THE CHARTERED INSURANCE INSTITUTE

CII

R08

Pensions update

Based on the 2016/2017 syllabus
examined from 1 September 2016 until 31 August 2017

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Contents

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the R08 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves one hour to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of an R08 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the R08 reading list, which is located on the syllabus in this examination guide and on the CII website at **www.cii.co.uk.**

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

1) Visit **www.cii.co.uk/qualifications**
2) Select the appropriate qualification
3) Select your unit on the right hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The R08 syllabus is published on the CII website at **www.cii.co.uk. Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the CII tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises R08 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to explain and analyse the subject matter. Each learning outcome begins with one of these cognitive skills:

Explain - Candidates must typically be able to demonstrate an understanding of the relationships between different aspects or concepts. They may be asked how one part may impact upon or be linked to another. They may also be asked to perform a calculation to evidence an explanation of how certain elements interact with one another.

Analyse - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires *analysis* so a conclusion can be drawn.

Examination Information

The method of assessment for the R08 examination is 40 multiple choice questions (MCQs) and one case study comprising 5 MCQs. 1 hour is allowed for this examination.

The R08 syllabus provided in this examination guide will be examined from 1 September 2016 until 31 August 2017.

Candidates will be examined on the basis of English law and practice in the tax year 2016/2017 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.

For areas of the syllabus that are focused on taxation, the general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

R08 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Extracts from tax tables will be provided at each examination, an example of which can be found in this examination guide. Candidates may find it beneficial to familiarise themselves with this information in advance of the examination. Candidates may **not** take their own tax tables into the examination.

Section A consists of 40 multiple choice questions. A multiple choice question consists of a problem followed by **four** options, labelled A, B, C and D, from which the candidate is asked to choose the correct response. Each question will contain only **one** correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

Section B contains one case study followed by five questions. **Four** options follow each question. The options are labelled A, B, C and D. Only **one** of these options will be correct or best. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

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.

Candidates are permitted to make rough notes. Candidates are not permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate's examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Pensions update

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At the end of this unit, candidates should understand the:

- changes introduced by the Taxation of Pensions Act 2014;
- changes to the State pension provision from 6 April 2016;
- key factors to take into account when advising clients on their retirement income.

Summary of learning outcomes	Number of questions in the examination*
1. Explain the changes to the HM Revenue and Customs (HMRC) tax regime introduced by the Taxation of Pensions Act 2014.	11
2. Explain the new legislative, reporting and compliance requirements arising from the pension reforms.	5
3. Explain the main changes in the rules for members transferring their benefits.	5
4. Explain the changes to pension income options.	14
5. Explain the changes that will be made to State pension provision from 6 April 2016.	5
6. Analyse the key factors that should be taken into account when advising a client how to derive an income in retirement.	5

* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Entry guidance

It is assumed that the candidate already has the knowledge gained from study of one of the Level 4 units - R04 Pensions and retirement planning or J04 Pension funding options – or as an alternative, any higher level pension unit such as AF3 Pension planning or G60 Pensions or their equivalent.

Important notes

- **Method of assessment: 40 multiple choice questions (MCQs) and 1 case study comprising 5 MCQs. 1 hour is allowed for this examination.**
- **This syllabus will be examined from 1 September 2016 to 31 August 2017.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2016/2017 unless otherwise stated.**
- **It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.**
- **Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:**
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  2. **Select the appropriate qualification**
  3. **Select your unit on the right hand side of the page**

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1. Explain the changes to the HM Revenue and Customs (HMRC) tax regime introduced by the Taxation of Pensions Act 2014.

1.1 Explain the changes to the operation of the annual allowance.

1.2 Explain the impact of the 2014 Act on benefits when they are taken, including:

- Benefit Crystallisation Events;
- Triviality and small pots;
- Pension Commencement Lump Sums including recycling.

1.3 Explain the changes to the taxation of benefits received by the member.

1.4 Explain the changes to the taxation of death benefits on the member's death before and after age 75.

1.5 Explain the impact of the 2014 Act on overseas schemes.

2. Explain the new legislative, reporting and compliance requirements arising from the pension reforms.

2.1 Explain the reporting requirements set out in the Taxation of Pensions Act 2014.

2.2 Explain the following:

- FCA compliance requirements;
- Consumer protection including Pension Wise.

