



**AF5**

THE CHARTERED  
INSURANCE INSTITUTE

**ADVANCED DIPLOMA IN FINANCIAL PLANNING**

**AF5—FINANCIAL PLANNING PROCESS**

**EXAMINATION GUIDE  
APRIL 2010 EXAMINATION**

**SPECIAL NOTICE**

Candidates entered for the October 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**

<b>Important guidance for candidates .....</b>	<b>3</b>
<b>Examiner comments .....</b>	<b>9</b>
<b>Fact-find .....</b>	<b>12</b>
<b>Question paper.....</b>	<b>25</b>
<b>Model answers.....</b>	<b>30</b>
<b>Tax tables.....</b>	<b>38</b>

*All questions in the October 2010 paper will be based on English law and practice applicable in the tax year 2010/2011, unless stated otherwise and should be answered accordingly.*

**© The Chartered Insurance Institute 2010**

# 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](http://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](http://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.

Each question should be answered separately, without reference to other questions being asked in the case study.

## **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.



## EXAMINER COMMENTS

The April 2010 paper covered a wide range of financial planning issues within the context of the financial planning process. It was encouraging to see that candidates performed better in the early fact finding sections of the paper when compared to previous sittings. Technical knowledge of Business Property Relief (BPR) and domicile was not always applied to the case study.

Candidates demonstrated a lack of technical knowledge surrounding small self-administered schemes (SSAS) and the planning options available for the clients in question, which resulted in low marks in the recommendation sections of the paper. To achieve high marks in this paper, candidates had to prepare in advance, provide sufficient detail in their answers to match the marks on offer and link their knowledge to the specific case study.

### **Task 1**

This task tested basic fact finding skills and candidates performed well. The key area that was not explored in sufficient detail was how Terry could achieve his exit from WRS Manufacturing Ltd, and candidates should have identified that further information was needed on the company's ability to buy back the shares and what Terry's plans were for the warehouse. A minority of candidates are still providing recommendations in their answers for this task, instead of identifying key considerations for meeting the clients' objectives.

### **Task 2**

Overall, this task was well answered by most candidates, with the majority of candidates gaining high marks in part (b). In part (a), many candidates failed to link their technical knowledge to the case study and few candidates explained how the application of BPR would be different depending on which of the two clients died first.

### **Task 3**

Candidates generally performed well in part (a) of this task, although some of the less obvious answers, such as the risk of BPR being withdrawn, only featured in a few of the candidates' answers.

Part (b) was less well answered as most candidates only identified the illiquid nature of unquoted shares so did not achieve the other marks available. Candidates need to remember to apply their knowledge to the specific case study. For example, if WRS Manufacturing Ltd became insolvent, Terry would no longer receive dividends and his shares would most likely be worthless. Candidates who simply stated non-systemic risk in their answers would not have achieved the marks.

#### **Task 4**

In part (a), candidates generally did not provide sufficient detail to achieve maximum marks. Although many candidates linked their answers to the case study, specific detail on the exact nature of the taxation was not included. For example, many stated that any gain made on encashment of the bond would be taxed, but did not state that the gain was assessed against Income Tax.

In part (b), although many candidates achieved marks for highlighting that Entrepreneur's Relief could help to reduce the gain on Terry's WRS Manufacturing Ltd shares, insufficient detail was provided with regards to how this would actually work. Answers also did not correctly identify that it was only on gains of up to £1,000,000 during an individual's lifetime where a lower rate of tax could be achieved.

#### **Task 5**

Part (a) of this task was reasonably well answered, although the majority of candidates did not highlight that the SSAS could lend money to WRS Manufacturing Ltd to facilitate a share buyback and the company itself could buy back some of the shares.

In part (b), a large proportion of candidates identified that the SSAS funds exceeded the property purchase price, the transaction would need to be completed on a commercial basis and that the existing funds could be used to facilitate the purchase, subject to exit penalties. However, most candidates did not recognise that WRS Manufacturing Ltd could make a contribution to provide further funds, which would subsequently be treated as a trading expense.

