



financial timesaver

Keeping the busy financial adviser updated with information and analysis of key issues

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Dark pools: stocks move to the dark side

Shunning the major stock exchanges and using the so-called 'dark pools' is a growing trend. It's worth questioning whether the benefits really outweigh the risks.

Much stock trading takes place on key exchanges, such as the London Stock Exchange, the NASDAQ in the US, or Deutsche Börse in Frankfurt. But it's becoming more and more popular to trade on autonomous platforms known as 'dark pools'.

Companies including Barclays and Goldman Sachs offer such facilities, and many of the conventional stock exchanges have set up their own ventures to avoid losing market share.

Dark pool trading offers three main advantages over conventional exchange trading:

- Dark pools can operate whenever they choose – unlike exchanges that offer fixed trading hours, outside of which you can neither buy nor sell.
- Dark pools typically undercut costs substantially. Exchanges charge a fixed fee which isn't open to negotiation and securities are bought at a higher price than they are sold (the "bid-offer spread").
- Investors can trade more anonymously. This can be an advantage if a well-known investor wants to reduce their holding in a stock without drawing attention to this fact and driving the price further down.

The drawbacks are that dark pools don't necessarily offer the security of an exchange, or the regulatory framework to protect traders if something goes wrong. Their smaller size also means they are more vulnerable to price manipulation and the anonymity means many investors are disadvantaged as they cannot identify a stock's trends.

Dark trading is here to stay and can offer substantial savings, especially on larger trades,

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which should ultimately offer investors a reduction in total expense ratios.

www.forbes.com/2009/05/18/dark-pools-trading-intelligent-investing-exchanges.html

PRE BUDGET REPORT

The Pre-Budget Report (PBR) proposals on pensions tax relief

The PBR has changed the anti-forestalling rules and revised the 2011 regime.

Just when you thought you had got your head around the special annual allowance charge (SAAC) rules, Mr Darling has decided to change them.

The change itself is relatively minor: the 'relevant income' threshold at which the SAAC potentially comes into play has been reduced to £130,000. As a result those with 'relevant income' between £130,000 and £149,999.99 in the current or either of the two previous tax years now have to watch their pension contributions from all sources. All the transitional rules for contributions made and arrangements established before 22 April 2009 will be duplicated for the new SAAC membership, with the cut off date changed to 9 December 2009.

The primary reason for reducing the threshold appears to try to align the threshold numbers that will apply after 5 April 2011 with the current anti-forestalling rules.

The Treasury published its consultative document on the 2011 provisions as part of the PBR. The paper proposed a three stage test to restricting tax relief:

1. Look at the individual's 'pre-tax income' to see if they are caught by the rules. This is defined as their gross income before any deductions for their own pension contributions or charitable donations. If the figure is below £130,000, there is no restriction to relief.
2. If 'pre-tax income' plus the value of any employer's pension contributions total less than £150,000, then again there is no restriction on relief.
3. If the £150,000 figure is reached, then the maximum rate of relief is calculated on a sliding scale from 50% at £150,000 to 20% at £180,000 pre-tax income. How the sliding scale works is out for consultation. The claw back is not as simple as it seems because there may be two tax rates (40% and 50%) which apply to different parts of a year's contributions.

Aside from the £130,000 starting point – which is different from the anti-forestalling regime's new £130,000 'relevant income' threshold – the consultation paper contained a number of other surprises. It rejects using the 10:1 annual allowance factor for valuing the yearly pension increase within a defined benefit scheme. HM Revenue & Custom's (HMRC) preferred option is a two-way table of age-related factors (ARFs), based on the member's current age and normal pension age. While ARFs are a more accurate measure, they raise issues about how often they should be reviewed and what happens if a change in the ARF basis alone results in a large notional contribution.

Any claw back of higher rate relief ('recovery charge') would normally be collected via self assessment. However, the paper proposes that where the charge exceeds £15,000, the member should have the option of electing that the pension scheme meets the cost. To allow for the fact that the contribution would have received at least basic rate relief, the tax charge levied on the scheme is grossed up at basic rate.

