THE CHARTERED INSURANCE INSTITUTE

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

October 2015 Examination Guide

SPECIAL NOTICES

Candidates entered for the April 2016 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

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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

Read the Advanced Diploma in Financial Planning information for candidates and important notes for candidates
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current Advanced Diploma in Financial Planning Information for Candidates and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk or from Customer Service.

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at 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. CII members can download free copies of past Examination Guides online at 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). 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).

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 appear to have found this exam to be a similar standard to the previous AF5 exams in 2014/2015.

The better prepared candidates performed well and this was noticeable in the results.

Candidates that appeared not to have reviewed the fact-find in sufficient detail tended to struggle. Signposting was provided to candidates for possible areas that could be questioned, which should have provided some assistance to them.

It was apparent that some candidates did not fully read or follow the actual questions set. It is important that candidates fully read the question and answer this accordingly. Where guidance is provided e.g. no new protection policies are to be taken out, then candidates should not recommend setting up new protection plans in their answer.

The fact find was for a recently married couple who both had children from their previous marriages. Candidates did not always answer specifically based on the clients' circumstances and often gave more general type of answers. The answers required will usually be based on the particular clients' circumstances, unless instructed otherwise.

A good overall level of knowledge was shown by most candidates, but some areas were less well answered, demonstrating a need for candidates to improve knowledge in these areas, namely benefits and options in the event of death under a flexi-access drawdown policy, Relevant Life polices, discretionary trusts and trustee duties.

The exam paper was at a standard reflecting an Advanced Diploma Level 6 exam and was suitable for candidates sitting the examination.

Task 1

Part (a) asked for the additional information required to be able to advise the clients to ensure their individual estates pass to their intended beneficiaries.

This question was generally well answered by most candidates and is a standard fact-finding question. Both clients had previously been married and no information was given in the fact-find as to whether they were either previously divorced or widowed. An adviser would need to ascertain if either of them had been widowed and therefore whether any inherited nil rate band was available to either of them.

Many candidates did not answer about the willingness to change the ownership of assets between spouses.

Part (b) asked for further information to advise them to ensure the clients had sufficient income for their retirement.

Many candidates did not perform as well with this question. One of the clients had a defined benefits pension scheme and further information about these benefits and the scheme in general would be required to be able to advise the clients. Many candidates did not ask about this pension scheme in sufficient detail.

The other client had a self-invested personal pension (SIPP) and again further details would be required about the SIPP, such as the asset allocation, performance, charges and a projection of benefits/current value.

The clients also had a term on their mortgage that would have extended beyond their retirement dates and information was needed as to whether this was to be repaid early.

These types of fact-finding questions are frequently set in the AF5 exam and it is surprising that many candidates do not achieve higher marks for this type of question.

Task 2

This question required candidates to identify and describe the key risks applying to Ken's emerging market equity funds, but excluding systematic and non-systematic risk.

This question was generally well answered with some candidates achieving full marks.

Some candidates answered stating systematic and non-systematic risks despite the question telling them to ignore these risks.

Again, this has been a standard type of question in AF5 and some candidates could have achieved better marks by reviewing past exam papers and exam guides.

This question also asked to state the type of risk and also give a description of this particular risk which some candidates did not do. Many candidates did not fully answer the question set and take into account the instructions given.

Task 3

Part (a) asked for a detailed explanation for using the existing UK Onshore Investment Bond to provide a tax-efficient £10,000 lump sum to the two children who were getting married.

This provided scope for candidates to answer using tax-efficiency for both Ken and Barbara; assignment to the children to use their tax status and also Inheritance Tax planning by utilising gifts for marriage from both parents and step-parents.

This question part was fairly well answered. Those candidates that did not achieve high marks did not answer in enough detail.

In part (b) the question related to using Ken's existing unit trusts and open-ended investment companies to maximise ISA contributions for both Ken and Barbara without incurring any Capital Gains Tax (CGT) liability by using CGT annual exemptions and inter-spousal transfers.

This type of question has been asked previously and was not particularly well answered by many candidates, who did not provide enough detail. The main answers omitted were establishing the base cost, any losses carried forward and the gain on the existing investment.

It was noticeable that some candidates incorrectly stated the maximum ISA allowance of £15,240 and the £11,100 CGT annual exemption. The CGT exemption is stated in the tax tables in the question paper.

Task 4

Part (a) required candidates to comment on and identify weaknesses with Ken's existing protection and pension arrangements.

