AF5EG07

THE CHARTERED
INSURANCE INSTITUTE

ADVANCED DIPLOMA IN FINANCIAL PLANNING

AF5—FINANCIAL PLANNING PROCESS

Examination Guide
October 2009 examination

SPECIAL NOTICE

Candidates entered for the April 2010 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.

CONTENTS

Important guidance for candidates 3

Candidates' overall performance 9

Fact-find 10

Question paper, model answers, examiner's comments 25

Tax tables 41

All questions in the April 2010 paper will be based on English law and practice applicable in the tax year 2009/2010, unless stated otherwise and should be answered accordingly.

Published by: The Chartered Insurance Institute 20 Aldermanbury London EC2V 7HY
020 8989 8464

IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how the examiners were seeking to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the examiners that you yourself 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

- **Make sure you have a copy of the current Advanced Diploma in Financial Planning Information 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, which is *essential reading* for all candidates.

- **Study the syllabus carefully**

It is crucial that you study the syllabus which is available online at www.cii.co.uk or from Customer Service, because 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 understand fully 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 Examination Guides. You can obtain copies of Examination Guides online at www.cii.co.uk. You could treat this guide and the previous Specimen Guide as a 'mock', attempting them under examination conditions as far as possible and then compare your answers to the model ones. The examiners' 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 that information. *Note that you are not allowed to take your own tax tables into the examination.*

- **Note the assumed knowledge**

For AF5 Financial planning process, candidates are assumed to have already the knowledge gained from studying other units of the Advanced Diploma, Diploma and Certificate in Financial Planning.

- **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 latter shows the types of responses the examiners were looking for. The model answers given are those 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 case studies**

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 case study 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 more sophisticated scheme of investment* than is normally prepared by a Certificate level adviser. 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 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 focused 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 sent to candidates two weeks before the examination. 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 that 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, Benefits Agency help line, National Savings and Investments liaison office.

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.

- **Handwriting**

Provided your handwriting is legible, you will **not** lose marks if it is untidy. *We strongly recommend that you do not write in block capitals.* This tends to slow down your writing and, paradoxically, block capitals can become more difficult to read than joined-up writing when done quickly.

- **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.

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. *It is important to show all the steps of your calculation in your answer*. The examination is testing your ability to carry out all the appropriate steps in calculating a value. A proficient mathematician is someone who follows the correct method, i.e. carries out the appropriate steps. The majority of the marks will be allocated for demonstrating the correct method of calculation.

After the examination

Marking of AF5

All Advanced Diploma examiners, one of whom will mark your answer book, are either active practitioners in the financial services industry or are trainers of such persons. They have been specially trained to mark papers using a detailed marking scheme; the model answers in examiners' reports are based on those marking schemes.

After each examiner has provisionally marked a small number of answer books there is a co-ordination meeting of all the examiners, at which the Senior Examiner goes through the marking scheme with the other examiners. Based on the feedback from the initial marking, the detailed marking scheme is finalised.

The examiners use a detailed marking scheme but they are not looking for model answers. Candidates will gain marks if they produce a recommendation which would meet the clients' needs and then justify that recommendation. Marks will be awarded for producing an holistic solution and for making use of the supplementary information.

The marking of each examiner is closely monitored by the Senior Examiner throughout the marking period and all marked answer books are carefully checked. This process means that all answer books are marked to the same standard.

After all the answer books have been marked, a moderation meeting is held, at which all available statistical information is considered, together with the views of the Senior Examiner and other assessment experts. At the meeting a pass mark is set which should ensure that the standard of knowledge and skills required to pass the paper is comparable with that of previous papers. All candidates at or above the agreed mark will pass: the CII does not operate a quota system whereby only a fixed percentage of candidates can pass a paper.

A number of papers will be marked by more than one examiner to ensure that the answers are marked consistently and fairly.

Candidates' overall performance

This examination covered a wide range of financial planning issues and it was encouraging to see that a reasonable number of candidates achieved high marks in the early sections of the paper, covering areas such as fact finding and portfolio risk. However, in the later recommendation sections of the paper, candidates are still not providing sufficient detail in their answers to match the marks on offer.

As with previous papers, the candidates who scored highly on the whole paper were those who provided relevant detail in their answers and linked their knowledge to the specific case study in hand.

THE CHARTERED INSURANCE INSTITUTE

AF5—FINANCIAL PLANNING PROCESS

FACT-FIND OCTOBER 2009

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

PART 1: BASIC DETAILS

	Client 1	**Client 2**
Surname	Tomlinson	Peters
First name(s)	Edward	Marie
Address	17 Garden Hill St Albans Hertfordshire	17 Garden Hill St Albans Hertfordshire
Date of birth	12/09/1958	06/05/1964
Domicile	UK	UK
Residence/Ordinary residence	UK	UK
Place of birth	England	England
Marital status	Co-habiting	Co-habiting
State of health	Good	Good
Family health	Good	Good
Smoker?	Yes	No
Hobbies/Interests	Flying (private pilot)	Floristry

Notes:

Edward is a very successful surgeon who combines NHS work with his own private practice. He has recently taken on a younger partner in the practice and expects to gradually hand over the business to him from 2013, with the aim of fully retiring from the NHS and private practice at the age of 60. At that point he is considering leasing a small plane to spend more time flying.