3. Explain the main changes in the rules for members transferring their benefits.

3.1 Explain the following:

- FCA rules on transfers;
- Public sector transfers;
- Member rights to transfer;
- Transfer where the member has protected tax free cash or protected pension age;
- Transferring crystallised benefits.

4. Explain the changes to pension income options.

4.1 Explain the new features available under lifetime annuities and scheme pensions.

4.2 Explain the following options:

- Uncrystallised funds pension lump sum (UFPLS) option;
- Flexi-access drawdown pension option;
- Capped drawdown pension option.

4.3 Explain the benefits and drawbacks of the different methods of taking an income from a pension including phasing benefits.

5. Explain the changes that will be made to State pension provision from 6 April 2016.

5.1 Explain the rules relating to the introduction of the single tier State pension.

5.2 Explain the changes to related State benefits.

5.3 Explain the abolition of contracting out for defined benefit schemes.

6. Analyse the key factors that should be taken into account when advising a client how to derive an income in retirement.

6.1 Explain how to interpret client information and objectives.

6.2 Analyse the most appropriate source of income in retirement for a client taking into account tax and succession planning.

Reading list

The following list provides details of various publications which may assist you with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Pensions update. London: CII. Study text R08.

Books

Pension magic: how to make the taxman pay for your retirement. 5th ed.Nick Braun PhD. Kircaldy: Tax Cafe, 2015.

Pensions law handbook. 12th ed. Pensions Department of Nabarro Nathanson. Tottel, 2015.

Pension tax guide: a tax guide 2015-2016. 3rd ed. Robert Gaines. Chester: Claritax Books, 2015.

Factfiles

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

- The current State Pension scheme. Paul Clarke.
- Sate Pension age. Paul Clarke.
- Single-tier State Pension. Paul Clarke.
- State Pension credit. Paul Clarke.
- The overseas pensioner. Paul Clarke.

Additional articles and technical bulletins are available under the Life and Pensions section of the website at www.cii.co.uk/knowledge/life-pensions.

Journals and magazines

Financial adviser. London: FT Business. Weekly. Also available online at www.ftadviser.com.

Financial solutions. London: CII. Six issues a year. Also available at www.thepfs.org/knowledge (CII/PFS members only).

Pensions age. London: Perspective. Monthly. Also available at www.pensionsage.com.

Pensions expert. London: FT Finance. Weekly.

Pensions insight. Newsquest Specialist Media. Monthly. Also available at www.pensions-insight.co.uk.

Professional pensions. London: Incisive Media. Weekly. Also available at www.professionalpensions.com.

Retirement strategy. Supplement to Money marketing. London: Centaur Communications. Monthly. Also available at www.moneymarketing.co.uk.

Reference materials

Butterworths pensions legislation service. London: LexisNexis UK. Looseleaf, updated.

CCH Pensions Factbook. Kingston upon Thames: CCH. Looseleaf, updated.

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via www.cii.co.uk/lamont (CII/PFS members only).

Pensions: law and practice with precedents. London: Sweet & Maxwell. Looseleaf, updated.

Pensions pocket book. London: Economic and Financial Publishing Ltd in association with Aon Hewitt. Annual.

Sweet & Maxwell's law of pension schemes. Nigel Inglis Jones. London: Sweet & Maxwell. Looseleaf, updated.

Tolley's guide to pensions taxation terminology. Alec Ure. 4th edition. London: LexisNexis Tolley, 2014.

Tolley's tax guide. Arnold Homer, Rita Burrows. London: LexisNexis Butterworths. Annual.

Examination guides

An examination guide, which includes a specimen paper, is available to purchase via www.cii.co.uk.

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (www.revisionmate.com). Details of how to access Revisionmate are on the first page of your study text.

It is recommended that you only study from the most recent versions of the examination guides.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at www.cii.co.uk/iilrevision (CII/PFS members only).

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SECTION A

1. Elaine, aged 59 and a basic-rate taxpayer, takes a pension commencement lump sum (PCLS) of £29,000 from her personal pension. She should be aware that

A. it will not be treated as a benefit crystallisation event.
B. the payment can be taken under the triviality rules.
C. the payment will not trigger the money purchase annual allowance (MPAA).
D. she will be prevented from taking any future uncrystallised funds pension lump sum (UFPLS).