Ken was the main earner and the family heavily relied on his income/dividends and that there would be a shortfall in the benefits payable on his death, which many candidates did not state.

The pension policy is payable tax-free on death and an annual £40,000 employer contribution is payable, which will help reduce the future protection needs and many candidates did not state these points.

Otherwise, the question was generally well answered.

Part (b) required candidates to recommend a suitable individual protection policy that the company could set up for Ken to maximise tax-efficiency and provides benefits for Ken's spouse and children on his death.

The most suitable and tax-efficient way of providing this cover is via a Relevant Life Policy, a form of death–in-service policy. This allows a tax-free benefit to be paid to the beneficiaries under a discretionary trust. Premiums paid by the company, as the policyholder, could be classed as a relevant business expense and are not classed as a benefit in kind for Ken.

Many candidates stated other types of protection policies that were either not as suitable or tax-efficient.

A few candidates that answered with a Relevant Life Policy did not provide sufficient detail to achieve high marks.

Task 5

Part (a) was a two part question about the tax-efficiency and flexibility of using a flexi-access drawdown plan:
(a) (i) to draw benefits for Ken;
(a) (ii) in the event of Ken's death.

These questions were generally well answered.

In part (a) (i), many candidates did not state that the funds remain invested in a tax-efficient fund to provide possible future growth. There is also the option to annuitise at a later date and pension contributions can continue to be paid.

In part (a) (ii), many candidates did not relate their answers to Ken and stated that on death after age 75 the lump sum would be taxed at 45%. However, as Ken is only 58, this rule does not apply as it only applies to the 2015/2016 tax year. Candidates need to be more specific to the case study when answering questions and should not just generalise their answers.

Part (b) asked for **six** benefits and **six** drawbacks of consolidating Ken's four paid-up pension plans into his self-invested personal pension (SIPP).

Many candidates scored well on this question. The main benefits that were generally omitted were the possible improved/greater flexibility of death benefits and that a retirement annuity has a minimum retirement age of 60.

Part (c) required an explanation of the factors to consider when evaluating the suitability of Ken's with-profit pension fund.

Many candidates did not provide enough detail. The answers omitted related to the 'smoothing effect' of with-profits investments and information about the underlying asset allocation, the financial strength of the insurer and whether or not this is a closed fund.

Task 6

This question required candidates to recommend and justify the actions that could be taken to ensure Ken and Barbara's individual estates passed to their intended beneficiaries on their death. This would be important to them as they both have children from previous marriages.

This question also stated that no further investments or protection policies are to be taken out. It was therefore surprising that some candidates recommended setting up new investments and or new protection policies.

This question also stated 'on death' so using ongoing annual Inheritance Tax exemptions did not answer the question.

It stated in the fact-find that on first death the surviving spouse was to be able to remain in the home so setting up a trust via the will e.g. life interest, interest in possession, immediate post death interest rusts (IPDI) would achieve this objective. The deceased's share of the house is owned by the trust, the spouse is the life tenant and the deceased person's children are the remaindermen receiving their share of the house on the spouse's death. This was often missed or candidates did not fully explain this process.

Whilst completing nomination forms for pension benefits was mentioned by most candidates Barbara's four times salary death in service was often omitted.

The question asked for 'justification' which many candidates did not provide e.g. write new wills as their existing wills are invalid due to their recent marriage.

The fact-find also stated that Ken's son James had had financial problems and assets to be passed to James would benefit being held under a trust in his circumstances.

This type of question has been previously asked and candidates should review past papers to understand the type and style of questions asked.

Task 7

Part (a) asked about transferring the UK Onshore Investment Bond into a suitable trust to provide tax-efficient benefits for their children and future grandchildren. This answer provided mixed results as some candidates scored well whilst others only scored a few marks.

A discretionary trust was suitable as Ken and Barbara could be trustees/retain control and beneficiaries could be altered, especially for any possible future grandchildren, and in view of the financial problems Ken's son had previously faced.

The tax efficiency is provided in various ways which candidates often missed e.g. chargeable lifetime transfer but below the nil rate band of Inheritance Tax (IHT) so no immediate IHT charge, annual gift exemptions are available and periodic/exit charges are unlikely to apply due to the value. The transfer is not a chargeable event and is outside their estate if they survive seven years. The bond is also a non-income producing asset. Again, many candidates did not provide enough detail to gain high marks.

Part (b) asked for the principle duties and obligations of a trustee. Many candidates seemed to confuse trustee duties with those of an attorney under a Lasting Power of Attorney and the question was generally not well answered.

