



Chartered
Insurance
Institute

AF5

Advanced Diploma in Financial Planning

Unit AF5 – Financial planning process

May 2022 Examination Guide

SPECIAL NOTICES

Candidates entered for the September 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

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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.psonline.com/phoenix/instant/launch?auth=EH6jtrqPu3J6znVp&username=ILDemo1&test=05a75b4f-1c90-4a74-a22d-ec4aa8d4ca48&autoopen=1&samewindow=1&theme=custom/alternative/CI>

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.**

- 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. To return to edit any answer you have already typed, you must press 'Answer' for the question you are already in otherwise it will not let you select a previous question you have answered to edit.

Chartered Insurance Institute | Prev | Nav | Next | Clear Highlight | Tools | Calculator | End Test | 174:27

AF1 October 2019

SECTION A
This question is compulsory and carries 80 marks

Question 1
Read carefully all information provided in the case study before attempting the questions. Your answers should take into account the client's circumstances as set out in the case study. Please carry out ALL of the tasks (a), (b), (c), (d) and (e) which follow.

Andrew, aged 63, a higher rate taxpayer has two adult children, Lance and Hayley. Lance is a basic rate taxpayer and Hayley is a non-taxpayer. Hayley needs regular care as a result of the injuries she suffered in a motor accident when she was a child. Lance has two young children both under the age of 10. Andrew's mother, Peggy, a widow, died on 1 March 2019 leaving her entire estate to Andrew. Peggy inherited her Aunt's estate of £400,000 in February 2016 following the payment of £30,000 Inheritance Tax (IHT) that was due following the administration of her estate. Peggy's estate was comprised of the following on her death:

House	£700,000
Deposit accounts	£323,000
Cash ISAs	£55,000
FTSE listed shares	£150,000
Collective investment portfolio	£101,000
Personal Pension nominated to a discretionary trust	£326,000

Peggy's husband Frank, died in 2016, leaving his share of their house and his residual estate to Peggy. Frank made only one gift in the seven years before he died. He settled £450,000 into a discretionary trust just under four years earlier. Inheritance Tax (IHT) of £23,800 was paid at outset by the trustees. Following Peggy's death, Andrew is the only remaining trustee.

Andrew is in discussions with his solicitors to draft a Will and they have suggested he arrange a Lasting Power of Attorney (LPA) for Property & Financial Affairs.

Andrew intends to make some provision for his children and grandchildren. His income is around £10,000 a year higher than his outgoings. He has a variety of savings accounts and an onshore life assurance bond invested in a managed fund which has performed well over the years.

To gain maximum marks for calculations you must show all your workings and express your answers to two decimal places.

1. (a) Calculate, showing all your workings, the IHT due as a result of Peggy's death on the 1 March 2019. (13)

Navigation: < Inf01 Inf02 Inf03 **1a** 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 >

Buttons: Flag Edit

- 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. Scroll up and down using the navigation bar.

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AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge:		
1% of benefit for every £100 of income over	£50,000	£50,000

*not applicable if taxable non-savings income exceeds the starting rate band of £5,000.

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

MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance †	£100,000	£100,000
Personal Allowance (basic)	£11,850	£12,500
Married/civil partners (minimum) at 10% †	£3,360	£3,450
Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance †	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

With regard to the discretionary trust established by Frank:

1. (b)(i) Explain to Andrew why IHT was payable when assets were placed into the trust and how it was calculated. No calculation is required. (6)

Navigation: < Inf01 Inf02 Inf03 **1a** **1b** 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06 >

Buttons: Flag Clear

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.

Chartered Insurance Institute

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Tools Calculator End Test 158:41

AF1 October 2019

INCOME TAX

RATES OF TAX	2018/2019	2019/2020
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	£34,500	£37,500
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Married/civil partners at 10% †	£8,695	£8,915
Marriage Allowance	£1,190	£1,250
Income limit for Married Couple's Allowance*	£28,900	£29,600
Rent a Room scheme – tax free income allowance	£7,500	£7,500

Answer

1a 1b 1c 1d 1e Inf04 2a 2b 2c 2d 2e Inf05 3a 3b 3c Inf06

Flag Clear

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

on-screen written exam demonstration (Demo 1)

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 most areas of the paper. Candidates demonstrated a high degree of understanding in respect of the client circumstances which were presented in the Fact Find, provided in advance of the examination.