2. Ben took an uncrystallised funds pension lump sum (UFPLS) of £65,000 in June 2016, having paid £2,500 into a personal pension in May 2016. If he wishes to make a further contribution in September 2016, what is the **maximum** additional amount he can pay into the same plan without triggering a tax charge?

A. £7,500
B. £10,000
C. £17,500
D. £20,000

3. Kevin has a money purchase pension and he has unused relief of £30,000 carried forward to the tax year 2016/2017. He makes a contribution of £50,000 on 1 June 2016 and then elects to take flexi-access drawdown on 1 September 2016. What is the **maximum** his employer can contribute on 1 December 2016 without creating an annual allowance charge for Kevin?

A. Nil.
B. £10,000
C. £20,000
D. £30,000

4. Mary is subject to the money purchase annual allowance (MPAA). She paid £12,000 into a personal pension in August 2016 and had a pension input of £16,000 into a defined benefits scheme in the tax year 2016/2017. Assuming she has no available carry forward, what chargeable amount, if any, will be subject to an annual allowance charge?

A. Nil.
B. £2,000
C. £10,000
D. £12,000

5. William was in capped drawdown when he died aged 67. At the time of his death he was a higher-rate taxpayer. His spouse, Natalie, and brother, Callum, were appointed as dependant and nominee respectively to receive continuing income from the fund. In respect of the tax treatment of the continuing income

A. only Natalie can receive the continuing income without any liability to Income Tax.
B. both Natalie and Callum can receive the continuing income without any liability to Income Tax.
C. the continuing income will be paid net of 20% Income Tax.
D. the continuing income will be paid net of 40% Income Tax.

6. Mandy wants to take an uncrystallised funds pension lump sum (UFPLS) from her personal pension. The fund benefits from enhanced protection. What criterion will prevent Mandy from taking UFPLS?

A. She is under age 60.
B. She is over age 75.
C. Her enhanced protection certificate states she has no lump-sum protection.
D. Her enhanced protection certificate states she has 26% lump-sum protection.

7. Ralph, aged 58, has taxable income of £60,000 per annum. He has an uncrystallised fund of £4,600 and a crystallised fund of £2,800, both under a personal pension. If he takes both funds as small pots payments, what will be his **total** Income Tax liability on these payments?

A. £1,250
B. £1,340
C. £2,500
D. £2,640

8. Peter is employed on a salary of £26,000 per annum. He has an uncrystallised pension fund valued at £140,000. He wants to withdraw £30,000 from his fund as an uncrystallised funds pension lump sum (UFPLS) in the tax year 2016/2017. In respect of the tax treatment of this payment, he should be aware that

A. it will not be subject to Income Tax as it is falls within the overall fund's 25% tax-free lump-sum limit.
B. taking the UFPLS will make him a higher-rate taxpayer in the current tax year.
C. the income element of the UFPLS will all be taxed at 20%.
D. the income element of the UFPLS will all be taxed at 40%.

9. Albert, aged 66 and a higher-rate taxpayer, is taking an uncrystallised funds pension lump sum (UFPLS) that is £40,000 in excess of his available lifetime allowance. If he designates this payment as flexi-access drawdown as opposed to a lump sum, what lifetime allowance tax charge will he pay?

A. £10,000
B. £16,000
C. £18,000
D. £22,000

10. Sam died at the age of 68 whilst part way through the guarantee period of a lifetime annuity. The capital value of the remaining guaranteed instalments is £28,000. How much, if anything, can be paid out as a lump-sum death benefit?

A. No commutation is permitted.
B. £15,400
C. £18,550
D. £28,000

11. Meg purchased a lifetime annuity with annuity protection of 50% of the purchase price. The purchase price was £220,000 and she received gross annuity payments totalling £86,000 before her death in June 2016 aged 76. She had nominated her brother, Tom, aged 72, who has an annual income of £15,000. If a lump-sum payment was made to Tom three months later, how much will he receive?

