FPSB UK

FINANCIAL PLANNING STANDARDS BOARD

Principles of Financial Planning Examiner's Report 2013

Contents

Introduction

This examiners' report is based on one of the papers set for candidates in 2013/14.

In 2013, the total number of candidates sitting the Principles of Financial Planning exam was 97 of whom 46 passed.

The Principles of Financial Planning unit forms part of the Certificate in Paraplanning and the Diploma in Financial Planning.

FPSB UK Report

For the first nine months of 2013 the unit was examined wholly online or using a dedicated computer server. Candidates experienced a number of problems with this delivery which included frozen screens, being dropped out of the exam and being unable to see answers to previous questions. FPSB UK worked hard to resolve these issues and to ensure that candidates were not disadvantaged. However, after one sitting when several candidates could not access their exams online, we decided to run the exams only on paper from 1 November 2013

The questions/resources provided and timings were exactly the same whether the exam was run on paper or online.

Candidates should be aware that within each exam paper, all sixteen learning outcomes will be tested. These may be tested in Section A or Section B.

The pass mark is set at approximately 65% although this may be adjusted upwards or downwards to reflect the difficulty of a particular exam paper.

FPSB UK uses two types of multiple choice questions:

i) one answer correct from four options; and
ii) select all correct answers from four options.

Principles of Financial Planning Exam

Past Paper 2013/14

Past Exam Paper 2013-14
Time available: 2 hours

This exam paper is in two parts. Part A consists of 30 multiple choice questions to test your technical knowledge, each worth one mark. Part B consists of case study based questions looking at the application of financial planning skills. Marks are allocated to each question as shown. 70 marks in total are available in Part B. Candidates should ensure that they leave sufficient time to complete ***both*** *parts of the paper.*

You are provided with tax table sheets, no other written or technical material is permitted. You may use a non-programmable or financial calculator in the exam.

For the purposes of this paper, you should use the following assumptions (where relevant):

Retail Prices Index (RPI)	3.0% p.a.
Average Weekly Earnings increase	4.5% p.a.
School fees inflation rate	5.0% p.a.

Investment returns (net of tax and charges)

Cash	3.0% p.a.
Fixed interest	4.0% p.a.
Commercial property	5.0% p.a.
Equities	6.0% p.a.

PART A Questions

Please make sure that all of the answers are marked on the attached answer sheet.

1. An investor receives income paid gross from

A. NS&I Income Bonds
B. pension annuities
C. onshore investment bonds
D. interest-paying unit trusts

2. The payments from a Purchased Life Annuity are

A. taxed as income
B. taxed as part income, part capital
C. taxed as capital
D. tax-free

3. How many lives assured can be included in a capital redemption policy?

A. None
B. Single life only
C. Joint life only
D. Multiple lives assured

4. In the event of a claim, a critical illness policy will typically pay out a

A. tax-free lump sum
B. taxable lump sum
C. tax-fee income
D. taxable income

5. Unlimited insurable interest exists between

A. married couples
B. divorced couples within two years of the decree nisi
C. cohabiting couples
D. family members

6. Debbie is 56 years old and wants to start drawing benefits from her personal pension. Which of these income option(s) are available to her? *Select all that apply.*

A. Unsecured Pension
B. Temporary Annuity
C. Purchased Life Annuity
D. Compulsory Purchase Annuity

7. Which is the most appropriate trust to hold a life policy with a critical illness cover rider?

- **A.** Absolute trust
- **B.** Discretionary trust
- **C.** Split trust
- **D.** MWPA trust

8. A gift and loan trust

- **A.** provides an immediate inheritance tax reduction
- **B.** provides the settlor / donor with an income for life
- **C.** freezes part of the inheritance tax liability
- **D.** normally charges interest on the loan amount

9. At what age does the beneficiary of a bare trust become entitled to the trust's assets under English Law?

- **A.** 16
- **B.** 18
- **C.** 21
- **D.** 25

10. A deed of variation may be made *Select all that apply.*

- **A.** within two years of death
- **B.** to reduce tax
- **C.** to settle a gift with reservation
- **D.** to avoid long-term care costs

11. How frequently should the assumptions used in a Financial Plan be reviewed?

- **A.** At least once a year
- **B.** Every two years
- **C.** Every five years
- **D.** Once agreed with the client, assumptions will not change

12. Assumptions used in a Financial Plan should be *Select all that apply.*

- **A.** adequate
- **B.** generalist
- **C.** reasonable
- **D.** clearly stated

13. The recommendations you produced for Alice show that retirement objectives cannot be met from her available and projected resources. You should tell Alice to

- **A.** accept a more adventurous attitude to investment risk
- **B.** review her objectives
- **C.** accept a lower inflation assumption for Financial Planning purposes
- **D.** reduce her expenditure so that she can commit more towards Financial Planning

14. What is the minimum number of hours of CPD that a Retail Investment Adviser is required to complete each year?

- **A.** 25 hours
- **B.** 35 hours
- **C.** 50 hours
- **D.** 65 hours

15. Structured CPD activities

- **A.** must be capable of verification
- **B.** can last for less than 30 minutes if web-based
- **C.** can be watching a web presentation without testing
- **D.** may comprise reading

16. You are reading a client report written by a Financial Planner in your firm for a review meeting in six weeks' time. Whilst preparing the report you have identified a potential conflict of interest between the client and the financial planning practice. What should you do?