Few candidates demonstrated that the SSAS borrowing rules had been well researched and achieved lower marks in this part of the task.

#### **Task 6**

This task was not well answered by the majority of candidates as insufficient detail was provided and many candidates did not justify their recommendations. When making recommendations to Terry and Beryl, candidates must provide relevant justification for their proposed course of action. For example, in part (a), placing assets in Beryl's name would provide her with greater financial security, as this would avoid the delays associated with probate.

In part (b), the majority of candidates provided recommendations for either an annuity purchase or unsecured pension. Few candidates stated that phasing retirement benefits could meet their objectives and even fewer candidates highlighted scheme pension as an option.

Higher marks were gained in part (c), although candidates must remember to provide sufficient detail. For example, any whole of life policy used to help pay the remaining Inheritance Tax liability should be placed in a discretionary trust and include indexing. The most common omission in candidates' answers for this part of the task was how a Loan Trust could be used to meet their objectives.

### **Task 7**

The majority of candidates achieved high marks in this task, but some basic errors were made. For example, candidates stated that Stakeholder Pensions and Child Trust Funds would be suitable investments for funding secondary education costs. As these accounts would not be accessible until age 55 and age 18 respectively, this was not a valid solution.

In part (b), the most common omissions were to not place the Maximum Investment Plan and Unit Trust/OEIC regular savings plans in a bare trust.

Part (c) was not well answered by the majority of candidates, many recommended deposit accounts or National Savings and Friendly Society plans. Using regular savings plans via Unit Trusts/OEICs or via Maximum Investment Plans would provide the best balance of tax efficiency and investment flexibility to meet the clients' objectives.

### **Task 8**

This question has been examined in a similar format in past papers and many candidates achieved high marks in both parts. It was still important to relate the specifics of the case study to the answers and in part (a), some candidates did not mention that a review would be recommended following the disposal of the warehouse or the sale/transfer of WRS Manufacturing Ltd shares.

**THE CHARTERED INSURANCE INSTITUTE**

**AF5—FINANCIAL PLANNING PROCESS**

**FACT-FIND – APRIL 2010**

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 & Mrs Matthews recently.

**PART 1: BASIC DETAILS**

	<b>Client 1</b>	<b>Client 2</b>
Surname	Matthews	Matthews
First name(s)	Terry	Beryl
Address	Treetops Long Lane Staines	Treetops Long Lane Staines
Date of birth	10/08/1947	21/05/1951
Domicile	UK	UK
Residence/Ordinary residence	UK	UK
Place of birth	England	England
Marital status	Married	Married
State of health	High blood pressure controlled by tablets (daily)	Good
Family health	Father and older brother died of heart attack in early 60s	Good
Smoker?	Yes	No
Hobbies/Interests	Spanish History	Walking

**Notes:**

Terry is the managing director of WRS Manufacturing Ltd, a small firm based at Heathrow airport, which he set up over 20 years ago. Terry recently visited the doctor and was diagnosed with a serious heart problem and has been taking medication to control his blood pressure for several years. His doctor has advised him that he should stop smoking immediately and seriously consider retiring.

Beryl works part-time on a voluntary basis in the local charity shop and wants Terry to give up work so that they can spend more time together in retirement. She is also keen to explore the possibility of making a permanent move to Spain as the quality of life might prove beneficial for Terry's health.

## PART 2: FAMILY DETAILS

### Children and other dependants

Name	Relationship	Age	D.O.B	Health	Occupation	Financially dependent?
Sophie Tomlinson	Daughter	31	01/01/1979	Good	Veterinary Nurse	No

#### Notes:

Sophie is currently on maternity leave as she is expecting her first child in May. She lives in London and is married to John, who is a Marketing Consultant.