A. £13,200
B. £14,400
C. £19,200
D. £24,000

12. George has taken flexible benefits from his relevant non-UK pension scheme. He is still an active member of a UK defined benefit scheme and eligible to contribute. What **maximum** amount, if any, can he contribute without triggering an annual allowance charge?

A. None.
B. £10,000
C. £30,000
D. £40,000

13. Tim was paid an uncrystallised funds pension lump sum (UFPLS) from a defined contribution company pension scheme on 6 June 2016. This was his first such payment. By what **latest** date **must** the scheme administrator notify him that he has flexibly accessed his pension rights?

A. 20 June 2016.
B. 7 July 2016.
C. 6 August 2016.
D. 6 September 2016.

14. Pat converted a capped drawdown pension fund to a flexi-access drawdown fund on 1 May 2016. By what **latest** date is she required to notify this conversion to the scheme administrator of any other schemes she belongs to?

A. 1 June 2016.
B. 31 July 2016.
C. 31 January 2017.
D. 5 April 2017.

15. In what circumstances would a pension scheme administrator be required to issue an **annual** benefits crystallisation events (BCE) statement to the scheme member?

A. If the member has taken all his benefits as an uncrystallised funds pension lump sum (UFPLS).
B. If the member has taken a pension commencement lump sum (PCLS) and designated the balance into a flexi-access drawdown, but has yet to draw on this.
C. If the member is aged 75 or over.
D. If the member takes the benefits under the triviality rules.

16. Whilst discussing retirement options with a retail client, a financial adviser has suggested that the client receive guidance. If the client states he does **NOT** wish to do so, the adviser **must**

A. decline to deal with the client until he has received appropriate independent advice.
B. decline to deal with the client until he has received guidance.
C. proceed on the basis of the client being an insistent customer.
D. proceed to identify the risk factors relating to retirement options.

17. An authorised firm has created its retirement risk warnings template. The contents of the template should be

A. tailored to each specific decumulation product.
B. tailored to the client's individual responses.
C. uniform for all decumulation products.
D. uniform for all retail clients.

18. Steven is considering transferring his existing pension arrangements to access flexible benefits. His arrangements are as follows

Scheme	Arrangement type	Value
X	Safeguarded benefits	£32,000
Y	Retirement annuity contract	£45,000
Z	Safeguarded benefits	£21,000

For which arrangement(s) would he be required to obtain appropriate independent advice?

A. X only.
B. X and Y only.
C. X and Z only.
D. X, Y and Z.

19. Patrick has requested a cash equivalent transfer value (CETV) from his scheme trustees in order to access flexible benefits. The trustees **must** provide Patrick with the CETV if he

A. has less than six months before his normal retirement age.
B. had previously received a CETV within the last six months.
C. is an active member of the pension scheme.
D. is a deferred member of the pension scheme.

20. Mike is a member of a defined benefit pension scheme. What factor would prevent him from being able to transfer in order to access flexible benefits?

A. He is entitled to transitional protection.
B. He is under age 55.
C. His cash equivalent transfer value (CETV) is more than £30,000.
D. His benefits are from an unfunded public sector scheme.

21. A member of a funded public sector pension scheme is transferring to access flexible benefits. What action, if any, can be taken if there is concern about the effect of the transfer upon the scheme's funding position?

A. Impose an exit tax charge on the member's cash equivalent transfer value (CETV).
B. Reduce the member's cash equivalent transfer value (CETV).
C. Restrict the type of arrangement to which the member can transfer.
D. No action can be taken.

22. John died in July 2016 aged 86. At the time of his death he was an additional-rate taxpayer and had nominated his only daughter, Emily, who is currently a higher-rate taxpayer, as beneficiary of his capped drawdown pension fund. If Emily defers drawing any income from the fund until she retires as a basic-rate taxpayer, what rate of tax, if any, will she pay on the income?

A. Nil.
B. 20%
C. 40%
D. 45%

23. What is the **maximum** term, if any, that a single life flexible annuity can be guaranteed to continue for in the event of a member's death?

A. It can be guaranteed to pay for a maximum of 5 years following the death of the member.
B. It can be guaranteed to pay for a maximum of 10 years following the death of the member.
C. It can be guaranteed to pay for a maximum of 30 years.
D. There is no maximum term.