- **A.** Make a note on the client file that there is a potential conflict of interest
- **B.** Inform the Financial Planner and ask him to raise it with the client during the review meeting
- **C.** Inform the Financial Planner and advise him to contact the client as soon as possible
- **D.** Amend the client report so that the potential conflict of interest is no longer obvious

17. Jean has £175,000 in a building society account. She is likely to be exposed to

- **A.** counterparty risk
- **B.** credit risk
- **C.** inflation risk
- **D.** liquidity risk

18. Dividends from a FTSE company quoted shares

- **A.** are paid once every six months
- **B.** are paid free of tax
- **C.** are paid at the discretion of the board
- **D.** generally increase in line with inflation

19. Systemic risk applies

- **A.** to specific areas of an investment market
- **B.** when one market sector moves against another
- **C.** to a well-diversified and balanced portfolio
- **D.** only to particular assets within a portfolio

20. Which of the following could result in a benefits in kind charge for income tax purposes? *Select all that apply.*

- **A.** Homeworking allowance of £200 pa
- **B.** Relocation expenses of £7,500
- **C.** An interest-free season ticket loan of £5,500
- **D.** A long service award of £1,000 after 15 years' service

21. Which NS&I product pays proceeds with 20% income tax deducted at source?

- **A.** Income Bonds
- **B.** Direct Saver accounts
- **C.** Children's Bonds
- **D.** Guaranteed Growth Bonds

22. As a rule of thumb, how much should a client normally set aside for an emergency fund?

- **A.** 1-3 months net income
- **B.** 3-6 months net income
- **C.** 6-12 months net income
- **D.** 12-18 months net income

23. Investments with which credit ratings are deemed to be "investment grade" by Standard and Poor's? *Select all that apply.*

- **A.** A-
- **B.** BBB-
- **C.** C-
- **D.** CCC-

24. Anna wants an estimate of her state pension benefits. Which form should she use to request this information?

A. BR11
B. BR15
C. BR19
D. BR23

25. On which website can you find information on savings accounts rates?

A. www.cashrates.co.uk
B. www.cashfacts.co.uk
C. www.moneyrates.co.uk
D. www.moneyfacts.co.uk

26. Tim's investment portfolio has a current asset allocation of:

5.0% Cash
25.0% Fixed Interest
10.0% Property
60.0% Equity

Using the assumed growth rates supplied, what proportion of Tim's portfolio will be held in equities in two years time?

A. 59.1%
B. 60.0%
C. 60.9%
D. 61.8%

27. A portfolio of 80% equities and 20% fixed interest assets has an assumed projected growth rate of 5.60% p.a. If inflation is assumed to be 3.00% p.a. what is the real growth rate of this portfolio?

A. 2.34%
B. 2.52%
C. 2.60%
D. 5.44%

28. What components would you expect to find in a good Financial Plan? *Select all that apply*

- **A.** Client objectives
- **B.** A statement of assets and liabilities
- **C.** Compliance statements
- **D.** Action plan

29. How frequently should a client's financial plan be reviewed?

- **A.** At least once a year
- **B.** At least once every two years
- **C.** Only if the client requests a review
- **D.** Only when the client's circumstances change significantly

30. Brendan, a long-standing client, has called you to tell you that he is remarrying and to invite you to the wedding. You should

- **A.** suggest a review meeting as soon as possible
- **B.** make a file note for his next scheduled review meeting
- **C.** advise him of the IHT-exempt gifts that can be made on marriage
- **D.** arrange a meeting with his fiancée so that you can prepare her financial plan

Part A Answers

QUESTION NUMBER	ANSWER	Learning Outcome
1	A	1
2	B	
3	A	
4	A	2
5	A	
6	A,B,D	3
7	C	4
8	C	
9	B	
10	A, B	
11	A	5
12	C,D	
13	B	
14	B	6
15	A	
16	C	
17	B	7
18	C	
19	C	
20	C,D	9
21	D	
22	B	10
23	A,B	12
24	C	
25	D	
26	C	13
27	B	
28	A,B,D	15
29	A	16
30	A	

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PART B – Case Study

CONFIDENTIAL QUESTIONNAIRE

All income and expenditure assumed gross, where relevant, unless specified otherwise

