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2008 Pre-Budget Report:

A Submission from the Association of Private Client Investment Managers & Stockbrokers

The Association of Private Client Investment Managers and Stockbrokers (APCIMS) represents firms acting on behalf of individual investors. Our 145 member firms, with offices across the UK and Ireland, the Channel Islands and the Isle of Man, have around £400 billion of investments under management.

APCIMS recognises that economic and budgetary constraints are such that the Government will not be able to make tax changes that result in significant loss of tax revenue. However we agree with the Government's stated desire to increase the individual savings ratio in the UK and note that this is particularly important at a time of economic vulnerability. To that end APCIMS believes that there are a number of targeted measures that will help encourage individuals to save and invest for their long term financial futures. We believe such measures will increase economic stability.

At the same time, and as highlighted in the Government's recently published consultation document about Regulatory Budgets, the UK Government's intention is to keep regulation to a minimum by reducing unnecessary burdens on business, including "a programme to reduce the administrative burdens of complying with regulation by 25 per cent by 2010". We believe that there are a number of tax simplification measures outlined below that will help reduce that burden on those firms who act on behalf of individual investors.

The main changes that APCIMS believes the Government should consider are as follows:

- Reduce the rate of Stamp Duty/SDRT on chargeable securities to 0.25 per cent;
- Abolish the rule that requires an intermediary when acting in a principal capacity to treat commission as part of the consideration on which SDRT is charged
- For holdings held prior to 1998, update the acquisition date to this date and update cost to that value at this date for computation of Capital Gains Tax to 1998, as happened as at 1982;
- Clarification in respect of uninvested cash in a Stocks & Shares ISA;
- Review the requirement to undertake Quarter-up Valuations under existing full rules;
- Incentives to encourage those on lower incomes to invest in pension schemes; and
- Relaxation to the rules on non-domiciles relating to UK situs assets

Stamp duty/SDRT

Reducing the rate of Stamp Duty/SDRT on Chargeable Securities

APCIMS is concerned that the UK's Stamp Duty/SDRT position could have a long term impact on the UK's competitiveness. Increasing competition between trading venues and between intermediaries in recent years has reduced the market costs of financial transactions. As a result, Stamp Duty/SDRT has become an increasingly large proportion of overall transaction costs. For a bargain of £1,000, Stamp Duty/SDRT represents around 75 per cent of the cost of purchasing the shares. At the same time, financial products that are exempt from Stamp Duty/SDRT such as ishares, Contracts for Difference and Spread Bets have become increasingly popular amongst private investors.

The rate of Stamp Duty/SDRT has remained unchanged since 1986 when the markets were far less global than they are now and international competition for financial market business much less keen. The stamp duty rate of 0.5% is the largest of any G7 country. Germany, Italy, The Netherlands and Luxembourg have abolished stamp duty. France abolished stamp duty on shares on 1 January 2008.

Whilst the Government has made quite clear that it is unwilling to abolish Stamp Duty/SDRT, APCIMS believes that the Government should send a clear message that it wishes the UK stock market to remain competitive and reduce the rate of Stamp Duty/SDRT to 0.25 per cent.

Stamp Duty/SDRT and Intermediary and Principal Transactions

A minor but much welcome amendment to the current Stamp Duty/SDRT regime would be to abolish the rule (Paragraph 12.53 of the Stamp Taxes Manual). The rule requires an intermediary that normally acts in an agency capacity, to include commission in the overall amount on which SDRT is charged, when acting in a principal capacity such as doing an agency cross. Since all regulated entities have to deal for the client at the "Best Price" otherwise they would be in breach of FSA regulations, the chance to save the client money by charging a lower price but charge more commission, to save on Stamp Duty/SDRT is negligible.

This rule has significant system implications. Unfortunately some major system providers do not allow for it as it requires manual intervention to be achieved. One of APCIMS' bigger member firms has estimated that on SDRT paid on chargeable transactions since April 2003 this change would have provided the Exchequer with £29,700. This is a relatively small amount of revenue but a significant overhead in terms of calculating the amount payable when an intermediary acts in a principal capacity.

APCIMS believes that this amendment would remove an administrative burden on agency brokers.