Question 1 (a)

Part (a) was a standard Fact-Finding question. Most candidates performed well and were able to achieve good marks. It was noted that only a limited number of candidates recognised the need to obtain further information on Mike and Emma's regular savings plan in order to consider the suitability of this particular holding for the couple.

Question 1 (b)

Part (b) required candidates to outline to Mike and Emma the key factors that you would take into consideration when recommending a suitable investment strategy for their surplus income. General performance was good, and most candidates were able to outline most of the key factors for Mike and Emma.

Question 2 (a)

Part (a) required candidates to recommend and justify to Mike and Emma why making further pension contributions to their workplace pension plans might be more beneficial than investing further into their existing ISA plans. Overall performance was good. It was disappointing to note that only a minority of candidates recognised that only Mike was eligible to use carry forward in respect of pension contributions with many candidates incorrectly stating that Emma was able to use this facility. Some candidates would benefit from a careful review of the conditions under which tax-relievable carry forward pension contributions can be made.

Question 2 (b)

Part (b) asked candidates to explain to Mike why joining the new company Share Incentive Plan (SIP) might be suitable for him and to explain how this will operate. Performance was very good. This new SIP option was clearly identified in the Fact Find and candidates provided very good and detailed answers to this question and were able to explain why this would be a suitable option for Mike.

Question 3 (a)

Candidates were asked to identify to Mike and Emma five benefits and five drawbacks of re-mortgaging their property to fund the full cost of the proposed renovations. The majority of candidates performed very well and achieved high marks.

Question 3 (b)

Part (b) required candidates to explain to Mike and Emma why they should not use Emma's inherited SIPP to provide a lump sum to fund the full cost of the proposed property renovation. Well-prepared candidates performed very well and recognised that any large lump sum drawn from the SIPP would result in Emma becoming a higher rate taxpayer and losing her Personal Allowance. A limited number of candidates also recognised that this would have a further impact on her tax liabilities for both Capital Gains Tax (CGT) and Dividend Tax which would have an impact on other areas of their financial planning.

Question 4 (a)

Part (a) tasked candidates with identifying the key benefits for Mike and Emma of retaining the existing joint life first death life assurance policy. Most candidates performed well and were able to identify most of the key benefits of retaining this policy.

Question 4 (b)

Part (b) required candidates to explain to Mike and Emma the potential disadvantages for them if they decide to cancel the existing Private Medical Insurance (PMI) policy. Most candidates were able to explain most of the disadvantages but only a limited number of candidates identified the fact that any private treatment for major illness was likely to cost considerably more than the premiums on this policy. Given Mike and Emma's age and Mike's recent health diagnosis, this would be a potential disadvantage that should be explained to Mike and Emma.

Question 5 (a)

Part (a) focused on the tax considerations and options available to Emma in respect of managing and drawing benefits from her inherited SIPP when she retires. General performance was good although some candidates incorrectly stated that Emma could take a tax-free lump sum from the pension. It is important to note that Emma's father died after age 75 so all withdrawals from the plan would be subject to tax at Emma's marginal rate.

Question 5 (b)

This question required candidates to outline the key reasons why Emma should put in place a suitable long-term investment strategy for her late father's SIPP. Overall performance was good and most candidates were able to identify and outline the key reasons why this was important for Emma.

Question 6 (a)

In part (a) candidates were asked to recommend and justify a range of suitable actions that Mike and Emma can take in respect of their pensions and investments to improve their financial position in advance of their proposed retirement in ten years' time. General performance was good but only a small number of candidates recommended that Mike should join his company Share Incentive Plan. This offers significant tax benefits for Mike and it was disappointing to note that this was not recognised by the majority of candidates.