### PART 3: EMPLOYMENT DETAILS

	Client 1	Client 2
<b>Employment</b>		
Occupation		
Job title	Managing Director	
Business name	WRS Manufacturing Ltd.	
Business address	Heathrow	
Year business started	August 1988	
<b>Remuneration</b>		
Earnings	£51,200	
State Pensions		
Overtime		
<b>Benefits</b>		
Benefits-in-kind	No	
Pension Scheme (see Part 11)	Yes	
Life cover	No	
Private medical insurance	No	
Permanent health insurance	No	
<b>Self Employment</b>		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
<b>Other Earned Income</b>		

#### Notes:

Terry owns 50% of WRS, a trading company, and his brother, Max, owns the other 50%. Max is six years younger than Terry and has no intentions of retiring in the near future. Terry has been discussing how best to hand over the running of the company to Max and what to do with his shareholding. He is keen to make a "clean break" when he retires, so that he divests any assets that are related to the company.

	Client 1	Client 2
<b>Previous Employment</b>		
Previous employer	Warmup	
Job title	Engineer	
Length of service	24	
Pension benefits (see part 11)	Yes	

<b>Notes:</b>
Terry took his apprenticeship at Warmup when he left school. He left there to set up WRS Manufacturing in 1988.

#### **PART 4: OTHER PROFESSIONAL ADVISERS**

	Client 1	Client 2
Accountant		
Bank	SDL Bank	SDL Bank
Building Society		
Doctor	R Cross	R Cross
Estate Agent		
Financial Adviser		
Insurance Agent		
Solicitor	Willis Slater	Willis Slater
Stockbroker		
Other		

<b>Notes:</b>

## PART 5: INCOME AND EXPENDITURE

### Income

	Client 1		Client 2		Joint	
	Monthly £	Annually £	Monthly £	Annually £	Monthly £	Annually £
State Pensions						
Private Pensions						
Salary		9,000				
Benefits-in-kind						
Investment income (gross)						1,396
Rental (gross)	1,225					
Dividend (net)		42,200				

#### Notes:

These figures include income from all sources. Terry takes a salary of £9,000 from WRS Manufacturing and the remainder of his income is taken as an annual dividend. His last dividend was in January this year for a sum of £42,200. The rental income is derived from a commercial property that Terry owns. (See Later)



## Expenditure

	Monthly			Annually		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
	£	£	£	£	£	£
<b>Household Expenditure</b>						
Mortgage/Rent						
Council tax			181			
Buildings and contents insurance						953
Gas, water and electricity			151			
Telephone			32			
TV licence and satellite			63			
Property maintenance						1,100
<b>Savings</b>						
Savings (See part 10)						
<b>Regular Outgoings</b>						
Life assurance (see part 8)						
Health insurance (see part 9)						
Savings Plans (see part 10)						
Car tax, insurance and maintenance						1,495
Petrol and fares	131	59				
Loans (see note 1)						
Hire purchase						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			1,195			
Pension contributions (see part 11)						
<b>Other Expenditure</b>						
Magazines and newspapers			12			
Entertainment						
Clubs and sport						
Spending money						1,000
Clothes				400	540	
Maintenance						
Other (Holidays)						3,350
<b>Total Monthly Expenditure</b>	131	59	1,634			
<b>Total Annual Expenditure</b>				400	540	7,898
<b>Total outgoings</b>						£30,726

### Notes:

Terry and Beryl expect to run just one car when they retire and so their overall motoring costs will halve. They expect their holiday expenditure to double.

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

**Notes:**

Terry and Beryl are considering a permanent move to Spain.