HMRC says that the 2011/12 measures will apply to about 300,000 people. They are all going to need professional advice.

www.hmrc.gov.uk/pbr2009/supplementary.htm

While ARFs are a more accurate measure, they raise issues about how often they should be reviewed.

INVESTMENT

Rights and wrongs on new share offers

Not all offers of new shares are the same.

Lloyds Banking Group has just raised £13.5bn by way of the largest ever UK rights issue. Come 2010, we can expect more companies to seek fresh capital from the markets, both to finance recovery and to replace maturing debt. The better the stock market performance, the more likely it is that the hat will be passed around.

Equity raising takes two main forms in the UK and there are important differences between them:

Rights Issues Under a rights issue, existing shareholders are given the right to subscribe for new shares on the basis of their existing holdings, eg Lloyds shareholders were offered 1.34 new shares at 37p each for each share held. If a shareholder does not want to take up their rights, they can sell them. If the shareholder does nothing, the rights expire and the shares relating to them are sold in the market. The difference between the sale price and the rights subscription price (if any) will then be paid to the original shareholder.

Open Offer Under an open offer, existing shareholders are given the opportunity to subscribe for new shares on the basis of their existing holdings, eg for Yell, the yellow pages company, shareholders were offered 1 new open offer share at 42p each for each share held. If the shareholder does not want to take part in the open offer, the open offer shares are sold in the market and the existing shareholder receives nothing. Indeed, they might find they are worse off if the open offer share price turns out to be below the pre-announcement share price.

When a company comes out with the begging bowl, you cannot afford to ignore the difference between an open offer and a rights issue.

graphics.thomsonreuters.com/119/UK_LLOY1109.gif

Come 2010, we can expect more companies to seek fresh capital from the markets, both to finance recovery and to replace maturing debt.

TAXATION

Time to get real on tax

Politicians are avoiding the tax elephant in the room.

At the end of November the Liberal Democrats revealed their tax plans. These were very much as expected, with one major exception: the 'mansion tax' had been reworked. Instead of being charged at a rate of 0.5% on the excess over £1m in property values, it had become 1.0% on the excess over £2m.

The main LibDem proposal is the introduction of a personal allowance of £10,000, with the resultant scrapping of age allowances. This would remove four million people from the income tax net, although probably a fair slice of these would still have income-based dealings with HM Revenue & Customs (HMRC) via the tax credit regime, or the Department for Work and Pensions (DWP) for Pension Credit.

To pay for the reform, the LibDems propose to:

- Restrict tax relief on all pension contributions to basic rate (raising £4.6bn).
- Tax capital gains as income (£3.2bn).
- Cut the CGT annual exemption from £10,100 to £2,000 (£0.9bn).
- Launch the 'mansion tax' on an estimated 70,000 - 80,000 properties (£1.7bn).
- Replace Air Passenger Duty with a tax per plane (£1.9bn) and put a levy on domestic flights (£0.4bn).
- Introduce a raft on anti-avoidance measures for income tax, CGT and NICs (£1.9bn), corporation tax (£2.1bn) and SDLT (£0.7bn).

The LibDem proposals are open to a variety of criticisms, but the biggest one

This would remove four million people from the income tax net.

applies to all the main political parties: the next government will need to increase tax revenue substantially, not just rearrange the sources. That is the reality of a budget deficit projected to be £178bn this year and only £2bn lower in 2010/11.

Labour (in the PBR) and the Conservatives have concentrated on spending cuts. While this does not frighten the voters, it ignores two facts. Firstly, overall spending would have to be cut by almost 20% for the deficit to disappear in 2011/12. Secondly, total government spending is all already being reined in after next year, with real growth between 2010/11 and 2013/14 barely positive. Net capital expenditure is set to fall from 3.5% of GDP this year to 1.3% by 2013/14. By then the deficit will still be £96bn and total government debt £1,379bn.

