PART 6: ASSETS**

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			1,250,000	
2.	Contents/car			100,000	
3.	Current account – Access Bank	3,500	1,500	5,000	
4.	Deposit Savings Account – Access Bank	120,000	10,000		650
5.	Unit Trusts & OEICs - UK Equity tracker	87,000	8,000		2,375
6.	Unit Trusts & OEICs - UK Growth funds	160,000			2,880
7.	Unit Trusts & OEICs - UK Equity Income funds	140,000			5,600
8.	Stocks & Shares ISAs – UK Equity tracker funds	128,000	76,000		
9.	UK Onshore Investment Bond			58,000	3,000

**Notes:**

Their house is owned as joint tenants.

The UK Onshore Investment Bond is invested in a cautious managed fund. They have taken 5% per annum withdrawals based on the initial investment on a monthly basis since inception.

They have both used their maximum ISA allowance for the tax year 2016/2017. Their ISAs are invested in accumulation units.

The Unit Trusts and OEICs are all held in income units/shares. This income, together with the withdrawals from their UK Onshore Investment Bond is used to partially fund Hans and Eileen's annual ISA allowances.

**PART 7: LIABILITIES**

Mortgage Details	Client 1	Client 2	Joint
Lender			Access Bank
Type of mortgage			Interest only
Amount outstanding			£50,000
Start date			December 1992
Term/maturity			December 2017
Monthly payment			£125
Interest rate			3%
Life policies (see Part 8)			Yes

**Notes:**

Hans and Eileen are due to redeem their mortgage in December 2017 but want to repay this when Hans retires in November 2016.

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

**Notes:**

Hans and Eileen do not have any loans.

**Other Liabilities (e.g. tax)**

**Notes:**



**PART 8: LIFE ASSURANCE POLICIES**

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.	Joint (First death)	Joint	50,000	120 p.m.	25 years	1992	No	35,000

**Notes:**

When Hans and Eileen took out their mortgage they set up a low cost endowment policy to cover this.

This policy is invested in a balanced managed fund and there is a shortfall in the policy which is estimated to have an eventual maturity value of around £36,000.

**PART 9: HEALTH INSURANCE POLICIES**

Type	Life Covered	Benefit level £	Start Date	Term/ Review	Deferred Period	Premium £
Private Medical Insurance	Joint	Comprehensive		Annually		See notes below

**Notes:**

The taxable benefit-in-kind for this policy is £1,000 per annum.

**PART 10: REGULAR SAVINGS**

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
ISA	Access Bank	Hans	UK Equity tracker	500 p.m.	N/A	N/A	128,000
ISA	Access Bank	Eileen	UK Equity tracker	500 p.m.	N/A	N/A	76,000

**Notes:**

Hans and Eileen both save £500 per month into their ISAs each year and top up these regular savings with ad-hoc lump sum amounts to fully utilise their ISA allowances. These lump sums come partly from their investment income (see Part 6)

**PART 11: PENSION DETAILS**

**Occupational pension scheme**

	Client 1	Client 2
Member of employer's scheme	Groots Engineering Ltd	N/A
Type of scheme	Defined benefit	
Date joined	1986	
Retirement age	65	
Pension benefits	80 <sup>ths</sup>	
Death benefits	2 times death-in-service plus return of member contributions	
Dependant's benefits	50% pension	
Contracted-in/out	Contracted-in since April 2016	
Contribution Level (employee)	10%	
Contribution Level (employer)	Not known	
Fund type	Defined benefit	
Fund value	N/A	

**Notes:**

Hans will receive a pension commencement lump sum of £112,500 (3/80<sup>ths</sup> of his pensionable salary) and a pension of £37,500 per annum (1/80<sup>th</sup> for each year of service).

Hans has recently learned that the scheme is currently under-funded and this is due to be discussed by the trustees in the near future.

Hans has nominated Eileen as the beneficiary under the pension scheme.

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

	Client 1	Client 2
Type	None	None
Company		
Fund		
Contribution		
Retirement age		
Current value		
Date started		

**Notes:**

Hans and Eileen do not have additional voluntary contributions.

**Personal Pensions**

	Client 1	Client 2
Type	None	Group Personal Pension
Company		Welsh Life
Fund		Cautious Managed
Contributions		None
Retirement age		65
Current value		£45,000
Date started		2007

**Notes:**

Eileen stopped paying into this scheme when she retired from Worthing Chemicals in April 2016.  
Eileen has not drawn any benefits to date and has not completed a nomination form.