**PART 6: ASSETS**

	Asset	Client 1 £	Client 2 £	Joint £	Income received £
1.	Main residence			480,000	
2.	Contents/car			11,500	
3.	Current account – SDL Bank			4,300	8 pa
4.	Fixed Term Bond – SDL Bank			33,000	1,109 pa
5.	Premium Bonds	12,000	11,000		
6.	Shares in WRS Manufacturing Ltd	320,000			42,200 pa
7.	Royal Key Life Investment Bond			43,720	
8.	Stocks & Shares ISAs	48,700	42,100		
9.	Warehouse in Heathrow	270,000			14,700 pa

**Notes:**

The main residence is owned as joint tenants.

Terry and Beryl invested £33,000 in a one year fixed-rate deposit bond with SDL Bank in July 2009.

Terry's accountant has valued his shareholding in WRS at approximately £320,000.

The Royal Key Life plan is a joint life last survivor onshore investment bond, held entirely in the With-Profits fund. Terry and Beryl originally invested £40,000 into the bond in 2002 and have only taken one withdrawal of £2,000 in 2007 to spend on a holiday.

The Stocks & Shares ISAs are invested in UK Equity Income funds.

The warehouse is one of two that WRS use in the business. The other warehouse is owned by WRS directly. Terry bought his commercial property soon after he started trading. He lets it to WRS but now wants to sell it to raise capital for his retirement. Max has expressed an interest in acquiring the property for continued use by the company.

## PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			
Type of mortgage			
Amount outstanding			
Start date			
Term/maturity			
Monthly payment			
Interest rate			
Life policies (see part 8)			

### Notes:

*Terry and Beryl have no mortgage.*

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

### Notes:

*Terry and Beryl have no loans.*

### Other liabilities (e.g. tax)

### Notes:

*Terry has already settled his 2008/2009 tax liability and the first instalment on account for 2009/2010.*

*The July 2010 instalment will be met from the maturing fixed-rate bond.*

## PART 8: LIFE ASSURANCE POLICIES

	Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
1.								
2.								

### Notes:

*They have no personal life assurance.*

## PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/ Review	Deferred Period	Premium £

### Notes:

*They have no personal health insurance.*

## PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £

### Notes:

*They have no regular savings plans.*

## PART 11: PENSION DETAILS

### Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme	WRS Manufacturing Ltd.	
Type of scheme	SSAS	
Date joined scheme	09/02/1993	
Retirement Age	65	
Pension benefits		
Death-in-service	Return of Fund	
Dependant's benefits	None insured	
Contracted-in/out	Contracted In	
Contribution Level (employee)	Nil	
Contribution Level (employer)	variable	
Fund type	unit-linked	
Fund value	£389,100	

#### Notes:

Terry and Max are the only two members of the above SSAS. Max's fund value is £246,300 and is not included in the above figure. The SSAS holds £20,000 in a Trustee bank account and the remainder is invested in a range of managed funds. The scheme has adopted post A-day rules.

### 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		
Company		
Fund		
Contributions		
Retirement date		
Current value		
Date started		

### Notes:

--

## Previous pension arrangements

	Client 1	Client 2
Employer	WarmUp	
Type of scheme	Defined Benefit	
Date joined scheme	1968	
Date left	1988	
Preserved benefits	See Notes	

### Notes:

Terry's recent statement showed that he should be entitled to an annual pension at the scheme retirement age of 65 of approximately £7,840 gross. This will increase by RPI and offers a 50% spouse's benefit.

Terry has heard from an old colleague that the scheme has been closed to all members.

## State pension

	Client 1	Client 2
Basic pension		
SERPS/S2P		
Graduated pension		
<b>Total</b>		

### Notes

Terry and Beryl do not have any details of their State pension benefits.

## PART 12: INHERITANCES

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

### Notes:

Terry and Beryl have made a will and they each leave everything to each other and then to Sophie on second death.

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	See notes	See notes

### Notes:

Terry's parents passed away several years ago. Beryl's widowed mother died last year and Beryl inherited a small legacy which she invested in Premium Bonds. They are not expecting any further inheritances.

## PART 13: ATTITUDE TO RISK

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

### Notes:

Terry and Beryl are balanced risk investors.

