Chartered Insurance Institute

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

February 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the May 2022 examination should study this examination guide carefully in order to prepare themselves for the examination.

Practice in answering the questions is highly desirable and should be considered a critical part of a properly planned programme of examination preparation.

AF5 – Financial planning process

Contents

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IMPORTANT GUIDANCE FOR CANDIDATES

Introduction

The purpose of this Examination Guide is to help you understand how examiners seek to assess the knowledge and skill of candidates. You can then use this understanding to help you demonstrate to the Examiners that you meet the required levels of knowledge and skill to merit a pass in this unit. During your preparation for the examination it should be your aim not only to ensure that you are technically able to answer the questions but also that you can do justice to your abilities under examination conditions.

Before the examination

Read the Qualifications Brochure
Details of administrative arrangements and the regulations which form the basis of your examination entry are to be found in the current CII Qualifications Brochure and important notes for candidates, which is *essential reading* for all candidates. It is available online at www.cii.co.uk.

Study the syllabus carefully
It is crucial that you study the relevant syllabus carefully, which is available online at www.cii.co.uk. All the questions in the examination are based directly on the syllabus. *You will be tested on the syllabus alone,* so it is vital that you are familiar with it.

Read widely
If you do not have experience in advising clients whose financial needs are relatively sophisticated, *it is quite unrealistic to expect that the study of a single textbook will be sufficient to meet all your requirements.* While books specifically produced to support your studies will provide coverage of all the syllabus areas, you should be prepared to read around the subject. This is important, particularly if you feel that further information is required to fully understand a topic or an alternative viewpoint is sought. It is vital that your knowledge is widened beyond the scope of one book. The reading list which can be found with the syllabus provides valuable suggestions.

Make full use of the Examination Guide
This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

This guide and previous Examination Guides can be treated as 'mock' examination papers. Attempting them under examination conditions as far as possible and then comparing your answers to the model ones should be seen as an essential part of your examination preparation. The examiner's comments on candidates' actual performance in each question provide further valuable guidance. You can obtain copies of the two most recent examination guides free of charge at www.cii.co.uk.

Know the layout of the tax tables
Familiarise yourself with the tax tables printed at the back of the Examination Guide. The tax tables enable you to concentrate on answering the questions without having to worry about remembering all the information. *Please note that you are not allowed to take your own tax tables into the examination, these are provided in the portal as you sit the exam (see page 6).*

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

Understand the nature of assessment
Assessment is by means of a three-hour paper. This Examination Guide contains a full examination paper and model answers. The model answers show the types of responses the examiners are looking for and which would achieve maximum marks. *However, you should note that there are alternative answers to some question parts which would also gain high marks.* For the sake of clarity and brevity not all of these alternative answers are shown.

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

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

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

- Study the fact-find detail over the two-week period as you would for the real examination.
- Set yourself three clear hours to complete the question paper taking into account the financial objectives provided.
- Compare your answers against the model answer once the three hours are up. The model answer will not give every acceptable answer, but it will give you a clear indication of whether your responses were sufficiently holistic and if your technical knowledge was correct.
- Go back and revise further any technical weaknesses revealed in your responses.

If you use your time wisely, focusing on improving your technical knowledge and understanding of the financial planning process, you will have the time when the fact-find details arrive to focus on the client details and prepare yourself for the examination day.

Understand the skills the exam seeks to test

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

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

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

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

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

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

On-screen written exam demonstration (Demo 1)

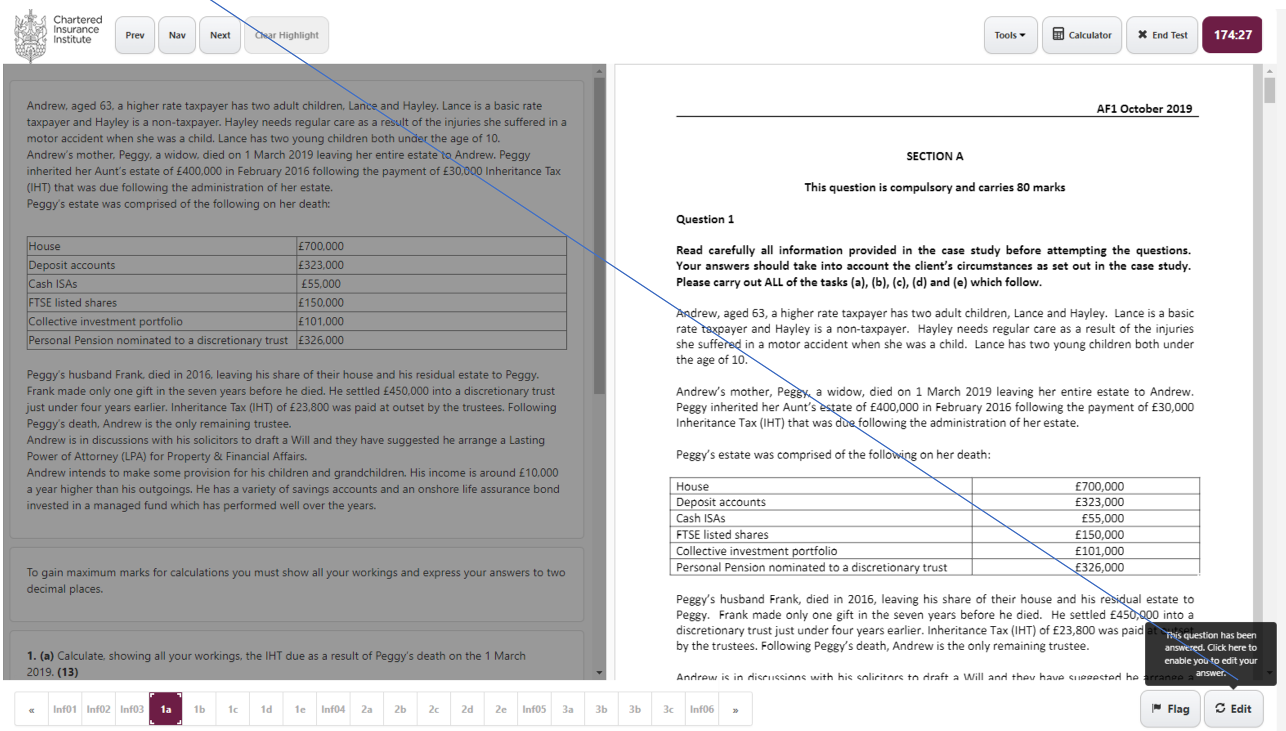
The familiarisation test allows you to experience using the assessment platform before your exam. You can try the familiarisation test at any time:

https://uat-cii.psionline.com/phoenix/instant/launch?auth=EH6jtrqPu3J6znVp&username=ILDemo1&test=05a75b4f-1c90-4a74-a22d-ec4aa8d4ca48&autoopen=1&samewindow=1&theme=custom/alternative/CII