24. Don died in May 2016 aged 76. Following his death, an annuity protection lump-sum death benefit became payable to his widow. If the gross amount was £16,200 and she had taxable income of £12,500 per annum, how much will she receive net of any tax liability?

A. £7,290
B. £8,910
C. £12,960
D. £16,200

25. Mary transferred the proceeds of her group personal pension to a flexible annuity which commenced payment in May 2016. She is still employed and her employer wants to contribute to a personal pension plan for her. Her salary is £60,000. What is the **maximum** her employer can contribute without incurring a tax charge for Mary?

A. Nil.
B. £10,000
C. £40,000
D. £60,000

26. Beth, a basic-rate taxpayer, died in June 2016 aged 73 whilst in receipt of a joint lifetime annuity. Her widower, Jack, aged 76, is a higher-rate taxpayer. If the gross monthly annuity instalments continue at £120, how much will he receive each month net of any Income Tax liability?

A. £66
B. £72
C. £96
D. £120

27. Corinna, aged 68, has £50,000 of her lifetime allowance remaining in the tax year 2016/2017. She would like to take her £100,000 personal pension as a lump sum. If she takes the **maximum** uncrystallised funds pension lump sum (UFPLS) available, how much of this lump sum will be tax free?

A. £12,500
B. £25,000
C. £50,000
D. £100,000

28. David has a personal pension fund of £300,000 and has decided to use £100,000 of this to purchase a short-term annuity after designating to flexi-access drawdown. In respect of the income he should be aware that it

A. can reduce as well as increase.
B. must be paid at least quarterly.
C. must be paid for at least 5 years.
D. can be paid for a maximum of 10 years.

29. Sarah, aged 62, has an uncrystallised fund of £80,000 which is her only pension fund. She designated her entire fund into flexi-access drawdown in June 2016. If she takes £24,000 from the fund in the first year, how much of this at **most** can she have as a pension commencement lump sum (PCLS)?

A. £6,000
B. £14,000
C. £20,000
D. £24,000

30. Bob, aged 66, has a personal pension that he started taking as flexible drawdown in 2011. He should be aware that now

A. he can pay a maximum contribution of £10,000 per annum without incurring a tax charge.
B. he can pay a maximum contribution of £40,000 per annum without incurring a tax charge.
C. his minimum income requirement has reduced to £10,000.
D. his minimum income requirement remains at £12,000.

31. Stella is currently in capped drawdown and has requested an income withdrawal of 170% of the basis amount. In order to avoid an unauthorised payment tax charge, her pension provider will convert her plan to flexi-access drawdown from the

A. day before the income withdrawal.
B. first day of the next input period.
C. date of the next three-year review.
D. end of the current tax year.

32. Daniel, aged 63, has an uncrystallised personal pension fund of £122,000 and has an income of £12,000 per annum. If he crystallises £38,000 by taking an uncrystallised funds pension lump sum (UFPLS) rather than by taking his **maximum** pension commencement lump sum (PCLS) and flexi-access drawdown, how much additional Income Tax will he pay?

A. £4,200
B. £5,700
C. £6,100
D. £7,600

33. Ken, aged 60, has a salary of £50,000 per annum. He has a personal pension which he took out in May 2012 and has fully utilised his annual allowances since then. No contributions have been made so far in the tax year 2016/2017 and he designates some of his pension fund to flexi-access drawdown on 9 July 2016 to enable him to take a £20,000 pension commencement lump sum (PCLS) only. What is the **maximum** he could contribute to the personal pension in the remainder of the tax year without incurring an annual allowance charge?

A. £10,000
B. £20,000
C. £40,000
D. £80,000

34. What **key** advantage could a 62-year-old member obtain, when phasing her retirement income, by choosing the flexi-access drawdown route compared to choosing the uncrystallised funds pension lump sum (UFPLS) route?

A. A greater flexibility for Income Tax planning.
B. A higher level of lump-sum death benefits.
C. It will not automatically trigger the money purchase annual allowance (MPAA).
D. It will not be treated as a benefit crystallisation event (BCE).