Question 6 (b)

Candidates were asked to explain to Mike and Emma the key benefits of using cashflow modelling to assist them in achieving their retirement objectives. Overall performance was very good and candidates demonstrated a good understanding of the benefits of cashflow modelling for Mike and Emma.

Question 7 (a)

Part (a) related to Mike's existing Investment Trust. Candidates were asked to identify the key factors that Mike should consider when deciding if he should retain or sell this Trust. General performance was reasonably good although some candidates failed to achieve high marks as they did not provide sufficient detail in their answers.

Question 7 (b)

Part (b) asked candidates to identify the key benefits for Emma of retaining the Global Equity Exchange Traded fund in her pension fund. Performance was very good with most candidates able to identify the key benefits of retaining this particular holding.

Question 8 (a)

Part (a) question asked candidates to explain to Mike and Emma why it is important to keep their regular savings plans under review. Most candidates performed very well and were able to identify the majority of the reasons why these plans should be kept under review.

Question 8 (b)

Part (b) required candidates to identify seven key issues that should be discussed with Mike and Emma in respect of their personal circumstances at the next annual review meeting. Performance was disappointing as only a minority of candidates recognised that this question related to their **personal** situation, rather than their specific financial circumstances. As a result, only a few candidates were able to achieve high marks.

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 Rees.

PART 1: BASIC DETAILS

	Client 1	Client 2
Surname	Rees	Rees
First name(s)	Mike	Emma
Address	Leeds	Leeds
Date of birth	11.03.1967	15.01.1969
Domicile	UK	UK
Residence	UK	UK
Place of birth	Stafford	Chester
Marital status	Married	Married
State of health	Good	Good
Family health	Good	Good
Smoker	No	No
Hobbies/Interests	Walking, Cricket	Walking, Travel

Notes:

Mike and Emma are both in good health, but Mike has recently been diagnosed with high blood pressure. They wish to review their financial position following the recent death of Emma's father.

Their children have graduated from university and Mike and Emma now have surplus funds which they wish to invest for the future. They have asked for your assistance in carrying out a full review of their current situation.

PART 2: FAMILY DETAILS

Children and other dependants

Name	Relationship	Age	Health	Occupation	Financially dependent?
Sam	Son	24	Good	Surveyor	No
Jenna	Daughter	22	Good	Accountant	No

Notes:

Sam and Jenna have both left university and taken up employment. They are now financially independent.

PART 3: EMPLOYMENT DETAILS		
Employment	Client 1	Client 2
Occupation	Purchasing Manager	Conveyancing Solicitor
Job title		
Business name	Global QZ PLC	
Business address		
Year business started		
Remuneration		
Salary	£54,000	£30,000
State Pensions		
Overtime		
Benefits-in-kind		
Pension Scheme	See Part 11	See Part 11
Life cover	See Part 8	See Part 8
Private Medical Insurance		
Income Protection Insurance		
Self-Employment		
Net relevant earnings		
Accounting date		
Partnership/Sole trader		
Other Earned Income		
Notes:		
<p>Mike has worked for Global QZ PLC for 25 years. He intends to remain with the company until he retires in 10 years' time. Mike works from home and intends to continue to work on this basis for the remainder of his career. The company has set up a new Share Incentive Plan for employees and Mike has been offered the opportunity to join this scheme. The Share Incentive Plan has been set up to take advantage of the full benefits available to employees under these schemes.</p> <p>Emma has worked as a Conveyancing Solicitor for the same practice for the past 30 years. She now works part-time and intends to continue working on this basis until they both retire in 10 years' time.</p>		
Previous Employment	Client 1	Client 2
Previous employer		
Job title		
Length of service		
Pension benefits		
Notes:		
<p>Neither Mike nor Emma has any benefits from previous employment.</p>		

PART 4: OTHER PROFESSIONAL ADVISERS

	Client 1	Client 2
Accountant		
Bank	Access Bank	Access Bank
Doctor	Dr Knowles	Dr Knowles
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)		54,000		30,000		
Benefits-in-kind						
Savings income (interest)						350
Dividends		3,750				2,500

Notes:

Mike and Emma's dividend income is generated from Mike's Investment Trust and the jointly-held Unit Trust. The income from both of these holdings is paid out to them.

