



Chartered  
Insurance  
Institute

# AF5

## Advanced Diploma in Financial Planning

### Unit AF5 – Financial planning process

April 2018 examination

#### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2017/2018, 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.**

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## 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 review the tax-efficiency of David and June's current pensions and investments.
- To purchase a holiday home within the next year.
- To gift a lump sum of £400,000 to David's daughter.

### Longer-term objectives

- To ensure that David and June's estates pass to their intended beneficiaries on second death.
- To mitigate any potential Inheritance Tax liability.
- To set-up a suitable savings strategy to assist with university costs for their grandchildren.

**Attempt ALL tasks**

**Time: 3 hours**

1.
  - (a) Identify the additional information a financial adviser would require to advise David and June on the suitability of their current pension arrangement. **(14)**
  - (b) Explain to David why his holding in National Savings & Investments Income Bonds is suitable for the proceeds of the sale of his property in the short-term. **(8)**
  
2. In respect of David and June's pension arrangements:
  - (a)
    - (i) Recommend and justify why David should consider reducing the monthly income withdrawals from his self-invested personal pension. **(10)**
    - (ii) Explain to David how his pension benefits will be tested against the lifetime allowance and how they may be taxed when he reaches age 75. *(No calculation is required).* **(7)**
  - (b) Recommend and justify why David should consider drawing his State Pension now. **(8)**
  - (c) Explain briefly to June why she should consider using her personal pension plan to purchase a lifetime annuity on a single life basis. **(10)**

*Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their client's objectives.*
  
3. Recommend and justify why David should consider retaining his existing level term life assurance policy. **(8)**

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

**QUESTIONS CONTINUE OVER THE PAGE**

4. With regard to David's Investment Bond:
- (a) Explain to David why the Multi-Asset Fund may be suitable for his attitude to risk. (8)
- (b) Recommend and justify why David should retain the Investment Bond for the foreseeable future. (12)

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

5. David holds a portfolio of Global Equity Investment Trusts which he inherited from a late uncle.
- State **six** benefits and **six** drawbacks for David if he retains the Investment Trust portfolio. (12)

6. (a) Explain briefly to David and June:
- (i) the reasons why their existing Wills may be unsuitable; (5)
- (ii) the key duties of an executor of a Will. (7)
- (b) Recommend and justify a range of actions that David and June could take to mitigate their potential Inheritance Tax liability and to ensure that their estates pass to their intended beneficiaries. (*Candidates should assume that no changes are made to the current ownership of their home*). (14)
- (c) David is considering gifting £400,000 to his daughter in the near future.

Recommend and justify how David could use a gift inter vivos policy to mitigate any potential Inheritance Tax liability on this gift. (10)

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

7. David and June wish to set up regular payments into Junior ISAs for their grandchildren to help to fund their future university fees.
- (a) State how the Junior ISAs must be set up in the first instance. (5)
  - (b) Explain in detail to David and June why using a range of UK Equity Income funds could be suitable to generate a lump sum at age 18 for both grandchildren. (10)
  - (c) Comment briefly on the drawbacks for David and June if they choose to invest in Junior ISAs for their grandchildren. (5)
8. State **seven** issues that an adviser should discuss with David and June in respect of Inheritance Tax planning at their next review meeting. (7)

The tax tables can be found on pages 9 – 17



**INCOME TAX**

<b>RATES OF TAX</b>	<b>2016/2017</b>	<b>2017/2018</b>
Starting rate for savings*	0%	0%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	45%	45%
Starting-rate limit	£5,000*	£5,000*
Threshold of taxable income above which higher rate applies	£32,000	£33,500
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
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\*not applicable if taxable non-savings income exceeds the starting rate band.

Dividend Allowance		£5,000
Dividend tax rates		
Basic rate		7.5%
Higher rate		32.5%
Additional rate		38.1%

Trusts

Standard rate band		£1,000
Rate applicable to trusts		
- dividends		38.1%
- other income		45%

**MAIN PERSONAL ALLOWANCES AND RELIEFS**

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic)	£11,000	£11,500
Married/civil partners (minimum) at 10% †	£3,220	£3,260
Married/civil partners at 10% †	£8,355	£8,445
Transferable tax allowance for married couples/civil partners	£1,100	£1,150
Income limit for age-related allowances †	£27,700	£28,000
Rent a Room relief	£4,250	£7,500
Blind Person's Allowance	£2,290	£2,320
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000 max	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%

§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).

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

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,780	£2,780
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,105	£16,105

## NATIONAL INSURANCE CONTRIBUTIONS

### Class 1 Employee Weekly

Lower Earnings Limit (LEL)	£113
Primary threshold	£157
Upper Earnings Limit (UEL)	£866

### Total earnings £ per week CLASS 1 EMPLOYEE CONTRIBUTIONS

Up to 157.00*	Nil
157.01 – 866.00	12%
Above 866.00	2%

*\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £113 per week. This £113 to £157 band is a zero-rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. the new State Pension.*

### Total earnings £ per week CLASS 1 EMPLOYER CONTRIBUTIONS

Below 157.00**	Nil
157.01 – 866.00	13.8%
Excess over 866.00	13.8%

*\*\* Secondary earnings threshold.*

<b>Class 2 (self-employed)</b>	Flat rate per week £2.85 where profits exceed £6,025 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £14.25.
<b>Class 4 (self-employed)</b>	9% on profits between £8,164 - £45,000. 2% on profits above £45,000.