35. In order to be eligible to receive the full rate State Pension, a female will need at least

A. 30 qualifying years.
B. 33 qualifying years.
C. 35 qualifying years.
D. 39 qualifying years.

36. Liam is set to retire in May 2017 and is reviewing his State Pension. He should be aware that he needs

A. 5 qualifying years through contributions or credits to receive any State Pension.
B. 10 qualifying years through contributions or credits to receive any State Pension.
C. 10 qualifying years through contributions or credits to obtain the full single-tier State Pension.
D. 30 qualifying years through contributions or credits to obtain the full single-tier State Pension.

37. Paula will reach State Pension age in July 2017 and is considering deferring her State Pension. She should be aware that she

A. can take the deferred amount as a lump sum.
B. will need to defer for at least 5 weeks.
C. will need to defer for at least 9 weeks.
D. will receive an increase of 10.4% for every full year of deferment.

38. Marc is paying Class 3A National Insurance contributions to increase his State Pension. He should be aware that this is only possible where his State Pension age was

A. before 6 April 2016 and he has been contributing to a defined benefit pension scheme.
B. before 6 April 2016 and he has entitlement to a UK State Pension.
C. after 6 April 2016 and he has been contributing to a defined benefit pension scheme.
D. after 6 April 2016 and he has entitlement to a UK State Pension.

39. Joy has no dependent children and is looking at the benefits available under Bereavement Support Payment from April 2017. She should be aware that the **maximum** payment would be a

A. £2,500 lump sum, plus monthly instalments of £150 for one year.
B. £2,500 lump sum, plus monthly instalments of £400 for one year.
C. £5,000 lump sum, plus monthly instalments of £150 for one year.
D. £5,000 lump sum, plus monthly instalments of £400 for one year.

40. What **key** effect has the ending of contracting out had upon defined benefit occupational pension schemes?

A. The National Insurance contribution rate for employers has automatically decreased.
B. The National Insurance contribution rate for employers has automatically increased.
C. The scheme contribution rate for members has automatically decreased.
D. The scheme contribution rate for members has automatically increased.

SECTION B

Paul, who will be aged 65 next month, is single with no dependants. He is seeking advice on his options at retirement. His existing pensions and investments are as follows:

- Uncrystallised personal pension fund of £350,000, nominated retirement age 70;
- Unit trust portfolio valued at £200,000, which generates £3,000 net dividend income per annum.

He needs a minimum income of £10,000 net per annum, excluding any future State Pension income which will account for his personal allowance, to cover his essential annual expenditure.

He has sought guidance from a designated guidance provider who highlighted the potential risk to Paul's income needs from inflation.

Paul has advised that he is a cautious investor and has limited capacity for loss.

Paul is looking at two annuity products as follows:

- An index-linked annuity with a rate of 3.5%;
- A level annuity with a rate of 5.5%.

41. Paul is considering purchasing the level annuity and wishes to take his pension commencement lump sum (PCLS). Calculate the **minimum** amount of pension fund he will need to crystallise to secure the ongoing net income of £10,000 taking into account the income he currently receives from his unit trust portfolio.

A. £127,273
B. £159,091
C. £169,696
D. £212,121

42. Should Paul decide to designate part of his fund to flexi-access drawdown and purchase a short-term annuity rather than a lifetime annuity, what would be the **maximum** term he could buy?

A. 5 years.
B. 10 years.
C. To age 70.
D. To age 75.

43. Paul would like a local charity to benefit from his estate in the event of his death. Under a short-term annuity, if Paul was to die during a selected guarantee period, the charity

A. could not benefit from any ongoing annuity payments.
B. must have been nominated prior to his death.
C. would receive the difference between the payments made at the point of death and the purchase price.
D. would receive the short-term annuity payments tax free only if Paul dies before age 75.

44. Having secured his minimum income by purchasing an annuity, Paul wants to use the remainder of his pension fund to meet his target income. He should be aware that

A. a short-term annuity would provide him with the highest potential income on an ongoing basis.
B. if he moves into flexi-access drawdown, he must take the full pension commencement lump sum (PCLS) before age 75.
C. taking an uncrystallised funds pension lump sum (UFPLS) each year will provide him with the greatest tax efficiency.
D. varying his flexi-access drawdown payment each year will provide him with the greatest tax efficiency.