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

Notes:

Expenditure

Household Expenditure	Monthly £			Annually £		
	Client 1	Client 2	Joint	Client 1	Client 2	Joint
Mortgage/Rent						
Council tax			183			
Buildings and contents insurance						200
Gas, water and electricity						2,080
Telephone/Mobile	40	40	50			
TV licence and satellite			70			
Property maintenance						1,800
Regular Outgoings						
Life assurance (see Part 8)			30			
Health insurance (see Part 9)						2,800
Savings Plans (see Part 10)			400			
Car tax, insurance and maintenance				1,400	1,100	
Petrol and fares	140	100				
Loans						
School fees						
Childcare						
Further education						
Subscriptions						
Food, drink, general housekeeping			600			
Pension contributions (see Part 11)	180	100				
Other Expenditure						
Magazines and newspapers						124
Entertainment						
Clubs and sport				900	600	
Spending money						2,000
Clothes						1,200
Other (Holidays)						4,000
Total Monthly Expenditure	360	240	1,333			
Total Annual Expenditure				2,300	1,700	14,204
Total Outgoings	4,320	2,880	15,996	2,300	1,700	41,400

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

Notes:

Mike and Emma are planning to renovate and extend their property over the next year to enable Mike to continue to work from home. They estimate that this will cost £100,000.

PART 6: ASSETS

	Assets	Client 1 £	Client 2 £	Joint £	Income (Gross) £
1.	Main residence			600,000	
2.	Contents/car			65,000	
3.	Current account			7,000	
4.	Deposit Savings Account – Fixed-Rate			35,000	350
5.	Stocks and shares ISAs – Global Equity fund	95,000			
6.	Stocks and shares ISAs – Emerging Markets fund		62,000		
7.	Investment Trust – UK Equity Trust	125,000			3,750
8.	Unit Trust fund – UK Tracker (See Part 10)			80,000	2,500

Notes:

Mike and Emma own their property on a joint-tenancy basis. This is mortgage-free as they repaid their outstanding mortgage eight years ago.

Mike and Emma have a portfolio of ISA and Non-ISA holdings which have performed well. The ISA funds are invested in accumulation units. The dividend income from the Investment Trust and Unit Trust is paid out to Mike and Emma on a regular basis. This dividend income was used to provide funds to assist the children whilst they were at university. Mike and Emma do not require any additional income now that both children are financially independent.

The Investment Trust was purchased by Mike using the proceeds of an inheritance from his mother who died eight years ago. The original sum invested was £60,000 and no further investments or disinvestments have been made since the original purchase.

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:

Mike and Emma do not have a mortgage as they repaid this using part of Mike’s inheritance from his mother.

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

Notes:

Mike and Emma do not have any other loans.

Other Liabilities (e.g. tax)

Notes:

PART 8: LIFE ASSURANCE POLICIES

Life/Lives assured	Ownership	Sum assured £	Premium £	Term	Start date	In trust?	Surrender Values £
Joint	Joint	175,000	30 per month	25 years	2002	No	N/A
Mike	Employer	162,000	N/A			Yes	N/A
Emma	Employer	90,000	N/A			Yes	N/A

Notes:

Mike and Emma have a joint life first death level term policy which was set up to protect their mortgage. They repaid the mortgage eight years ago. They have retained the policy as additional life cover.

Both Mike and Emma have Death-in-Service benefits from their employers which pay out on death whilst in service. Both policies have up-to-date nominations in favour of the surviving spouse.

PART 9: HEALTH INSURANCE POLICIES

Type	Life Covered	Current Sum Assured £	Start Date	Term/Review	Deferred Period	Premium £
Private Medical Insurance	Joint	N/A	2012	Annual review	N/A	2,800

Notes:

Mike and Emma have a joint Private Medical Insurance policy which costs £2,800 per annum. This has been in force for ten years and they have never made a claim on this policy.