So where will the tax increases come? The budget hole is too large to be filled by a further round of stealth taxes. The big revenue raisers are the political nasties. Adding 1% on basic rate income tax raises £4.5bn, while 1% on NICs (which, thanks to the last two PBRs, is already in the pipeline) brings in £4.7bn from employers and £4.6bn from employees. Putting the standard rate of VAT up to 20% (from next month's 17.5%) would yield £10.8bn. Changing mainstream corporation tax by is not much help; adding 1% to the rate only raises £0.9bn.

If taxes do not rise sharply in the post-election Budget, the UK government could see its AAA rating removed just at the point that it needs to sell over £200bn in gilts.

www.libdems.org.uk/siteFiles/resources/PDF/Tax%20Plans%20-%20Briefing%20Document.pdf

www.hmrc.gov.uk/stats/tax_expenditures/table1-6.pdf

INVESTMENT

Naked option funds: don't expose yourself

As depleted hedge funds seek new investors, many are cloning their funds into a UCITS format. But some of these funds, especially those using naked options, might be just too risky for individual investors.

The breadth of new UCITS investments available to investors is welcome, as more choice means they can tailor their savings to their risk profile. But funds that invest in more risky instruments such as naked options are not suitable for everyone.

Naked options An option is said to be 'naked' where a trader sells an option contract but does not hold a position in the underlying security as protection against an adverse shift in its price. Naked positions are considered to be very risky because, in theory at least, they can lead to unlimited amounts of loss in exchange for relatively low upside returns.

For example, an option seller agrees to sell a security at a set price in the future in return for a fee (ie they sell a call option). If the underlying stock rises above the option price, the option buyer can cash in their option and sell the stock at a profit. If the stock's price doesn't increase enough, the fee is wasted. Option sellers typically hold enough stock to meet their obligations or they issue a mirror option to hedge their own exposure. But if the seller is not covered in this way, the option is sold naked.

A naked option fund holds cash and issues options on stocks it believes will not rise. It expects to make its money on the option fee, based on the assumption that most of its options will not rise above the option price and so won't be cashed in.

But the strategy is massively risky because losses are potentially unlimited. A stock could double, treble or climb fifteen-fold before an option expires, while the options fees received are relatively modest. A sharp rally in equity markets could wipe out such a fund entirely, leaving investors with a big hole in their savings.

Naked option funds are designed to maximise returns by taking on

A naked option fund holds cash and issues options on stocks it believes will not rise.

substantial amounts of risk. While the UCITS wrapper gives naked option funds an air of stability, they are not for the faint hearted. It is worth checking whether managers are intending to use this strategy.

www.investopedia.com/terms/n/nakedoption.asp

REGULATION

Changes to trust income accumulation rules

The Perpetuities and Accumulations Act 2009 received Royal Assent on 12 November 2009 and will greatly change the period that income can be accumulated in lifetime trusts. However, the substantive provisions of the Act will not come into force until a Commencement Order is laid in Parliament, which is expected to be some time in 2010.

The 2009 Act only applies in England and Wales and the main provisions are as follows:

- A single 125 year perpetuity period will always apply (although a settlor may choose a shorter trust period). Charities and pension schemes will continue to be exempt from the rule against perpetuities.
- There will be no restrictions on the accumulation of income for non-charitable trusts, which will be able to accumulate income for the entire 125 year period.
- For charitable trusts two accumulation periods are available – either 21 years or the life of the settlor.
- The Act will apply to all lifetime trusts set up after the 2009 Act provisions come into force. But it will not apply to a trust created under a will which is executed before the provisions of the Act come into force, even if the testator dies after that date.
- Where a special power of appointment in a trust is exercised to create new trusts, the Act reaffirms the current position. The perpetuity and accumulation periods of the new trusts will therefore be the same as those relating to the trust containing the power. Special rules apply to appointments made under pension scheme trusts.

The most significant change is the abolition of the current rule against excessive accumulations for non-charitable trusts. The current rule can impose unnecessary constraints on the trustees with regard to the investment of the trust funds. It can also have the effect of forcing trustees to distribute income to beneficiaries even when the trustees feel it would be against the beneficiaries' best interests. It is frustrating that even though we now have the Act, there will be a delay in the new provisions coming into effect.