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE
2006/2007	£1,500,000
2007/2008	£1,600,000
2008/2009	£1,650,000
2009/2010	£1,750,000
2010/2011	£1,800,000
2011/2012	£1,800,000
2012/2013	£1,500,000
2013/2014	£1,500,000
2014/2015	£1,250,000
2015/2016	£1,250,000
2016/2017	£1,000,000
2017/2018	£1,000,000

### 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.

### ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2011/2012	£50,000
2012/2013	£50,000
2013/2014	£50,000
2014/2015	£40,000
2015/2016	£40,000~
2016/2017	£40,000*
2017/2018	£40,000*

~ increased to £80,000 for pension input between April - 8 July 2015. If not used, can be carried forward to pension input period of 9 July 2015 - 6 April 2016, subject to a maximum of £40,000.

\*tapered at a rate of £1 for every £2 of adjusted income in excess of £150,000 where threshold income exceeds £110,000.

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017	2017/2018
	£10,000	£4,000

### ANNUAL ALLOWANCE CHARGE

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

## CAPITAL GAINS TAX

EXEMPTIONS	2016/2017	2017/2018
Individuals, estates etc	£11,100	£11,300
Trusts generally	£5,550	£5,650
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

### TAX RATES

Individuals:		
Up to basic rate limit	10%	10%
Above basic rate limit	20%	20%
Surcharge for residential property and carried interest	8%	8%
Trustees and Personal Representatives	20%	20%
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

	2016/2017	2017/2018
Transfers made on death after 5 April 2015		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers made after 5 April 2015		
- Lifetime transfers to and from certain trusts	20%	20%

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

### MAIN EXEMPTIONS

Transfers to		
- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000	£325,000
- main residence nil rate band*	£100,000	£100,000
- UK-registered charities	No limit	No limit

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

Lifetime transfers		
- Annual exemption per donor	£3,000	£3,000
- Small gifts exemption	£250	£250

Wedding/civil partnership gifts by		
- parent	£5,000	£5,000
- grandparent/bride and/or groom	£2,500	£2,500
- other person	£1,000	£1,000

100% relief: businesses, unlisted/AIM companies, certain farmland/building

50% relief: certain other business assets

Reduced tax charge on gifts within 7 years of death:					
- Years before death	0-3	3-4	4-5	5-6	6-7
- Inheritance Tax payable	100%	80%	60%	40%	20%

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

## CAR BENEFIT FOR EMPLOYEES

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

### For 2017/2018:

- The percentage charge is 9% of the car's list price for CO<sub>2</sub> emissions of 50g/km or less.
- For cars with CO<sub>2</sub> emissions of 51g/km to 75g/km the percentage is 13%.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 17%.
- Cars with CO<sub>2</sub> emissions of 95g/km have a percentage charge of 18% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

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

**Car fuel** The benefit is calculated as the CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£22,600 for 2017/2018) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,600 = £3,842.

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

	2016/2017 Rates	2017/2018 Rates
<b>Cars</b>		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
<b>Motor Cycles</b>	24p per mile	24p per mile
<b>Bicycles</b>	20p per mile	20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

2016/2017 2017/2018

Plant & machinery (excluding cars) 100% annual investment allowance (first year)		£200,000	£200,000
Plant & machinery (reducing balance) per annum		18%	18%
Patent rights & know-how (reducing balance) per annum		25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum		8%	8%
Energy & water-efficient equipment		100%	100%
Zero emission goods vehicles (new)		100%	100%
Qualifying flat conversions, business premises & renovations		100%	100%
<b>Motor cars:</b> Expenditure on or after 01 April 2016 (Corporation Tax) or 06 April 2016 (Income Tax)			
CO <sub>2</sub> emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

*\*If new*

MAIN SOCIAL SECURITY BENEFITS		2016/2017	2017/2018
		£	£
Child Benefit	First child	20.70	20.70
	Subsequent children	13.70	13.70
	Guardian's allowance	16.55	16.70
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 57.90	Up to 57.90
	Aged 25 or over	Up to 73.10	Up to 73.10
	Main Phase		
	Work Related Activity Group Support Group	Up to 102.15 Up to 109.30	Up to 102.15 Up to 109.65
Attendance Allowance	Lower rate	55.10	55.65
	Higher rate	82.30	83.10
basic State Pension	Single	119.30	122.30
	Married	190.80	195.60
new State Pension	Single	155.65	159.55
Pension Credit	Single person standard minimum guarantee	155.60	159.35
	Married couple standard minimum guarantee	237.55	243.25
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment Support Payment*		2,000.00	2,000.00
Higher rate - lump sum		N/A	3,500.00
Higher rate - monthly payment		N/A	350.00
Standard rate – lump sum		N/A	2,500.00
Standard rate – monthly payment		N/A	100.00
Jobseekers Allowance	Age 18 - 24	57.90	57.90
	Age 25 or over	73.10	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58	140.98
<i>Only applicable where spouse or civil partner died on or after 6 April 2007*</i>			



**CORPORATION TAX**

	2016/2017	2017/2018
Standard rate	20%	19%

**VALUE ADDED TAX**

	2016/2017	2017/2018
Standard rate	20%	20%
Annual registration threshold	£83,000	£85,000
Deregistration threshold	£81,000	£83,000

**STAMP DUTY LAND TAX**

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 and £925,000	5%
£925,001 and £1,500,000	10%
£1,500,001 and over	12%

*Stamp Duty Land Tax (SDLT) is payable in England, Wales and Northern Ireland only. Land and Buildings Transaction Tax (LBTT) is payable in Scotland at different rates to the above.*

*Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*

*SDLT is charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons.*

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

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