1. GENERAL INFORMATION		**Current date**		
Full name	*First names*	*Surname*	*Status*	*Date of birth*
Self	*Ben Marks*		*M*	*14/5/67*
Spouse	*Michelle Marks*		*M*	*12/8/65*
Child 1	*Peter Marks*		*S*	*3/7/03*
Is there anyone else financially reliant upon you?		*No*		
Occupation -	*Ben – Safety Officer*			
Occupation –	*Michelle – Volunteer worker*			

2. ASSETS *(approximate values)*	*Self*	*Joint*	*Spouse*	*Income*
House (main residence)		*£420,000*		
Holiday home	*£65,000*		*£65,000*	
Contents/personal effects	*£10,000*		*£8,000*	
Bank accounts	*£15,000*		*£11,000*	*0.5%*
Building society deposits	*£23,000*	*£38,000*		*2.0%*
Quoted shares	*£22,000*		*£54,000*	*B – 2.4%* *M – 3.0%*
Stocks & Shares ISAs	*£15,000*		*£18,000*	
National Savings (Premium Bonds)			*£12,000*	
Other assets (specify) Cars			*£8,000*	
If house owned jointly, as joint tenants or tenants in common? *Main residence - Joint tenants, Holiday home – tenants in common*				
3. LIABILITIES *(approximate values)*	*Self*	*Joint*	*Spouse*	Cost
Mortgage outstanding		*180,000*		
Other qualifying loans			*£3,500*	*12%*

Other personal credit: credit card	*£3,500*			*24%*

4. EMPLOYMENT	*Self*	*Spouse*
Name of firm	*Nuclear Research*	*Local groups and charities*
Salary	*£55,000*	
Bonus/fees/commission	*£4,000*	
Any major change anticipated?	*No*	*No*

5. BENEFITS IN KIND	*Self*	*Spouse*
Car *(taxable benefit)*	*£4,600*	
Private Medical Insurance	*£540*	

6. **PENSION SCHEME**	*Self*	*Spouse*
Scheme type	Group Personal Pension	
Normal retirement age	65	
Employer's contribution	6%	
Member's contribution	6%	
Death in service lump sum	4 x salary	

7. **RETIREMENT PLANNING**	*Self*	*Spouse/partner*
Pension funds from details in section 6 above	*£66,000*	
Preserved pension funds (PPS)		*£24,000*
When would you really like to retire (or be financially independent)?		*Ben's 60th birthday*

<u>Additional Information</u>

Ben and Michelle have also told you that the mortgage on their main residence is a repayment mortgage with 14 years remaining and a current interest rate of 5.25%. It is covered by a joint life, first death mortgage protection policy. Ben and Michelle have a level term assurance policy written on a joint life first death basis with a sum assured of £100,000. This policy was taken out when Peter was born with a 20 year term.

They purchased the holiday home for £40,000 just over 10 years ago.

PART B Questions

Questions are based on the attached case study.

31. Prepare a Net Worth Statement for Ben and Michelle assuming that they both remain alive.

(8 marks)

32. Calculate Ben's income tax and National Insurance liabilities for tax year 2013-14 and show his net income.

(10 Marks)

33. Ben and Michelle are interested in reducing the amount of tax that they pay. What suggestions would you provide?

(6 marks)

34. Ben and Michelle are thinking of selling the holiday home. They purchased it just over 10 years ago for a total cost of £40,000. Ben has told you that he has already sold some shares this year and realised a capital gain of £4,600. Calculate the capital gains tax payable if this was sold in December 2013 and state any assumptions used.

(8 Marks)

35. Prepare a Net Worth Statement to show the situation had Michelle died yesterday and that Ben had predeceased her (assume that they have written wills leaving all assets on the first death to the survivor). Calculate the potential inheritance tax liabilities on Michelle's death.

(12 Marks)

36. What suggestions would you make to Ben and Michelle regarding ways that they could reduce the potential impacts of inheritance tax?

(6 Marks)

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37. Ben's parents have said that they would like to help Ben and Michelle send Peter to private school for five years from the age of 13 to 18. As a day pupil, current fees are £10,500 a year. Ben and Michelle are willing to set aside some of their current savings and investments towards this. They are prepared to accept moderate risk. Calculate how much they should set aside and state any assumptions used. For the purposes of your calculations, assume that amounts to meet fees each year are available at the start of the academic year (i.e. in September).

(10 marks)

38. Explain other potential issues and problems that Ben and Michelle may have that should be addressed as part of the Financial Plan.

