

## AF5

# Advanced Diploma in Financial Planning

## Unit AF5 – Financial planning process

October 2013 examination

### SPECIAL NOTICES

All questions in this paper are based on English law and practice applicable in the tax year 2013/2014, unless stated otherwise in the question, and should be answered accordingly.

It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

### Instructions

- Three hours are allowed for this paper.
- **Do not begin writing until the invigilator instructs you to.**
- **Read the instructions on page 3 carefully before answering any questions.**
- Provide the information requested on the answer book and form B.
- You are allowed to write on the inside pages of this question paper, but you must **NOT** write your name, candidate number, PIN or any other identification anywhere on this question paper.
- The answer book and this question paper must **both be handed in personally by you** to the invigilator before you leave the examination room. **Failure to comply with this regulation will result in your paper not being marked and you may be prevented from entering this examination in the future.**



## Unit AF5 – Financial planning process

### Instructions to candidates

#### Read the instructions below before answering any questions

- **Three hours** are allowed for this paper which carries a total of 160 marks.
- You are strongly advised to attempt **all** tasks to gain maximum possible marks. The number of marks allocated to each task is given next to the task and you should spend your time in accordance with that allocation.
- **In this examination you should use the fresh copy of the fact-find provided. You are not allowed to bring into the examination the pre-released copy of the fact-find.**
- **Client objectives are provided overleaf and you should read them carefully before attempting the tasks.**
- Read carefully all tasks and information provided before starting to answer. Your answer will be marked strictly in accordance with the task set.
- You may find it helpful in some places to make rough notes in the answer booklet. If you do this, you should cross through these notes before you hand in the booklet.
- It is important to show all steps in a calculation, even if you have used a calculator.
- If you bring a calculator into the examination room, it must be a silent, battery or solar-powered, non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.
- Tax tables are provided at the back of this question paper.
- Answer each task on a new page and leave six lines blank after each task.

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

## CLIENTS' FINANCIAL OBJECTIVES

You have now been able to determine from the information in the fact-find that your clients have the following financial objectives:

### Immediate objectives

- To make provision for Miles and Harriet's future university costs.
- To provide financial security for each other and the children in the event of either Phil or Jane dying or being unable to work due to illness or accident.
- To protect the value of Jane's inheritance so that it can be used to help achieve their other objectives.

### Long term objectives

- To provide adequate income in retirement.
- To maximise the value of the estate passed on to their children.

**Attempt ALL tasks****Time: 3 hours**

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

1. Identify the additional information you would need to discuss with Phil and Jane in order to advise them how to meet their:
  - (a) immediate financial objectives (14)
  - (b) longer-term objectives. (10)
  
2. Phil and Jane are unsure about how much investment risk they should take.  
  
 Identify the main factors you should discuss with Phil and Jane in order to establish and agree their risk profiles. *You are not required to list or explain the different investment risks they may face.* (10)
  
3. Phil and Jane are concerned about the potential Inheritance Tax liability if they were to die in the near future, particularly in relation to the money that Jane has inherited.
  - (a) Explain briefly how executing a deed of variation on Jane's mother's Will could mitigate the Inheritance Tax liability on Jane's death, assuming Jane dies after Phil. (6)
  - (b) Describe briefly how Quick Succession Relief would operate if Jane were to die in two years' time. *No calculations are required.* (6)
  - (c) Jane would like Miles and Harriet to benefit from a proportion of the money she has inherited from her mother on her death, whilst allowing Phil access to this money during his lifetime. Explain briefly how a trust arrangement set up as part of Jane's Will might help achieve these objectives. (6)
  
4. Identify **four** key benefits and **four** key drawbacks for Phil and Jane of using the following investment options to help achieve their objective of securing an adequate retirement income.
  - (a) Pension plans. *You are not required to comment on which kind of pension plan(s) they might use.* (8)
  - (b) A portfolio of unit trusts/open-ended investment companies (OEICs). (8)
  - (c) A buy-to-let property partially funded by a mortgage. (8)

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5. Phil and Jane are particularly concerned about the effect that death or long-term illness would have on the family's financial situation.
- (a) Comment on their present position and identify any weaknesses if either of them were to die tomorrow. (12)
- (b) Comment on their present position and identify any weaknesses if either of them suffered a long-term illness or disability. (8)
6. Detail and justify the recommendations you would make in respect of each of the following financial objectives. *No calculations are required:*
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.*
- (a) Provide financial security for each other and their children in the event of either Phil or Jane dying. (18)
- Provide financial security for themselves and their children if either Phil or Jane suffered a long-term illness or disability. (12)
7. Detail and justify the recommendations you would make in respect of each of the following financial objectives. *No calculations are required.*
- Candidates will be rewarded for supporting their recommendations with relevant evidence and demonstrating how their recommendations work holistically to meet their clients' objectives.*
- (a) To ensure Phil and Jane have an adequate income in retirement. (14)
- (b) To make provision for Miles and Harriet's university costs. (12)
8. When conducting your annual review, identify **eight** areas you would specifically address with Phil and Jane. (8)