## PART 14: BUSINESS RECORDS

<b>Compliance</b>		
Date fact-find completed	28/03/2010	
IDD and menu issued	28/03/2010	
Data Protection Act	28/03/2010	
Money laundering	28/03/2010	
<b>Consultations</b>		
Dates of meetings	28/03/2010	Introductory Meeting
<b>Marketing</b>		
Client source		
Referrals		
<b>Documents</b>		
Client documents held		
Date returned		
Letters of authority requested	Yes	

### Notes:

## PART 15: OTHER INFORMATION

Despite Terry's desire for a clean break, he would like to see the company he founded continue and prosper after his retirement.





**AF5**

**THE CHARTERED INSURANCE INSTITUTE**

**THURSDAY 22 APRIL 2010**

**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.**
- **Candidates should answer based on the legislative position immediately BEFORE the 2010 Budget.**

**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**

#### Terry

- To make a clean break by transferring ownership of WRS Manufacturing Ltd to Max.
- To provide financial security for Beryl should Terry predecease her.

#### Joint

- Ensure that Terry and Beryl have adequate income in retirement.

### **Longer-term objectives**

#### Joint

- To retire to Spain.
- Maximise their estate on second death for the benefit of their daughter/grandchildren.
- Make provision for their new grandchild's future education costs.

## Tasks

1. Identify the key considerations you would need to discuss with Terry and Beryl in order to meet their:
  - (a) immediate financial objectives; (12)
  - (b) longer-term financial objectives. (12)
  
2. Explain the following key aspects of Inheritance Tax (IHT) as they relate to Terry and Beryl's situation:
  - (a) business property relief; *Assume Terry dies before passing his shares in WRS Manufacturing Ltd to Max.* (10)
  - (b) domicile, with reference to their retirement plan to move to Spain. (9)
  
3. Highlight the investment risks which apply to the following investments held by Terry:
  - (a) commercial property currently let to WRS Manufacturing Ltd; (5)
  - (b) WRS Manufacturing Ltd shares. (5)
  
4. In order to maximise their income in retirement, Terry and Beryl want to arrange their affairs so that they are as tax efficient as possible.  
  
Comment on the tax efficiency of the following investments in their portfolio: *Ignore any IHT in your answer.*
  - (a) Royal Key Life Investment Bond; (10)
  - (b) Terry's shareholding in WRS Manufacturing Ltd. (8)
  
5. Explain how Terry's key objective of achieving a clean break, whilst ensuring the continuance of WRS Manufacturing Ltd, could be met in relation to:
  - (a) his shares; (10)
  - (b) the warehouse being purchased by the SSAS. (15)

6. Detail and justify the recommendations you would make in respect of each of the following financial objectives, assuming Terry and Beryl remain in the UK. *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) Provide financial security for Beryl should Terry predecease her. *Ignore Inheritance Tax (IHT) planning in your recommendations.* (9)
- (b) Provide adequate income in retirement by using the funds from the SSAS. (10)
- (c) Mitigate the IHT due on Beryl's estate, assuming Terry dies first and he has already disposed of his shares in WRS Manufacturing Ltd and the warehouse. (14)
7. Terry and Beryl have asked for your recommendations for how to set money aside for their future grandchildren's secondary education costs.
- (a) State **four** tax efficient investments out of income for Terry and Beryl to provide for their future grandchildren's secondary education. *Assume they are already funding ISAs to the maximum.* (4)
- (b) For each of the above investments, explain the Income Tax and Capital Gains Tax consequences. *No calculations are required.* (12)
- (c) Recommend and justify the two most suitable investments from those listed in (a) above. (4)
8. When considering a review strategy for Terry and Beryl:
- (a) identify **six** key events relevant to their circumstances when a review should be conducted, other than regular annual reviews; (6)
- (b) identify **five** key pieces of information required when monitoring Terry's deferred pension with WarmUp. (5)

**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 achieved full marks for any 12 of the following:*

**To exit from WRS Manufacturing Ltd by transferring ownership to Max**

- When does he want to finish work/retire/sever connection?
- Is Max able/willing to buy his shares?
- Will he gift/sell his shares to Max?
- When does he want to sell the warehouse?
- Can company afford to buy the shares back?
- Is there a share option/purchase agreement in place?