**Previous pension arrangements**

	Client 1	Client 2
Employer	None	Two previous employers
Type of scheme		Personal Pensions
Preserved benefits		See notes below

**Notes:**

Eileen also has two paid up policies from her previous employment prior to Worthing Chemicals. One is valued at approximately £8,000 and the other at £7,000.

**State Pension**

	Client 1	Client 2
Basic Pension/Flat rate	£122 per week (Flat rate)	
SERPS/S2P		
Graduated Pension		
<b>Total</b>		

**Notes**

Hans will receive his State Pension on his 65<sup>th</sup> birthday.  
Eileen will receive her State Pension entitlement from her State Pension age in September 2019. Eileen has completed a BR19 form and been advised that she is not entitled to the full flat rate pension.

**PART 12: INHERITANCES**

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

**Notes:**

The Wills were set up shortly after Hans and Eileen married and leave everything to the surviving spouse.

Hans and Eileen are keen to ensure that on second death both Eileen’s three sons and Hans’ sister benefit from their estate.

Hans and Eileen are concerned that their current Wills do not reflect their wishes on second death and would like to review this.

Hans previously held a Power of Attorney for his mother whilst she was still alive and has enquired about him and Eileen possibly setting up similar arrangements.

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

**Notes:**

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

**Notes:**

Hans and Eileen want to give her son, Dominic, £30,000 to help him with his business.

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected	None	None

**Notes:**

Hans and Eileen do not expect to receive any future inheritances.

**PART 13: ATTITUDE TO RISK**

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

**Notes:**

A risk-profile questionnaire has been completed to confirm the clients' attitudes to risk.

Hans has a cautious to medium attitude to risk.

Eileen has a cautious attitude to risk.

**PART 14: BUSINESS RECORDS**

**Compliance**

Date fact-find completed	01.10.2016	
Client agreement issued	01.10.2016	
Data Protection Act	01.10.2016	
Money laundering	01.10.2016	

**Consultations**

Dates of meetings	01.10.2016	
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**Marketing**

Client source		
Referrals		

**Documents**

Client documents held		
Date returned		
Letters of authority requested	03.10.2016	

**Notes:**

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**PART 15: OTHER INFORMATION**

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# THE CHARTERED INSURANCE INSTITUTE



## AF5

### Advanced Diploma in Financial Planning

#### Unit AF5 – Financial planning process

October 2016 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2016/2017, 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.

#### Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**

## Unit AF5 – Financial planning process

### 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.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task 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 tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task 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 task on a new page and leave six lines blank after each task.

**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 generate sufficient income in retirement from their pensions and investments.
- To establish suitable methods for Hans and Eileen to draw benefits from their existing pension arrangements.
- To repay their outstanding mortgage.
- To provide funding of £30,000 to Dominic for his business use.

### **Longer-term objectives**

- To improve the ongoing suitability and tax-efficiency of their savings and investments.
- To ensure Hans and Eileen's affairs can be managed by their appointed attorneys in the future, should this be required.
- To mitigate their Inheritance Tax liability whilst ensuring their estates pass to their intended beneficiaries.



**Attempt ALL tasks**

**Time: 3 hours**

1. As Hans and Eileen have not sought financial advice for a number of years, they have some questions on fees and other issues relating to the financial planning process.
  - (a) With regard to the payment of fees, explain **four** benefits and **four** drawbacks to Hans and Eileen of:
    - (i) payment of hourly fees directly; **(8)**
    - (ii) payment by fund based fees being deducted from the investments. **(8)**
  - (b) Identify the client-specific factors that would typically influence Hans and Eileen’s attitude to investment risk. **(8)**
  
2. Identify the additional information you would need to discuss with Hans and Eileen in order to advise them on how to meet their financial objectives of:
  - (a) repaying their mortgage on Hans’ retirement; **(6)**
  - (b) mitigating their Inheritance Tax liability whilst ensuring their estates pass to their intended beneficiaries. **(7)**
  
3. With regard to Hans and Eileen’s longer-term financial objectives for their investments. (*Exclude any pension arrangements in your answer*).
  - (a)
    - (i) Evaluate the Income Tax efficiency of their current savings and investments. **(16)**
    - (ii) Comment briefly on the diversification within their current savings and investment portfolio and identify whether the portfolio meets their risk profiles. **(6)**
  - (b) Explain in detail the Capital Gains Tax (CGT) implications of transferring the Unit Trusts and OEICs held by Hans to Eileen and the improved CGT efficiency that this action will provide. **(6)**

