



Chartered
Insurance
Institute

AF7

Advanced Diploma in Financial Planning

Unit AF7 – Pension transfers

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.

AF7 – Pension Transfers

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Published April 2022

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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 candidates' knowledge and their ability to apply this to a case study scenario. You can then use this understanding to help you in your preparation for the examination.

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

This 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.

There are books specifically produced to support your studies that provide coverage of all the syllabus areas; however, 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. The reading list which can be found with the syllabus provides valuable suggestions.

Note the assumed knowledge

For the Advanced Diploma in Financial Planning, candidates are assumed to have studied the relevant units of the Diploma in Financial Planning or the equivalent. This knowledge is set out on the relevant syllabus.

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 exam 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 are provided as part of the examination and 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 use your own tax tables in the examination.*

Know the structure of the examination

Assessment is by means of a two-hour online paper in two sections. All questions are compulsory:

Section A consists of 32 marks.

Section B consists of two case studies worth a total of 68 marks.

You will be expected to carry out a variety of tasks based upon the information provided.

Each question part will clearly show the maximum marks which can be earned.

Appreciate the standard of the examination

Candidates must demonstrate that they are capable of advising clients *whose overall levels of income and capital require a more sophisticated scheme of investment* than is normally prepared by a level 4 qualified adviser. These clients require a critical appraisal of the various financial planning options available to them.

Read the Assessment Information and Exam policies for candidates

Details of administrative arrangements and regulations which form the basis of your examination entry are available online at <https://www.cii.co.uk/learning/qualifications/assessment-information/>. This is *essential reading* for all candidates.

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/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 to go through the end-to-end process from logging in, to answering test questions, before the day of your exam. **We strongly advise that you try the demonstration test once you have received your login details and well in advance of the actual exam day to help pre-empt any potential exam day technical 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.

The screenshot displays the exam interface for AF1 October 2019. On the left, a case study is presented with a table of assets. On the right, the exam question is shown, including a table of assets and a 'Flag' button. A blue arrow points from the 'Edit' button in the bottom right to the 'Flag' button.

Case Study Assets Table:

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

Exam Question Assets Table:

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Navigation and Interface Elements:

- Chartered Insurance Institute logo and navigation buttons: Prev, Nav, Next, Clear Highlight.
- Tools menu: Tools, Calculator, End Test, 174:27 timer.
- Section A header: SECTION A, This question is compulsory and carries 80 marks.
- Question 1 header: 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.
- Bottom navigation: 1a, 1b, 1c, 1d, 1e, Inf04, 2a, 2b, 2c, 2d, 2e, Inf05, 3a, 3b, 3c, Inf06.
- Bottom right buttons: Flag, Edit.

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

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.

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)

(ii) Describe to Andrew why IHT was payable when his father died and how it was calculated. No calculation is required. (8)

(iii) State Andrew's duties as a trustee under the Trustee Act 2000. (12)

INCOME TAX AF1 October 2019

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

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.

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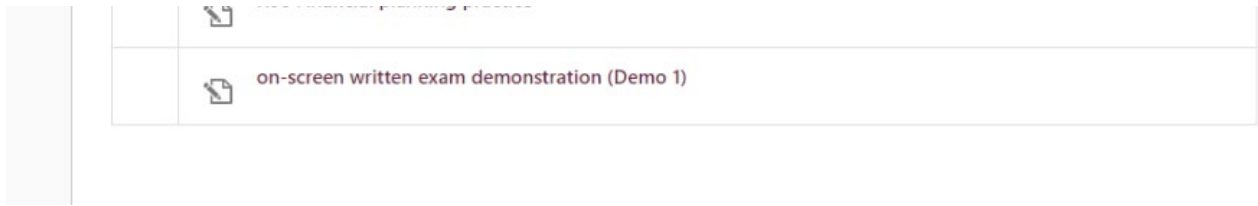
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Rent a Room scheme – tax free income allowance	£7,500	£7,500

4. On the day of the AF7 exam, please click AF7 Pension transfers



5. The above screenshot shows the point before the examination has started; you may wish to take a moment at this screen to 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: AF7 Pension transfers.