Marie is a salaried partner in a local law firm where she has worked since qualifying. Marie has taken various career breaks to raise the children when they were very young and has recently decided to stop working as a solicitor and fulfil a lifetime ambition to set up in business as a florist. She has completed some formal training courses over the last 18 months and has agreed with her employer that she will leave at the end of December.

Edward and Marie have been living together for over 20 years but have never married and have no intention of getting married. They have three children, Jack, aged 17, William, aged 14 and Emily, aged 13.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Jack	Son	17	18/03/1992	Good		Yes
William	Son	14	02/01/1995	Good		Yes
Emily	Daughter	13	09/06/1996	Good		Yes

Notes:

Jack is currently in his final year at Smithfields secondary school and has several offers to start University in October 2010. William started at Smithfields last September and has a further four years until he completes his A-Levels. Emily started at Smithfields in September.

Jack and William are full-time boarders and the school fees are currently set at £5,100 per pupil per term. Emily is currently a day pupil at Smithfields and her fees are £3,950 per term.

PART 3: EMPLOYMENT DETAILS

	Client 1	Client 2
Employment		
Occupation	Medicine	Law
Job title	Surgeon	Partner
Business name	NHS	Barber & Co
Business address	NHS Trust, London	52 Mill Place, St Albans
Year business started		
Remuneration		
Earnings	£60,000 (NHS)	£72,000
State Pensions		
Overtime		
Benefits		
Benefits-in-kind		
Pension Scheme (see Part 11)		
Life cover		
Private medical insurance		£2,200
Permanent health insurance		
Self Employment		
Net relevant earnings	£210,000	
Accounting date	30/04/2009	
Partnership/Sole trader	Partnership	
Other Earned Income		

Notes:

Edward's full-time equivalent NHS salary is £100,000 gross but is calculated on a pro rata basis as he only works 3 days a week for the NHS. Edward is also in a partnership and his self-employed earnings from that partnership are after all costs but before tax and are for the most recent partnership accounting year. The partnership's profits before tax were £280,000 in the last trading year and Edward is entitled to 75% of the profits. The remaining 25% is distributed to his new junior partner.

Marie's earnings are for the tax year ending 5 April 2009. Marie's employer offers a flexible benefits package and Marie has opted to use all of her allowance to pay for a private medical insurance policy that covers the whole family.

	Client 1	Client 2
Previous Employment		
Previous employer		
Job title		
Length of service		
Pension benefits (see part 11)		

Notes:

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant	P Davis	P Davis
Bank	Seabank	Seabank
Building Society	Eastern Mutual BS	Eastern Mutual BS
Doctor	P Bertram	P Bertram
Estate Agent		
Financial Adviser		
Insurance Agent		
Solicitor		
Stockbroker		
Other		

Notes:

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		Client 2		Joint	
	Monthly	Annually	Monthly	Annually	Monthly	Annually
	£	£	£	£	£	£
State Pensions						
Private Pensions						
Earnings		270,000		72,000		
Benefits-in-kind						
Investment income (gross)						3,080
Rental						
Dividend (net)		5,400				

Notes:
These figures include income from all sources.

	Client 1	Client 2
Income Tax	£	£
Personal allowances	6,475	6,475
Taxable income	271,065	67,065
Tax		
National Insurance		
Net Income		

Notes:

Expenditure

	Monthly			Annually		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
	£	£	£	£	£	£
Household Expenditure						
Mortgage/Rent			4,355			
Council tax			318			
Buildings and contents insurance						2,670
Gas, water and electricity			286			
Telephone			58			
TV licence and satellite			69			
Property maintenance						11,400
Savings						
Savings (See part 10)						
Regular Outgoings						
Life assurance (see part 8)	95	43				
Health insurance (see part 9)						
Savings Plans (see part 10)	310					
Car tax and insurance						1,900
Petrol and fares	195	83				
Loans (see note 1)						
Hire purchase						
School fees						42,450
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			1,490			
Pension contributions (see part 11)						
Other Expenditure						
Magazines and newspapers			120			
Entertainment						7,000
Clubs and sport	110	85				
Spending money						10,000
Clothes				1,200	1,720	
Maintenance						
Other (Holidays)						16,500
Total Monthly Expenditure	710	211	6,696			
Total Annual Expenditure				1,200	1,720	91,920

Notes:

Edward and Marie try to use any surplus income to pay into their pension plans each year.

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

Notes:
Edward and Marie have found suitable premises from which Marie can trade when she starts her floristry business next year. The property is currently on the market for £225,000. They have also anticipated further start up costs of approximately £40,000.