4. With regard to Hans and Eileen’s pension entitlement:
- (a) Recommend and justify why Eileen should consider paying Class 3 voluntary National Insurance contributions to increase her State Pension entitlement. (6)
  - (b) Explain to Eileen how the benefits under her Welsh Life Group Personal Pension policy could be taken tax-efficiently as a series of ad-hoc lump sums using uncrystallised fund pension lump sum (UFPLS). (7)
  - (c) Explain to Eileen the ‘small pots’ rules that allow her to take her preserved personal pension policies immediately and the tax implications of this course of action. (8)
  - (d) Describe how Hans’ pension income under the Groots Engineering Ltd pension scheme would be affected if the pension scheme entered the Pension Protection Fund after he had retired. (*Assume Hans started drawing his benefits at his normal retirement date*). (6)

*Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients’ objectives.*

5. With regard to Hans and Eileen’s longer-term financial objectives:
- (a) Identify **five** benefits and **five** drawbacks for Hans and Eileen of transferring their existing UK Onshore Investment Bond to a discounted gift trust under a discretionary trust.
  - (b) (i) Recommend and justify why Hans and Eileen should set up a suitable life assurance policy to cover their current and future Inheritance Tax liability. (12)
  - (ii) Explain briefly to Hans and Eileen **five** key drawbacks of the recommendation made in (b)(i) above. (5)

*Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients’ objectives.*

6. (a) Recommend and justify the actions that Hans and Eileen could take to ensure that, in the event of their deaths, their estates can be paid to their intended beneficiaries. (*Assume that no new investments or life policies are set up*). (15)

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

- (b) Explain the financial planning considerations for Hans and Eileen if they were to **lend** £30,000 to Eileen's son, Dominic, for his business use. (8)

7. Hans and Eileen are considering arranging a Lasting Power of Attorney.

- (a) Describe the **benefits** to Hans and Eileen of each of them setting up a Lasting Power of Attorney. (8)

- (b) Identify **four** common financial transactions an Attorney could make on behalf of Hans or Eileen if property and financial affairs Lasting Powers of Attorney are set up. (4)

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

8. Identify **six** key benefits the clients will derive from having regular reviews and contact with their financial adviser. (6)

**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 Task 1****(a) (i) Hourly rate****Benefits**

- Familiar/same as other professions.
- Easy to understand/compare/transparent.
- Based on actual work undertaken/amount invested is irrelevant/cheaper for larger sums.
- Fee cap can apply.

**Drawbacks**

- Perceived as inefficient/possibly 'run up the clock'.
- May put off clients making contact/asking for advice.
- Paid from personal funds/net earnings/write a cheque.
- Unknown total cost.

**(ii) Benefits**

- Negotiate lower fees.
- Payment via provider/not from personal funds.
- Incentive to grow funds.
- Attractive for lower amounts/lower fees for lower amounts.

**Drawbacks**

- Difficult to predict year to year.
- Fee may be excessive/not reflecting time spent/larger portfolios not generally harder to administer.
- Extra charges may apply for other services/further work undertaken.
- Reduces investment growth/taken from tax efficient investment e.g. ISA.

**(b)** *Candidates would have gained full marks for any eight of the following:*

- Hans retires next month/timescale.
- Health/age.
- They have disposable income/existing assets/How much do they wish to invest?/adequate emergency fund.
- Guaranteed pension income for Hans/State Pension for either.
- Investment experience/knowledge.
- Objectives/priorities/need for capital/income/growth.
- Client thoughts on economic environment/market conditions.
- Tolerance for loss/risk versus reward.
- Capacity for loss.

**Model answer for Task 2**

**(a)** **Repaying their mortgage:**

- Any early redemption charges/interest rate fixed or variable.
- Surrender value/penalty on endowment/notice period on deposit account/tax implications of sale of investments.
- Need for emergency fund.
- Source of repayment/use of other assets/downsize/willing to use pension commercial lump sum.
- Any other planned expenditure/gifts to children/priority?
- Need for life cover on endowment.

**(b)**

- To whom assets should be paid/split of assets between beneficiaries.
- Priority of objective.
- Set up new Wills/willing to leave assets to others on first death.
- Willingness to use trusts/make outright gifts.
- Willingness to change ownership of assets between spouses.
- Use nominations/spousal bypass trust/pension contributions.
- Any inherited Nil Rate Band (NRB) from previous spouse.