Mike and Emma are unhappy with the continuing rise in premiums each year and they are considering cancelling this policy.

PART 10: REGULAR SAVINGS

Type	Company	Ownership	Fund	Amount Saved £	Sum Assured	Maturity Date	Current Value £
Unit Trust		Joint	UK Tracker	400 p.m.			80,000

Notes:

Mike and Emma have been investing regularly into a UK Tracker Unit Trust for many years. They invest £400 per month but feel that they are now able to increase this regular level of investment.

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		
Contribution Level (employee)		
Contribution Level (employer)		
Fund type		
Fund value		

Notes:

Mike and Emma have no 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:

Mike and Emma do not have any Additional Voluntary Contribution plans.

Personal Pensions

	Client 1	Client 2
Type	Employer Workplace pension scheme	Employer Workplace pension scheme
Company	UK Life Ltd	UK Life Ltd
Fund	Global Equity Tracker/UK Managed fund	US Equity Tracker/Global Equity Exchange Traded fund (ETF)
Contributions	5% employer/5% employee	5% employer/5% employee
Retirement date	65	65
Current value	£185,000	£148,000
Date started	1997	1992

Notes:

Mike and Emma have been members of their employer workplace pension schemes for many years.

Both plans have nominations in place for each other although they have not updated these for several years.

Previous/other pension arrangements

	Client 1	Client 2
Employer		
Type of scheme		Inherited SIPP
Date joined scheme		
Date left		
Current Value		£180,000

Notes:

Emma is the sole nominated beneficiary under her late father's self-invested personal pension (SIPP). This is currently held in cash as Emma's father decided to liquidate the investment portfolio when he became seriously ill last year. This SIPP has now been transferred to Emma's name.

State Pension

	Client 1	Client 2
State Pension		

Notes

Neither Mike nor Emma have ever checked their State Pension entitlement.

PART 12: INHERITANCES

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

Notes:

Mike and Emma have mirror Wills which leave their entire estates to the survivor and then to the children in equal shares on second death.

They do not have Lasting Powers of Attorney but are considering setting these up in the near future with each other as Attorney and their children as replacement Attorneys.

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 expected	None	£300,000

Notes:

Emma's father died last year, aged 78. Emma's mother who is currently aged 72 has sufficient income to maintain her lifestyle. Emma expects to receive an inheritance of perhaps £300,000 but this will not be in the immediate future as her mother is in good health.

PART 13: ATTITUDE TO RISK

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

Notes:
<p>Mike and Emma have each completed a full risk-profiling assessment and have been identified as medium to high-risk investors. They have a high capacity for loss.</p> <p>Mike and Emma do not wish to place any restrictions on their portfolio in respect of ethical investments and have stated that they are happy to invest in all areas.</p>

PART 14: BUSINESS RECORDS

Compliance		
Date fact-find completed	01.05.22	
Client agreement issued	01.05.22	
Data Protection Act	01.05.22	
Money laundering	01.05.22	
Dates of meetings		
Marketing		
Client source		
Referrals		
Documents		
Client documents held		
Date returned		
Letters of authority requested		

Notes:

PART 15: OTHER INFORMATION

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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.
- **Tax tables are provided at the right-hand side of the interface after the question paper, this is different to the multiple choice exams.**
- 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

- Assess the suitability and tax-efficiency of their current financial arrangements.
- Identify a suitable investment plan for their surplus income.
- Consider an appropriate method of funding for the house renovations.
- Set up a suitable investment strategy for Emma's inherited self-invested personal pension (SIPP).

Longer-term objectives

- Consider the merits of self-insuring for future private medical costs.
- Ensure they can meet their objective of retiring in 10 years' time.