PART 6: ASSETS

	Asset	**Client 1 £**	**Client 2 £**	**Joint £**	**Income (Gross) £**
1.	Main residence			1,320,000	
2.	Contents/car			89,000	
3.	Interest in Partnership (see below)				
4.	Current account - Seabank			42,000	40 pa
5.	High Interest Savings Account – Eastern Mutual Building Society			190,000	3,040 pa
6.	Premium Bonds	28,000	19,000		
7.	Stockbroker portfolio	171,000			6,000 pa
8.	Stocks & Shares ISAs	132,000	119,000		

Notes:
Edward would rather not put a value on his partnership as he expects to continue to take a share of profits until the age of at least 60. He is currently drawing up a suitable exit strategy with his junior partner, which should see Edward retire fully in 9 years time. Edward and Marie have made full use of their Stocks & Shares ISA allowance each year (plus some previous PEP allowances too). They have already made use of their allowance in the current tax year. The ISA portfolio is invested solely in equities in the US and Emerging Markets. Edward's share portfolio is held with a stockbroker in Liverpool. He inherited the portfolio from his father who died three years ago and has not made any changes to it since then. It is entirely invested in UK blue chip shares. The probate value of the portfolio was £243,800. The main residence is held as tenants in common.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			BSD Bank
Type of mortgage			Repayment
Amount outstanding			327,200
Start date			28/02/2007
Term/maturity			Original term 10 years
Monthly payment			4,355
Interest rate			5.19% for 10 years
Life policies (see part 8)			

Notes:
Edward and Marie originally took out a repayment mortgage of £408,000 on their current property in February 2007.

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

Notes:

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 £
Edward	Edward	450,000	95 per month	20	02/97	No	-
Marie	Marie	450,000	43 per month	20	02/97	No	-

Notes:

Edward has life cover through the NHS of two times salary. Marie is a member of a group life arrangement at work, which provides a flat level of protection of £150,000.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £
PMI	Family	N/A	21/03/1994	Annual	N/A	2,200

Notes:

This is a comprehensive PMI policy which covers the whole family and has been arranged by Marie's employer.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
Maximum Investment Plan	Royal Majestic	Edward	UK Equity	310 per month		05/2013	14,298

Notes:

PART 11: PENSION DETAILS

Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme	NHS	Barber & Co
Type of scheme	Final Salary	Group Personal Pension
Date joined	02/08/1981	01/07/1995
Retirement date	Age 60	Age 60
Pension benefits		
Death-in-service	2 x salary	
Dependant's benefits	Widow's pension	
Contracted-in/out	Contracted-out	
Contribution Level (employee)	7.5%	9%
Contribution Level (employer)		8%
Fund type	N/A	Lifestyle
Fund value		£104,400

Notes:

Edward has always been a member of the NHS Pension scheme and is currently contributing to an Added Years contract to ensure that he will have accrued 40 years service at the scheme retirement age of 60. The latest statement that Edward could find from the NHS showed his accrued pension was about £34,000 gross per annum plus a tax-free cash entitlement of £102,000. He has nominated Marie as his beneficiary.

Marie's employer ordinarily contributes 4% of Marie's salary to the Group Personal Pension (GPP). They will also match Marie's contributions up to another 4%. Marie has chosen to invest additional monies into the scheme over the last five years.

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

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

Notes:

Personal Pensions

	Client 1	Client 2
Type	Self-Invested Personal Pension	
Company	Kenwood & Co	
Fund		
Contributions		
Retirement date	Age 60	
Current value	£312,830	
Date started	19/07/1990	

Notes:
Edward started his SIPP when they were first introduced and whenever he has had surplus income he has made a lump-sum contribution to the plan. He has not made any contribution in the current tax year as he believes that they will need to retain cash to help cover their expenditure until Marie's business has started to generate profits. The fund is invested approximately £63,000 in cash and the remainder is invested in a five year guaranteed product, which matures in June 2011. An expression of wish has not been completed.

Previous pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		
Date joined scheme		
Date left		
Preserved benefits		

Notes:

State pension

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

Notes:

PART 12: INHERITANCES

Wills	Client 1	Client 2
Do you have a legal will?	No	Yes

Notes:
Marie made a will through her firm's private client department in 2002. She gifts her estate entirely to Edward. Edward has not made a will.

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

Notes:

Gifts	Client 1	Client 2
Give details of gifts made and received.		

Notes:
Edward's mother died many years ago and when his father died in 2006, Edward was the sole beneficiary of his estate.

Expectations	Client 1	Client 2
Potential inheritance		

Notes:
Marie's parents live nearby and often help out with the children. They are very active and Marie feels that she will not receive any potential inheritance for another 15-20 years. She would be one of two beneficiaries of her parent's estate.

PART 13: ATTITUDE TO RISK

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

Notes:
Edward and Marie are both adventurous risk investors.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	28/09/2009	
IDD and menu issued	28/09/2009	
Data Protection Act	28/09/2009	
Money laundering	28/09/2009	
Consultations		
Dates of meetings	28/09/2009	Introductory Meeting
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested	Yes	

Notes:

PART 15: OTHER INFORMATION

Marie is concerned about the loss of income and benefits when she leaves her job at Barber & Co and sets up her own business.