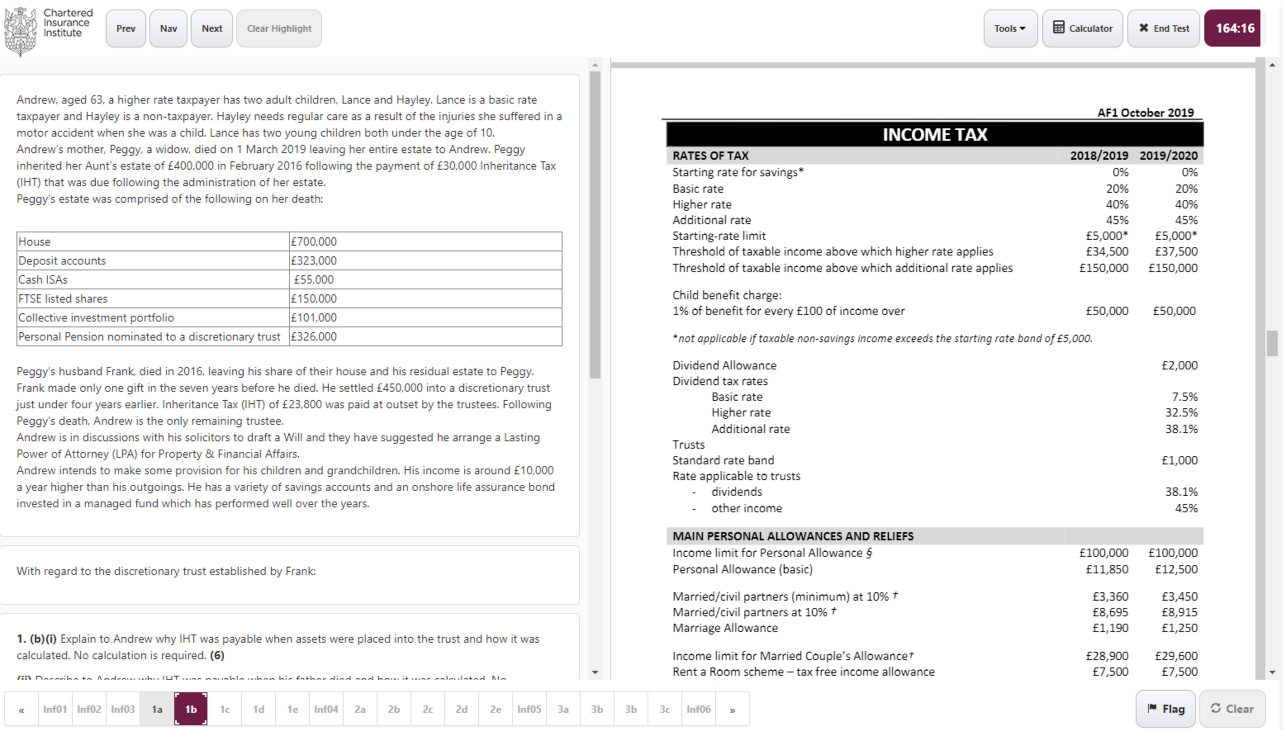
Please note, although based on AF1, this example test is designed for all candidates and while there might be slight differences in layout it will give you a good idea of how to navigate and use the platform functionality.

The demonstration test is designed to allow you before the day to go through the end-to-end process from logging in to answering test questions. **We strongly advise you try the demonstration test once you have received your login details and well in advance of the exam to help pre-empt any potential exam day issues.**

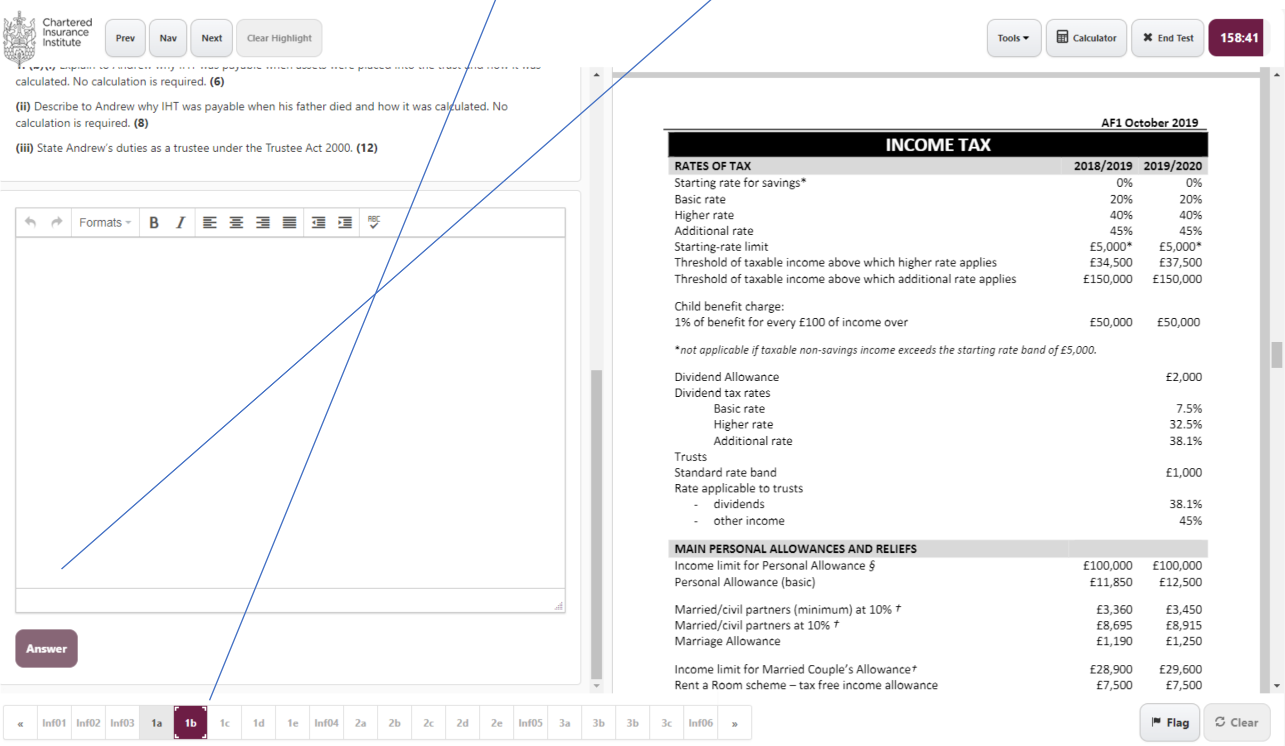
1. From the AF1 demonstration test, ensure you can scroll right and see the whole screen. Ensure your screen resolution shows all the features including the button to return back to your answers to **edit** them.