45. When considering the index-linked annuity and assuming that inflation remains at 3% per annum, Paul should be aware that

A. he will be able to switch to the level annuity if inflation falls below 3% for a period of at least 12 months.
B. it will mitigate the inflation risk over the long term.
C. the payments will be highly unlikely to exceed those of the level annuity.
D. the payments will exceed the level annuity payments after 7 and a half years.

INCOME TAX

RATES OF TAX	2016/2017
Starting rate for savings*	0%
Basic rate	20%
Higher rate	40%
Additional rate	45%
Starting-rate limit	£5,000*
Threshold of taxable income above which higher rate applies	£32,000
Threshold of taxable income above which additional rate applies	£150,000
Child benefit charge from 7 January 2013:	
1% of benefit for every £100 of income over	£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
Personal Allowance (basic) (if born after 5 April 1948) §	£11,000
Personal Allowance (if born between 6 April 1938 and 5 April 1948) §	£11,000
Personal Allowance (if born before 6 April 1938) §	£11,000
Married/civil partners (minimum) at 10% †	£3,220
Married/civil partners at 10% †	£8,355
Transferable Tax allowance for married couples and civil partners	£1,100
Income limit for age-related allowances §	£27,700
Blind Person's Allowance	£2,290
Enterprise Investment Scheme relief limit on £1,000,000 max	30%
Seed Enterprise Investment relief limit on £100,000 max	50%
Venture Capital Trust relief limit on £200,000 max	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)	£2,780
- family element	£545
Threshold for tapered withdrawal of CTC	£16,105

NATIONAL INSURANCE CONTRIBUTIONS

Class 1 Employee	Weekly	Monthly	Yearly
Lower Earnings Limit (LEL)	£112	£486	£5,824
Primary threshold	£155	£672	£8,060
Upper Earnings Limit (UEL)	£827	£3,583	£43,000

Total earnings £ per week	CLASS 1 EMPLOYEE CONTRIBUTIONS
Up to 155.00*	Nil
155.01 – 827.00	12%
Above 827.00	2%

**This is the primary threshold below which no NI contributions are payable. However, the lower earnings limit is £112 per week. This £112 to £155 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
Below 156.00**	Nil
156.01 – 827.00	13.8%
Excess over 827.00	13.8%

*** Secondary earnings threshold.*

Class 2 (self-employed)	Flat rate per week £2.80 where profits exceed £5,965 per annum.
Class 3 (voluntary)	Flat rate per week £14.10.
Class 4 (self-employed)	9% on profits between £8,060 - £43,000. 2% on profits above £43,000.

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
2014/2015	£1,250,000	£40,000
2015/2016	£1,250,000	£40,000
2016/2017	£1,000,000	£40,000

ANNUAL ALLOWANCE CHARGE

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

MONEY PURCHASE ANNUAL ALLOWANCE	2016/2017
	£10,000*

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.

* *transitional rules apply to the calculation for pre/post 8 July 2015 position.*

CAPITAL GAINS TAX

EXEMPTIONS	2016/2017
Individuals, estates etc	£11,100
Trusts generally	£5,550
Chattels proceeds (restricted to five thirds of proceeds exceeding limit)	£6,000

TAX RATES	
Individuals:	
Up to basic rate limit	10%
Above basic rate limit	20%
Surcharge for residential property and carried interest	8%
Trustees and Personal Representatives	20%
Entrepreneurs' Relief* – Gains taxed at:	10%
Lifetime limit	£10,000,000

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

INHERITANCE TAX

RATES OF TAX ON TRANSFERS	2016/2017
Transfers made on death after 5 April 2016	
- Up to £325,000	Nil
- Excess over £325,000	40%
Transfers made after 5 April 2016	
- Lifetime transfers to and from certain trusts	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
- non-UK-domiciled spouse/civil partner (from UK-domiciled spouse)	£325,000
- UK-registered charities	No limit
Lifetime transfers	
- Annual exemption per donor	£3,000
- Small gifts exemption	£250
Wedding/civil partnership gifts by	
- Parent	£5,000
- Grandparent	£2,500
- other person	£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_2) emissions. There is no reduction for high business mileage users.