Edward wants to encourage Marie in setting up her business and provide whatever financial support he can.

AF5

THE CHARTERED INSURANCE INSTITUTE

THURSDAY 22 OCTOBER 2009

ADVANCED DIPLOMA IN FINANCIAL PLANNING
AF5 - FINANCIAL PLANNING PROCESS

SPECIAL NOTICES

- **All tasks in this paper are based on English law and practice applicable in the tax year 2009/2010, unless stated otherwise and should be answered accordingly.**
- **Assume all individuals are domiciled, resident and ordinarily resident in the UK unless stated otherwise.**

INSTRUCTIONS

- **Three hours are allowed for this paper.**
- **Read the instructions overleaf carefully before answering any tasks.**
- Fill in the information requested on the answer book and form B.
- 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 and you must enter the serial number, model and make on the 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.**

THE CHARTERED INSURANCE INSTITUTE

AF5 – Financial planning process

CANDIDATE INSTRUCTIONS

READ INSTRUCTIONS BELOW BEFORE ATTEMPTING THE TASKS

Three hours are allowed for this paper. You should complete **all** parts of each task.

The paper carries a total of 160 marks.

The number of marks allocated to each task is given and you are advised to spend your time in accordance with that allocation.

In this examination you should use the fresh copy of the fact-find. You are not allowed to bring into the examination the pre-released copy of the fact-find.

Any rough notes made in your answer book must be crossed through before you hand it in.

Client objectives are provided overleaf and you should read them carefully before attempting the tasks.

Tax tables are provided at the back of this paper.

Begin each task on a new page and leave six lines blank after each task part.

It is important to show all steps in a calculation, even if you have used a calculator.

Please ensure that you understand the Special Notices printed in the box on the front page.

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

In addition to the information in the fact-find, you have now been able to determine that your clients have the following financial objectives:

Immediate objectives

Marie
- To set up Marie's new business.

Joint
- To maintain their current standard of living and continue funding their children's school fees and future university costs.
- To provide financial security for each other and their children in the event of death/sickness.

Longer-term objectives

Marie
- Continue to secure her own source of income in retirement.

Joint
- To mitigate Inheritance Tax on their estate.

Tasks

1. Identify the key considerations you would need to discuss with Edward and Marie in order to meet their:

(a) immediate financial objectives; **(15)**

(b) longer-term financial objectives. **(12)**

2. Identify the investment risks and describe how they apply to the following investments in Edward and Marie's portfolio:

(a) cash; **(9)**

(b) Individual Savings Accounts (ISAs). **(12)**

3. Marie has decided to set up her business as a limited company. Describe the key benefits of trading in this manner for Marie. **(14)**

4. Edward and Marie are concerned about the impact that disability or premature death could have on their situation.

(a) Comment on their present protection arrangements and identify any weaknesses should either of them suffer a long-term illness. *Ignore any potential Inheritance Tax (IHT) liability*. **(11)**

(b) Comment on their present protection arrangements and identify any weaknesses if Edward were to die first. *Ignore any potential IHT liability*. **(12)**

5. Edward and Marie would like to consider using Edward's self-invested personal pension (SIPP) to purchase Marie's new trading premises.

(a) Without resorting to borrowing, explain how Edward's SIPP can be used to meet this objective. **(7)**

(b) Outline the benefits and drawbacks for Edward and Marie of using Edward's SIPP to purchase Marie's business premises. *Ignore any IHT issues.* **(11)**

6. Detail and justify the recommendations you would make in respect of each of the following financial objectives. *No calculations required.*

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

(a) Set up Marie's new business. *Excluding property purchase*. **(9)**

(b) Maintain current standard of living and continue funding children's education. **(8)**

(c) Provide financial security in the event of death or illness. **(12)**

7. Detail and justify the recommendations you would make in respect of each of the following remaining financial objectives. *No calculations required.*

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

(a) Marie to secure her own source of income in retirement. **(8)**

(b) Mitigate Inheritance Tax (IHT) due on their estate. **(12)**

8. When conducting your annual review, list **eight** areas that you would specifically address with Edward and Marie. **(8)**

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) *Candidates would have gained full marks for any 15 of the following:*

To set up Marie's new business:

- Their views of trading as a sole trader or limited company/does she want to limit her liability?
- When does Marie expect to start trading?
- How long will it be before she starts to generate an income/profit?
- Is there a business plan/cashflow forecast?
- How will they fund the purchase of the trading premises/will they rent or buy?
- How will the start-up costs be funded?

To maintain their current standard of living and continue funding children's school and university fees:

- Are they happy to erode capital initially until Marie's business starts to generate profits?
- Consider opportunities for controlling outgoings/making savings.
- Ascertain the likely income level post start of trading and how/when pay will be taken.
- Estimate of Jack's university costs/how many years will he study?
- Do they think William and Emily will go to University?
- By how much do Smithfields fees increase each year?
- Are Marie's parents willing to help fund education costs?
- Are they willing to redistrubute assets to reduce tax?