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 Mike and Emma on the suitability and tax-efficiency of their current pensions and investments. (12)
- (b) Outline the key factors that you would take into consideration when recommending a suitable investment strategy for Mike and Emma's surplus income. (12)
2. (a) Recommend and justify to Mike and Emma why making further pension contributions to their workplace pension plans might be more beneficial than investing further into their existing ISA plans. (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 Mike why joining the new company Share Incentive Plan might be suitable for him and explain how this will operate. (12)
3. (a) Identify **five** benefits and **five** drawbacks for Mike and Emma of re-mortgaging their property to fund the full cost of the proposed renovations. (10)
- (b) Explain to Mike and Emma why they should not use Emma's inherited self-invested personal pension (SIPP) to provide a lump sum to fund the full cost of the proposed property renovation. (12)
4. (a) Identify the key benefits for Mike and Emma of retaining the existing joint life first death life assurance policy. (10)
- (b) Explain to Mike and Emma the potential disadvantages for them if they decide to cancel the existing Private Medical Insurance policy. (8)

PLEASE ENSURE YOU ANSWER EACH QUESTION IN THE CORRECT ANSWER BOX

5. (a) Explain in detail to Emma the tax considerations and options available to her in respect of managing and drawing benefits from her inherited self-invested personal pension (SIPP) when she retires. (12)
- (b) Outline the key reasons why Emma should put in place a suitable long-term investment strategy for her late father's SIPP. (10)
6. (a) Recommend and justify a range of suitable actions that Mike and Emma can take in respect of their pensions and investments to improve their financial position in advance of their proposed retirement in ten years' time. (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 Mike and Emma the key benefits of using cashflow modelling to assist them in achieving their retirement objectives. (8)
7. (a) Identify the key factors that Mike should consider when deciding if he should retain or sell his existing UK Equity Investment Trust. (10)
- (b) Identify the key benefits for Emma of retaining the Global Equity Exchange Traded fund in her pension fund. (6)
8. (a) Explain to Mike and Emma why it is important to keep their regular savings plans under review. (7)
- (b) Identify **seven** key issues that you would discuss with Mike and Emma in respect of their personal circumstances at your next annual review meeting. (7)

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:*

- Emergency fund requirements.
- Future capital needs (e.g. helping children).
- Pension contribution history/carry forward available?
- Employer matching/salary sacrifice available?
- Use of tax allowances/Capital Gains Tax (CGT) exemption/ISA allowance/carried forward losses.
- Total contributions to savings plan/CGT calculation/base costs.
- Willingness to transfer assets to use Emma's allowances.
- Performance/projections/investment trust trading at premium?
- Fund choice/asset allocation/charges.
- Share Incentive Plan details/amounts?
- Nomination updated (on inherited self-invested personal pension (SIPP) plan?)
- Platform/ease of administration?
- BR19/State pension entitlement.

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

- Amount available to invest/amount willing to invest.
- Emergency fund needs/capital needs/planned expenditure.
- How do they plan to fund the renovations?/any future mortgage costs?
- Objective (for retirement?)/income in retirement.
- Timeframe for investment.
- Inflation.
- Growth expectations/performance expectations.
- Charges.
- Diversification/consider existing asset allocation.
- Accessibility/liquidity.
- Available tax allowances/Mike is close to higher rate tax (HRT) band/unused Dividend Allowance (DA).
- Any change to salary/bonuses expected?
- Medium to high attitude to risk (ATR)/high capacity for loss (CFL).

Model answer for Question 2

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

- 40% tax relief for Mike/20% for Emma (marginal rate).
- No tax relief on ISA contributions.
- Pension contributions extends BR band/Mike no longer HRT/reduces dividend tax/CGT for Mike.
- Pension is IHT free/ISA forms part of estate.
- Flexible death benefits/can nominate anyone.
- ISA can only be inherited tax-free by spouse/Additional Permitted Subscription (APS).
- Pension fund can remain Income tax-free down to the next generation (on death before 75).
- Higher contributions allowed/up to Annual Allowance/100% salary/ISA limited to £20,000 each per annum (p.a).
- Mike can use carry forward (earns over £40,000 p.a.).
- Employer may match higher contributions.
- Ease of administration/employer scheme/deducted from salary/salary sacrifice.
- Pension protected from creditors/ISA is not protected/no probate on personal pension plan (PPP).
- May have lower charges (as employer scheme).