In the examination

The following will help:

Spend your time in accordance with the allocation of marks:

- The marks allocated to each question part are shown on the paper.
- If a question has just two marks allocated, there are likely to be only one or two points for which the examiner is looking for, so a long answer is wasting valuable time.
- Conversely, if a question has 12 marks allocated, a couple of lines will not be an adequate answer. Always remember that if the paper is not completed, your chances of passing will be reduced considerably.
- Do not spend excessive time on any one question; if the time allocation for that question has been used up, leave some space, go on to the next question and return to the incomplete question after you have completed the rest of the paper, if you have time. You can use the flag button to indicate which questions are incomplete.

Take great care to answer the question that has been set.

- Many candidates finish the examination confident that they have written a 'good' paper, only to be surprised when they receive a disappointing result. Often, the explanation for this lies in a failure to think carefully about what the examiner requires before answering.
- Highlighting key words and phrases is a technique many candidates find useful.
- The model answers provided in this Examination Guide would gain full marks. Alternative answers that cover the same points and therefore answer the question that has been asked would also gain full marks.

Tackling questions

Tackle the questions in whatever order feels most comfortable. Generally, it is better to leave any questions which you find challenging until you have attempted the questions you are confident about. Candidates should avoid mixing question parts, (for example, 1(a)(i) and (ii) followed by 2(b)(ii) followed by 1(e)(i) as this often leads to candidates unintentionally failing to fully complete the examination paper. This can make the difference between achieving a pass or a narrow fail.

It is vital to label all parts of your answer correctly as many questions have multiple parts to them (for example, question 1(a) may have parts (i), (ii) and (iii)). Failure to fully distinguish between the separate question parts may mean that full credit cannot be awarded. It is also important to note that a full answer must be given to each question part and candidates should not include notes such as 'refer to answer given in 1(b)(i)'.

Answer format

Unless the question requires you to produce an answer in a particular format, such as a letter or a report, you should use 'bullet points' or short paragraphs. The model answers indicate what is acceptable for the different types of question.

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.

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, even if you have used a calculator.

EXAMINERS' COMMENTS

General

Overall performance was in line with expectations and not particularly dissimilar to that on recent AF7 exam sessions.

Candidates continue to perform poorly in respect of the regulatory/compliance areas of the syllabus as represented by the particularly poor performance of most candidates on Question 1 of this paper.

We are starting to see a consistently better performance amongst candidates on questions involving death benefits and performance on questions that require candidates to identify the additional information required, before advice can be provided, remains very good.

Where questions ask candidates to use the information within the case study in answering the question, we still see a significant proportion of candidates either completely ignoring the information provided and instead simply listing generic questions or making a passing reference to the information without providing sufficient detail to gain a mark. For example, Question 10 on this paper asked candidates to use the information in the case study to explain the reasons why they would recommend that the client retains their benefits within the defined benefit scheme. Some candidates stated: 'I would want to know their capacity for loss?' which doesn't answer the question and others stated things like 'they have £30k in a cash ISA' which, whilst correct, draws no conclusion and simply repeats information within the case study as opposed to using the information to state why this is relevant – i.e. 'they have limited savings to fall back on' or 'they have limited capacity for loss' etc.

Question 1

Performance was disappointing here. This is a common theme with regulatory/compliance questions in the AF7 exam as candidates generally perform very poorly on these types of questions. Looking at the model answer within this exam guide, the most common marks obtained by candidates were points 1, 3 and 9 with very few candidates covering points 5 or 6.

Question 2

Candidate performance on this question was very good with most candidates gaining good marks and a high proportion gaining maximum marks. This area has been tested a couple of times in the last few years so it may well be the case that performance has improved as a result of past papers being utilised by candidates as part of their preparation or it may simply be because GMP benefits are a topical area for defined benefit schemes following the relatively recent Lloyds judgement that requires GMP benefits to be equalised.

Question 3

In part (a), most candidate were able to give a good description of sequencing risk to gain all three marks.

Performance on part (b) was also good but some candidates struggled to provide four strategies and often provided multiple answers that all related to the same point and therefore only one mark could be awarded. For example, stating: 'take less income from the pension' and 'use other assets for income' are both effectively the same thing so cannot each be awarded a mark.

Question 4

Overall performance was generally good on this question and most candidates gained full marks on part (b).

In part (a), quite a few candidates incorrectly stated that he would lose Fixed Protection 2012 either because a transfer creates a new arrangement (which isn't correct as a new arrangement created for the purpose of receiving a transfer is permitted) or because the transfer value was over the £1.8m LTA for Fixed Protection 2012 – again, this is irrelevant.