To provide financial security for each other and their children in the event of death/sickness:

- In the event of death or illness/disability of either, ascertain the level of income and capital required, and the duration/term.
- Agree budget available to fund premiums/how much will this cost/are they willing to pay for extra cover?
- Partnership provision on death.
- Is Edward willing to make a will?
- Is there a guardianship clause in Marie's will?

(b) *Candidates would have gained full marks for any 12 of the following:*

Marie to secure her own source of income in retirement:

- Level of income needed in retirement.
- Review current pension arrangements.
- Willingness to save more.
- What is her entitlement to State Pension?
- Willingness to use other assets to produce income (ISAs/shares).
- Plans for Marie’s business when she retires.
- When does she want to retire?

To mitigate Inheritance Tax (IHT) on their estate:

- Are they fully aware of the implications of not getting married?
- Why has Edward not made a will?
- Willingness to make provisions now to meet IHT planning need.
- Willingness to make gifts to children.
- Have they made any gifts to date?
- Direction on nomination of death benefits under existing pension plans.
- Would Marie’s parents consider skipping a generation?
- Willingness to put existing policies in trust?

Examiner’s comments on Task 1

This question tested basic fact finding skills and candidates performed well on both parts of this task compared to previous sessions.

Model answer for Task 2

(a) Cash:

- Inflation risk – spending power of cash could be eroded over time.
- Credit/default/provider risk – if Seabank becomes insolvent, all of their joint current account deposits will be protected. If Eastern Mutual Building Society becomes insolvent, only the first £100,000 of their joint deposit will be protected. Cash in the SIPP may not be fully protected.
- Interest rate risk – the rate on cash deposits could fall.
- Taxation/legislation risk – change in legislation may affect tax treatment of deposit interest.

(b) ISAs:

- Market/systemic risk – stock market fall could affect the values of all shares.
- Non-systemic risk – poor management at any company held in the portfolio could adversely affect performance.
- Diversification risk – ISA portfolio is only invested in equities, with no exposure to other asset classes.
- Taxation risk – change in legislation may affect tax benefits of ISAs.
- Currency risk – movements in exchange rates may affect value of the overseas investments.
- Political risk – emerging market equities could suffer from risk of corruption/sudden change in legislation.
- Regulatory risk – emerging market equities could suffer from poor accounting standards/less regulations.
- Liquidity risk – may be difficult to dispose of emerging market equities.

Examiner's comments on Task 2

The majority of candidates achieved high marks in both parts of this task. However, candidates need to remember to apply their knowledge to the specific case study. For example, currency risk would only affect the overseas equities in their portfolio and political and regulatory risks are only likely to affect the emerging market equity component of their portfolio. Those who related the risks specifically to Edward and Marie's portfolio gained high marks.

Model answer for Task 3

- Any set-up costs should be allowable against Corporation Tax.
- As a director, Marie will be employed and will be eligible for certain State benefits if she draws a salary above Lower Earnings Limit (LEL). Her salary level can be between LEL and the Lower Earnings Threshold (LET). This saves National Insurance Contributions (NICs) for Marie and the employer but she receives credit for the State pension/State Second Pension (S2P).
- The balance of the profits can be paid as dividends, which will not attract any further NICs.
- Company has its own identity and reduces her personal liability. It can make higher pension contributions which are tax deductible.

Examiner's comments on Task 3

The majority of candidates identified that Marie could be paid a low salary to save National Insurance, whilst still allowing her to accrue State pension entitlements. However, in order to gain high marks, candidates needed to provide more detail about the exact level of salary.

A few candidates stated that a limited company would help reduce her personal liability and that it could make higher pension contributions than Marie personally. These are two key benefits of trading as a limited company and candidates should ensure that all aspects of incorporation are covered.

Model answer for Task 4

(a)

- If Edward suffered a long term illness they would have an income shortfall/be in financial difficulty.
- Edward would receive some income from the National Health Service (NHS) but this will be insufficient to cover general living expenses.
- Edward may be eligible for ill health early retirement.
- Edward has no income protection for his self-employed/partnership earnings.
- Marie has no income protection.
- Neither Edward nor Marie has any Critical Illness benefits.
- No provision has been made for childcare if either/both fall ill.
- May be eligible for State Benefit but benefits are minimal.
- When Marie stops work, the family's private medical insurance will need to be reviewed.

(b)

- Marie will receive an NHS widow's pension and death in service lump sum. The children will receive a dependant's pension but this will be insufficient to maintain the family's current standard of living.
- Edward has not completed an expression of wish for his self-invested personal pension scheme (SIPP). The direction of the proceeds will be at the discretion of the Trustees.
- As the family home is held as tenants in common, Marie will continue to own half of the property.
- Joint accounts would transfer to Marie's name absolutely.
- Edward's life cover of £450,000 would be paid to his estate.
- Edward has not made a will therefore would die intestate.
- As he is not married to Marie but they have children, the proceeds of Edward's estate would be held on trust for their children. Marie would therefore not inherit any of Edward's estate/the children would receive the entire estate.
- No formal arrangements appear to have been made regards the partnership on Edward's death.
- Marie will lose the benefits she currently receives from her employer.