For 2016/2017:

- The percentage charge is 7% of the car's list price for CO_2 emissions of 50g/km or less.
- For cars with CO_2 emissions of 51g/km to 75g/km the percentage is 11%.
- For cars with CO_2 emissions of 76g/km to 94g/km the percentage is 15%.
- Cars with CO_2 emissions of 95g/km have a percentage charge of 16% and thereafter the charge increases by 1% for every complete 5g/km to a maximum of 37% (emissions of 200g/km and above).

There is an additional 3% supplement for diesel cars not meeting Euro IV emission standards. However, the maximum charge remains 37% of the car's list price.

Car fuel The benefit is calculated as the CO_2 emissions % relevant to the car and that % applied to a set figure (£22,200 for 2016/2017) e.g. car emission 100g/km = 17% on car benefit scale. 17% of £22,200 = £3,774.

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 employer's National Insurance contributions (Class 1A) of 13.8%.

PRIVATE VEHICLES USED FOR WORK

	2016/2017 Rates
Cars	
On the first 10,000 business miles in tax year	45p per mile
Each business mile above 10,000 business miles	25p per mile
Motor Cycles	24p per mile
Bicycles	20p per mile

MAIN CAPITAL AND OTHER ALLOWANCES

	2016/2017
Plant & machinery (excluding cars) 100% annual investment allowance (first year)	£200,000
Plant & machinery (reducing balance) per annum	18%
Patent rights & know-how (reducing balance) per annum	25%
Certain long-life assets, integral features of buildings (reducing balance) per annum	8%
Energy & water-efficient equipment	100%
Zero emission goods vehicles (new)	100%
Qualifying flat conversions, business premises & renovations	100%

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

CO_2 emissions of g/km:	75 or less*	76-130	131 or more
Capital allowance:	100% first year	18% reducing balance	8% reducing balance

**If new*

CORPORATION TAX

	2016/2017
Standard rate	20%

VALUE ADDED TAX

	2016/2017
Standard rate	20%
Annual registration threshold	£83,000
Deregistration threshold	£81,000

MAIN SOCIAL SECURITY BENEFITS

		2016/2017
		£
Child Benefit	First child	20.70
	Subsequent children	13.70
	Guardian's allowance	16.55
Employment and Support Allowance	Assessment Phase	
	Age 16 – 24	Up to 57.90
	Aged 25 or over	Up to 73.10
	Main Phase	
	Work Related Activity Group	Up to 102.15
	Support Group	Up to 109.30
Attendance Allowance	Lower rate	55.10
	Higher rate	82.30
Retirement Pension	Single	119.30
	Married	190.80
Single Tier State Pension	Single	£155.65
Pension Credit	Single person standard minimum guarantee	155.60
	Married couple standard minimum guarantee	237.55
	Maximum savings ignored in calculating income	10,000.00
Bereavement Payment (lump sum)		2,000.00
Widowed Parent's allowance		112.55
Jobseekers Allowance	Age 18 - 24	57.90
	Age 25 or over	73.10
Statutory Maternity, Paternity and Adoption Pay		139.58

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format Questions						**Case Study Questions**		
Learning Outcome 1			**Learning Outcome 3**			**Learning Outcome 7**		
1	C	1.1	18	A	3.1	41	D	6.2
2	B	1.1	19	D	3.1	42	A	6.2
3	B	1.1	20	D	3.1	43	B	6.2
4	B	1.1	21	B	3.1	44	D	6.2
5	B	1.4	**4 Questions**			45	B	6.2
6	D	1.2				**5 Questions**		
7	C	1.2	**Learning Outcome 4**					
8	B	1.3	22	B	4.1			
9	A	1.3	23	D	4.1			
10	D	1.4	24	C	4.1			
11	C	1.4	25	B	4.1			
12	D	1.5	26	D	4.1			
12 Questions			27	A	4.2			
			28	A	4.2			
Learning Outcome 2			29	C	4.2			
13	B	2.1	30	A	4.2			
14	B	2.1	31	A	4.2			
15	B	2.1	32	A	4.3			
16	D	2.2	33	C	4.3			
17	B	2.2	34	A	4.3			
5 Questions			**13 Questions**					
			Learning Outcome 5					
			35	C	5.1			
			36	B	5.1			
			37	C	5.1			
			38	B	5.1			
			39	A	5.2			
			40	B	5.3			
			6 Questions					