In part (c), quite a few candidates misunderstood the context of the question and stated things like:

- Take a partial transfer
- Ask the trustees to remove the enhancement
- Wait and transfer later when the enhancement doesn't apply

The first point isn't correct as a partial transfer on an enhanced basis would still invalidate Fixed Protection. In terms of the other two points, the question makes it clear that candidates should provide their answer in the context of Joseph having accepted the CETV with the enhancement included.

Question 5

The answers to this question were interesting and demonstrated a varied level of understanding amongst candidates in respect of the underlying TVC assumptions.

The scenario given in this question was in respect of someone who had already gone beyond their NRA. In these circumstances, the FCA requirements are for a TVC to assume immediate crystallisation. As a result, stating anything to do with TVC assumptions for charges or discounting are irrelevant as they would not be factored into the calculations on an immediate vesting basis.

A high proportion of candidates also stated that the TVC would be based on the NRA of the scheme which is incorrect where someone has gone beyond NRA.

Question 6

In part (a) most candidates got the obvious points (points 1, 2 and 5) with some candidates being awarded point 4 but very few getting point 3.

Most candidates got full marks on part (b) but performance on part (c) was similar to part (a) in that the obvious marks were obtained (points 1, 2 and 3) but the application-based marks (points 4 and 5) were not gained by many candidates.

Question 7

Part (a) was generally well answered but not all candidates picked up the wider tax treatment (over and above income tax) so missed the marks for the LTA tax charge and IHT treatment. A lot of candidates stated, 'assuming Aadan's wife dies before age 75' and whilst candidates were not penalised for this assumption, it is disappointing that candidates did not pick up on the fact that his wife must have been under 75 when she died on the basis that Aaden inherited 'uncrystallised' funds. Uncrystallised funds become 'unused' funds at age 75 as a Benefit Crystallisation Event occurs at age 75 with uncrystallised funds so it is impossible to have uncrystallised funds beyond age 75.

In part (b), most candidates picked up the obvious marks (points 1, 2 and 5) but only a small proportion gained full marks. Quite a few candidates stated that it would allow the administrators to pay benefits as income and whilst true, they would be able to do this anyway in the form of a nominee drawdown/annuity as no dependant exists. Some candidates went on to provide this extra detail in terms of the fact that dependants might exist in the future and therefore gained a mark for that but in itself stating that it would allow benefits to be paid as income was not a relevant answer for this particular scenario.

Question 8

This question was answered well by most candidates.

Question 9

Most candidates did well on this question, but some candidates still failed to use the information in the case study when preparing their answer.

Question 10

Most candidates gained at least half marks here which was encouraging. Where marks were not awarded it was often for not developing answers/providing additional detail. For example, stating 'the couple are in excellent health' was fine and gained a mark but a further mark could be obtained for then going on to explain why this supports a recommendation to stay in the defined benefit scheme as it 'will pay an income for life' or it 'has no longevity risk'.

Where a question asks candidates to 'explain' then simply stating facts will not gain full marks.

Question 11

There were some reasonable answers here, but a surprising number of candidates failed to cover all aspects of the question (i.e., policy type, term, basis for determining the sum assured and how the policy should be set up). For example, just stating a figure for a sum assured without explaining how that figure was determined does not give a 'basis for determining the sum assured' it just gives a 'sum assured' which is not what the question asked for.

Unit AF7 – Pension transfers

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

- **Two hours** are allowed for this paper which carries a total of 100 marks as follows:
- Section A: 32 marks
- Section B: 68 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.**
- Supplementary information is also included at the end of the tax tables on the right-hand side of the interface.
- 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 allowed.**
- Please familiarise yourself with **all** questions before starting the exam.

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

SECTION A

The following questions are compulsory and carry a total of 32 marks

1. An authorised financial adviser is providing full pension transfer advice to a client that is subject to the ban on contingent charging. They are about to issue a personalised charges communication as set out by the Financial Conduct Authority (FCA) in COBS 6.1A.

Outline the required content of the personalised charges communication. (8)

2. Adele, aged 57, is single. She was a member of a former employer's defined benefit pension scheme between 1982 and 2001. Adele has received a statement of entitlement that shows part of the scheme benefits are made up of a guaranteed minimum pension (GMP).

Outline the information you would consider, **in respect of the GMP benefits**, when evaluating a potential transfer of the cash equivalent value to a personal pension plan. (9)

3. Nasra has recently started taking withdrawals from her flexi-access drawdown plan to supplement the income from her State Pension.