(10 marks)

Part B Model Answers

31. Prepare a Net Worth Statement for Ben and Michelle assuming that they both remain alive

(8 marks)

Net Worth Statement

Prepared for Ben & Michelle Marks as at December 2013 assuming you both remain alive

	Ben	Michelle	Joint	Total
Assets				
Used assets				
Main residence		£420,000	£420,000	
Holiday home	£ 65,000	£ 65,000		£130,000
Contents/ personal effects	£ 10,000	£ 8,000		£ 18,000
Cars		£ 8,000		£ 8,000
Investments				
Shares	£ 22,000	£ 54,000		£ 76,000
ISA	£ 15,000	£ 18,000		£ 33,000
Cash & cash-type				
Bank accounts	£ 15,000	£ 11,000		£ 26,000
Building Society accounts	£ 23,000		£ 38,000	£ 61,000
Premium Bonds	£ 12,000		£ 12,000	
Total Assets	£150,000	£176,000	£458,000	£784,000
Liabilities				
Mortgage			£180,000	£180,000
Loans and credit cards	£ 3,500	£ 3,500		£ 7,000
Total Liabilities	£ 3,500	£ 3,500	£180,000	£187,000
Total Net Assets	**£146,500**	**£172,500**	**£278,000**	**£597,000**

Notes

The value of your pension funds have not been included above as these are not accessible until age 55, and then, generally, only a maximum of 25% may be taken as tax-free cash with the balance used to provide income

Marking notes – the above is not definitive. Marks were awarded for all assets and liabilities being included or covered by notes and being correctly allocated between the clients. Marks were allocated for a clear layout, date and identification that this assumes that they are both alive.

32. Calculate Ben's income tax and National Insurance liabilities for tax year 2013-14 and show his net income

(10 marks)

Income tax and National Insurance calculations for tax year 2013-14
Prepared for Ben Marks

<u>Gross Income</u>	
Salary	£55,000
Bonus	£ 4,000
Benefits in Kind	£ 5,140
Bank interest (gross)	£ 75
Building society interest (gross)	£ 840
Dividends (grossed-up)	£ 587
Gross income	**£65,642**
Less Personal Allowance	£ 9,440
Taxable income	**£56,202**
Savings income	£ 915
Dividends	£ 587
Non-savings income	£54,700
<u>Income tax</u>	
Non-savings income	
£0-£35,310 @ 20%	£ 7,062
£35,310-£54,700 @ 40%	£ 7,756
Savings income	
£915 @ 40%	£ 366
Dividends	
£587 @ 32.5%	£ 191
Total income tax liability	**£15,375**
Tax deducted at source	
(Bank £15, B.Soc £168, Divs £59)	£ 242
Income tax due	£15,133
<u>National Insurance Contributions</u>	
£0 - £7,755 @ 0%	£ 0
£7,755 - £41,450 @ 12%	£ 4,043
£41,450-£59,000 @ 2%	<u>£ 351</u>
Total NICs	**£ 4,394**
Income net of income tax and NICs	**£40,733**

Notes

(i) Ben's basic rate tax band has been extended by his gross personal pension contribution of £3,300
(ii) Ben's bonus has been averaged across each month
(iii) Ben's adjusted net income exceeds £50,000 meaning that Ben is subject to the High Income Child Benefit charge unless you have waived the right to receive child benefit payments for Peter. The amount of this charge in 2013-14 is likely to be the full amount of child benefit (£1055.60). There may also be a payment due from 2012-13 estimated at around £264

Marking notes: the above layout is not definitive, but marks were allocated for identifying all sources of income correctly (including grossing up where appropriate), stretching the BRT band for the GPP contribution, correct calculation of income tax and NICs and excluding BinKs from the net income figure and correct calculation of the net income figure (i.e. excluding BinKs).The liability to the HICB charge should be identified, together with an estimation of the (correct) amount of the charge. A mark may also be awarded for a clear layout and identification of the tax year

33. Ben and Michelle are interested in reducing the amount of tax that they pay. What suggestions would you provide?

(6 marks)

- Michelle is a non-taxpayer – the cash held in Ben's name in the bank and building society and the joint account could be moved into Michelle's name to save the higher rate income tax being paid on the interest (Michelle should apply for gross interest to be paid)
- Ben could shelter part of the cash (up to £5,760 this year) in a Cash ISA in his name
- Ben is paying 25% tax on the net dividend from the shares. This could be saved by either transferring the shares to an ISA (check no CGT payable, especially if the holiday home is sold) or transferring into Michelle's name (the dividend tax credit cannot be reclaimed) but the transfer would take place on a "no gain, no loss" basis for CGT purposes
- Ben could ask his employer about the possibilities of salary sacrifice for his pension contributions. This could maintain, or even increase, his net income as well as possibly increasing his pension contribution if his employer is prepared to add some or all of the employer NIC saving to Ben's pension
- Ben has a company car and is paying income tax at 40% on its taxable value – this may not be as tax efficient as Ben using his own car for business and reclaiming business mileage. An analysis should be carried out
- It is unlikely that Ben could replace the company PMI with a cheaper private policy than the BinK tax charge (40% of £540 = £216)
- Ben and Michelle may wish to avoid payment of the High Income Child Benefit charge, if they have not already done so, by waiving their right to child benefit payments. Whilst not saving tax, it may save administration.

