

Association of Private Client Investment Managers and Stockbrokers

Budget Submission April 2009

Introduction

The Association of Private Client Investment Managers and Stockbrokers (APCIMS) has specific fiscal issues to raise ahead of the budget.

With over 12 million people dependent on stocks and shares and other financial instruments for their financial futures, it is vital to protect the interests of investors and savers in the UK. Equally with £400 billion of funds under management and over 25,000 regulated people plus support staff employed at 500 sites across the British Isles, the investment community represented by APCIMS' member firms is a major contributor to the UK economy.

However, if the fiscal environment for that community becomes unfavourable in the UK, there is a risk that firms will set up in more advantageous jurisdictions and passport into the UK to do business. There are already examples of this happening. Not only does this mean that HM Treasury loses revenue, but jobs which could have been located in the UK are created elsewhere.

The crisis in global financial services undoubtedly marks a pivotal moment both for the UK industry and for our economy. It is in the country's collective interest that the UK's global advantage is not eroded as a result of tax regimes introduced as a backlash to recent circumstances.

It is imperative that the Government considers the interests of investors (including individuals, charities, trusts and pensions funds) and investment firms whilst preparing budgetary policy. .

We therefore highlight four key issues which are of particular importance to our industry.

1. Maintain and develop London as a global financial centre through a benign tax system which encourages growth.
2. Plan sufficient time ahead of tax changes for there to be appropriate preparation and consultation prior to implementation.
3. Reduce the rate of stamp duty/SDRT on chargeable securities to 0.25 per cent.
4. Move the base date for computation of Capital Gains Tax.

We have set these out in more detail below.

1. Maintain and develop London as a key global financial centre and the European regional hub, and promote other leading UK financial centres

Millions of people involved in the investment industry throughout the UK are dependent on London as a global financial centre. The UK's 12 million investors and savers as well as over 60,000 workers in 500 offices within the private client investment industry depend on the continuing success of London as the unchallenged hub for financial business in the European region. It is vital that the tax (and regulatory) systems are geared to maintaining London in this prime position and that they support other UK centres (Edinburgh, Glasgow, Manchester, Liverpool, Leeds, and Birmingham, to name but a few) as locations that attract international financial business. This issue is particularly acute in the current turbulent economic climate.

Change required:

Transparent, stable and controlled fiscal policies with no surprises (such as the recent CGT and Non-Dom initiatives which are widely seen abroad as undermining UK competitiveness) aimed at increasing the UK's attractiveness as a place to locate financial business.

No knee-jerk recourse to new tax legislation or legislation affecting other areas with a significant impact on the financial services community, such as regulation - the unintended consequences of which have not been considered appropriately.

Impact on industry:

Industry will be more likely to stay in London/UK or to relocate to here from abroad. This will increase UK-based employment and regenerate confidence in the UK's fiscal environment, including its long-term predictability.

Impact on Government:

These measures would attract City and business support for the Government. They would also provide an increased tax base to finance redistributive and popular projects. A higher level of business activity will speed up GDP growth with beneficial consequences for the economy, employment, and public perceptions of Government. Ultimately appropriate regulation will meet the FSMA requirement that the FSA has been given in discharging its functions: "must have regard to the international character of financial services and markets and the desirability of maintaining the competitive position of the United Kingdom".

2. Plan sufficient time ahead of tax changes for there to be appropriate preparation and consultation prior to implementation

Government must ensure that tax changes allow sufficient time for individuals and their advisers to digest the content and make appropriate plans for the future. The ill judged and timed proposals of the autumn of 2007, and the manner of their introduction and implementation, in respect of non-domiciles and capital gains tax created uncertainty and confusion to the detriment of individuals, businesses, and the country as a whole. In respect of the CGT proposals the final rules were still unknown with less than 55 working days left of the fiscal year.

Change required:

A commitment is required to plan ahead and to consult fully with interested parties on taxation for major new initiatives prior to their implementation. It is essential that the details of tax changes for relevant industries can be confirmed 12 months in advance of their required implementation date.

Impact on industry:

Sufficient advance warning would allow businesses and individuals to prepare for tax changes and implement them on time. It would induce a climate of confidence in both markets and with Government on the part of financial practitioners and consumers alike.

Impact on Government:

Government would receive a more efficient tax take up and be better placed to plan their income stream. This would also assist the Government's reputation in the sector and in particular it would restore market confidence in government tax policy making.

3. Reduce the rate of Stamp Duty/SDRT

Stamp duty/SDRT currently provides the Government with around £3 billion a year in revenue.

Increasing competition between trading venues and between intermediaries in recent years has reduced the market costs of financial transactions. As a result, stamp duty has become an increasingly large proportion of overall transaction costs. At the same time, financial products that are exempt from stamp duty/SDRT such as Contracts for Difference and Spread Bets have become increasingly popular amongst private investors.

Research undertaken last year for the Corporation of the City of London has suggested that the abolition of stamp duty could add as much as £146bn to the value of UK shares. Other research suggests that stamp duty of 0.5% depresses share values up to 10% and increases volatility.

The UK's stamp duty rate of 0.5% is the largest of any G7 country. France, Germany, Italy, The Netherlands and Luxembourg have abolished stamp duty which following MiFID makes the UK increasingly uncompetitive. The US stamp duty rate is 0.0003%.

Unfortunately the announcement in the 2008 budget to abolish stamp duty on share purchases up to a value of £1,000 only affected a tiny proportion of share transactions (so called residual securities which cannot be settled in the CREST system).

Change required:

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 was much less keen.

Whilst APCIMS would welcome complete abolition of stamp duty/SDRT, government finances may not make this realistic in the immediate future. We believe the Government should send a clear

signal that it wishes to make the UK stock market competitive and reduce the rate of stamp duty /SDRT to 0.25 percent.

Impact on the industry:

There will be systems' changes required for the industry if this is implemented (but this is inevitable even if there is complete abolition of stamp duty and SDRT). However whilst there will be a cost to industry, such a measure should stimulate investors to buy and sell more shares and bring the benefit of increased business to authorised firms. In addition it would make a valuable contribution to the liquidity of company shares. Such a boost to UK share trading would be a welcome 'shot in the arm' during these challenging economic times.

Impact on Government:

Reducing the Stamp Duty SDRT rate to 0.25 per cent would represent a cost to Government (although not as large as the outright abolition of stamp duty/SDRT). However it would send a message to business and the public about the value placed by the authorities on saving and investing for the future. Increased trading should also provide Government with increased tax receipts in other areas such as capital gains.

As important is the issue of international competitive advantage: it is vital for the Government to maintain UK plc as an attractive location for financial services industries and for investors to do business (see item 2 above). The continuation of stamp duty/SDRT in the UK in the face of its increasing abolition in competing financial centres can only be seen as a handicap, to the detriment of the UK's international position.

4. Capital Gains Tax: Moving Base Date for Computation of CGT

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 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.

Change required:

In order to address this and in keeping with the Government's CGT simplification agenda, a further reform should be 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 retain the benefit of any indexation accrued between 1982 and 1998.

Impact on the industry:

There will 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.

Government impact:

This change would be relatively small in terms of revenue. It would however send a positive message to business and investors and help encourage long-term investment.

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