Task 8

This question was the standard type of review question which referred to seven factors to take into account at future reviews for Ken's self-invested personal pension.

This question was well answered. Some candidates missed reviewing nominations of beneficiaries, which forms part of their stated objective of passing assets/benefits to their intended beneficiaries.

This question is also regularly tested and candidates reviewing past exam papers should be able to achieve high marks.

THE CHARTERED INSURANCE INSTITUTE

AF5 - FINANCIAL PLANNING PROCESS

FACT - FIND

October 2015

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 Wilson recently.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Wilson	Wilson
First name(s)	Ken	Barbara
Address	123 Bennett Street, Windsor	123 Bennett Street, Windsor
Date of birth	01.09.1961	06.12.1964
Domicile	UK	UK
Residence	UK	UK
Place of birth	London	London
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Canoeing	Aerobics

Notes:

Ken and Barbara married in June 2015, after living together for nine years. They were both previously married.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Helen	Daughter	26	01.07.1989	Good	Surveyor	No
Steven	Son	25	31.08.1990	Good	Sales Adviser	No
Jake	Son	24	15.05.1991	Good	Taxi Driver	No
James	Son	23	14.04.1992	Good	Administrator	No

Notes:

Helen, Steven and James are Ken's children from his previous marriage. Jake is Barbara's son from her previous marriage. Helen and Jake are both getting married this year to their respective partners.

Although all the children are financially independent, James has been reckless with his finances in the past. Ken felt obliged to assist James financially but still has concerns about James' financial stability.

PART 3: EMPLOYMENT DETAILS		
	Client 1	**Client 2**
Employment		
Occupation	Director	Department Manager
Job title	Managing Director	Manager
Business name	Clearview Camping Ltd	Hawtrey & Dale Ltd
Business address	Castle Road, Windsor	Church Road, Windsor
Year started	2005	
Remuneration		
Salary	£10,000	£36,000
Dividends (net)	£60,000	Nil
State Pensions	Nil	Nil
Overtime	Nil	Nil
Benefits		
Benefits-in-kind	No	No
Pension scheme (see Part 11)	Yes	Yes
Life cover	No	Yes
Private Medical Insurance	Yes	Yes
Income Protection/Sick Pay	No	Yes
Self Employment		
Net relevant earnings	N/A	N/A
Accounting date	N/A	N/A
Partnership/Sole trader	N/A	N/A
Other Earned Income		
Notes:		

Ken set up Clearview Camping Ltd in 2005 and he owns 50% of the shareholding.

The remaining 50% of the shareholding is owned by Ken's brother, Conor, who is a co-director in the business. In the event of death, the Articles of Association state that the deceased's shares pass to the surviving shareholder. There are no protection policies in force to cover this agreement.

	Client 1	**Client 2**
Previous Employment		
Previous employer	Various companies	N/A
Job title		
Length of service		
Pension benefits (see Part 11)	Yes	
Notes:		

Ken worked for a number of different companies prior to setting up Clearview Camping Ltd and has accrued a number of preserved pension policies over his working life. (See Part 11).

Barbara started working for Hawtrey & Dale Ltd after leaving university.

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant	Pool & Co	Pool & Co
Bank	Crucible Bank	Crucible Bank
Building Society		
Doctor	Dr Knowles	Dr Knowles
Solicitor	Davies Hendry LLP	Davies Hendry 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	833		3,000			
Benefits-in-kind						
Investment income (gross)		3,850				500
Rental (gross)						
Dividend (net)	5,000					

Notes:

The investment income is derived from their bank deposit accounts and Ken's Unit Trusts/OEICs.

	Client 1	Client 2
Income Tax	**£**	**£**
Personal allowances	10,600	10,600
Taxable income		
Tax		
National Insurance		
Net Income		

Notes:

Expenditure

	Monthly £			Annually £		
Household Expenditure	**Client 1**	**Client 2**	**Joint**	**Client 1**	**Client 2**	**Joint**
Mortgage/Rent			1,240			
Council tax			200			
Buildings and contents insurance						400
Gas, water and electricity			200			
Telephone			45			
TV licence and satellite			55			
Property maintenance						2,000
Regular Outgoings						
Life assurance (see Part 8)		30	150			
Health insurance (see Part 9)		145				
Savings Plans (see Part 10)	150					
Car tax, insurance and maintenance				750	550	
Petrol and fares	100	80				
Loans						
Hire purchase						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			800			
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers			25			
Entertainment			200			
Clubs and sport				1,000	400	
Spending money						4,200
Clothes						2,000
Maintenance						
Other (Holidays)						2,000
Total Monthly Expenditure	250	255	2,915			
Total Annual Expenditure	3,000	3,060	34,980	1,750	950	10,600
Total Outgoings						54,340
Notes:						

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

Notes:
Ken and Barbara wish to give a lump sum of £10,000 each to Helen and Jake towards their forthcoming weddings.