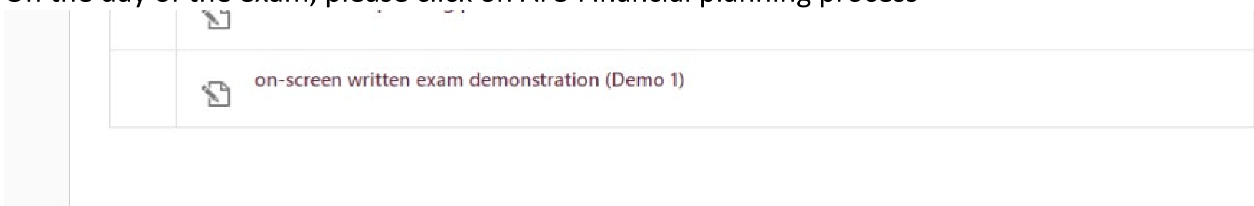
2. Tax tables are provided at the right-hand side of the interface after the question paper for candidates to use which is different to the CIIs multiple choice exams. Please do not bring your own copies into the exam.



3. Once you have typed in your answer ensure you click the red 'Answer' box, this will save your answer and move you onto the next question. Furthermore, please do not type all of your answers for every question into the answer space for Q1a. You should familiarise yourself with all questions prior to starting the exam.



4. On the day of the exam, please click on AF5 Financial planning process



5. The above screenshot is also a space where you can jot down any notes on paper that may assist you during the exam. Please note, the exam timer will not start until you click the exam titled: AF5 Financial planning process

Two weeks before the examination

What will I receive?
A fact-find will be available to candidates two weeks before the examination and it can be viewed at https://www.cii.co.uk/learning/qualifications/assessment-information/before-the-exam/supporting-exam-documents It will contain client information which will form the basis of the report you will be required to prepare in the examination.

How should I use my time over the two-week period?
It is too late at this stage to start your general revision. The two weeks will need to be devoted to familiarising yourself with the client details from the fact-find. Treat the fact-find as though it belongs to a real client whom you will be meeting shortly for the first time.

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

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

Preparing the groundwork – considering possible solutions
Once you have identified the clients' likely needs you should start to consider possible solutions to meet those needs and how the financial planning process would be properly applied to the client(s). You may need to research some details of the solutions you are considering. You may want to go back to your revision notes.

You may need to read about particular products; try product providers for technical information, tax offices etc.

AF5 Examination Technique Exam Guide
To help you prepare for the AF5 examination a FREE AF5 Examination Technique Exam Guide is available to download on the following link https://www.cii.co.uk/learning/qualifications/unit-financial-planning-process-af5/.

In the examination

What will I receive?

The fact-find
You will not be able to take your pre-released copy of the fact-find into the examination with you. An identical copy will be available on the online system. 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. You should spend some time studying this information before you commence your financial plan.

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

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

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

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

Marks are not lost due to poor spelling or grammar.

You are able to flag questions and then go back to them.

Calculators
The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation in your answer, even if you have used a calculator. You are permitted to use your own calculator.

EXAMINERS' COMMENTS

Candidates overall performance:

Overall performance was very good. Well-prepared candidates were able to achieve high marks across the paper. It was pleasing to note that the majority of candidates had spent time analysing the Fact Find that was provided in advance of the exam. This enabled candidates to demonstrate a high degree of understanding of the issues facing Alan and Lydia following their recent change of circumstances.

Question 1 (a)

This was a standard Fact-Finding question. General performance was good although it was noted that only a limited number of candidates recognised that Alan and Lydia might be entitled to a tax refund in respect of overpaid Income Tax due to their changed employment situation.

Question 1 (b)

This question required candidates to explain to Alan and Lydia the reasons why their current employment position may pose a risk to their future financial objectives. As Alan and Lydia have recently set up a new company and left their previous salaried employments, this was a key issue for consideration. Most candidates performed well and recognised the risks of business failure to Alan and Lydia and the current issues relating to their lack of income and reliance on savings.

Question 2 (a)

This question required candidates to identify the key issues that should be addressed by Alan and Lydia to ensure that their protection needs are met both now and in the future. Most candidates performed well but it was disappointing to note that only a few candidates recognised the need to protect the business and the need to ensure that appropriate shareholder agreements were in place to protect against any future potential issues.

Question 2 (b)

This question focused on a recommendation for a suitable individual protection policy for Alan and Lydia that they could set up in a tax-efficient manner through the new company in order to provide life cover for the surviving spouse in the event of either death. Most candidates provided a very good answer to this question and were familiar with the use of Relevant Life policies for this purpose.

Question 3 (a)

Candidates were asked to explain to Alan and Lydia four key benefits and four key drawbacks of switching their current mortgage to a new five year fixed-rate mortgage. The majority of candidates performed very well.

Question 3 (b)

This question required candidates to explain how Alan and Lydia could use their pension funds to purchase the commercial property and the benefits of this course of action. Mixed performance was in evidence as most candidates were able to identify the use of either a self-invested personal pension plan (SIPP) or a small self-administered scheme (SSAS) to meet this purpose but a number of candidates failed to identify the fact that the company must still pay a full market rent to the SIPP and that the rental income did not count as a pension contribution for Alan and Lydia. Limited detail was provided by some candidates which resulted in lower marks.

Question 4 (a)

This question asked candidates to explain the benefits of using a Discretionary Fund Manager and how this could assist Alan and Lydia in making future Environmental, Social and Governance (ESG) investments. Most candidates performed well and gave comprehensive answers. This is a very topical issue so it was pleasing to note the good standard of answers from the majority of candidates.

Question 4 (b)

This question focused on the key reasons why Alan and Lydia should consider making regular monthly investments, rather than a lump sum investment, based on their current situation. Many candidates focused purely on the issue of pound cost averaging and its' benefits for regular investing, rather than considering Alan and Lydia's current financial situation with a lack of earned income and reliance on their savings to meet their ongoing expenditure. Most candidates performed reasonably well although some candidates did not achieve high marks as they did not consider in sufficient detail why this was a more affordable option for the couple.

Question 5 (a)

This question focused on the key aspects of Alan and Lydia's financial circumstances that should be taken into consideration when carrying out a stress-test of their current position. Unfortunately, performance was disappointing as many candidates gave generic answers which did not relate to Alan and Lydia's financial circumstances. Well-prepared candidates were able to give detailed and specific answers that were directly related to Alan and Lydia such as identifying their low capacity for loss and their high level of essential expenditure. Candidates who applied the information provided in the Fact Find were rewarded with high marks here but unfortunately, this was not the case for a large number of candidates.