34. Ben and Michelle are thinking of selling the holiday home. They purchased it just over 10 years ago for a total cost of £40,000. Ben has told you that he has already sold some shares this year and realised a capital gain of £4,600. Calculate the capital gains tax payable if this was sold in December 2013 and state any assumptions used

(8 marks)

	Ben	Michelle
Assumed sale proceeds	£ 65,000	£ 65,000
Assumed cost of sale, say 3%	£ 1,950	£ 1,950
Net sale proceeds	£ 63,050	£ 63,050
Less Acquisition Value	£ 20,000	£ 20,000
Capital gain	£ 43,050	£ 43,050
Less CGT annual exemption	£ 6,300	£ 10,900
Taxable gain	£ 36,750	£ 32,150
CGT payable @ 18%		**£ 5,762**
CGT payable @ 28%	**£ 10,290**	**£ 39**
Total CGT payable	**£ 10,290**	**£ 5,801**

Notes:

(i) Cost of sale assumed at 3%, includes estate agent fees and conveyancing costs etc;
(ii) It is assumed that Ben realises no other capital gains in 2013-14 and that Michelle realises no gains apart from the property sale.
(iii) It is assumed that neither Ben nor Michelle have previous losses to carry forward.
(iv) Ben is a higher rate taxpayer so pays CGT at 28%, Michelle's taxable capital gain straddles her basic rate tax band so she pays CGT at 18% on £32,010 of the taxable gain and at 28% on £140.
(v) As tenants in common it is assumed that Ben and Michelle hold equal shares of the property.

35. Prepare a Net Worth Statement to show the situation had Michelle died and that Ben had predeceased her (assume that they have written wills leaving all assets on the first death to the survivor). Calculate the potential inheritance tax liabilities on Michelle's death.

(12 marks)

Net Worth Statement

As at December 2013, assuming Michelle had died yesterday with Ben having predeceased her

	Michelle
Assets	
Used assets	
Main residence	£ 420,000
Holiday home	£ 130,000
Contents/ personal effects	£ 18,000
Cars	£ 8,000
Investments	
Shares	£ 76,000
ISA	£ 18,000
Cash & cash-type	
Bank accounts	£ 22,500
Building Society accounts	£ 61,000
Cash from Ben's ISA	£ 15,000
Premium Bonds	£ 12,000
Proceeds from the term assurance	£ 100,000
Return of fund from Ben's GPP	£ 66,000
Ben's death in service	£ 220,000
Total Assets	£1,166,500
Liabilities	
Loan	£ 3,500
Total Liabilities	£ 3,500
Total Net Assets	**£1,163,000**

Notes

(i) The value of Michelle's personal pension fund has not been included above as it is assumed that this is written in trust and will pass to Peter outside of Michelle's estate.
(ii) It is assumed that Ben's credit card balance was repaid from the cash in his bank account and that his group personal pension paid return of accumulated fund on his death to Michelle.
(iii) The mortgage was repaid in full by the mortgage protection policy on Ben's death
(iv) It is assumed that the trustees of Ben's DIS paid the full amount to Michelle.

Inheritance tax liability assuming Michelle died yesterday in tax year 2013-14 and that Ben had predeceased her

Total value of Michelle's estate	£1,163,000
Less funeral expenses (assumed)	£ 5,000
Less Nil Rate Band	£ 325,000
Less Transferable NRB claimed for Ben	£ 325,000
Taxable estate	£ 508,000
Inheritance tax payable @ 40%	£ 203,200

Notes:

(i) This assumes that Ben and Michelle had not made any taxable lifetime gifts in the 7 years before their deaths.

Marking notes – the above is not definitive. Marks were awarded for all assets and liabilities being included or covered by notes and being correctly allocated (including pension benefits, DIS and life policies etc) and that the TNRB needs to be claimed on the second death (i.e. it is not a right). Up to 2 marks were allocated for a clear layout.

36. What suggestions would you make to Ben and Michelle regarding ways that they could reduce the potential impacts of inheritance tax?

(6 marks)

- Ben and Michelle could utilise a spousal bypass trust to hold pension benefits and/ or DIS payable on the first death to prevent them falling into the estate of the survivor (this would save around £115,000 in IHT on Michelle's death if Ben had predeceased her) without removing financial security from her.
- Further IHT savings possible by the trustees granting loans to Michelle during her lifetime as long as these are not accumulated. The IHT saving on Ben's death if Michelle predeceased him would be less, at £9,600.
- The term assurance policy could be written in trust to prevent it falling into the estate of the survivor (potential IHT saving on second death £40,000).
- If assets are expected to increase in value at a faster rate than the rate of increase in the NRB (assumed, say, in line with RPI) and these assets will not be required by the survivor, they could be passed to Peter (under trust) on the first death.