PART 6: ASSETS

	Asset	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			450,000	
2.	Contents/car			50,000	
3.	Current account – Crucible Bank	2,000	1,000		Nil
4.	Easy Access Savings Account – Crucible Bank			35,000	500
5.	Stocks & Shares ISAs – UK Equity tracker funds	32,840	24,710		
6.	Unit Trusts/OEICs – emerging market Equity funds	30,350			450
7.	Unit Trusts/OEICs – UK Equity Income funds	85,100			3,400
8.	UK Onshore Investment Bond – Distribution fund			78,500	
9.	Shares in Clearview Camping Ltd	600,000			66,666

Notes:

Their home is owned on a tenants-in-common basis. In the event of death they want the deceased's share of the house to be passed to the deceased's surviving children with the surviving spouse being able to remain in the house for the rest of their life.

Ken and Barbara have not made any ISA contributions this tax year.

The Stocks and Shares ISAs and Unit Trusts/OEICS are held in accumulation units.

The UK Onshore Investment Bond was taken out in 2012 for an initial investment of £65,000. No withdrawals have been taken. On second death they want to ensure that the proceeds are split equally between their four children.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			Crucible Bank
Type of mortgage			Repayment
Amount outstanding			£200,000
Start date			2012
Term/maturity			2027
Monthly payment			£1,240
Interest rate			1.5%
Life policies (see Part 8)			Yes

Notes:

The mortgage rate tracks the Bank of England base rate plus 1%.

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

Notes:

Ken and Barbara do not have any loans.

Other Liabilities (e.g. tax)

Notes:

Ken has to pay additional Income Tax on his dividend income via self-assessment. Ken puts this money aside in their Easy Access Savings Account each year. Ken and Barbara do not have any other liabilities.

PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Maturity date	Start date	In trust?	Surrender Values £
1.	Joint	Joint	200,000	150 p.m.	2027	2012	No	N/A
2.	Barbara	Barbara	98,000	30 p.m.	2020	1995	No	N/A

Notes:

The joint life policy is a decreasing term assurance, designed to protect the mortgage. The proceeds are payable on the first event of death or earlier critical illness.

Barbara's policy is a level term assurance, written on a single life basis. This was taken out to support a previous mortgage.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
Private Medical Insurance	Joint					145 p.m.

Notes:

The Private Medical Insurance is a comprehensive policy which covers both Ken and Barbara. The premium is paid by Barbara.

Barbara receives full pay for six months and then half pay for a further six months in the event of long term illness/incapacity.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
Unit Trusts/OEICs		Ken	UK Equity Income	150 p.m.	N/A	N/A	85,100

Notes:

The value of these regular savings is included in the £85,100 figure, as shown in Part 6.

PART 11: PENSION DETAILS

Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme	N/A	Yes
Type of scheme		Defined Benefit
Date joined		1985
Retirement age		65
Pension benefits		Sixtieths
Death benefits		4 times salary
Dependant's benefits		50% pension
Contracted-in/out		Out
Contribution Level (employee)		6%
Contribution Level (employer)		N/A
Fund type		N/A
Fund value		N/A

Notes:
No nomination of beneficiaries has been made.

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

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

Notes:
Ken and Barbara do not have any additional voluntary contributions.

Personal Pensions

	Client 1	Client 2
Type of scheme	Self-Invested Personal Pension	N/A
Date started	2012	
Retirement age	65	
Death benefits	Return of fund	
Contracted-in/out	In	
Contribution level (employee)	Nil	
Contribution level (employer)	£40,000 per annum	
Fund type	Wrap/platform – various funds	
Fund value	£148,000	
Notes:		
No nomination of beneficiaries has been made.		

Previous pension arrangements

	Client 1	Client 2
Type	Various Plans (see notes below)	N/A
Company		
Fund		
Contributions		
Retirement date		
Current value		
Date started		

Notes:
Ken has three personal pensions and a retirement annuity policy that were all taken out when he worked for previous employers. The personal pension policies are invested in a range of managed funds and the retirement annuity policy is invested in with-profits. All the policies are paid-up. Ken estimates the combined value of these plans is £120,000. No nomination of beneficiaries have been made on any of these plans.