Examiner's comments on Task 4

Most candidates achieved marks in part (a) by identifying the lack of basic protection held by both individuals, but only a few candidates gained the additional marks by going further and recognising that State benefits were minimal and no provision had been made for childcare.

In part (b), the majority of candidates were able to identify the benefits that would be payable by the NHS and that these would be insufficient for Marie. However, many candidates appeared confused by the intestacy rules and did not comment on what would happen to the property, joint bank accounts and Edward's partnership on his death.

Model answer for Task 5

(a)
- SIPP can use existing cash holding to help fund the purchase/SIPP fund exceeds the purchase price of the property.
- Guaranteed fund may have exit penalty/not accessible before maturity date.
- Insufficient liquid funds for purchase.
- Edward could make an additional contribution in the current tax year to provide further liquid funds to help property purchase.
- As Edward earns over £150,000 gross and is likely to have done so in the previous two tax years, any personal pension contribution might only attract basic rate tax relief.
- Contribution can be funded using cash from joint deposit account and/or sale of Premium Bonds/Stockbroking portfolio.

(b)
- Property is illiquid.
- Income is needed for retirement/ must pay an income from age 75 so either property must be sold to provide income, or other funds need to be used to meet income requirements, or rental income must cover income requirements.
- Must be sufficient liquid assets to provide tax free lump sum if required.
- Marie's business may encounter difficulties and may be unable to pay rent. As Edward's SIPP holds the property asset, this can have a negative impact on their joint retirement plans.
- By placing the premises into Edward's pension, Marie is foregoing the increase in capital value and income in her own name.
- Lack of diversification as majority of pension fund will be held in property.
- Marie's business will pay commercial rent to Edward's SIPP, which is tax-free in the SIPP.
- Rent can provide an income stream when Edward does finally retire.
- Future growth in the value of the premises is free of Capital Gains Tax (CGT).
- Creditors will not be able to make a claim on the property if Marie's business fails.
- Edward will effectively obtain tax relief on part of the property purchase price/meets Edward's objectives of providing financial support to Marie.

Examiner's comments on Task 5

In part (a), the majority of candidates identified that the SIPP funds exceeded the property purchase price and that selling the Guaranteed fund may give rise to penalties. Candidates also recognised that Edward could make a contribution to provide further funds, but did not then go on to explain how that contribution could be funded or that the anti-forestalling rules could restrict the tax relief on that contribution. Candidates should ensure their answers reflect the number of marks on offer.

In part (b), candidates did not provide sufficient detail, with many candidates missing the points relating to creditors, lack of diversification and what would happen when Edward needed income or tax free cash from his fund.

Model answer for Task 6

(a)
- Seek professional/legal and taxation/accountancy advice.
- Seek advice on share classes and shareholding.
- Marie's salary should be between the lower earnings level and the lower earnings threshold to save National Insurance Contributions (NICs) for employer and employee.
- The balance of profits can be drawn as dividends so the company would make a saving on NICs for employee and employer.

(b)
- In the short term, draw on cash deposits to fund shortfall in income rather than stockbroking portfolio as showing a loss or ISAs/Premium Bonds as this removes capital from a tax efficient environment.
- They should use proceeds from the maximum investment plan (MIP) at maturity to fund future fees as this will not increase current expenditure.
- Convert the ISA to income producing funds.
- Transfer assets to Marie to reduce tax/this will increase income.
- Private health insurance/Critical Illness cover or life cover to be effected to enable school fee costs to be met in the event of illness or death.
- Review expenditure items to ensure value for money.

(c)
- Edward should effect income protection insurance cover on his self employed earnings.
- Edward should take out additional life cover to meet income shortfall and place the policy in trust.
- They should effect their own critical illness policy now to at least cover liabilities.
- Marie should effect income protection insurance cover based on projected income.
- Effect private medical insurance (PMI) cover for family.
- Edward should make a will to ensure Marie's financial security and should appoint guardians for the children.
- Expression of wish should be completed on Edward's self-invested personal pension scheme (SIPP).
- Effect business protection on Edward's partnership/Marie's new business.
- Put existing protection policies in trust for the benefit of Marie.

Examiner's comments on Task 6

Many candidates achieved high marks in part (a), although some candidates did not provide sufficient detail to achieve maximum marks. For example, many candidates stated that taking a low salary and dividends would save National Insurance. Stating the exact nature of the saving, both employee and employer National Insurance, would have generated further marks.

In part (b), candidates generally only achieved half of the marks available as many missed the fact that Edward and Marie would need to draw on capital whilst Marie's business was in its infancy and that the MIP could be used to fund future fees.

In part (c), most candidates did not achieve high marks as many did not provide sufficient detail. For example, Edward and Marie should effect a Critical Illness policy to at least cover their liabilities and Edward should effect an income protection policy on his self employed earnings. Providing that extra level of detail would have helped candidates to secure higher marks.