(a) Explain to Nasra what is meant by sequencing risk. (3)

(b) Outline **four** strategies that could be used to reduce its potential impact. (4)

4. Joseph, aged 63, is a deferred member of a defined benefit pension scheme. This is his only pension scheme, and he holds Fixed Protection 2012.

He has recently been offered a Cash Equivalent Transfer Value (CETV) of £2.1 million. The statement of entitlement shows that this value has been enhanced by the scheme trustees.

(a) Explain briefly why Joseph would lose Fixed Protection 2012 if he accepted the CETV. (2)

(b) Outline the **drawbacks** of losing Fixed Protection 2012. (3)

(c) Explain the potential action Joseph could take to reduce the impact of losing Fixed Protection 2012 if he accepts the CETV. (3)

Total marks available for this question: 32

SECTION B

All questions in this section are compulsory and carry an overall total of 68 marks

Case study 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.

Aadan, aged 66, was widowed in 2021. His son Femi, aged 38, is not financially dependent. Aadan has recently retired and is in receipt of a full State Pension. Following the death of his wife, Aadan inherited her uncrystallised personal pension plan valued at £650,000 and has yet to notify the scheme in respect of how he will take these benefits.

Aadan has deferred benefits accrued under his former employer's defined benefit pension scheme and is considering his options in respect of these benefits. The scheme has confirmed that it is willing to pay a cash equivalent transfer value (CETV) even though he has passed the normal retirement age of the scheme. The benefits are summarised as follows:

	Harper Ltd
Date of joining scheme	March 1981
Date of leaving scheme	November 2003
Normal pension age (NPA)	65
Scheme pension at NPA	£22,000 per annum escalating at statutory minimum rates
Spouse's pension	50% of member's pre-commutation pension
Guaranteed period	5 years
Late retirement factor	7% per annum
Partial transfer	No
CETV	£770,000

Aadan, who is debt free, requires a net income of £1,800 per month to meet his essential expenditure requirements plus a further £500 to £700 per month to cover his lifestyle expenditure requirements. In addition, he would like to plan the occasional luxury holiday at a cost of around £5,000 to £7,000. Aadan is interested in transferring his benefits in Harper Ltd to cover this additional discretionary expenditure and to maximise the death benefits available to Femi.

Aadan's only other assets are £20,000 held in a cash ISA as an emergency fund and his main residence valued at £400,000. He has been assessed as having a moderate attitude to risk.

Questions

5. The transfer value comparator (TVC) shows that the cost of securing the scheme pension with an insurer would be much higher than the CETV.

Explain, giving your reasons, why the results of the TVC may not be a significant factor when deciding whether a transfer should be recommended for Aadan. **(8)**

6. You have recommended that Aadan accepts the CETV offered by Harper Ltd.

You have agreed with Aadan that he should use some of his pension funds to purchase a lifetime annuity paying £20,000 per annum net as this, along with his State Pension, will cover his essential and lifestyle expenditure requirements. The best annuity rate you can source is 5% on the basis recommended.

Explain why you have recommended that Aadan purchases a lifetime annuity that is:

- (a) Level in payment; **(5)**
- (b) 20-year guaranteed period; **(3)**
- (c) purchased from the pension funds left to him by his wife. **(4)**

7. Aadan would like his son Femi to receive both the remaining pension fund that he inherited from his wife and the fund he has transferred from the Harper Ltd pension scheme, following his death.

- (a) Outline the tax treatment of the two pension funds Femi could inherit from Aadan, assuming Femi elects to take the death benefits in the form of flexi-access drawdown (FAD). **(6)**
- (b) Explain briefly why it is important that Aadan completes a death benefit nomination form in favour of his son, Femi. **(4)**

Total marks available for this question: 30

Case study 2

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.

Gino, aged 53, is married to Etta, aged 42. They have two daughters, aged 5 and 8. Gino and Etta are both in excellent health and there is a history of longevity in their families.

Etta is employed on a salary of £45,000 per annum. She is a member of her company's workplace pension scheme which has a current fund value of £350,000.

Gino is self-employed. His earnings are usually in the region of £60,000 per annum, but his business has suffered as a result of the pandemic and his earnings have fallen to circa £25,000 per annum. Gino expects his business to start to recover within the next year.