**Model answer for Task 3**

- (a) (i)
- Utilising ISAs is tax efficient.
  - Investing in Hans' name is not tax efficient/more tax efficient in Eileen's name.
  - Should be held in Eileen's name as a non-tax payer.
  - Interest will be paid gross.
  - Interest in excess of £500 (PSA) is taxed at 40% for Hans.
  - Eileen has a £5,000 starting rate band/£1,000 PSA.
  - First £5,000 of dividends/dividend allowance is tax free.
  - Excess dividends taxed at 32.5% for Hans.
  - Eileen has unused dividend allowance.
  - Eileen would only pay 7.5% on excess dividend.
  - Bond held jointly.
  - Bond taxed internally/covers BRT liability/20% in bond.
  - Eileen cannot reclaim tax deducted within bond.
  - Utilising 5% per annum tax deferred withdrawals/is not tax efficient longer term.
  - On chargeable event further tax for Hans/no further tax for Eileen/top slicing relief.
  - Low cost endowment is qualifying policy/proceeds are tax free.
- (ii)
- Combined cash holding is suitable/matches attitude to risk.
  - Lack of diversification of asset classes.
  - Lack of geographical diversification/only UK.
  - Eileen is cautious so equity funds unsuitable.
  - Default risk with cash/exceeds FSCS limits.
  - Onshore bond/endowment match attitude to risk.
- (b) **Unit Trust & OEICs**
- Inter-spousal transfer rules apply.
  - No loss no gain basis/no Capital Gains Tax/spouse receives the investment at initial base cost.
  - Capital Gains Tax is chargeable on disposal/sale.
  - Capital Gains Tax charged at 10% not 20%/saving 10%.
  - £11,100 Capital Gains Tax annual exemption available.
  - Retain sufficient investments for Hans to use his Capital Gains Tax exemption.

**Model answer for Task 4**

- (a)** *Candidates would have gained full marks for any six of the following:*
- Not entitled to full State Pension/insufficient qualifying years/gap in National Insurance contributions (NICs) record.
  - Purchasing additional State Pension entitlement represents good value for money.
  - Benefits are guaranteed for her lifetime/secure.
  - Pension payments increase each year/under the 'triple lock' guarantee.
  - In line with the higher Retail Prices Index, average earnings growth or 2.5%.
  - It matches Eileen's attitude to risk/no investment risk.
  - Limited pension benefits in her name/she is reliant on Hans' pension.
- (b)** *Candidates would have gained full marks for any seven of the following:*
- 25% tax free.
  - 75%/balance taxed at marginal rate.
  - Take income up to personal allowance/tax efficient income.
  - Eileen can reclaim any overpaid tax.
  - Unlimited withdrawals available/can take over multiple tax years.
  - Balance remains invested/potential for growth.
  - Balance grows tax free.
  - Inheritance Tax (IHT) efficient/tax efficient death benefits.
- (c)**
- Up to three policies/both her policies.
  - Maximum £10,000 value each.
  - Not a BCE/not tested against LTA/other pension policies ignored.
  - Minimum age 55/Eileen is already 62.
  - 25% tax free.
  - Balance taxed at source at 20%/marginal rate.
  - Can reclaim overpaid tax.
  - Both pension pots must be fully encashed.
- (d)** *Candidates would have gained full marks for any six of the following:*
- 100% compensation.
  - No cap.
  - Pensionable service/benefits accrued post April 1997 increase.
  - In line with inflation.
  - Maximum 2.5% per annum.
  - No increase for pensionable service/benefits accrued pre April 1997.
  - Spouse's pension also protected.

**Model answer for Task 5**

**(a) Benefits:**

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

- Supports Inheritance Tax (IHT) planning objective.
- No IHT/under NRB.
- Discount on IHT/both in good health so discount should be larger.
- Existing withdrawals/5% withdrawals can continue.
- No immediate Income Tax liability/non income producing asset/no tax return for trustees.
- Growth is outside estate.
- Inheritance Tax free after seven years.
- Flexibility of beneficiary/retain control as trustees.

**Drawbacks:**

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

- Loss of capital/access.
- Cost/administration.
- On first death survivor could change beneficiaries/may not be paid to desired beneficiaries.
- Unsure of future income requirements/cannot vary income.
- Total withdrawals to date from bond unknown/remaining 5% allowance unknown/may incur tax charge once 5% exhausted.
- Maybe too young/irrevocable decision/cannot be charged.