**To provide financial security for Beryl should Terry predecease her**

- Ascertain required level of income and capital that Beryl would need on Terry's death.
- How would expenditure change on Terry's death?
- Would Beryl still move to Spain?
- Will Beryl continue to live in family home/downsize?

**To ensure that Terry and Beryl have adequate income in retirement**

- Are they willing to use capital to maintain standard of living?
- The level of income they require to meet normal expenditure.
- Additional income/capital required for holidays, activities, etc.
- State Pension entitlement/complete State Pension forecast.
- Can Terry and Beryl/WRS Manufacturing Ltd make additional contributions?

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

**To retire to Spain**

- Will UK property be sold?
- Costs of property purchase in Spain.
- Any other expenditure connected with their move/health costs/taxation.
- Whether they intend to leave the UK permanently/sever all links.

**To maximise their estate on second death for the benefit of their daughter/grandchildren**

- Whether they are willing to make any lifetime gifts.
- Have they made any gifts previously?
- Willingness to use Trusts.
- Willingness to use disposable income now to meet Inheritance Tax (IHT) planning needs/fund IHT mitigation.
- Direction on nomination of death benefits under the small self-administered scheme.

**To provide for their new grandchild's future education costs**

- Do they want to invest a lump sum or a regular amount?
- Do they wish to retain control of any monies gifted?
- The amount/level of fees covered.
- Time/duration of education covered.
- Escalation/cover increases in fees.

**Model answer for Task 2**

- (a)
- Business Property Relief (BPR) at 100% is available for shares in unquoted companies. This will reduce the value for Inheritance Tax (IHT) purposes of Terry's shares in WRS Manufacturing Ltd to nil, assuming the company is treated as a trading company at the time of transfer.
  - BPR at 50% is available for assets such as the warehouse owned by Terry as it is used in a business in which he is a controlling director.
  - If Beryl predeceases Terry the shares will pass to Sophie and BPR will be available to reduce the value of the estate/save IHT.
  - If Terry predeceases Beryl, the shares will go to Beryl and become part of her estate and on her subsequent death, BPR will be applicable as Terry's period of ownership is carried across on death.
- (b)
- Terry and Beryl are UK domiciled and are subject to IHT on their worldwide assets whilst those not domiciled in the UK are only subject to IHT on their UK assets.
  - Terry and Beryl may acquire a Spanish domicile, by severing all links with the UK and demonstrating they live permanently in Spain.
  - Terry and Beryl will have to have lived outside the UK for at least three years before they could be deemed non UK domiciled.
  - They may be liable to Spanish taxation/unilateral relief may be granted where tax is paid in Spain.

### Model answer for Task 3

- (a) *Candidates would have gained full marks for any five of the following:*
- Property is an illiquid asset.
  - Risk that property values may go down.
  - Costs associated with damage to property/maintenance costs.
  - Tax benefits such as Business Property Relief (BPR) could be removed/reduced.
  - WRS Manufacturing Ltd/tenants may experience financial difficulties and default on the rent/loss of rental income/rents may decline.
  - Void periods.
- (b)
- Unquoted shares are very illiquid/no secondary market/external purchaser may value the shares lower.
  - Articles may place a restriction on selling.
  - If WRS Manufacturing Ltd becomes insolvent, dividends will cease and shareholding loses entire capital value.
  - Tax benefits such as BPR could be removed/reduced.
  - A significant proportion of their overall wealth is invested in WRS Manufacturing Ltd/lack of diversification.