The couple's home is valued at £560,000. It has an outstanding mortgage of £90,000, which is covered by a term assurance policy and will be repaid by the time Gino reaches age 60. They have savings of £30,000, currently held in cash ISAs. Their savings have been depleted over the last two years, but they hope to start saving again once Gino's earnings improve. The couple can both expect full State Pensions when they reach State Pension age. Both Gino and Etta have recently been assessed as having cautious attitudes to risk.

Gino's only private pension arrangement is a deferred pension held in a previous employer's contracted-in defined benefit pension scheme. Gino has recently received a statement of entitlement, which has provided the following information:

Scheme service	June 1988 – May 2015
Normal pension age (NPA)	65
Scheme pension at date of calculation	£24,000 per annum (gross)
Revaluation and escalation	Price inflation to a maximum of 5% per annum
Early retirement	Permitted from the age of 60 subject to an early retirement factor of 4% per annum
Spouse's pension (pre and post-retirement)	2/3 rd s of member's pension
Children's pensions (pre and post-retirement)	Payable at trustees' discretion
Pension commencement lump sum (PCLS)	By commutation at 25:1
Cash Equivalent Transfer Value (CETV)	£840,000 – partial transfers not permitted

Gino does not expect to retire until he reaches the age of 65, although he likes the idea of being able to reduce his working hours from the age of 60. Etta would ideally like to retire when Gino retires. The couple are unsure of their exact income requirements in retirement but feel that once their mortgage is repaid a net inflation-proofed income of £3,500 per month will be sufficient to cover their essential and discretionary expenditure needs. They also have a requirement for a further capital lump sum each year to support their daughters if they choose to go to university.

The couple would like advice about potentially transferring the benefits from Gino's deferred defined benefit scheme to a defined contribution arrangement to enable them to access their benefits flexibly and provide death benefits for Etta and their daughters.

Questions

8. State the additional information you would require from the scheme administrator of Gino's deferred defined benefit pension scheme, before making a personal recommendation regarding the potential transfer of his benefits from the scheme. (8)

9. Before advising on a potential transfer out of a defined benefit pension scheme it is important to assess Gino and Etta's capacity for loss.

Based on the information provided in the case study, explain in detail the factors you would consider when assessing their capacity for loss. (10)

10. You have recommended that Gino should leave his benefits preserved in the defined benefit pension scheme.

Based on the information provided in the case study, explain in detail the reasons for this recommendation. (12)

11. The couple wish to ensure they can provide financial support for their daughters whilst they are financially dependent upon them.

Recommend a cost-effective life insurance policy that could be set up for this purpose. Within your recommendation you should include an appropriate term, a basis for determining the sum assured and details of how the policy should be set up. *Calculations in respect of the sum assured are not required.* (8)

Total marks available for this question: 38

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

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

- All charges should be provided in cash terms;
- based on the actual CETV.

Including:

- Initial advice charges; and
 - ongoing charges that apply in the first year;
 - if the funds are to remain invested;
 - and the client opted for ongoing services;
 - ignoring any growth;
 - but after reducing the CETV for the initial charge.
- Statement that advice charges are payable in full whether the transfer proceeds or not.

Model answer for Question 2

Candidates would have scored full marks for any nine of the following:

- What method of revaluation is used (i.e., fixed revaluation/S148 orders) / Fixed revaluation would be 6.25%.
- The age from which GMP will be paid/GMP will be paid from age 60.
- Whether a bridging pension is payable.
- Their Pre-88 GMP does not have to increase in payment;
- Post-88 GMP must increase by a minimum of CPI capped at 3%.
- Spouse's pension (of at least 50%) is included/not needed.
- Whether GMP benefits have been reconciled/equalised.
- How much of the deferred benefit/CETV is made up of GMP/what is the value of the GMP?
- GMP cannot provide PCLS.
- Are partial transfers allowed/can she leave GMP and transfer the rest.
- GMP is lost on transfer.

Model answer for Question 3

- (a)
- Market falls in the early years of drawdown;
 - alongside ongoing withdrawals;
 - could significantly reduce the longevity/sustainability of a portfolio/increases the possibility that the funds will run out too soon/amplifies early losses.
- (b) *Candidates would have scored full marks for any four of the following:*
- Take less income/spend growth/hold early years income in cash.
 - Utilise a rising equity glidepath strategy.
 - Calculate and use a Safe Withdrawal Rate.
 - Volatility protection/well diversified strategy/capital protected.
 - Buy an annuity/guaranteed income with part of the drawdown fund.