Charitable trusts will continue to be subject to the rule against excessive accumulations, because it is considered to be in the public interest that a charity's income is spent for the public benefit rather than be accumulated indefinitely.

The new provisions will not be retrospective; so any trusts that are created before the commencement order will still be subject to the old provisions.

Potential settlors who would prefer to create a trust under the new provisions need to consider the cost of delaying — especially in view of any possible changes to the IHT and CGT rules that may be introduced in the next Budget.

www.publications.parliament.uk/pa/ld200809/ldbills/035/09035.6-9.html

The current rule can impose unnecessary constraints on the trustees with regard to the investment of the trust funds.



Pay me my money down – part 2

The Pre-Budget Report did not include the expected increases in capital gains and dividend taxation, although the pre-announced super-tax rates will still apply from 6 April 2009. They might yet appear in the Spring Budget.

While the current position lasts, we look at how owner-managed businesses can extract cash through income-splitting with spouses and dividend payments, as well as tax-efficient benefits and loans.

Income-splitting and spouses' dividends Following the defeat of HM Revenue & Customs (HMRC) in the landmark *Jones v Garnett* [2007] STC 1536 case in 2007 (commonly known as the Arctic Systems case), it was expected that legislation would be enacted to counter income-splitting arrangements in owner-managed businesses. However, some two years on, the law still stands where it was when the House of Lords ruled that Mr Jones' arrangements for routing tax-efficient dividends to his wife were effective.

Before the Arctic Systems case, HMRC often tried to apply the settlement legislation to 'husband and wife' companies, where typically the working husband attempted to gain a tax advantage by diverting part of his dividend income to a spouse (who paid little or no tax on it). In such cases, the spouse is normally provided with shares and the dividend paid on those shares is largely derived from the profits earned by the husband. The couple's tax planning objective would be to benefit from the lower dividend tax rates enjoyed by the spouse. To illustrate the point, in the current tax year to 5 April 2010, a wife could receive a dividend of up to, say, £39,400 without paying any further income tax, (see the example below).

Example – Tax efficient dividend to a spouse (company paying tax at 21%) Rosalita is a 30% shareholder in her husband's company, E Street Band Ltd. Assuming she has no other taxable income, she could receive a dividend of up to (say) £39,400 in 2009/10 without incurring any further tax liability, as computed below:

	£
Cash dividend	39,400
Tax credit (1/9th)	4,378
Gross dividend	43,778
Less: Personal allowance	(6,475)
Taxable income	37,303
Income tax at 10% (within basic rate band)	3,730
Less: Tax credit	3,730
Tax payable	Nil

The deductible dividend tax credit is restricted to 10% of the taxable income (under s 397(2) Income Tax (Trading and Other Income) Act (ITTOIA) 2005)

Arctic Systems involved a very small computer consultancy company. The case demonstrates that where the company's profits are essentially generated by one spouse and the other receives shares at less than full market value (to enable them to receive a dividend), this is likely to be a settlement for income tax purposes under s620 (1) ITTOIA 2005. When the settlement rules are triggered, the wife's relevant dividend income will be taxed on the (settlor) husband instead.

Before the Arctic Systems case, HMRC often tried to apply the settlement legislation to 'husband and wife' companies...

Furthermore, the Government seems to have moved income-splitting onto the back burner.

However, the House of Lords held in *Arctic Systems* that the settlement was protected from the settlement rule under the 'outright gifts' exemption for intra-spousal settlements in s626 ITTOIA 2005 (the same protection is available to civil partners). This exemption applies where there is an outright gift of assets which do not represent an entire or substantial right to income. In the case of *Arctic Systems*, the Law Lords held that the ordinary shares provided to Mrs Jones carried more than a pure right to income because they had a bundle of rights attached to them, including the right to attend and vote at general meetings, rights to capital growth on a sale and the right to obtain a return of capital on a winding-up.