The tax tables can be found on pages 8 – 12

# INCOME TAX

RATES OF TAX	2012/2013	2013/14
Starting rate for savings*	10%	10%
Basic rate	20%	20%
Higher rate	40%	40%
Additional rate	50%	45%
Starting-rate limit	£2,710*	£2,790*
Threshold of taxable income above which higher rate applies	£34,370	£32,010
Threshold of taxable income above which additional rate applies	£150,000	£150,000
Child benefit charge from 7 January 2013: 1% of benefit for every £100 of income over	£50,000	£50,000

\*Restricted to savings income only and not available if taxable non-savings income exceeds starting rate band.

## MAIN PERSONAL ALLOWANCES AND RELIEFS

Income limit for Personal Allowance §	£100,000	£100,000
Personal Allowance (basic if born after 5 April 1948) §	£8,105	£9,440
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£10,500	£10,500
Personal Allowance (if born before 6 April 1938) §	£10,660	£10,660
Married/civil partners (minimum) (if born before 6 April 1935) at 10% †	£2,960	£3,040
Married/civil partners (if born before 6 April 1935) at 10% †	£7,705	£7,915
Income limit for age-related allowances	£25,400	£26,100
Blind Person's Allowance	£2,100	£2,160
Enterprise Investment Scheme relief limit on £1,000,000 max	30%	30%
Seed Enterprise Investment relief limit on £100,000	50%	50%
Venture Capital Trust relief limit on £200,000 max	30%	30%
§ the Personal Allowance reduces by £1 for every £2 of income above the income limit irrespective of age (under the income threshold).		
† where at least one spouse/civil partner was born before 6 April 1935.		
Child Tax Credit (CTC)		
- Child element per child (maximum)	£2,690	£2,720
- family element	£545	£545
Threshold for tapered withdrawal of CTC	£15,860	£15,910



## NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£109	£473	£5,668
Primary threshold	£149	£646	£7,755
Upper Accrual Point	£770	£3,337	£40,040
Upper Earnings Limit (UEL)	£797	£3,454	£41,450

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS	
	Contracted-in rate/contracted-out (money purchase)	Contracted-out rate (final salary)
Up to 149.00*	Nil	Nil
149.01 – 770.00	12%	10.6%
770.01 – 797.00	12%	12%
Above 797.00	2%	2%

\*This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £109 per week. This £109 to £149 band is a zero rate band introduced in order to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

Total earnings £ per week	CLASS 1 EMPLOYER CONTRIBUTIONS		
	Contracted-in rate	Contracted-out rate	
		Final salary	Money purchase
Below 148.00**	Nil	Nil	Nil
148.01 – 770.00	13.8%	10.4%	13.8%
770.01 – 797.00	13.8%	13.8%	13.8%
Excess over 797.00	13.8%	13.8%	13.8%

\*\* Secondary earnings threshold.

<b>Class 2 (self-employed)</b>	Flat rate per week £2.70 where earnings exceed £5,725 per annum.
<b>Class 3 (voluntary)</b>	Flat rate per week £13.55.
<b>Class 4 (self-employed)</b>	9% on profits between £7,755 - £41,450
	2% on profits above £41,450.

## PENSIONS

TAX YEAR	LIFETIME ALLOWANCE	ANNUAL ALLOWANCE
2006/2007	£1,500,000	£215,000
2007/2008	£1,600,000	£225,000
2008/2009	£1,650,000	£235,000
2009/2010	£1,750,000	£245,000
2010/2011	£1,800,000	£255,000
2011/2012	£1,800,000	£50,000
2012/2013	£1,500,000	£50,000
2013/2014	£1,500,000	£50,000

### ANNUAL ALLOWANCE CHARGE

20% - 45% member's tax charge on the amount of total pension input in excess of the annual allowance.

### LIFETIME ALLOWANCE CHARGE

55% of excess over lifetime allowance if taken as a lump sum.

25% of excess over lifetime allowance if taken in the form of income, which is subsequently taxed under PAYE.