37. Ben's parents have said that they would like to help Ben and Michelle send Peter to private school for five years from the age of 13 to 18. As a day pupil, current fees are £10,500 a year. Ben and Michelle are willing to set aside some of their current savings and investments towards this. They are prepared to accept moderate risk. Calculate how much they should set aside and state any assumptions used. For the purposes of your calculations, assume that amounts to meet fees each year are available at the start of the academic year (i.e. in September).

(10 marks)

Assumptions:

School fees increase	6.0%
Investment return (moderate risk)	5.0% net of tax & charges

School fees start in September 2016 (assume 3 years)
Assume sums available at start of each academic year

		Peter Age
Sum required in Sept 2016 ((£10,500x1.06^3)	£12,506	13
Discounted to today's value (£12,147/1.05^3)	*£10,803*	
Sum required in Sept 2017	£13,256	14
Discounted to today's value	*£10,906*	
Sum required in Sept 2018	£14,051	15
Discounted to today's value	*£11,010*	
Sum required in Sept 2019	£14,894	16
Discounted to today's value	*£11,114*	
Sum required in Sept 2020	£15,788	17
Discounted to today's value	*£11,220*	
Total investment required today =	**£55,053**	

Notes:

(i) Ben's parents could set up a bare trust to shelter the amounts that they contribute and make use of Peter's income tax and CGT allowances. To ensure that tax liabilities are assessed against Peter, it is advisable to invest in non-life assets (collectives etc). Peter would have access to any remaining funds once he attained the age of 18.
(ii) Investment returns may be lower than assumed if funds are moved into cash closer to the time that they are required

Marking notes: The above is not definitive. Different investment returns may be assumed (but should be stated). Cash may be used to meet the first couple of years' fees. The stated school fees inflation (and asset class returns where appropriate) should be used. Fees should not be provided for the year starting Sept 2021 (Peter would then be 18)

38. Explain other potential issues and problems that Ben and Michelle may have that should be addressed as part of the Financial Plan.

(10 marks)

- Ben is the breadwinner – he appears to have no income protection cover in the event that he is unable to work through sickness or disability
- Shortfall analyses should be performed on retirement income (and its most efficient provision), life cover (especially if Ben were to die) and potential needs for critical illness cover etc and recommendations made to support these
- Some life cover may be required on Michelle to fund for after school/ holiday care for Peter for the next couple of years
- An income and expenditure analysis is required to identify surplus income (if any)
- Ben's company car may not be tax efficient
- Ben may also want to make provision to purchase a car should he leave Nuclear Research, either through unemployment/ job change, ill-health or retirement
- If Peter attends private school, there may be additional costs (books, uniforms, school trips etc) that may need to be provided, over and above the fees
- If the holiday home is sold, the proceeds will require investment
- Ben and Michelle's other objectives and goals should be established, as well as the risk profiles for each goal and objective.
- Ben and Michelle should earmark part of their cash holding as an emergency fund. This should typically be 3-6 months net income, so £10,000 - £20,000. This cash should be easily accessible.
- Ben & Michelle have around £87,000 held in cash. Current interest rates are not high and this cash could be held elsewhere after allowing for the emergency fund and any cash allocated towards Peter's education.
- There is around £180,000 outstanding on the mortgage and 14 years remaining. The current interest rate of 5.25% may be high. The possibility of remortgaging to a lower rate could reduce monthly mortgage repayments (or reduce the remaining term if current levels of repayments are maintained). Alternatively, Ben and Michelle could use some of their unallocated savings and investments to repay or

offset (by remortgaging to an offset mortgage) part of the mortgage, again to either reduce monthly outgoings or the remaining term). Cash that is currently held in Ben's name that is used to offset the mortgage would otherwise need to earn a return of 8.75% (5.25%/0.6) to match the saving from offsetting.

- If Michelle is receiving child benefit payments for Peter, she may wish to waive these to prevent Ben being assessed for the High Income Child Benefit charge. Alternatively, they could continue to receive the payments but accumulate them in a savings account held in Michelle's name. This would allow them to accrue interest without tax whilst retaining the funds to meet the HICB charge (due by 31 January 2015).

Marking notes: The suggested solutions are for guidance only – this is not intended to be a model answer and it should be recognised that candidates may make different assumptions etc. At this level, assumptions do not need to be justified. Candidates were given credit for taking an holistic approach and showing knock-on effects of recommendations on others

Examiners' Comments

Part A

Section A was generally answered well by candidates with marks ranging between 15/30 and 26/30. The learning outcomes which caused candidates most difficulty were LO3, LO7 and LO9. Candidates answered well in learning outcomes LO6, LO10 and LO16.