The conclusion might well have been different if the 'non-working' spouse had been given non-voting preference shares instead. The taxpayers in *Young v Pearce* [1996] STC 743 had previously come unstuck on this point. In that case, the High Court held that non-voting preference shares carrying a coupon of 30% of the company's net profit (which would be paid if agreed by the Board) were wholly or substantially a right to income because all the other rights were minimal.

The current position with spouses' dividends HMRC's attempts to introduce legislation to counter what it sees as unacceptable income-splitting have largely been derailed. The proposed rules were shown to be completely unworkable and difficult to police in practice. Furthermore, the Government seems to have moved income-splitting onto the back burner. The main conclusion to draw from this is that small owner-managed companies can currently make arrangements to pay tax-beneficial dividends on ordinary shares to spouses with confidence, provided they fall within the outright gifts exemption. Going forward into the high-tax regime, some owner-managers will probably want to implement splitting dividend income at the top end of the income scale to avoid the increased burden of the effective 36.1% rate!

Tax-efficient benefits Over the years, the Government has clamped down on the number of tax-efficient benefits, which are generally subject to NIC as well as income tax. However, there are still a few benefits that may be reasonably tax-efficient for owner-managers – these include eco-friendly cars (broadly cars with emissions ratings of less than 110 g/km attract a very low benefit in kind), mobile phones (but not Blackberries and similar devices), child care assistance (vouchers) and 'low-cost' accommodation.

Loans to owner managers It is now perfectly acceptable for companies to make loans to their directors under the Companies Act 2006. For owner managers, the provision of a loan/advance from the company will often attract two separate tax charges:

- A taxable benefit would arise under the beneficial loan provisions in s175 ITEPA 2005 (provided the amount outstanding in the relevant tax year exceeds £5,000). Broadly, the 'employment' income tax/Class 1A NIC charge is based on an amount equal to the interest on the outstanding loan at the official rate of interest, currently 4.25%.
- There is a tax charge (under the loan to participator rules – s419 ICTA 1988) which is currently set at 25% of the amount of the loan, where it remains outstanding more than nine months after the company's year-end. This is effectively a deposit-type tax because the relevant tax is repaid by HMRC when the loan is repaid.

In an era of increasing tax rates, there may be a case for making loans to owner-managers, because the overall tax cost may be reasonably inexpensive. However, these loans should be properly documented, otherwise HMRC might try to tax them as earnings paid on account. Where the owner-manager agrees to pay interest on the loan, at a rate that is at least equal to the official rate, this should avoid the employment income tax charge.

Many successful owner-managers will certainly bear a lot of the pain inflicted by a Government looking for ways to top up its severely

depleted coffers. However, they still have a number of 'acceptable' tax planning strategies open to them which can bring useful tax savings.

www.hmrc.gov.uk/practitioners/guide_sba.pdf

INVESTMENT

Portfolio management tools: whose advice is it anyway?

Adviser firms of all types are increasingly reliant on third party decision support tools to assess client risk and give advice on asset allocation models. These tools support a disciplined approach and can spread the use of a centralised investment expertise, but blind faith in these black boxes could be disastrous.

What do they measure? Understanding what a risk assessment tool does is essential, but it is also challenging because they can be highly complex. To use the tool correctly, an adviser should understand whether the tool is measuring the client's appetite for investment risk, or a broader assessment that takes into account their lifestyle choices such as a desire to participate in extreme sports.

Is the tool adaptable? A consistent approach is generally preferable, but it can become counter productive. For example, does the system take into account the circumstances in which the investment is being made? A mass affluent investor may regard a particular investment as excessively high risk, whereas a very high net worth (VHNW) client may see it as acceptable given the size of their portfolio.

If a client disagrees with the systems' assessment and wants to change the result, this should trigger further considerations. If enough investors change the results, the tool needs to be recalibrated. Keeping track of the number and nature of such objections will support this decision.

Bias Stock selection tools have the potential for bias towards the products of the tool provider. The bias may be intentional or unintentional, although intentional bias is not necessarily bad. Take the case where an adviser firm constructs a carefully chosen set of funds to match a certain type of client's needs. As long as the process is treated intelligently and the bias is disclosed and agreed as part of the advice procedure, there should be no problems.