Model answer for Task 7

(a)
- Review performance of Marie's existing group personal pension.
- Arrange for Marie's company to contribute to pension scheme on her behalf.
- Employer contributions are treated as a trading expense, so company should gain Corporation Tax relief against its contributions.
- Marie should investigate the possibility of her pension purchasing a trading premises as rental income will be tax free and future gain free of Capital Gains Tax (CGT) on disposal.
- Both Edward and Marie should continue to utilise their ISA allowances to provide income/capital at retirement.

(b)
- Edward/Marie should place the death benefits of the existing pension plans in a trust or make nominations to remove the proceeds from the estate.
- Existing life policies should be put into a discretionary trust for the children and/or each other to take the proceeds out of estate.
- Marie should discuss with her parents the possibility of gifting that skips a generation to avoid any increase in Marie's estate.
- Edward and Marie should set up single life, whole of life cover plans to meet Inheritance Tax (IHT) liabilities on either death. These plans should be placed in a discretionary trust.
- Premiums should be classed as normal expenditure/part of annual gift allowance.
- Make use of annual gift exemptions.

Examiner's comments on Task 7

Part (a) was well answered, with the majority of candidates gaining high marks.

Part (b), was not well answered, although many candidates recommended the use of trusts for life policies and nominations for pensions, they did not go on to say that doing so would remove the proceeds from the estate. Many candidates also incorrectly stated that a joint life, whole of life plan would be suitable to pay the Inheritance Tax (IHT) due on death. In this case study, the clients are not married and candidates should be mindful of how this affects the planning options available.

Model answer for Task 8

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

- Views on marriage.
- Trading profits for Marie/Edward.
- Use of Capital Gains Tax, ISA or Pension allowances.
- Levels of expenditure and school fees.
- State of health of Edward and Marie.
- Outstanding mortgage balance.
- Maturity/change/value of any investment.
- Changes in legislation.
- Changes to beneficiaries/executors in will.
- Changes to risk profile.
- Change in family circumstances, death of Marie's parents or inheritances.
- Review progress against objectives.
- Exit strategy for Edward.

Examiner's comments on Task 8

Many candidates achieved maximum marks for this question and on the whole candidates were able to gain high marks due to the wide range of possible answers.

All questions in the April 2010 paper will be based on English law and practice applicable in the tax year 2009/2010, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are those that were used in the October 2009 examination. The April 2010 examination will use the published 2009/2010 Tax Tables which can be found on the CII website.

TAX TABLES

INCOME TAX RATES

2009/2010		2008/2009	
Rate	**Band**	**Rate**	**Band**
%	**£**	**%**	**£**
10	1 - 2,440*	10	1 – 2,320*
20	1 – 37,400	20	1 – 34,800
40	Over 37,400	40	Over 34,800

* A new 10% starting rate is applied for savings income only from 06.04.2008. Only applicable where non-savings income after allowances is under £2,440 for 2009/2010.

NATIONAL INSURANCE CONTRIBUTIONS

2009/2010 Rates

Class 1 Employee	**Weekly**	**Monthly**	**Yearly**
	£	**£**	**£**
Lower Earnings Limit (LEL)	95	412	4,940
Upper Earnings Limit (UEL)	844	3,656	43,875
Upper Accruals Point	770	3,337	40,040

	Class 1 Employee contributions 2009/2010	
Total earnings £ per week	**Contracted-in rate**	**Contracted-out rate**
	%	**%**
Up to 110.00*	Nil	Nil
110.01 – 770.00	11	9.4
770.01 – 844.00	11	11
Above 844.00	1	1

	Class 1 Employer contributions 2009/2010		
Total earnings £ per week	**Contracted-in rate**	**Contracted-out rate**	
		Final salary	Money purchase
	%	**%**	**£**
Below 110.00**	Nil	Nil	Nil
110.01 – 770.00	12.8	9.1	11.4
770.01 – 844.00	12.8	12.8	12.8
Excess over 844.00	12.8	12.8	12.8

* This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £95 per week. This £95 to £110 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

** Secondary earnings threshold.

Class 2 (self-employed)	Flat rate per week £2.40 where earnings exceed £5,075 per annum.
Class 3 (voluntary)	Flat rate per week £12.05
Class 4 (self-employed)	8% on profits between £5,715 - £43,875 plus 1% on profits above £43,875

INCOME TAX RELIEFS

	2009/2010 £	2008/2009 £
Personal (basic)	6,475	6,035
Personal (age 65-74)	9,490	9,030
Personal (aged 75 and over)	9,640	9,180
Married/civil partners (minimum) at 10% †	2,670	2,540
Married/civil partners (age under 75) at 10% †	N/A	6,535
Married/civil partners (age 75 and over) at 10%	6,965	6,625
Age-related relief reduced by 50% of income over	22,900	21,800
Child Tax Credit (CTC)		
family element	545	545
family element baby addition	545	545
CTC usually reduced by 6.67% of joint income over	50,000	50,000
Blind person's allowance	1,890	1,800
Enterprise Investment Scheme relief limit @ 20%	500,000	500,000
Venture Capital Trust relief limit @ 30%	200,000	200,000

† where at least one spouse/civil partner was born before 6 April 1935

PENSIONS

Lifetime Allowance		Annual Allowance	
2006/2007	£1.5 million	2006/2007	£215,000
2007/2008	£1.6 million	2007/2008	£225,000
2008/2009	£1.65 million	2008/2009	£235,000
2009/2010	£1.75 million	2009/2010	£245,000
2010/2011	£1.8 million	2010/2011	£255,000

Notional Earnings Cap

£123,600 – (For schemes that require post 1989 benefits to be still subject to a cap)

Annual allowance charge

40% member's tax charge on the amount of total pension input in excess of the annual allowance.