Question 5 (b)

This question required candidates to provide a recommendation for a range of actions that Alan and Lydia could take in respect of their existing pensions, savings and investments to improve the prospects of meeting their objective of retiring at age 60. Overall performance was good and most candidates were able to identify a range of suitable actions and provide justification for these.

Question 6 (a)

Candidates were asked to recommend and justify how Alan and Lydia could draw a tax-efficient income from their company to meet their family's ongoing expenditure requirements. General performance was good and most candidates recognised that a mix of salary and dividends would enable Alan and Lydia to draw an income in a tax-efficient manner. It was pleasing to note that most candidates also provided the correct tax rates that would apply to Alan and Lydia in respect of any drawings from the company.

Question 6 (b)

Candidates were asked to explain how the shares in the company would be treated for tax purposes in the event of their deaths. There was very good performance and most candidates were able to identify the fact that these shares would most likely qualify for Business Relief provided the company met the necessary conditions on death.

Question 7 (a)

This question required candidates to explain why the existing range of investment funds within their pension policies may be unsuitable for their retirement objectives. General performance was good although some candidates failed to achieve high marks as they did not consider the factors relating to the individual funds which might make them unsuitable such as inflation risk and interest rate risk on the fixed-interest funds.

Question 7 (b)

This question asked candidates to outline the key issues that they should consider before making any changes to their existing pension arrangements form their former employers. Good performance overall was in evidence. Most candidates were able to identify the main issues that should be considered.

Question 8 (a)

This question asked candidates to outline the key reasons why Alan and Lydia could consider investing a portion of their cash savings, rather than using this to pay off some of their mortgage. Most candidates performed well and recognised that the mortgage was on a repayment basis so a strategy was already in place to ensure this would be paid off in due course. Candidates also recognised the need for Alan and Lydia to retain liquidity whilst they set up the new company.

Question 8 (b)

This was a standard question based on the key issues that you would discuss with Alan and Lydia in respect of their protection arrangements at your next annual review meeting. Performance was generally good and most candidates were able to identify most of the key issues that should be discussed.

FACT-FIND

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

PART 1: BASIC DETAILS

	Client 1	**Client 2**
Surname	Potter	Potter
First name(s)	Alan	Lydia
Address	Leicester	Leicester
Date of birth	02.01.1987	20.12.1986
Domicile	UK	UK
Residence	UK	UK
Place of birth	Derby	York
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Running, Cycling	Running, Yoga

Notes:

Alan and Lydia have recently set up a new limited company and have appointed you to provide advice on their future financial planning. They wish to ensure that they are taking appropriate steps to provide a secure financial future for themselves and their two children.

PART 2: FAMILY DETAILS

Children and other dependants

Name	**Relationship**	**Age**	**Health**	**Occupation**	**Financially dependent?**
Amy	Daughter	7	Good	N/A	Yes
Jacob	Son	5	Good	N/A	Yes

Notes:

Amy and Jacob are both now at school. Alan and Lydia do not intend to have any more children.

PART 3: EMPLOYMENT DETAILS		
Employment	**Client 1**	**Client 2**
Occupation	Design Engineer/Director	Product Designer/Director
Business name	AQ Pack Ltd	AQ Pack Ltd
Business address		
Year business started	2021	2021
Salary	Nil	Nil
State Pensions		
Overtime		
Benefits-in-kind		
Pension Scheme		
Life cover		
Private Medical Insurance		
Income Protection Insurance		
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		

Notes:

Alan and Lydia set up a new limited company, AQ Pack Ltd, in November 2021 which designs and produces packaging for the cosmetics industry. They have already received orders from several large companies. Their forecast profits from these orders are £80,000 in the first year with predicted profits of £200,000 per annum within 3-4 years. Alan and Lydia have not yet drawn any salary from the company and do not intend to take any income for a few months. They have not yet set up any company benefits or pension scheme. They have asked for your advice on this and wish to set up a range of appropriate benefits as soon as possible. They do not intend to take on any employees for the foreseeable future.

Alan and Lydia are currently renting an office from which they run their company. This is costing £1,000 per calendar month in rent. They have the option to purchase the office that they are currently renting for £220,000.

Previous Employment	Client 1	Client 2
Previous employer	XT Designs	GQS Packs Ltd
Job title	Senior Designer	Product Designer
Length of service	12 years	10 years
Pension benefits	See Part 11	See Part 11

Notes:

Alan and Lydia left their former employers in November 2021 when they set up AQ Pack Ltd.

PART 4: OTHER PROFESSIONAL ADVISERS		
	Client 1	**Client 2**
Accountant	Fawsley & Co	Fawsley & Co
Bank	Access Bank	Access Bank
Doctor		
Financial Adviser		
Solicitor	Henson Davies LLP	Henson Davies LLP
Stockbroker		
Other		
Notes:		

PART 5: INCOME AND EXPENDITURE

Income

	Client 1		**Client 2**		**Joint**	
	Monthly £	**Annually £**	**Monthly £**	**Annually £**	**Monthly £**	**Annually £**
State Pensions						
Pensions/Annuities						
Salary (gross)						
Benefits-in-kind						
Savings income (interest)		120		120		840
Rental (gross)						
Dividends						

Notes:

Alan and Lydia have had no earned income since they left their salaried positions in November 2021. Prior to setting up their new company, Alan's previous salary was £70,000 per annum (gross) and Lydia's previous salary was £65,000 per annum (gross).

	Client 1	**Client 2**
Income Tax	**£**	**£**
Personal allowances		
Taxable income		
Tax		
National Insurance		
Net Income		
Notes:		

Expenditure

	Monthly £			Annually £		
Household Expenditure	**Client 1**	**Client 2**	**Joint**	**Client 1**	**Client 2**	**Joint**
Mortgage/Rent			1,160			
Council tax			150			
Buildings and contents insurance						240
Gas, water and electricity						2,200
Telephone			50			
TV licence and satellite			70			
Property maintenance						1,000
Regular Outgoings						
Life assurance (see Part 8)			28			
Health insurance (see Part 9)						
Savings Plans (see Part 10)						
Car tax, insurance and maintenance				400	320	
Petrol and fares	140	120				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)						
Other Expenditure						
Magazines and newspapers				175		
Entertainment			100			
Clubs and sport						
Spending money			200			
Clothes						1,600
Other (Holidays)						3,000
Total Monthly Expenditure	140	120	2,358			
Total Annual Expenditure	1,680	1,440	28,296	575	320	8,040
Total Outgoings						**40,351**

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

Notes:
As Alan and Lydia have no earned income at present, they are using their savings to fund their monthly expenditure.