Part B

Overall

There was a wide variation in marks which ranged from 34 – 84%. Some candidates struggled to complete the paper in time and did not give full answers to some of the questions carrying the highest number of marks.

Question 31

This was answered well by most candidates. Candidates lost marks for not including a date, not referencing the pension correctly or poor arithmetic. Additionally some candidates made basic errors regarding the ownership of assets, for example assets shown as individually owned on the Fact Find were listed as a joint assets in the net worth statement.

Questions 32

Many candidates did not answer this question very well. The most common errors were incorrectly grossing up interest again, wrong calculations of NICs and wrong taxation of dividends. Some candidates did not include Ben's share of the joint building society interest in the tax calculation, and some were unsure how to treat the pension contribution. A large number of candidates were unable to demonstrate the correct method of calculating net income after establishing the tax liabilities, and some candidates did not supply a net income figure at all.

Question 33

This question was answered well by most candidates, although very few considered waiving the right to Child Benefit in order to avoid payment of the High Income Child Benefit charge.

Question 34

This was generally answered well. Some candidates did not make assumptions about the allowable costs of the sale. Candidates were generally able to correctly calculate Ben's remaining CGT annual allowance and most candidates correctly calculated Ben's liability. Many candidates incorrectly calculated Michelle's liability as they did not consider that part of her gain was potentially taxable a 28% (depending on the assumption used for the allowable cost of sale).

Question 35

Candidates found this question difficult and it did not help when the layout of their answer was poor. Some candidates incorrectly referred back to the net worth statement in question 31 rather than listing the assets again, and some did not consider that Ben's credit card debt is likely to have been paid from cash assets upon his death, rather than the liability passing to Michelle. Often missed from the answers were: the proceeds from Ben's GPP and death in service, potential funeral costs, stating that the transferable nil rate should be claimed on death (and is automatically transferred).

Question 36
Generally well answered. Candidates did not achieve full marks because they did not suggest six valid points.

Question 37
This question was answered very well. Most candidates stated appropriate assumptions but few got the correct number of school years or the right start date for Peter. Other common errors were: forgetting to inflate school feed between now and the start date (even though they were then subsequently inflated), and correctly inflating the fees but then omitting discount the values back into today's terms. Some candidates were unclear how to carry out time value of money calculations.

Question 38
Generally this was answered well but some candidates did not have sufficient time to complete their answer.

TAX TABLES 2013-14

Assumptions to be used

Retail Prices Index (RPI) = 3.0% pa	
National Average Earnings increase =4.5% pa	
School fees inflation rate = 5.0% pa	

Investment returns (net of tax and charges):
Cash = 3.0% pa
Fixed interest = 4.0% pa
Commercial property = 5.0% pa
Equities = 6.0% pa

Income Tax Rates

2013/2014 Rate	Band (£)
10%* Starting Rate	1 – 2,790
20% Basic Rate	0/2,791 – 32,010
40% Higher Rate	32,010- 150,000
45% Additional Rate	Over 150,000

Dividends - Basic Rate taxpayers	10%
Dividends - Higher Rate taxpayers	32.5%
Dividends - Additional Rate taxpayers	37.5%

* The 10% Starting Rate is applied for savings income only.

Income Tax Reliefs

	2013/2014 £
Personal(1) – born after 5 April 1948	9,440
Personal(1) – born between 6 April 1938 and 5 April 1948	10,500
Personal(1) – born before 5 April 1938	10,660
Married couples/civil partners - minimum amount (2)	3,040
Married couples/civil partners - maximum amount (2)	7,915
Income limit for personal allowances – born before 6 April 1948	26,100
Enterprise Investment Scheme relief limit @ 30%	1,000,000
Seed Enterprise Investment Scheme (SEIS) relief limit @ 50%	100,000
Venture Capital Trust relief limit @ 30%	200,000

(1) Personal allowance reduced if income exceeds £100,000

(2) Where at least one spouse/ civil partner was born before 6 April 1935.

Authorised Mileage Rates – Business mileage rates per mile

First 10,000 miles	45p	Over 10,000 miles	25p

National Insurance Contributions

2013/2014 Rates

Class 1 Employee	**Weekly £**	**4-weekly £**	**Yearly £**
Lower Earnings Limit (LEL)	109	436	5,668
Primary Threshold (PT)	149	597	7,755
Upper Earnings Limit (UEL)	797	3,189	41,450
Upper Accruals Point (UAP)	770	3,080	40,040

Class 1 Employee contributions 2013/2014

Total earnings £ per week	**Contracted-in rate %**	**Contracted-out rate %**
Up to £149 (£597 p4w / £7,755 pa)	Nil	Nil
£149.01 – £770.00	12	10.6
£770.01 – £797.00	12	12
Above £797 (£3,189 p4w / £41,450 pa)	2	2

Class 1 Employer contributions 2013/2014

Total earnings £ per week	**Contracted-in rate %**	**Contracted-out rate %**
Below £148 *	Nil	Nil
£148.01 – £770.00	13.8	10.4
Excess over £770 (and Class 1A)	13.8	13.8

* This is the Secondary Threshold (£148 pw / £592 p4w / £7,696 pa) below which no NI Contributions are payable. However, the Lower Earnings Limit is £109 per week. This £109 to £148 band is zero rated, introduced to protect lower earners' rights to contributory State benefits e.g. Basic State Pension.