State Pension

	Client 1	Client 2
Basic pension		
SERPS/S2P		
Graduated pension		
Total		

Notes
Ken and Barbara have not obtained their State Pension forecasts.

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a current Will?	Yes	Yes
Notes:		
Both Wills were taken out in 2008. Ken and Barbara have left their individual estates to their respective children.		
Trusts	**Client 1**	**Client 2**
Are you a beneficiary under a trust?	No	No
If yes, give details		
Are you a trustee?	No	No
If yes, give details		
Notes:		
Gifts	**Client 1**	**Client 2**
Give details of gifts made and received	None	None

Notes:

Inheritances	Client 1	Client 2
Give details of any inheritances received or expected	N/A	N/A
Notes:		
Ken and Barbara 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:
Both Ken and Barbara have a balanced attitude to risk.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	20.09.2015	
Client agreement issued	20.09.2015	
Data Protection Act	20.09.2015	
Money laundering	20.09.2015	
Consultations		
Dates of meetings	20.09.2015	
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested	23.09.2015	

Notes:

PART 15: OTHER INFORMATION

THE CHARTERED INSURANCE INSTITUTE

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

October 2015 examination

SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2015/2016, 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 ensure that Barbara is financially secure in the event of Ken's death.
- To review the suitability of Ken's existing pension plans.
- To improve the tax efficiency of Ken and Barbara's investment portfolio.
- To gift £10,000 to their children for their forthcoming weddings.

Longer-term objectives

- To ensure Ken and Barbara's estates pass to their intended beneficiaries.
- To ensure Ken and Barbara have sufficient income for their retirement.

Attempt ALL tasks

Time: 3 hours

1. Identify the additional information you would need to discuss with Ken and Barbara in order to advise them on how to meet their longer-term objectives of ensuring:

(a) their individual estates pass to their intended beneficiaries; **(7)**

(b) they have sufficient income for their retirement. **(15)**

2. Ken and Barbara would like to know more about the risks associated with their investments.

Identify and describe the key investment risks that apply to Ken's emerging market equity funds. (*Excluding systematic risk and non-systematic risk*). **(12)**

3. With regard to Ken and Barbara's immediate financial objectives:

(a) Explain, in detail, how Ken and Barbara can use the UK Onshore Investment Bond to provide a tax-efficient lump sum of £10,000 each for Helen and Jake's weddings. **(11)**

(b) Describe fully to Ken and Barbara how they can maximise **both** their ISA allowances by disposing of Ken's Unit Trusts and OEICs without incurring any Capital Gains Tax liability. **(11)**

4. Ken and Barbara are concerned about the impact that the death of Ken will have on Barbara's financial situation.

(a) Comment on Ken's current situation and identify any weaknesses in his existing protection and pension arrangements in the event that he dies before retirement. **(15)**

(b) Recommend and justify how Ken's company can set up a suitable individual life policy for Ken, which maximises tax-efficiency, to provide benefits for his spouse and children in the event of his death before retirement. **(11)**

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

5. Ken wants to review his existing pension policies and also consider his options when he retires.

(a) Explain in detail how using a flexi-access drawdown plan can provide flexibility and tax-efficiency:

(i) when Ken wants to start drawing benefits from his pension plans. **(8)**

(ii) in the event of Ken's death. **(6)**

(b) Describe **six** benefits and **six** drawbacks of consolidating Ken's four paid-up pension plans into his self-invested personal pension scheme. **(12)**

(c) Explain to Ken the factors that should be considered when evaluating the suitability of the with-profit fund in his pension. **(8)**

6. Recommend and justify the actions Ken and Barbara could take to ensure that their individual estates pass to their intended beneficiaries on death.
Assume that no further investments or protection policies are to be taken out by Ken or Barbara, and that they do not alter the ownership of their property. **(15)**

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

7. Ken and Barbara are interested in setting up a trust to provide tax-efficient benefits for their respective children and any future grandchildren.