PART 6: ASSETS					
	Assets	**Client 1 £**	**Client 2 £**	**Joint £**	**Income (Gross) £**
1.	Main residence			425,000	
2.	Contents/car			65,000	
3.	Current account			15,000	
4.	Deposit Savings Account – Instant Access			120,000	840
5.	Cash ISA – Instant Access (Variable)		20,000		120
6.	Cash ISA – Instant Access (Variable)	20,000			120
7.	Stocks and Shares ISAs – UK Sustainable funds (accumulation units)	45,000			
8.	Stocks and Shares ISAs - Global Growth funds (accumulation units)		60,000		

Notes:

Alan inherited a cash sum of £120,000 from his late uncle last year. Alan and Lydia have retained this in their Deposit Savings account with a view to funding the set-up of their new limited company. As they have already obtained contracts for the new company, they intend to invest some of their cash savings in the near future once the company has a stable positive cashflow. They have asked for your advice as to how best to invest their surplus cash.

Alan and Lydia are happy with the performance of their Stocks & Shares ISAs but are keen to invest in a wider range of funds in the future. The Stocks & Shares ISAs are held directly with a range of individual fund managers.

Alan and Lydia's accountant has advised them that their shares in AQ Pack Ltd have no value at present as the company has no earnings.

PART 7: LIABILITIES

Mortgage Details	Client 1	Client 2	Joint
Lender			Access Bank
Type of mortgage			Repayment
Amount outstanding			£200,000
Start date			July 2019
Term/maturity			18 years
Monthly payment			£1,160
Interest rate			3.5% (variable)
Life policies (see Part 8)			

Notes:

Alan and Lydia took out a new repayment mortgage on their property in 2019. This was on a two year Fixed-Rate mortgage and is now on the lender's Standard Variable Rate. They are considering switching to a new Fixed-Rate mortgage with the same lender.

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

Notes:

Alan and Lydia do not have any other loans.

Other Liabilities (e.g. tax)

Notes:

Alan and Lydia do not have any liabilities.

PART 8: LIFE ASSURANCE POLICIES

Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
Joint	Joint	200,000	28 per month	20 years	July 2019	No	N/A

Notes:

Alan and Lydia took out a new joint life first death decreasing term life policy when they set up their new repayment mortgage. This does not include Critical Illness cover.

PART 9: HEALTH INSURANCE POLICIES

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

Notes:

Alan and Lydia do not have any Health Insurance policies.

PART 10: REGULAR SAVINGS

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

Notes:

Alan and Lydia do not make any regular savings.

PART 11: PENSION DETAILS

Occupational pension scheme

	Client 1	Client 2
Member of employer's scheme		
Type of scheme		
Date joined		
Retirement age		
Pension benefits		
Death benefits		
Dependant's benefits		
Contracted-in/out		
Revaluation rate		
Indexation in payment		
Fund type		
Fund value		

Notes:
Alan and Lydia do not have any Occupational Pension Schemes.

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

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

Notes:
Alan and Lydia do not make any Additional Voluntary Contributions.

Personal Pensions

	Client 1	Client 2
Type		
Company		
Fund		
Contributions		
Retirement date		
Current value		
Date started		
Notes:		
Alan and Lydia would like to set up suitable pension plans for themselves as soon as possible as they are planning to retire at age 60.		

Previous pension arrangements

	Client 1	Client 2
Employer	XT Designs Ltd	GQS Packs Ltd
Type of scheme	Group Personal Pension	Group Personal Pension
Date joined scheme	2009	2011
Date left	November 2021	November 2021
Current Value	£95,000	£80,000
Fund	UK Cautious Managed (60%) Sterling Bond fund (40%)	Global Fixed-Interest (70%) UK Gilt fund (30%)
Notes:		
Alan and Lydia have personal pension arrangements from their former employers. They are unhappy with the performance of these funds and are keen to look at other investment options.		

State Pension

	Client 1	Client 2
State Pension		
Notes		
Neither Alan nor Lydia have ever checked their State Pension entitlement.		

PART 12: INHERITANCES

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

Alan and Lydia have recently set up Mirror Wills leaving their assets to the survivor on first death with all remaining assets on second death going into Trust for Amy and Jacob if they die before the children reach age 18.

They have appointed Lydia's sister as guardian for the children in the event of both deaths.

They have asked you to explain how their company shares would be treated in the event of both deaths.

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	None	None
Notes:		

Inheritances	Client 1	Client 2
Give details of any inheritances expected	None	None
Notes:		

Both Alan and Lydia's parents are in excellent health, and they do not believe they are likely to receive an inheritance from any source for many years. Alan received an inheritance of £120,000 from his late uncle last year.

PART 13: ATTITUDE TO RISK

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

Notes:
Alan and Lydia have each completed a full risk-profiling assessment and have been identified as adventurous investors. Alan and Lydia do not have a high capacity for loss at present. Alan and Lydia are interested in including some ethical investments in their portfolios.

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.02.2022	
Client agreement issued	01.02.2022	
Data Protection Act		
Money laundering		
Dates of meetings		
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

Unit AF5 – Financial planning process

Instructions to candidates

Read the instructions below before answering any questions.

All questions in this examination are based on English law and practice applicable in the tax year 2021/2022, 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.

If you are sitting via remote invigilation please

- **Write down the following number +44 (0)80 8273 9244 this is the number to use if your system freezes or you get forced out of your exam. It is fine to phone it if you have these issues.**
- Show your ID to the camera now, if you did not do so during the ID checks.
- Show the edge of your screen with a mirror, if you did not do this during the room scan.
- Show any blank sheets of paper for notes, if you did not show both sides to the camera during the room scan.

If you are sitting in a test centre and encounter a problem please alert the invigilator.

For candidates sitting via remote invigilation or at a test centre

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** questions to gain maximum possible marks. The number of marks allocated to each question part is given next to the question and you should spend your time in accordance with that allocation.
- Read carefully all questions and information provided before starting to answer. Your answer will be marked strictly in accordance with the question set.
- The calculator is in a pop-up box on the right-hand side of the interface. It is important to show all steps in a calculation, even if you have used a calculator.
- **Different to CII Multiple choice exams, tax tables are provided at the right-hand side of the interface after the question paper.**
- The fact-find and the tax tables are provided on the right-hand side of the interface.
- **Client objectives are also provided and you should read them carefully before attempting the tasks.**
- **In this examination you should use the fact-find on the system. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- For each answer, please type in the full question number you are answering e.g. 1
- **Please note each answer must be typed in the correct corresponding answer box**
- **If you are wearing headset, earphones, smart watch please take them off. No watches are permitted.**
- Please familiarise yourself with **all** questions before starting the exam.

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 assess the suitability and tax-efficiency of their current financial arrangements.
- To ensure adequate protection is in place for their family and their business.
- To establish a tax-efficient strategy to draw income from their new company.

Longer-term objectives

- To establish the merits of purchasing a commercial premises for their new business.
- To set up appropriate pension arrangements.
- To ensure that they are able to retire at age 60.

Subject to providing sufficient detail you are advised to be as brief and concise as possible, using note format and short sentences.