Class 2 (self-employed) Flat rate per week £2.70 where earnings exceed £5,725 per annum.

Class 3 (voluntary) Flat rate per week £13.55.

Class 4 (self-employed) 9% on profits between £7,755 – £41,450 plus 2% on profits above £41,450.

Value Added Tax

Standard rate(1)	20.0%
Annual registration limit – from 1 April 2013	£79,000

(1) Standard VAT rate increased to 20% from 4 January 2011

Pensions

Lifetime Allowance [1]		Annual Allowance	
2013/2014[2]	£1.5 million	2013/2014[2]	£50,000

(1) Lifetime Allowance may be increased under transitional protection measures
(2) Lifetime Allowance reduces to £1.25 million and Annual Allowance to £40,000 p.a. from 2014-15 but carry forward of unused relief over 3 years available (£50,000 p.a. for years before 2014-15)

Annual Allowance charge
Claws back all tax relief on the amount of total pension input in excess of the Annual Allowance (after accounting for any carry forward). If AAC exceeds £2,000, it can be paid from pension scheme. DB schemes AA multiplier is 16x increase in accrued benefits after allowing for salary increase in line with CPI.
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 then taxed under PAYE.

Inheritance Tax

	2013/2014[2]
Nil Rate Band [1]	£325,000
Rate of tax on excess on death	40%[3]
Lifetime transfers to and from certain trusts	20%

100% relief: businesses, unlisted/AIM companies, certain farmland/buildings.
50% relief: certain other business assets.

(1) Up to 100% of the unused proportion of a deceased spouse's / registered civil partner's Nil Rate Band can be claimed on the surviving spouse's / registered civil partner's death after 8 October 2007
(2) IHT NRB frozen at £325,000 until 2017/2018
(3) Effective rate 36% on chargeable estate where 10% or more of net estate is left to a charity

Tapering relief

Years before death	0-3	3-4	4-5	5-6	6-7
% of death charge	100	80	60	40	20
Annual exempt gifts	£3,000 per donor			£250 per donee	

Corporation Tax

Financial Year	Year ending 31/3/13	Year ending 31/3/14
Full rate[1]	24%	23%
Small companies' rate	20%	20%
Small companies' limit	£300,000	£300,000
Upper marginal limit	£1,500,000	£1,500,000
Effective marginal rate	25%	23.75%

(1) Full rate of Corporation Tax is 21% from 1 April 2014 and 20% from 1 April 2015

Capital Gains Tax

Exemptions	2013/2014
Individuals, estates, etc.	£10,900
Trusts generally	£5,450
Chattels proceeds (5/3 excess gain is taxable)	£6,000
Rates: Individuals where gain within basic rate tax band	18%
Individuals where gain above basic rate band	28%
Trusts and estates	28%

Entrepreneurs' Relief 2013/2014
Tax rate on qualifying gains is 10%. Lifetime limit eligible for relief of £10,000,000. For trading businesses and companies (minimum 5% employee shareholding) held for more than 1 year.

Main Social Security Benefits (weekly) 2013/2014

Benefit	Taxable	Key Features		
Child Benefit(1)	N	first child		£20.30
		subsequent children		£13.40
Carer's Allowance	Y	£59.75 if earned income is below £100 net		
Disability Living Allowance	N	*Care:*	higher rate	£79.15
			middle rate	£53.00
			lower rate	£21.00
		Mobility:	higher rate	£55.25
			lower rate	£21.00
Attendance Allowance	N	higher rate		£79.15
		lower rate		£53.00
Basic State Pension	Y	single		£110.15
		married/ civil partners		£176.15
Bereavement Allowance(2)	Y	aged over 55		£108.30
		aged 45 to 54		variable
Widowed Parent's Allowance	Y	£108.30 + additional child rates		
Jobseekers Allowance(3)	Y	£71.70 for 6 months		

(1) High Income Child Benefit charge applies to families where highest earner has adjusted net income in excess of £50,000 p.a. Charge is 1% of Child Benefit received for each £100 p.a. that adjusted net income exceeds £50,000. Once adjusted net income exceeds £60,000 p.a. HICB charge equals full amount of Child Benefit received. HICB charge is not levied if Child Benefit payments are waived.

(2) Available for 52 weeks

(3) Information relates to Contribution Based Jobseekers Allowance only – for those aged 25 or over