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

- Whole of life/JLLS in trust.
- Inheritance Tax liability falls due on second death.
- Spousal exemption on first death.
- Benefit outside of the estate/no probate/paid quickly.
- Sum assured to meet current Inheritance Tax liability.
- Keep control of assets/no need to gift/assets do not need to be sold.
- Indexed to keep pace with rising value of assets/estate/inflation.
- Guaranteed insurability options.
- Increasing cover available.
- No further underwriting/health may deteriorate/currently in good health.
- Premiums out of normal expenditure/premiums could be paid by children.
- Premiums can be guaranteed for ongoing affordability/reviewable premiums for low initial cost.
- Term assurance to cover DGT/gift to Dominic.

**(ii) Candidates would have gained full marks for any five of the following:**

- Cover may be insufficient.
- Estate may increase quicker than inflation/tax rates may change.
- Estate may decrease/over insured.
- IHT liability is still payable.
- Could reduce disposable income in retirement.
- If reviewable premiums may become unaffordable/increase.



**Model answer for Task 6**

- (a) *Candidates would have gained full marks for any 15 of the following:*
- Agree how Hans and Eileen wish their assets to be split on second death/how much and to whom.
  - Update/create new Wills.
  - Has Eileen inherited her late husband's NRB/remaining NRB.
  - Ascertain details of late husband's estate.
  - Eileen to set up discretionary Will trust;
  - to protect late husband's NRB.
  - Eileen to set up nominations/bypass trust for her pension policies.
  - Instruct trustees for payment of benefits.
  - Use of trusts.
  - Make IHT exempt gifts/use of PET/CLT.
  - To protect Eileen's children/Hans's sister/intended beneficiaries.
  - Change ownership of house to tenants in common.
  - Set up Will trust for property.
  - Interest in possession/life interest trust/IPDI trust.
  - Trust owns half of property.
  - Allow surviving spouse to remain in property/life interest/life tenant.
  - Pass to beneficiaries on spouse's death.
- (b)
- Loss of capital.
  - Loss of growth/income/interest.
  - Capital needs repaying.
  - Loan agreement/term of loan/do they wish to insure the debt/secured against business assets?
  - Dominic may not be able to afford to repay the loan.
  - Interest could be charged/taxable on Hans/Eileen.
  - Who is making loan/source of loan monies?
  - On death, loan is a debt to the estate/part of the estate.

**Model answer for Task 7**

- (a)
- Provides peace of mind/personal wishes known/avoids disputes.
  - Appoint trusted person/each other/family as attorney/replacement attorney.
  - Property and Financial Affairs LPA to control their financial affairs.
  - Property and Financial Affairs can be used whilst they still have capacity/convenience.
  - Health & Welfare LPA to deal with health matters.
  - Less complex than Court of Protection.
  - Quicker than Court of Protection.
  - Cheaper than Court of Protection.
- (b) *Candidates would have gained full marks for any four of the following:*
- Pay bills/tax return.
  - Claim benefits/pensions.
  - Operate bank account/savings.
  - Buy or sell investments/property.
  - Make gifts within restrictions.

**Model answer for Task 8**

- Change in personal circumstances/objectives.
- Change in financial circumstances/tax status/income/expenditure/new monies.
- Ensure plans/advice are up-to-date/on track/suitable.
- Builds a long-term relationship/ongoing questions/advice.
- New products/economic/legislative changes/use of tax allowances.
- Review performance/rebalancing/attitude to risk/asset allocation.

**All questions in the April 2017 paper will be based on English law and practice applicable in the tax year 2016/2017, unless stated otherwise and should be answered accordingly.**

**The 2016/2017 Tax Tables which follow are those that apply to October 2016 and April 2017 examinations and can be found online on the CII website: [www.cii.co.uk](http://www.cii.co.uk).**

## INCOME TAX

RATES OF TAX	2015/2016	2016/2017
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	£31,785	£32,000
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013:		
1% of benefit for every £100 of income over	£50,000	£50,000
*Restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.		
MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic if born after 5 April 1948) §	£10,600	£11,000
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,600	£11,000
Personal Allowance (if born before 6 April 1938) §	£10,660	£11,000
Married/civil partners (minimum) at 10% †	£3,220	£3,220
Married/civil partners at 10% †	£8,355	£8,355
Transferable tax allowance for married couples/civil partners	£1,060	£1,100
Income limit for age-related allowances §	£27,700	£27,700
Blind Person's Allowance	£2,290	£2,290
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 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.		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£112	£486	£5,824
Primary threshold	£155	£672	£8,060
Upper Earnings Limit (UEL)	£827	£3,583	£43,000