Attempt ALL tasks

Time: 3 hours

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

1. **(a)** Identify the additional information that you would require in order to advise Alan and Lydia on the suitability and tax-efficiency of their current financial arrangements. **(12)**

(b) Explain to Alan and Lydia the reasons why their current employment position may pose a risk to their future financial objectives. **(10)**

2. **(a)** Identify the key issues that should be addressed by Alan and Lydia to ensure that their protection needs are met both now and in the future. **(10)**

(b) Recommend and justify suitable individual protection policies that Alan and Lydia could set up in a tax-efficient manner through their new company to provide life cover for the surviving spouse in the event of either death. **(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.

3. **(a)** Explain to Alan and Lydia **four** key benefits and **four** key drawbacks of switching their current mortgage to a new five year fixed-rate mortgage. **(8)**

(b) Explain to Alan and Lydia how they could use their pension funds to purchase the commercial property and the benefits of this course of action. **(12)**

4. Alan and Lydia wish to invest a portion of their cash reserves as they are now confident that their new business will generate sufficient profits to enable them to start drawing an income from their company.

(a) Explain to Alan and Lydia the benefits of using a Discretionary Fund Manager and how this could assist them in making future Environmental, Social and Governance (ESG) investments. **(10)**

(b) Explain to Alan and Lydia the key reasons why they should consider making regular monthly investments, rather than a lump sum investment, based on their current situation. **(10)**

5. **(a)** Identify the key aspects of Alan and Lydia's financial circumstances that should be taken into consideration when carrying out a stress-test of their current position. **(12)**

(b) Recommend and justify a range of suitable actions that Alan and Lydia can take in respect of their existing pensions, savings and investments to improve the prospects of meeting their objective of retiring at age 60. **(14)**

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

6. **(a)** Recommend and justify how Alan and Lydia could draw a tax-efficient income from their company to meet their family's ongoing expenditure requirements. **(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.

(b) Explain to Alan and Lydia how the shares in their company would be treated for tax purposes in the event of their deaths. **(7)**

7. **(a)** Explain to Alan and Lydia why their existing range of investment funds within their pension policies may be unsuitable for their objectives. **(10)**

(b) Outline the key issues that Alan and Lydia should consider before making any changes to their existing pension arrangements from their former employers. **(7)**

8. **(a)** Outline the key reasons why Alan and Lydia could consider investing a portion of their cash savings, rather than using this to pay off some of their mortgage. **(8)**

(b) Identify **six** key issues that you would discuss with Alan and Lydia in respect of their protection arrangements at your next annual review meeting. **(6)**

Total marks: 160

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 Question 1

(a) *Candidates would have scored full marks for any twelve of the following:*

- Income needs/capital needs.
- Pension contribution history/plans for future contributions.
- Use of tax allowances/ISA allowance.
- Reclaim overpaid Income Tax?/claimed Child Tax credit.
- When do they intend to start drawing income?
- Proposed salary/dividends/future tax status.
- Future cashflow/company expenditure/fixed costs/company liabilities/company assets.
- Pension nominations.
- How much do they wish to invest?
- Fund choice/asset allocation/charges/SIPP property purchase.
- Ethical investment criteria?/(what it means for them?)
- Protection needs/priority of protection /critical illness cover (CIC)/Income Protection Insurance (IPI)/Private Medical Insurance (PMI).
- Company sustainability on either death/illness.

(b) *Candidates would have scored full marks for any ten of the following:*

- No employment income at present.
- Eroding existing capital/savings to cover costs.
- All eggs in one basket/single income source.
- No protection for ill health/death/keyman/no income for Income Protection Insurance (IPI).
- Risk of business failure/no guarantee of business success.
- Cashflow needed for income/dividends/not using tax allowances (Personal Allowance (PA)/Dividend Allowance (DA).
- Cashflow may not support cost of protection products.
- Cashflow needed for future Pension contributions/no current pension contributions/£3,600 max.
- May not be able to retire at 60.
- Business reliant on them/may not be saleable.
- Reduces options for mortgage/loans/Reduced credit score.
- Limited State Benefits available/no National Insurance (NI) credits for State Pension.

Model answer for Question 2

(a)

- No life cover other than for mortgage/no cover for survivor.
- No Income Protection Insurance (IPI)/Critical Illness Cover (CIC)/Private Medical Insurance (PMI)/Accident Sickness Unemployment cover (ASU).
- Income Protection not available at present/no earned income forIPI.
- No Lasting Power of Attorney (LPA)/Pension nominations.
- No NI contributions for future State benefits.
- Need PMI for quick return to work/speedy treatment.
- Cover needed for Business (only source of income)/no keyman cover/no cover for replacement staff if either sick/die.
- Complex/professional Trustees may be needed (on second death).
- Shareholder agreement needed (protects survivor).
- Affordability/budget/priority.

(b)

- Relevant Life policy (RLP).
- Employer is policy owner/premiums paid by company.
- Lives assured are Alan and Lydia/two single life policies.
- Sum Assured based on client needs/company profits/not salary (£200,000+).
- Term to age 60/may offer continuing cover.
- Premiums are deductible for Corporation Tax/allowable expense.
- Written In Discretionary Trust.
- Benefits paid tax-free to survivor/tax-free lump sum.
- Relevant Life policy is not a benefit in kind (BIK)/no tax charge for Alan or Lydia.
- Not liable to Inheritance Tax (IHT)/proceeds outside estate.
- Relevant Life policies do not count for lifetime allowance (LTA) purposes.
- In good health/simple underwriting.

Model answer for Question 3

(a) **Benefits**

- Certainty of cost;
- whilst business being established.
- Fixed rate likely to be lower/improved affordability for other objectives.
- Reduces interest rate risk.

Drawbacks

- Likely to have early repayment charges.
- Limited overpayments (if business performs well).
- Set-up charges/application fees/upfront charges.
- May have difficulty obtaining fixed-rate due to employment status/rate offer may be higher than normal/affordability criteria.

(b)

- Transfer existing pension plans to SIPP/SSAS.
- SIPPs can take loan of 50% of value/SSAS = 50% scheme assets.
- Alan can borrow £47,500/Lydia can borrow £40,000/£87,500.
- £262,500 available to purchase property/affordable.
- Self-invested personal pension (SIPP)/Small Self-Administered Scheme (SSAS) pays insurance and other costs (maintenance etc).
- Does not use personal assets/maintains personal liquidity.
- Company must pay rent at commercial rate.
- Rent is allowable expense for business.
- Rent is not a pension contribution/is not part of annual allowance (AA).
- Potential Tax-free growth.
- Pension is IHT-free.
- Protection from creditors.