(a) Explain how Ken and Barbara can transfer their existing UK Onshore Investment Bond into a suitable trust to achieve this objective. **(13)**

(b) Describe the principal duties and obligations of a trustee. **(9)**

8. Identify **seven** factors that should be taken into account at future reviews of Ken's self-invested personal pension scheme. **(7)**

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) **Ensure estates pass to their intended beneficiaries:**

- To whom assets should be paid/split of assets between beneficiaries.
- Percentage split of main residence.
- Set up new Wills.
- Willingness to use trusts/make outright gifts.
- Willingness to change ownership of assets between spouses.
- Use nominations/spousal bypass trust/pensions in trust.
- Any inherited nil rate band from previous spouse.

(b) *Candidates would have gained full marks for any fifteen of the following:*
Ensure sufficient income for their retirement:

- Income required and selected retirement date.
- Barbara's recent benefit statement/projection/pensionable salary definition.
- Commutation factors under Barbara's pension.
- Escalation of pensions in payment.
- Funding position of scheme/possible changes to scheme basis/closure/move to defined contribution.
- Early retirement penalty/actuarial reduction.
- In-house additional voluntary contributions options.
- Asset allocation in self-invested pension scheme/preserved pensions.
- Retirement options under Ken's existing pensions/guaranteed annuity rates/any protected pension commencement lump sum entitlement for Ken.
- Charges/performance.
- Estimated benefits from Ken's pensions/projections.
- State Pension entitlement/BR19/State Pension age.
- Any pension sharing/pension earmarking orders in force.
- Contribution history/carry forward/pension input period.
- Willingness to use other assets/downsizing/sale of business/continuing income from business/affordability.
- Mortgage repaid at retirement?/plans to repay mortgage early.
- Capacity for loss.

Model answer for Task 2

- **Political risk.**
- Less robust political systems/unstable governments.
- **Regulatory/Legislation/Taxation risk.**
- Lower regulatory standards/changes in tax and legislation.
- **Currency risk.**
- Currency fluctuations can affect performance/value.
- **Event risk.**
- Specific event, e.g. tsunami/earthquake, can affect performance.
- **Diversification risk/Geographical risk.**
- Only invests in equities/no other asset classes/limited number of countries.
- **Operational/Management risk.**
- Fraud/poor accounting standards/poor corporate governance.

Model answer for Task 3

(a)
- Fund taxed internally/covers basic rate tax (BRT) liability/BRT deemed already paid.
- Withdraw 5% per annum of the initial investment tax deferred.
- Assign bond to Barbara as she is a basic rate taxpayer/Ken is a higher rate tax.
- Surrender in Barbara's name avoids extra 20% Income Tax.
- Not treated as chargeable event/no gain between spouses.
- Top slicing relief.
- Establish Helen and Jake's tax status/Income Tax liability falls on Helen and Jake.
- Assign sufficient segments of the bond to Helen and Jake.
- Not treated as chargeable event.
- Use of Inheritance Tax exemptions, e.g. wedding/£3,000/potentially exempt transfer if survives seven years.
- Wedding gift allowance includes stepchildren.

(b)
- Establish base cost.
- Calculate gain/current value less cost.
- Use Ken's Capital Gains Tax (CGT) exemption.
- Factor in any carried forward losses.
- Gain of up to £11,100.
- Ken sells/transfers sufficient shares/bed & ISA/ISA wrap/to fund ISA allowance/ £15,240.
- Ken transfers part of unit trust to Barbara.
- Spousal exemption applies/no CGT payable/no loss no gain basis.
- Barbara receives the investment at the base cost.
- Transfer allows them to use two CGT exemptions/Barbara has CGT exemption/£11,100.
- Barbara sells/transfers sufficient shares/bed & ISA/ISA wrap/to fund ISA allowance/£15,240.

Model answer for Task 4

(a)
- Ken is the main breadwinner.
- Mortgage covered via decreasing term assurance (DTA)/existing life policy.
- No additional cover for Ken/possible shortfall.
- No life cover/protection for share agreement/£600,000/no business protection.
- Shares pass to brother/Barbara or children receive no value.
- Benefits payable tax free under Ken's pension plans.
- £40,000 ongoing contribution per annum/increasing benefits annually.
- No nominations are in place.
- Benefits paid at trustees/scheme administrator discretion.
- Could be disputed/possibly paid to estate/Inheritance Tax implications.
- UK Onshore Investment Bond passes to Barbara.
- As jointly held.
- No trusts in place - DTA/retirement annuity contracts.
- Wills invalid/Intestacy rules apply.
- Estate may not go to intended beneficiaries.