## INHERITANCE TAX

### RATES OF TAX ON DEATH TRANSFERS

2012/2013    2013/14

Transfers made after 5 April 2013

- Up to £325,000	Nil	Nil
- Excess over £325,000	40%	40%
- Lifetime transfers to and from certain trusts	20%	20%

*\*For deaths after 5 April 2013, a lower rate of 36% applies where at least 10% of deceased's net estate is left to charity.*

### MAIN EXEMPTIONS

Transfers to

- UK-domiciled spouse/civil partner	No limit	No limit
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£55,000	£325,000
- UK-registered charities	No limit	No limit

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	£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%

## CAR BENEFIT FOR EMPLOYEES

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

### For 2013/2014:

- Cars that cannot emit CO<sub>2</sub> have a 0% charge.
- The percentage charge is 5% of the car's list price for CO<sub>2</sub> emissions of 75g/km or less.
- For cars with CO<sub>2</sub> emissions of 76g/km to 94g/km the percentage is 10%.
- For cars with CO<sub>2</sub> emissions of 95g/km to 99g/km the percentage is 11%.
- Cars with CO<sub>2</sub> emissions of 100g/km have a percentage charge of 12% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 35% (emissions of 215g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 35% of the car's list price.

**Car fuel** The benefit is calculated as the CO<sub>2</sub> emissions % relevant to the car and that % applied to a set figure (£21,100 for 2013/2014) e.g. car emission 100g/km = 12% on car benefit scale. 12% of £21,100 = £2,532.

1. **Accessories** are, in most cases, included in the list price on which the benefit is calculated.
2. **List price** is reduced for capital contributions made by the employee up to £5,000.
3. **Car benefit** is reduced by the amount of employee's contributions towards running costs.
4. **Fuel scale** is reduced only if the employee makes good **all** the fuel used for private journeys.
5. **All car and fuel benefits** are subject to employers National Insurance Contributions (Class 1A)

## PRIVATE VEHICLES USED FOR WORK

2012/2013 Rates

2013/2014 Rates

### Cars

On the first 10,000 business miles in tax year  
Each business mile above 10,000 business miles

45p per mile

45p per mile

25p per mile

25p per mile

### Motor Cycles

24p per mile

24p per mile

### Bicycles

20p per mile

20p per mile

## MAIN CAPITAL AND OTHER ALLOWANCES

2012/2013

2013/2014

Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£25,000	£250,000
Plant & machinery (reducing balance) per annum	18%	18%
Patent rights & know-how (reducing balance) per annum	25%	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%	8%
Energy & water-efficient equipment	100%	100%
Zero emission goods vehicles (new)	100%	100%
Qualifying flat conversions, business premises & renovations	100%	100%

**Motor cars:** Expenditure on or after 01 April 2013 (Corporation Tax) or 06 April 2013 (Income Tax)

CO <sub>2</sub> emissions of g/km:	95 or less*	96-130	131 or more
Capital allowance:	100%	18%	8%
	first year	reducing balance	reducing balance

\*If new

Research & Development: Capital expenditure 100%

## MAIN SOCIAL SECURITY BENEFITS

2012/2013

2013/2014

		£	£
Child Benefit	First child	20.30	20.30
	Subsequent children	13.40	13.40
	Guardian's allowance	15.55	15.90
Employment and Support Allowance	Assessment Phase		
	Age 16 – 24	Up to 56.25	Up to 56.80
	Aged 25 or over	Up to 71.00	Up to 71.70
	Main Phase		
	Work Related Activity Group	Up to 99.15	Up to 100.15
	Support Group	Up to 105.05	Up to 106.50
Attendance Allowance	Lower rate	51.85	53.00
	Higher rate	77.45	79.15
Retirement Pension	Single	107.45	110.15
	Married	171.85	176.15
Pension Credit	Single person standard minimum guarantee	142.70	145.40
	Married couple standard minimum guarantee	217.90	222.05
	Maximum savings ignored in calculating income	10,000.00	10,000.00
Bereavement Payment (lump sum)		2,000.00	2,000.00
Widowed Parent's Allowance		105.95	108.30
Jobseekers Allowance	Age 16 - 24	56.25	56.80
	Age 25 or over	71.00	71.70

Statutory Maternity, Paternity and

## CAPITAL GAINS TAX

EXEMPTIONS	2012/2013	2013/2014
Individuals, estates etc	£10,600	£10,900
Trusts generally	£5,300	£5,450
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000	£6,000

### TAX RATES

Individuals:		
Up to basic rate limit	18%	18%
Above basic rate limit	28%	28%
Trustees and Personal Representatives	28%	28%
Entrepreneurs' Relief* – Gains taxed at:	10%	10%
Lifetime limit	£10,000,000	£10,000,000
*For trading businesses and companies (minimum 5% employee or director shareholding) held for at least one year.		

## CORPORATION TAX

	2012/2013	2013/2014
Full rate	24%	23%
Small companies rate	20%	20%
Small companies limit	£300,000	£300,000
Effective marginal rate	25%	23.75%
Upper marginal limit	£1,500,000	£1,500,000

## VALUE ADDED TAX

	2012/2013	2013/2014
Standard rate	20%	20%
Annual registration threshold	£77,000	£79,000
Deregistration threshold	£75,000	£77,000

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