Model answer for Question 4

(a)
- Portfolio to meet attitude to risk (ATR)/risk-adjusted.
- Rebalance/able to act quickly/review against target.
- They have limited time/just set up new company.
- Discretionary fund Manager (DFM) carries out all admin/provides tax certificates.
- Improved tax-efficiency/can use unused ISA allowances/Capital Gains Tax (CGT) allowances each year.
- DFM expertise/professional management.
- May use alternatives/specialist funds/hedge funds.
- Greater returns/Alpha.
- Can tailor portfolio to meet their exact ethical criteria.
- Ethical funds are complex/difficult to assess Environmental, Social and Governance (ESG)/DFM carries out ESG research/‘green-washing’/positive/negative screening.

(b) *Candidates would have scored full marks for any ten of the following:*

- New business/future drawings unknown/no earned income.
- They may need funds to invest in business/future contracts not guaranteed.
- Lack of affordability/high monthly expenditure.
- Need liquidity/cash reserves only cover 3 years expenditure.
- They have young children so need larger emergency fund.
- Inadequate protection/no business protection.
- Current volatile markets/economic uncertainty/not best time to invest lump sum/short-term loss in capital.
- Benefit from pound cost averaging;
- reduces volatility/improves returns.
- £40,000 ISA allowance/large lump sum may exceed allowance.
- Low capacity for loss (CFL)/cannot afford to lose money.
- Need flexibility/can stop and start when needed.

Model answer for Question 5

(a)

- No earned income/relying on saving/no ability to borrow.
- No security of employment/own company/main income source.
- Not eligible for State benefits.
- Company earnings not guaranteed/future profits unknown.
- High level of essential expenditure/monthly mortgage.
- High level of debts/mortgage/interest rate risk on mortgage.
- Two children/financial dependants.
- No protection for ill health/Critical Illness/inadequate life cover.
- Limited pension benefits/no current pension contributions.
- Low capacity for loss.
- Inflation risk on cash/fixed interest/interest-rate risk.
- Adventurous ATR/holding risk-based investments/market risk.

(b) *Candidates would have scored full marks for any fourteen of the following:*

- Make personal pension contributions.
- Tax relief of 20%/marginal rate of tax.
- Employer contributions (when affordable).
- £40,000 per annum/carry forward may be available.
- Not a Benefit in Kind (BIK)/saves NI/reduces Corporation Tax.
- Switch funds to match ATR/better growth prospects.
- Reduce cash balances/invest surplus cash.
- Current low interest rates/inflation risk.
- Use ISA allowances/switch cash ISA to S&S ISA/use LISA.
- Tax-free growth (on ISA and Pension)/25% bonus on LISA.
- Set up regular contributions to use pound cost averaging.
- To improve returns/reduces volatility.
- Review expenditure/cut excess discretionary spending.
- Identify target income required/use cashflow modelling.
- Check BR19 to confirm State Pension/make voluntary NI contributions.
- Purchase commercial property in pension for tax-efficiency/long-term growth.

Model answer for Question 6

(a)
- Salary within Personal Allowance so no Income Tax due.
- Salary reduces Corporation Tax liability.
- Would qualify for State Pension benefits/Statutory Sick Pay.
- Could structure salary to qualify for Child Benefit.
- Low employer/employee NI cost.
- Lower Earnings Limit is £6,240/primary threshold is £9,568.
- Employment Allowance available for directors.
- Can take Dividends based on profits.
- Can use Dividend Allowance of £2,000 each.
- Dividend tax of 7.5%/32.5% (on dividends above £2,000).
- No NI on dividends.
- Can meet overall expenditure without triggering higher rate tax (HRT).

(b) *Candidates would have scored full marks for any seven of the following:*

- Company is a trading business/qualifying trading asset.
- Unlisted/private company.
- Not an investment business.
- Eligible for Business Relief (BR);
- after 2 years/currently not eligible.
- Shares pass to survivor on first death tax free.
- Shares held in trust for children if below 18 (on second death).
- Shares can be passed on free of Inheritance Tax (IHT)/saving 40% IHT.

Model answer for Question 7

(a)
- Do not match ATR/both have adventurous ATR.
- Limited diversification.
- All assets closely correlated/concentration risk.
- Unlikely to match ethical criteria.
- Currency risk on Global Fixed-Interest.
- Inflation risk (on Fixed-Interest funds).
- Default risk/credit risk (on Fixed-Interest funds).
- Interest-rate risk (on Fixed-Interest funds).
- Limited growth prospects/will not meet objective of retiring at 60.
- Unsuitable for long-term holdings/long time frame.

(b)
- Current charges/employer subsidised charges.
- Fund Switching charges.
- Fund options/ethical funds available?/performance.
- Any guaranteed options/guaranteed investment returns?
- On-line access/ease of administration.
- Transfer value/cost of transfer (e.g. advice costs).
- Plans to purchase commercial property/permitted investment?

Model answer for Question 8

(a)
- Matches their ATR.
- Potential capital growth on investments/should outstrip mortgage interest.
- Improves prospect of retiring at 60.
- Interest rate on mortgage is low/cheap to retain/affordable.
- Can use pension tax relief/unused ISA allowances.
- Accessibility/retains liquidity/cannot withdraw money from mortgage/retains flexibility.
- Long timeframe for investment/can ride out volatility/pound cost averaging.
- Repayment mortgage so strategy already in place.

(b)
- Current health/change in personal circumstances.
- Their finances/Capacity for Loss/salaries/dividends/affordability.
- Current business profits/turnover.
- Any new liabilities/debts/business loans?
- Did they set up new protection policies/need?
- Review sum assured needed for life policies/mortgage balance/new protection products available.

Glossary of terms

Some abbreviations candidates can use in financial planning online exams:

1. ATR – attitude to risk
2. BRT – Basic rate taxpayer
3. BIK – Benefit in kind
4. CLT – Chargeable Lifetime Transfer
5. CFL – capacity for loss
6. CGT – Capital Gains Tax
7. DOV – Deed of variation
8. DIS – Death-in-Service
9. DFM – Discretionary Fund Manager
10. ESG – Environmental, Social and Governance
11. EPT – Excluded Property Trust
12. EPA – Enduring Power of Attorney
13. ERC – Early repayment charges
14. FAD – flexi access drawdown
15. FSCS – Financial Services Compensation Scheme
16. FOS – Financial Ombudsman Service
17. GAR – guaranteed annuity rate
18. HRT – Higher rate taxpayer
19. IHT – Inheritance Tax
20. IT – Income Tax
21. IVA – Individual Voluntary Arrangement
22. LPA – Lasting Power of Attorney
23. LTA – lifetime allowance
24. MVR – market value reduction
25. MPAA – money purchase annual allowance
26. NICs – National Insurance contributions
27. NPA – Normal pension age
28. NRA – Normal retirement age
29. NRB – nil rate band
30. OPG – Office of the Public Guardian
31. OEIC – open ended investment company
32. PAYE – Pay As you Earn
33. PPP – personal pension plan
34. PCLS – pension commencement lump sum
35. PA – Personal Allowance
36. PSA – Personal Savings Allowance
37. RAC – retirement annuity contract
38. RNRB – residence nil rate band
39. SIPP – self-invested personal pension plan
40. SEIS – Seed Enterprise Investment Scheme
41. UFPLS – uncrystallised fund pension lump sum
42. VCT – Venture Capital Trust

All questions in the May 2022 paper will be based on English law and practice applicable in the tax year 2021/2022, unless stated otherwise and should be answered accordingly.