(b) *Candidates would have gained full marks for any eleven of the following:*
- Relevant life/death in service (DIS) policy.
- Clearview Camping is policyholder/pays premium/sets up policy on Ken's life.
- Relevant business expense/deductible against tax.
- Not classed as benefit in kind for Ken.
- As written under DIS/pension rules.
- Discretionary trust applies.
- Benefit paid tax free/outside estate.
- Level term/Life cover only, e.g. no critical illness.
- Level of cover not restricted to salary/financially underwritten.
- Can cover share value/£600,000/living expenses.
- Indexation to cover increase in share value/inflation.
- Term to normal retirement date/exit from company.

Model answer for Task 5

(a) **(i)**

- Pension commencement lump sum (PCLS)/tax-free cash.
- Flexibility of withdrawals/no mininimum/maximum amount.
- Allows tax efficient income/withdrawals.
- Remaining fund held tax-efficiently.
- Potential for investment growth.
- Can purchase annuity at a later date.
- Can continue to make contributions/tax relief.
- £40,000 annual allowance available if no drawdown income taken/reduces to £10,000 annual allowance if any drawdown accessed.

(ii)

- Flexibility of beneficiaries/nomination.
- Lump sum and continued drawdown/annuity.
- Benefits tax free on death before age 75.
- Taxed at recipients' marginal rate on death after age 75.
- Decision must be made within two years of death.
- Provides Inheritance Tax planning.

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

Benefits:

- Greater fund choice/range of investments/match attitude to risk.
- Potentially improve performance.
- Possible lower charges/transparent charges.
- Online access/less administration/under one plan/monitor performance.
- Wider retirement options.
- May improve death benefits.
- Take benefits from age 55/retirement annuity only from age 60.

Drawbacks:

- Loss of any Guaranteed Annuity Rates.
- Loss of other guarantees e.g. guaranteed fund/bonus rate/protected tax free cash.
- Transfer/initial/ongoing/ higher charges.
- Greater personal involvement.
- Money out of the market during transfer process.
- No guarantee of better performance.

(c)

- Provides smoothed returns/reduced volatility.
- Asset allocation/closed fund/financial strength.
- Does it match Ken's attitude to risk?
- Any guaranteed bonuses/conventional or unitised?
- Existing bonuses cannot be withdrawn/How has it performed to date?
- Future annual bonus rates unknown/terminal bonus payable.
- Market value adjustment/penalty may apply.
- Bonus rates may not match inflation/may provide low returns in future.

Model answer for Task 6

- Write new Wills as invalid due to marriage.
- Complete nomination forms for pension/pension in trust.
- And Barbara’s 4 X death in service.
- Spousal bypass trust.
- To protect children from previous marriages.
- Place Barbara's life policy/lifetime allowance in trust.
- Place UK Onshore Investment Bond under trust.
- Speed of payment/outside estate.
- Any changes above ensure that intended beneficiary receives assets.
- Set up trust via Will for property.
- Interest in possession/life interest trust/immediate post death interest trust.
- Deceased’s share of house owned by trust.
- Spouse has right to live in house/life tenant.
- Deceased’s children are remaindermen/reversionary interest/receive their share on spouse’s death.
- Set up trust for James (financially reckless).

Model answer for Task 7

(a) *Candidates would have gained full marks for any thirteen of the following:*

- Discretionary trust.
- Chargeable lifetime transfers/relevant property trust.
- No immediate Inheritance Tax charge/below nil rate band.
- Outside estate after seven years.
- Annual gift exemptions available.
- Periodic/exit charges.
- But unlikely to apply in view of amount.
- Ken and Barbara can be trustees/retain control/appoint trustees.
- Relevant for James/protects against creditors/divorces.
- Beneficiaries can be amended/flexibility of beneficiary.
- Transfer/assignment is not a chargeable event/no tax charges.
- As not for money's worth.
- Non-income producing asset.
- Ease of administration for trustees/no tax return required/tax efficient.

(b)

- Act for benefit of the beneficiaries/treat all fairly.
- Registered/legal owner of all trust property.
- Act in accordance with trust provisions/investment instructions /trust laws.
- Use utmost diligence to avoid losses.
- Review investments and amend when necessary/diversify investments.
- Obtain/consider professional advice on investments.
- Keep proper accounts/pay taxes/reporting.
- Act as ordinary prudent business person would.
- Invest cash as soon as possible (unless being paid out immediately).

Model answer for Task 8

- Change in personal circumstances e.g. divorce/death/health.
- Change in retirement age/plans to draw benefits.
- Change in income/profits of Clearview Camping/tax status/current contributions.
- Nominations completed/updated.
- Review performance/attitude to risk/rebalancing.
- Changes in taxation/legislation/regulation.
- Market conditions/new products/charges.