Moving Base Date and Cost Value for Securities held prior to 1998 for the Computation of Capital Gains Tax

Indexation allowance used to apply to assets that were acquired before April 1998. In some circumstances this significantly reduced the gain arising on a disposal by taking inflationary increases into account. The abolition of any accrued RPI indexation allowance in the 2008 Finance Act has retrospectively made purely inflationary gains between 1982 and 1998 liable to CGT. These "gains" (illusory in real terms) were not taxed under any of the various CGT regimes operating during the past 25 years.

In order to address this and in keeping with the Government's CGT simplification agenda, APCIMS and its member firms would welcome a further reform to move the base date from when gains are computed from 1982 to the value of the shares in March 1998. This would allow long term investors to uplift their cost base, some of which is purely inflationary gains. It would also overcome the problem of how far back a client's records need to be kept and the various CGT identification rules that were in place in the first half of the 1980s.

There will need to be changes required to CGT systems but with a sufficient lead-in time this would be a major further simplification which would be welcomed by both the industry and investors. This change would also be relatively small in terms of revenue loss to the Government and show that the Government recognises the importance of this long term investment.

Treatment of Cash Deposits in Stocks and Shares ISAs

Whilst paragraphs 10.32 and 10.33 of HMRC's Guidance Notes for ISA Managers make clear that cash held in a stocks and shares ISA is only for the purpose of investment in qualifying investments, it remains unclear exactly how long the cash can remain in the ISA uninvested.

Given the recent volatility of the markets clients have tended to sell existing investments and hold cash in their Stocks and Shares ISAs but run the risk of the whole plan being voided if it is held there indefinitely.

We recommend that investors be allowed to hold up to 50 per cent of a Stocks and Shares ISA or up to £2,000, if this is greater, in cash and that these limits can be exceeded for new subscriptions or sale proceeds for up to 60 days.

We also believe that the interest paid on any cash deposits in a Stocks and Shares ISA should be paid gross to bring it into line with interest paid on deposits in a cash ISA.

Incentives to encourage those on lower incomes to invest in pension schemes

APCIMS recognises that the Government has taken steps in recent years to incentivise individuals to save for their long term financial futures, not least through the development of ISAs, Stakeholder Pensions and, more recently, Individual Pension Accounts. However, we remain concerned that the majority of those on lower incomes are still not saving and we believe that the Government should consider further ways to encourage them to do so.

Making pensions more flexible would make them more attractive and need not be a cost to the exchequer. For example income from a pension should not form any part of a means test; the ability to transfer part of a pension into a spouse's/children's/grandchildren's pension; and more flexibility on what you can do with the pension e.g. with people being able to work longer they may not want to make a pensions decision at 75. APCIMS and its member firms would be happy to help work with the Government to consider further ideas of how to make it worthwhile to set up a pension scheme at an early stage.

Quarter-up valuations for IHT, SIPPS and SSASs

Finance Act 2004 introduced the requirement, from October 2006, to provide a statutory market value in accordance with the Taxation of Chargeable Gains Act 1992, Section 272. Section

272(3) of the TCGA 1992 requires any assets that are listed on the Stock Exchange Daily Official List (SEDOL) to be valued using a three-stage calculation process. Effectively this involves taking the lower calculation of one quarter of the difference between the bid and offer prices quoted on the Daily Official List and the mid point between the highest and lowest prices quoted for the day.

We question the relevance of having to undertake the second of these calculations – the mid point between the highest and lowest prices quoted for the day – in view of the tightening of bid-offer spreads and would welcome a review by HMRC of the continuing need to undertake this three-stage calculation process.

Non-domiciles: Remittance for Overseas Trustees when paying for advice in the UK

The 2008 Finance Bill amended the anti-avoidance rules to bring the extended remittance rules into effect for transfers of assets abroad.

APCIMS shares the concerns expressed by others that the amendments will not prevent a remittance for overseas trustees when paying for advice in the UK. For example, where an overseas trustee seeks general UK tax or legal advice, this may very well not relate to property of any sort (whether situated in the UK or overseas) and would not therefore qualify for this more generous treatment. There still appears, therefore, to be an incentive for overseas trustees to seek advice from organisations based outside the UK, for example in the Channel Islands, rather than speaking to UK based advisors.

In addition, investment and fund management services in the UK would be likely to be hit where offshore trustees have UK portfolios, in particular where funds invest in worldwide assets but their umbrella body (unit trust or OEIC, for example) is resident in the UK. This will further discourage investment in the UK.

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