The Tax Tables which follow are applicable to the February and May 2022 examinations.

INCOME TAX

RATES OF TAX	2020/2021	2021/2022
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	£37,500	£37,700
Threshold of taxable income above which additional rate applies	£150,000	£150,000

Child benefit charge:
1% of benefit per £100 of adjusted net income between £50,000 – £60,000

*Only applicable to savings income that falls within the first £5,000 of income in excess of the personal allowance

Dividend Allowance	£2,000	£2,000
Dividend tax rates		
Basic rate	7.5%	7.5%
Higher rate	32.5%	32.5%
Additional rate	38.1%	38.1%
Trusts		
Standard rate band	£1,000	£1,000
Rate applicable to trusts		
- dividends	38.1%	38.1%
- other income	45%	45%

MAIN PERSONAL ALLOWANCES AND RELIEFS		
Income limit for Personal Allowance *§*	£100,000	£100,000
Personal Allowance (basic) *§*	£12,500	£12,570
Married/civil partners (minimum) at 10% *†*	£3,510	£3,530
Married/civil partners at 10% *†*	£9,075	£9,125
Marriage Allowance	£1,250	£1,260
Income limit for Married Couple's Allowance*†*	£30,200	£30,400
Rent a Room scheme – tax free income allowance	£7,500	£7,500
Blind Person's Allowance	£2,500	£2,520
Enterprise Investment Scheme relief limit on £2,000,000 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.
*** Investment above £1,000,000 must be in knowledge-intensive companies.*

Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,830	£2,845
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£16,385	£16,480

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	**Weekly**
Lower Earnings Limit (LEL)	£120
Primary threshold	£184
Upper Earnings Limit (UEL)	£967

Total earnings £ per week	**CLASS 1 EMPLOYEE CONTRIBUTIONS**
Up to 184.00*****	Nil
184.00 – 967.00	12%
Above 967.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £120 per week. This £120 to £184 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 170.00**	Nil
170.00 – 967.00	13.8%
Excess over 967.00	N/A

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £3.05 where profits exceed £6,515 per annum.
Class 3 (voluntary)	Flat rate per week £15.40.
Class 4 (self-employed)	9% on profits between £9,568 - £50,270. 2% on profits above £50,270.

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 & 2013/2014	£1,500,000
2014/2015 & 2015/2016	£1,250,000
2016/2017 & 2017/2018	£1,000,000
2018/2019	£1,030,000
2019/2020	£1,055,000
2020/2021 & 2021/2022	£1,073,100

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.

ANNUAL ALLOWANCE

TAX YEAR	ANNUAL ALLOWANCE
2015/2016	£40,000~
2016/2017 – 2021/2022	£40,000*

~ increased to £80,000 for pension input between 6 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.

**reducing by £1 for every £2 of 'adjusted income' over £240,000 to a minimum of £4,000 if 'threshold income'is also over £200,000.*

MONEY PURCHASE ANNUAL ALLOWANCE	2020/2021	2021/2022
	£4,000	£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	2020/2021	2021/2022
Individuals, estates etc	£12,300	£12,300
Trusts generally	£6,150	£6,150
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%
Business Asset Disposal Relief* – Gains taxed at:	10%	10%
Lifetime limit	£1,000,000	£1,000,000

**For trading businesses and companies (minimum 5% employee or director shareholding) if held for at least two years.*

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2020/2021	2021/2022
Transfers made on death		
- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
Transfers		
- 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*	£175,000	£175,000
- 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%

PRIVATE VEHICLES USED FOR WORK

	2020/2021 Rates	2021/2022 Rates
Cars		
On the first 10,000 business miles in tax year	45p per mile	45p per mile
Each business mile above 10,000 business miles	25p per mile	25p per mile
Motorcycles	24p per mile	24p per mile
Bicycles	20p per mile	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2020/2021	2021/2022
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£1,000,000	£1,000,000
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	6%	6%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Electric charging points	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

Motor cars: Expenditure on or after 1 April 2016 (Corporation Tax) or 6 April 2016 (Income Tax)

CO_2 emissions of g/km:	50 or less*	51-110	111 or more
Capital allowance:	100% first year	18% reducing balance	6% reducing balance

**If new*

MAIN SOCIAL SECURITY BENEFITS

		2020/2021	2021/2022
		£	**£**
Child Benefit	First child	21.05	21.15
	Subsequent children	13.95	14.00
	Guardian's allowance	17.90	18.00
Employment and Support Allowance	Assessment Phase		
	Age 16 - 24	Up to 58.90	Up to £59.20
	Aged 25 or over	Up to 74.35	Up to £74.70
	Main Phase		
	Work Related Activity Group	Up to 74.35	Up to 104.40
	Support Group	Up to 113.55	Up to 114.10
Attendance Allowance	Lower rate	59.70	60.00
	Higher rate	89.15	89.60
Basic State Pension	Single	134.25	137.60
	Married	268.50	275.20
New State Pension	Single	175.20	179.60
Pension Credit	Single person standard minimum guarantee	173.75	177.10
	Married couple standard minimum guarantee	265.20	270.30
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Support Payment	Higher rate – First payment	3,500.00	3,500.00
	Higher rate – monthly payment	350.00	350.00
	Lower rate – First payment	2,500.00	2,500.00
	Lower rate – monthly payment	100.00	100.00
Jobseeker's Allowance	Age 18 - 24	58.90	59.20
	Age 25 or over	74.35	74.70
Statutory Maternity, Paternity and Adoption Pay		151.20	151.97

CORPORATION TAX

	2020/2021	2021/2022
Standard rate	19%	19%

VALUE ADDED TAX

	2020/2021	2021/2022
Standard rate	20%	20%
Annual registration threshold	£85,000	£85,000
Deregistration threshold	£83,000	£83,000

STAMP DUTY LAND TAX

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

Important note regarding Stamp Duty Land Tax (SDLT) and residential property purchases:

- **For purchases between 1 July 2021 and 30 September 2021, SDLT does not apply up to £250,000.**
- **For purchases above £250,000, the band rates above apply as normal.**
- **For purchases from 1 October 2021, the band rates above apply as normal.**

Additional SDLT rules still apply as below.

Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.

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

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

First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.

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