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

- Tax-efficient method of saving/surplus income/affordable.
- No admin required for Mike/Contribution taken from gross salary/No National Insurance (NI).
- Could invest up to lower of £1,800 per annum/10% of salary.
- Employer could give free shares (up to £3,600 per annum).
- 2 for 1 matching shares from employer.
- May purchase further shares with Dividends.
- No Income Tax if Dividend shares are retained for 3 years.
- To retain Income Tax benefits must hold for 5 years.
- No CGT on sale of shares on maturity/at 5 years.
- CGT applies if retained outside plan after maturity.
- Can transfer to ISA on maturity within 90 days.
- Capital growth/matches ATR/he knows the company.
- Shares are held in Trust.

Model answer for Question 3**(a) Benefits**

- Low interest rates at present/affordable/surplus income.
- High level of equity in property/easy to re-mortgage.
- Retains investments for growth/investment returns could beat interest/matches ATR.
- Retains tax-efficiency of SIPP/ISA/avoids CGT charges.
- Existing life cover already in place.

Drawbacks

- Monthly cost/additional expenditure/arrangement fees/costs/charges/ short timeframe to repay.
- Reduces surplus income for future investment.
- Interest rate risk/rates could rise.
- Administrative inconvenience.
- Currently debt-free/may not wish to take out further debt.

(b)

- Father died after age 75 so all income/capital from SIPP is taxable at Emma's marginal rate.
- Withdrawal required of £100,000 net.
- Emma will be Higher Rate Taxpayer (HRT).
- Loses her Personal Allowance (PA) (as income over £125,140).
- Effective tax rate of 60% on income over £100,000.
- Increases her CGT to 20%/Dividend tax to 32.5%
- Loss of tax-free environment within SIPP.
- Loss of IHT-free SIPP.
- Reduces pension assets for retirement.
- SIPP could be used to manage tax when no longer earning/flexible access.
- Other assets available/loss of investment growth/other options e.g. mortgage.
- Cannot reinvest into SIPP as it is an inherited fund.

Model answer for Question 4

- (a)**
- Already underwritten/no need for further underwriting.
 - They are older/stricter underwriting criteria as they are over 50.
 - Mike now has a health condition/possible rating.
 - New policy may be more expensive/current policy is cheap.
 - No administration/no adviser charges for new policy.
 - Payment is tax free.
 - Could be placed in trust so IHT free.
 - Provides cover if they re-mortgage/they have limited cover.
 - Affordable/they have surplus funds/no surrender value.
 - Could provide lump sum to assist survivor with income/capital/helps survivor with retirement goals.
- (b)**
- Delay in treatment/no Income Protection (PHI) so they need quick return to work.
 - Private treatment may be unaffordable/future cover may not be available/current premiums are affordable.
 - Any treatment for major illness likely to cost more than premiums/private medical costs could affect retirement.
 - Payment in advance usually required/liquid assets needed.
 - No access to helpline/no regular health checks/loss of additional benefits e.g. dental or physiotherapy etc.
 - Administrative hassle when unwell/peace of mind.
 - Likelihood of claim increases as they get older.
 - Underwriting issues/Mike's health for underwriting.

Model answer for Question 5

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

- Father died after age 75 so all income/capital from SIPP is taxable at Emma's marginal rate.
- No pension commencement lump sum (PCLS).
- No age restriction on access/Emma can access now.
- No impact on money purchase annual allowance (MPAA).
- Can use flexi access drawdown (FAD)/drawdown/ad hoc/income/lump sum.
- Can purchase annuity using fund value.
- Use Basic Rate band in retirement/use Personal Allowance (PA)/avoid Higher Rate Tax.
- Does not have to draw from SIPP/can leave invested.
- Retains tax free wrapper (free from Income Tax/CGT).
- SIPP retains IHT-free status.
- Can nominate Mike/children as successors.
- Tax treatment reverts to age when she dies (under 75 tax-free).
- No lifetime allowance (LTA) test on Emma/she cannot contribute to this SIPP.