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.

CAR AND FUEL BENEFITS

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 2009/2010:
The percentage charge is 15% of the car's list price for CO_2 emissions at or below the qualifying level of 135g/km.
The base percentage charge of 15% increases in 1% steps for every additional full 5g/km over the 135g/km threshold, up to a maximum of 35% of the car's list price.
A lower percentage charge of 10% of the car's list price applies for emissions at or below 120g/km.

If price of car exceeds £80,000 then its price for tax purposes will be fixed at £80,000.

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards or registered after 31 December 2005. However, the maximum charge remains 35% 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 (£16,900 for 2009/2010) e.g. car emission 160g/km = 20% on car benefit scale. 20% of £16,900 = £3,380.

Notes:

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 Contributions (Class 1A) of 12.8%.

PRIVATE VEHICLES USED FOR WORK

2009/2010 rates

Cars	
On the first 10,000 business miles in tax year	40p per mile
Each business mile above 10,000 business miles	25p per mile
Motor Cycles	24p per mile
Bicycles	20p per mile

INHERITANCE TAX

	2009/2010	2008/2009
Nil-rate band*	£325,000	£312,000
Rate of tax on excess	40%	40%
Lifetime transfers to and from certain trusts	20%	20%
Overseas domiciled spouse/civil partner exemption	£55,000	£55,000

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
% of death charge	100	80	60	40	20
Annual exempt gifts	£3,000 per donor			£250 per donee	

* From 8 October 2007 up to 100% of the unused proportion of a deceased spouse's/civil partner's nil-rate band can be claimed on the surviving spouse's/civil partner's death.

MAIN SOCIAL SECURITY BENEFITS

		From 06.04.09 £	From 06.04.08 £
Child Benefit	first child	20.00	20.00*
	subsequent children	13.20	13.20*
Incapacity Benefit	short-term lower rate**	67.75	63.75
	short-term higher rate**	80.15	75.40
	long-term rate	89.80	84.50
Attendance Allowance	lower rate	47.10	44.85
	higher rate	70.35	67.00
Retirement Pension	single	95.25	90.70
	married	152.30	145.05
Pension Credit	single person standard minimum guarantee	130.00	124.05
	married couple standard minimum guarantee	198.45	189.35
	maximum savings ignored in calculating income	6,000	
	increased from November 2009	10,000	
Bereavement Benefit (lump sum)		2,000.00	2,000.00
Widowed Parent's allowance		95.25	90.70
Jobseekers Allowance		64.30	60.50

* From 5 January 2009
** Under State Pension Age

VALUE ADDED TAX

Standard rate	15%*/17.5%**
Annual registration limit - from 1 May 2009	£68,000

* Effective from 1 December 2008
** Effective from 1 January 2010

CORPORATION TAX

Financial Year	**2009** to 31/3/10	**2008** to 31/3/09
Full rate	28%	28%
Small companies rate	21%	21%
Small companies limit	£300,000	£300,000
Effective marginal rate	29.75%	29.75%
Upper marginal limit	£1,500,000	£1,500,000

CAPITAL ALLOWANCES

Plant & machinery 100% annual investment allowance (first year)			£50,000
Plant & machinery in excess of annual investment allowance (first year)			40%
Plant & machinery, patent rights, know-how (reducing balance) per annum			20%
Certain long-life assets, integral features of buildings (reducing balance) per annum			10%
Industrial & agricultural buildings (straight line)			2%
Energy & water-efficient investments			100%
Qualifying flat conversions & business premises renovations			100%
Motor cars:	with emissions in excess of 160g/km		10%
	generally		20%*
	with CO2 emissions of 110g/km or less		100%
Research & Development:	Capital expenditure		100%
	Revenue expenditure	- small/medium-size firms	175%
		- large firms	130%

* Maximum £3,000

CAPITAL GAINS TAX

Exemptions		**2009/2010**	**2008/2009**
Individuals, estates etc		£10,100	£9,600
Trusts generally		£5,050	£4,800
Chattels proceeds (5/3 excess gain is taxable)		£6,000	£6,000
Rates	Individuals	18%	18%
	Trusts and estates	18%	18%

ENTREPRENEURS' RELIEF

Entrepreneurs' Relief 2009/2010
4/9^{ths} of gain tax free. Lifetime limit eligible for relief: £1,000,000
For trading businesses and companies (minimum 5% employee shareholding) held for 1yr+