### Model answer for Task 4

- (a)
- Gains made within the bond are deemed to have suffered Income Tax at 20% and therefore tax efficient for Terry as he is a higher rate tax payer, but not tax efficient for Beryl as she will be a non tax payer and cannot reclaim tax already deducted.
  - Withdrawals of up to 5% of the original premium will be tax deferred and therefore tax efficient for Terry.
  - Any gain made on encashment is assessed against Income Tax, which does not allow Terry or Beryl to use their annual Capital Gains Tax (CGT) exemption.
- (b)
- Dividends under higher-rate tax threshold are not subject to further Income Tax.
  - Terry will pay a further 22.5% of gross/25% of net dividend on any dividend in excess of higher-rate tax threshold.
  - Annual CGT exemption can be used to reduce assessable gain on sale of shares.
  - Shares qualify for Entrepreneur's Relief as Terry is an employee of the company and owns more than 5% of the shares.
  - This reduces Terry's taxable gain by 4/9<sup>th</sup> resulting in a lower rate of tax of 10% on lifetime gains up to £1,000,000.



### **Model answer for Task 5**

- (a)
- Terry could gift shares to Max.
  - Max could buy the shares.
  - The company could buy back the shares.
  - The small self-administered scheme (SSAS) could lend money to WRS Manufacturing Ltd to facilitate share buyback.
  - The SSAS may buy some of Terry's shares up to a maximum of 5% of the scheme value.
  - If the Articles allow/there are no restrictions and he could sell to a third party which may require agreement of Max .
  - Above options devolve responsibility as shareholder of WRS Manufacturing Ltd.
- (b)
- Commercial property would be an eligible investment for the SSAS.
  - Currently, the SSAS has sufficient assets to purchase the warehouse.
  - Transaction would need to be done on an arm's length/commercial basis.
  - The SSAS can use existing funds by encashing investments, subject to any penalties/market conditions.
  - When Terry wishes to take benefits, the SSAS may need to borrow to make up the shortfall.
  - The SSAS scheme can borrow up to 50% of net assets of scheme.
  - Any borrowing from connected parties must be arranged on a commercial basis.
  - Lender may require security to advance funds.
  - The SSAS could purchase jointly with another party e.g. Max/WRS Manufacturing Ltd.
  - The company could make contributions to the SSAS to facilitate the purchase and contributions will be treated as a trading expense.

## Model answer for Task 6

### (a) **Beryl's financial security should Terry predecease her**

- Their only income source is Terry's income from WRS Manufacturing Ltd at present.
- To maintain standard of living, Beryl would require approx £30,000 per annum.
- There are insufficient liquid/accessible assets to meet expenditure.
- Ensure Beryl is nominated beneficiary on the small self-administered scheme (SSAS) death benefits.
- Ensure if Terry buys an annuity with his SSAS funds he includes a spouse's annuity.
- Life assurance likely to be very expensive/Terry may be uninsurable.
- Transfer some assets to Beryl to avoid delay of Probate.
- WRS Manufacturing Ltd to fund further contributions to SSAS to increase benefits on Terry's death.

### (b) **Provide adequate income in retirement from the SSAS**

- Take scheme pension from SSAS. Due to Terry's ill health, scheme actuary should allow a higher income to be withdrawn.
- Use scheme funds to purchase an enhanced/impaired life annuity. This will provide a higher income than a standard annuity.
- Transfer SSAS funds to new Personal Pension scheme/pension.
- Move funds into unsecured pension as this provides flexibility of income for Terry to take into account future income streams from State Pension and deferred benefit from WarmUp scheme.
- Can use tax-free cash to phase retirement benefits. Leaving unvested segments will provide better death benefits for Beryl.
- WRS Manufacturing Ltd to fund further contributions to SSAS to increase retirement benefits.