- (b)**
- Currently held in cash/no diversification/need to diversify.
 - No return after charges/negative return after charges.
 - Potential for tax-free growth.
 - Inflation risk/inflation currently rising/need inflation protection.
 - Does not need access/they have surplus income/capital.
 - No impact on current standard of living/they have capacity for Loss.
 - Meets ATR/wide range of funds/cash does not match ATR.
 - Matches objectives/retiring in 10 years.
 - Greater inheritance (for children).
 - Not subject to LTA check.

Model answer for Question 6

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

- Increase pension contributions for 40%/20% tax relief.
- Check for employer matching/salary sacrifice for NI saving.
- Use annual £20,000 ISA allowance every year/Bed & ISA.
- Tax free growth (Pension or ISA).
- Base cost of Unit trust/calculate gain.
- Use CGT exemption.
- Review existing funds/fund options/fund charges/diversify.
- Invest inherited SIPP.
- Make regular investments/pound cost averaging.
- To benefit from volatility/enable investment into higher risk funds/improve returns.
- Mike to join company Share Incentive Plan.
- Benefit from reduced Income Tax/NI/ Capital Gains Tax free in 5 years/free shares from employer.
- Transfer some of Investment Trust to Emma for reduced dividend tax/CGT exemption.

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

- Can assess ability to retire in ten years/assess shortfall.
- How much do they need to save?
- Market returns/growth required.
- Inflation.
- Can identify affordability of investment from surplus income.
- Do they need to take risk?/can match their ATR.
- Stress test.
- Future earnings/inheritances/downsize/unexpected costs.
- Impact of increased taxes/increased mortgage rates.
- Identify how long their capital would last/sustainability/safe withdrawal rate (SWR).

Model answer for Question 7

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

- Large gain/£65,000/it has performed well/potential for growth.
- May incur CGT charge on sale of 20%.
- Excess dividends taxed at 32.5%.
- Can transfer to Emma for reduced tax.
- Gearing? (can improve growth/may magnify losses).
- Is it trading at a premium/discount to Net Asset Value (NAV)?
- Liquidity/can deal/sell immediate/real time dealing.
- Does it include warrants?
- Wide range of permitted holdings/active management.
- Can Bed & ISA/can use CGT exemption/can use losses.
- Matches his ATR.
- Charges/Stockbroker charges.

- (b)
- Diversification.
 - Matches ATR/CFL.
 - Potential for high levels of growth/inflation hedge.
 - Low charges.
 - Pound cost averaging will improve returns/manage volatility.
 - Long investment timeframe/10 years.

Model answer for Question 8

- (a)
- Changes in personal circumstances/objectives/ATR/tax status.
 - Monitor performance/identify underperforming funds/rebalance.
 - Identify any shortfalls in target savings.
 - Affordability/windfalls/disposable income.
 - Any unused tax allowances/Bed & ISA?/pensions/Share Incentive Plan (SIP).
 - Economic/legislative changes/tax changes.
 - Costs/charges/cheaper products available/New products available/existing product still suitable.
- (b)
- Health/family health/Emma's mother's health/vulnerability status/change in family circumstances/divorce/death.
 - Private Medical Insurance (PMI) needed/likely medical needs/protection needs.
 - Plans to retire/Still retiring in 10 years?/children still financially independent.
 - Plans to move home/downsize.
 - Property renovation?
 - Travel plans/need to fund additional lifestyle expenses.
 - Lasting Power of Attorney (LPA)/Wills/nominations up-to-date?

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. SWR - Safe withdrawal rate
42. UFPLS – Uncrystallised fund pension lump sum
43. VCT – Venture Capital Trust

All questions in the September 2022 paper will be based on English law and practice applicable in the tax year 2022/20223, 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%
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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%	18%	6%
	first year	reducing balance	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%