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 155.00*	Nil
155.01 – 827.00	12%
Above 827.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £112 per week. This £112 to £155 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.*

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS
Below 156.00**	Nil
156.01 – 827.00	13.8%
Excess over 827.00	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.80 where profits exceed £5,965 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £14.10.
<b>Class 4 (self-employed)</b>	9% on profits between £8,060 - £43,000. 2% on profits above £43,000.

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000
2012/2013	£1,500,000	£50,000
2013/2014	£1,500,000	£50,000
2014/2015	£1,250,000	£40,000
2015/2016	£1,250,000	£40,000 §
2016/2017	£1,000,000	£40,000

### ANNUAL ALLOWANCE CHARGE

20% - 45% member's tax charge on the amount of total pension input in excess of the annual allowance.

MONEY PURCHASE ANNUAL ALLOWANCE	2015/2016	2016/2017
	£10,000*	£10,000*

### LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

§ increased to £80,000 from 6 April - 8 July 2015. If not used, can be carried forward to 9 July 2015 - 5 April 2016, subject to a maximum of £40,000.

\* transitional rules apply to the calculation for pre/post 8 July 2015 position.

## CAPITAL GAINS TAX

EXEMPTIONS	2015/2016	2016/2017
Individuals, estates etc	£11,100	£11,100
Trusts generally	£5,550	£5,550
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

### TAX RATES

Individuals:

Up to basic rate limit	18%	10%
Above basic rate limit	28%	20%
Surcharge for residential property and carried interest	0%	8%

Trustees and Personal Representatives	28%	20%
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Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000

\*For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.

## INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2015/2016	2016/2017
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

*A lower rate of 36% applies where at least 10% of deceased's net estate is left to a registered charity.*

MAIN EXEMPTIONS					
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	
- UK-registered charities		No limit		No limit	
Lifetime transfers					
- Annual exemption per donor		£3,000		£3,000	
- Small gifts exemption		£250		£250	
Wedding/civil partnership gifts by					
- parent		£5,000		£5,000	
- grandparent		£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%

## CAR BENEFIT FOR EMPLOYEES

The charge for company car benefits is based on the carbon dioxide (CO<sub>2</sub>) emissions. There is no reduction for high business mileage users.

### For 2016/2017:

- The percentage charge is 7% of the car's list price for CO<sub>2</sub> emissions of 50g/km or less.
- For cars with CO<sub>2</sub> emissions of 51g/km to 75g/km the percentage is 11%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 16% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

**Car fuel** The benefit is calculated as the CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£22,200 for 2016/2017) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,200 = £3,774.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance contribution's (Class 1A) of 13.8%.

## PRIVATE VEHICLES USED FOR WORK

	2015/2016 Rates	2016/2017 Rates
<b>Cars</b>		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile



**MAIN CAPITAL AND OTHER ALLOWANCES****2015/2016 2016/2017**

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£500,000	£200,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

**Motor cars:** Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)

CO <sub>2</sub> emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

\*If new

**CORPORATION TAX****2015/2016 2016/2017**

Standard rate	20%	20%
Small companies rate	20%	N/A
Small companies limit	£300,000	N/A
Effective marginal rate	20%	N/A
Upper marginal limit	£1,500,000	N/A

**VALUE ADDED TAX****2015/2016 2016/2017**

Standard rate	20%	20%
Annual registration threshold	£82,000	£83,000
Deregistration threshold	£80,000	£81,000

## MAIN SOCIAL SECURITY BENEFITS

		2015/2016	2016/2017
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group Support Group	Up to 102.15 Up to 109.30	Up to 102.15 Up to 109.30
Attendance Allowance	Lower rate	55.10	55.10
	Higher rate	82.30	82.30
Retirement Pension	Single	115.95	119.30
	Married	185.45	190.80
Single Tier State Pension	Single	N/A	£155.65
Pension Credit	Single person standard minimum guarantee	151.20	155.60
	Married couple standard minimum guarantee	230.85	237.55
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's Allowance		112.55	112.55
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	139.58