All questions in the April 2016 paper will be based on English law and practice applicable in the tax year 2015/2016, unless stated otherwise and should be answered accordingly.

The 2015/2016 Tax Tables which follow are those that apply to October 2015 and April 2016 examinations and can be found online on the CII website: www.cii.co.uk.

INCOME TAX

RATES OF TAX	2014/2015	2015/2016
Starting rate for savings*	10%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£2,880*	£5,000*
Threshold of taxable income above which higher rate applies	£31,865	£31,785
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) *§*	£10,000	£10,600
Personal Allowance (if born between 6 April 1938 and 5 April 1948) *§*	£10,500	£10,600
Personal Allowance (if born before 6 April 1938) *§*	£10,660	£10,660
Married/civil partners (minimum) at 10% †	£3,140	£3,220
Married/civil partners at 10% †	£8,165	£8,355
Transferable tax allowance for married couples/civil partners	N/A	£1,060
Income limit for age-related allowances *§*	£27,000	£27,700
Blind Person's Allowance	£2,230	£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)	£2,750	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,010	£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 Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£815	£3,532	£42,385

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate	Contracted-out rate (final salary)
Up to 155.00*	Nil	Nil
155.01 – 770.00	12%	10.6%
770.01 – 815.00	12%	12%
Above 815.00	2%	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		
	Contracted-in rate	Contracted-out rate	
		Final salary	*Money purchase*
Below 156.00**	Nil	Nil	Nil
156.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 815.00	13.8%	13.8%	13.8%
Excess over 815.00	13.8%	13.8%	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.80 where profits exceed £5,965 per annum.
Class 3 (voluntary)	Flat rate per week £14.10.
Class 4 (self-employed)	9% on profits between £8,060 - £42,385. 2% on profits above £42,385.

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 *§*

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	2014/2015	2015/2016
	N/A	£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	2014/2015	2015/2016
Individuals, estates etc	£11,000	£11,100
Trusts generally	£5,500	£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%	18%
Above basic rate limit	28%	28%
Trustees and Personal Representatives	28%	28%
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	**2014/2015**	**2015/2016**
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%

For deaths after 5 April 2015, a lower rate of 36% applies where at least 10% of deceased's net estate is left to 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_2) emissions. There is no reduction for high business mileage users.

For 2015/2016:

- The percentage charge is 5% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 9%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 13%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 14% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 210g/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_2 emissions % relevant to the car and that % applied to a set figure (£22,100 for 2015/2016) e.g. car emission 100g/km = 15% on car benefit scale. 15% of £22,100 = £3,315.

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

	2014/2015 Rates	2015/2016 Rates
Cars		
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
Motor Cycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2014/2015	2015/2016
Plant & machinery (excluding cars) 100% annual investment allowance (first year) §	£500,000	£500,000
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 2015 (Corporation Tax) or 06 April 2015 (Income Tax)

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

§ From 01 January 2016 allowance will decrease to £200,000.

CORPORATION TAX

	2014/2015	2015/2016
Full rate	21%	20%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	21.25%	20%
Upper marginal limit	£1,500,000	£1,500,000

VALUE ADDED TAX

	2014/2015	2015/2016
Standard rate	20%	20%
Annual registration threshold	£81,000	£82,000
Deregistration threshold	£79,000	£80,000

MAIN SOCIAL SECURITY BENEFITS

		2014/2015	2015/2016
		£	£
Child Benefit	First child	20.50	20.70
	Subsequent children	13.55	13.70
	Guardian's allowance	16.35	16.55
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.35	Up to 57.90
	Aged 25 or over	Up to 72.40	Up to 73.10
	Main Phase		
	Work Related Activity Group	Up to 101.15	Up to 102.15
	Support Group	Up to 108.15	Up to 109.30
Attendance Allowance	Lower rate	54.45	55.10
	Higher rate	81.30	82.30
Retirement Pension	Single	113.10	115.95
	Married	180.90	185.45
Pension Credit	Single person standard minimum guarantee	148.35	151.20
	Married couple standard minimum guarantee	226.50	230.85
	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		111.20	112.55
Jobseekers Allowance	Age 18 - 24	57.35	57.90
	Age 25 or over	72.40	73.10
Statutory Maternity, Paternity and Adoption Pay		138.18	139.58