### (c) **Mitigation of Inheritance Tax (IHT) due on Beryl's estate, assuming Terry dies first and he has disposed of his shares in WRS Manufacturing Ltd and the warehouse**

- Establish spousal bypass trust for the SSAS death benefits to ensure proceeds do not form part of Beryl's estate.
- Lump sum investment into Loan Trust to provide regular income for retirement whilst still retaining access to original capital.
- Any growth in value of a trust immediately outside of the estate.
- Potentially Exempt Transfers fall outside of the estate after seven years.
- Effect a joint life second death Whole of Life policy under discretionary trust to meet any further IHT liabilities. Policy to include indexing.
- Premiums would be gifts out of income and exempt from IHT.
- Use annual gift exemptions.

## Model answer for Task 7

- (a)
- Maximum Investment Plan.
  - Regular saving/investment into a unit trust/OEIC savings plan.
  - National Savings Certificates/Premium Bonds/Deposit account.
  - Friendly Society Savings plan.

(b) **Maximum Investment Plan**

- Plan should be written in bare trust for benefit of grandchildren.
- Investments deemed to have suffered basic-rate Income Tax at source.
- No Income Tax or Capital Gains Tax (CGT) on encashment after qualifying period.

**Regular Savings**

- Plan should be written in bare trust for benefit of grandchildren.
- Any income and gains generated from investments in the bare trust will be taxed on the beneficiary/grandchild.
- Beneficiary/grandchildren's personal allowance can reduce Income Tax and CGT exemption can be used to reduce CGT.

**National Savings/Deposit account**

- National Savings products free of Income Tax and CGT.
- Non tax payers can receive interest gross.
- Plan can be held directly in beneficiary's name.

**Friendly Society**

- Friendly Society Plans grow free of Income Tax and CGT.
- Plan can be held directly in beneficiary's name.
- Plan proceeds tax free on maturity.

- (c)
- Maximum investment plan.
  - Investment is tax efficient and can choose level of investment risk/invest in equities to produce higher long-term return.
  - Regular unit trust savings in Bare Trust.
  - Investment is tax efficient using child's allowance and can choose level of investment risk/invest in equities to produce higher long-term return.

## Task 8

- (a) *Candidates would have gained full marks for any six of the following:*
- Prior to move to Spain.
  - Sale/transfer of business/retirement.
  - Sale of warehouse.
  - Family divorce.
  - Death of either/family death.
  - Health problems for Terry or Beryl/family.
  - Birth of further grandchildren.
  - End of tax year allowances/funding ISAs/pension/maturity of Fixed-Rate Bond.
- (b) *Candidates would have gained full marks for any five of the following:*
- Solvency of the pension scheme/scheme funding levels.
  - Solvency of Warm Up Ltd.
  - Early retirement factors.
  - Ability to take the benefits early.
  - Transfer value.
  - Discretionary increases.
  - Change in pension legislation.

**All questions in the October 2010 paper will be based on English law and practice applicable in the tax year 2010/2011, unless stated otherwise and should be answered accordingly.**

**The Tax Tables which follow are those that were used in the April 2010 examination. The October 2010 examination will use the published 2010/2011 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.

<b>Class 2 (self-employed)</b>	Flat rate per week £2.40 where earnings exceed £5,075 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £12.05
<b>Class 4 (self-employed)</b>	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<sub>2</sub>) 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<sub>2</sub> 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<sub>2</sub> 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

	<b>2009/2010</b>	<b>2008/2009</b>
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

	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

		<b>From 06.04.09</b>	<b>From 06.04.08</b>
		£	£
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
<b>Rates</b>		
Individuals	18%	18%
Trusts and estates	18%	18%

## ENTREPRENEURS' RELIEF

### Entrepreneur's Relief 2009/2010

4/9<sup>ths</sup> of gain tax free. Lifetime limit eligible for relief: £1,000,000

For trading businesses and companies (minimum 5% employee shareholding) held for 1yr+