Model answer for Question 4

- (a)
- As the rights are not 'the actuarial equivalent'/the CETV is enhanced.
 - The transfer is not a permitted transfer.
- (b)
- He would revert to the standard LTA.
 - PCLS would reduce to 25% of the Standard LTA.
 - He would have an increased LTA charge.
- (c)
- If benefits were valued at more than £1m as at 5/4/2016;
 - He could apply for IP16;
 - Giving him an LTA of £1.25m.

Case Study 1**Model answer for Question 5**

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

- The TVC assumes a spouse's pension;
- And Aadan is widowed.
- The TVC is based on the cost of securing an income of £22k p.a.
- Whereas Aadan will only need to take small ad-hoc withdrawals; and
- wishes to leave the balance of the fund to his son.
- The TVC assumes that no PCLS is taken;
- Whereas Aaden may wish to take some PCLS.
- The TVC assumes annuity purchase;
- whereas Aadan will not be purchasing an annuity with this fund/will utilise FAD.

Model answer for Question 6**(a) Level**

- Reduces the amount needed to purchase the annuity.
- He will have sufficient pension funds available to cover any inflation proofing needed/state pension has some escalation/other assets available;
- and he can ensure the extra funds (to cover inflation) are withdrawn as tax efficiently as possible.
- His income needs may reduce in the future;
- leaving him with excess income in his estate for IHT/leaves a larger fund outside the estate/more funds left upon death.

(b) 20-year guarantee

- This will ensure the whole purchase price will be returned as income/will pay for the full 20 years;
- if he dies before the guarantee period is at its end.
- So could potentially provide death benefits for his son.

(c) Candidates would have scored full marks for any four of the following:**Why wife pension**

- As his wife died before age 75;
- and the income will be purchased (it will be designated) before the two-year window is at its end;
- the income will be tax-free.
- Reducing the funds needed to purchase income (as its tax-free income).
- As his State pension is below his Personal Allowance he will remain a non-taxpayer/maximises his ability to plan tax efficient withdrawals from his remaining pension funds.

Model answer for Question 7**(a) Candidates would have scored full marks for any six of the following:**

- Income Tax Free if death pre-75.
- Income from uncrystallised funds is subject to the two-year window;
- Income from crystallised funds/mothers FAD is not subject to the two-year window;
- Otherwise taxed at PAYE/marginal rate of recipient.
- Likely to be free of IHT.
- No LTA test for crystallised funds/mothers' FAD/death post-age 75.
- LTA test on uncrystallised funds if death before age 75.

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

- Ensures that the scheme administrators are aware of Aadan's wishes;
- although they are not legally binding.
- It is important as trustees could pay the benefits to someone else,
- especially if Aadan had a financial dependant at the time of his death/or if he remarries.
- It can also help to speed up payment.

Model answer for Question 8

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

- Scheme's definition of inflation (e.g., RPI/CPI).
- Amount of PCLS / basis for calculation of PCLS. (e.g., 3n x 80ths).
- Any lump sum death benefits (on death before retirement).
- Guarantee periods/ill-health benefits.
- Is there any reduction in the spouse's pension (since Etta is 11 years younger than Gino).
- Amount of children's pensions/is children's pension payable in addition to spouse's pension/what age is children's pension payable to.
- Funding status of the scheme/has the CETV been reduced or enhanced/strength of employer covenant.
- Is the scheme eligible for the PPF.
- Does the scheme offer Pension Increase Exchange or other modification options.
- Does the scheme offer a bridging pension.

Case Study 2**Model answer for Question 9**

- They have two dependent children/their daughters are likely to be dependent upon them until the end of full-time education;
- plus further capital lump sums will be needed each year to support their daughters if they choose to go to university.
- They are both in excellent health there is a history of longevity in their families.
- Their income needs in retirement are uncertain/they feel that they need a net income of £3,500 per month in retirement;
- which should be inflation proofed/inflation proofing is important to them.
- They have an outstanding mortgage on their home;
- which is due to be repaid by the time Gino reaches the age of 60.
- They have limited savings/they have been drawing on cash savings.
- (Other than the defined benefit scheme) their only secure retirement income will be their state pensions/they expect to have full state pensions.
- Gino's scheme pension provides a 2/3rds spouse's pension.

Model answer for Question 10

Candidates would have scored full marks for any twelve of the following:

- The couple are in excellent health/there is a history of longevity in their families.
- and the defined benefit scheme will provide a guaranteed income for life/no investment risk;
- which will be inflation proofed (in line with their requirements).

- Their only other secure retirement income is their state pensions;
- and Etta's workplace pension scheme can be used to provide a flexible income stream if required.

- The scheme provides a valuable spouse's pension/2/3rds spouse's pension;
- plus children's pensions.

- They are not certain about when they will retire;
- or their exact income needs in retirement.
- There is no need to make a decision now to transfer the defined benefit scheme/Gino could reconsider closer to retirement.

- A transfer is not in line with the couple's cautious attitude to risk.
- Their capacity for loss is currently limited;
- and they appear to have limited investment experience.

Model answer for Question 11

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

- Level/decreasing term assurance/family income benefit;
- with a term until the youngest daughter will reach the end of full-time education.

- On a joint life first death basis/two separate policies;
- with a sum assured to cover the potential costs of supporting their daughters/to cover the balance of the costs after allowing for any children's pensions;
- and also, to ensure that the university costs can be covered if either of them were to die before the end of their daughters' full-time education.

- Held in a trust;
- for the benefit of each daughter/for the children;
- to ensure that the funds remain outside of the couple's estates for IHT purposes.

Glossary of terms

Some abbreviations candidates can you 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 and Supplementary Information which follow are applicable to the September 2021, February 2022 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%
<i>§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).</i>		
<i>† where at least one spouse/civil partner was born before 6 April 1935.</i>		
<i>** Investment above £1,000,000 must be in knowledge-intensive companies.</i>		
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:		
Lifetime limit	10%	10%
	£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%
	first year	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%

Supplementary Information Pension Papers – AF7 2021/2022

Revaluation

Guaranteed Minimum Pension – Fixed rate

Date of leaving service	Fixed rate of revaluation
Before 6 April 1988	8.5%
Between 6 April 1988 and 5 April 1993	7.5%
Between 6 April 1993 and 5 April 1997	7.0%
Between 6 April 1997 and 5 April 2002	6.25%
Between 6 April 2002 and 5 April 2007	4.5%
Between 6 April 2007 and 5 April 2012	4.0%
Between 6 April 2012 and 5 April 2017	4.75%
After 5 April 2017	3.5%

Non GMP benefits – statutory minimum rates

Date of leaving service	Statutory rate of revaluation
Before 1 January 1986	No requirement to revalue benefits
Between 1 January 1986 and 31 December 1990	CPI capped at 5% in respect of non GMP benefits accrued from 1 January 1985
Between 1 January 1991 and 5 April 2009	CPI capped at 5% in respect of all non GMP benefits
After 5 April 2009	CPI capped at 5% in respect of all non GMP benefits accrued before 6 April 2009 CPI capped at 2.5% in respect of all benefits accrued after 5 April 2009

NOTE: Statutory revaluation is based on RPI for revaluation prior to 2011

Escalation

Statutory rates of escalation: Member reached State Pension age before 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	Scheme: No requirement to provide any increases in payment State: Fully in line with CPI
GMP: Accrual between 6 April 1988 and 5 April 1997	Scheme: CPI capped at 3% State: Any increases in CPI in excess of 3%
Non GMP: Accrual prior to 6 April 1997	Scheme: No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	Scheme: CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	Scheme: CPI capped at 2.5%

NOTE: Statutory escalation was based on RPI prior to 2011

Statutory rates of escalation: Member reaches State Pension age on or after 6 April 2016

Accrual	Statutory rate of escalation
GMP: Accrual prior to 6 April 1988	Scheme: No requirement to provide any increases in payment
GMP: Accrual between 6 April 1988 and 5 April 1997	Scheme: CPI capped at 3%
Non GMP: Accrual prior to 6 April 1997	Scheme: No requirement to increase in payment
Non GMP: Accrual between 6 April 1997 and 5 April 2005	Scheme: CPI capped at 5% (LPI)
Non GMP: Accrual from 6 April 2005	Scheme: CPI capped at 2.5%

NOTE: No increase to GMP is made by the State (via the State Pension) for individuals who reach State Pension age on or after 6 April 2016

Pension Protection Fund

Compensation cap at age 65 (2021/2022): £41,461.07

Revaluation of deferred benefits within PPF

Service	Rate of revaluation
All service before 6 April 2009	CPI capped at 5%
All service after 5 April 2009	CPI capped at 2.5%

Escalation of benefits in payment from PPF

Service	Rate of revaluation
All service before 6 April 1997	No increases
All service after 5 April 1997	CPI capped at 2.5%