A worse scenario would arise when a tool supplied by a product provider selects the provider's own funds without disclosing to the users or investors that it operated in this way. Advisers should guard against such bias by monitoring the results and taking necessary action if bias is found.

The rebalancing conundrum. The auto-rebalancing of portfolios by a portfolio management tool that is based on a third party's model portfolio is fraught with confusion. In order to effect such rebalancing, the client must agree to be included in such a process. As the adviser has not selected the content of the model portfolio, it could be argued that the process constitutes an 'execution only' transaction. Similarly, the providers of the tools might also argue that they are merely carrying out a process that does not involve a relationship with the investor.

So who is responsible? The only direct relationship with the investor is likely to be with the adviser, from both a regulatory and legal standpoint. Does this mean the system or model portfolio provider has no responsibility towards the investor?

In answering the question 'Whose advice is it anyway', the prudent answer for advisers is to act as though the answer is 'Mine'.

www.tisa.uk.com/slides/115_KarenBond_Navigant.pdf

If a client disagrees with the systems' assessment and wants to change the result, this should trigger further considerations.

You may have missed...

Dividend funds: A narrow portfolio?

Just three companies – BP, Shell and Vodafone – generate 32% of UK dividend income, according to research by UBS. No wonder those income fund portfolios often look so similar.

www.ft.com/cms/s/0/633721cc-db84-11de-9424-00144feabdc0.html

Pre Budget Report (PBR) closes two Inheritance tax (IHT) loopholes

The first IHT planning loophole to be closed involved the purchase of interests in offshore property trusts set up by non-domiciled individuals. The scheme was designed to avoid the 20% tax on IHT trust transfers. The second involved the payment of gifts to future beneficiaries, and through a process of deferring the repayment of those gifts it aimed to avoid IHT and keep funds below the nil rate band threshold.

www.hm-treasury.gov.uk/prebud_pbr09_press03.htm

FSA warns running down income drawdown funds may not be TCF

At a conference in London, the FSA manager of pensions and other products policy said that the FSA was keeping a close eye on the practice of running down pension funds and that it was unlikely that an investor would benefit from having their pensions run down to nothing.

www.ifaonline.co.uk/ifaonline/news/1564720/fsa-warns-running-down-pension-funds-tcf

HMRC extends its new disclosure opportunity

Clients with offshore investments who have not yet informed HMRC now have until 4 January 2010 to provide the information. The cut-off point has been postponed to give banks more time to contact their offshore customers.

<https://ndo.hmrc.gov.uk/ndo/index.jsp>

HMRC put the pressure on tax avoidance and evasion

Under anti-avoidance proposals in the PBR, failure to disclose offshore gains and income (even by mistake) will result in the same penalties as any deliberate failure to pay tax on offshore funds. Also UK residents with bank accounts in certain jurisdictions are required to inform the HMRC within 60 days or face an upfront penalty followed by daily penalties capped off with tax geared penalties.

www.hmrc.gov.uk/pbr2009/offshore-tax-evasion-5350.pdf

NS&I withdraws its guaranteed growth and guaranteed Income Bonds

National Savings & Investments withdrew its contentious market-leading three and five year Guaranteed Growth and Guaranteed Income bonds in early December. Ostensibly this was because their sales targets had been met.

www.nsandi.com/press-room/press-releases/pr2004479.jsp

New Financial Services Bill opens up class actions

The Government introduced its new financial services bill to parliament in November. Among the subjects covered was the proposal to allow consumers to bring class actions against financial institutions. The FSA's information collection powers have been extended to include non-regulated firms such as hedge funds.

www.hm-treasury.gov.uk/press_108_09.htm



markets

Ratings and government finances

The Pre-Budget Report (PBR) generated more interest from a much broader section of society than usual. While the UK budget, scheduled shortly before the general election, is unlikely to be greeted with the waves of public protest that accompanied the austere Irish budget, the focus will stay on the poor state of the Government's balance sheet.

It is not just the UK and Ireland that have seen deterioration in their public finances. Governments across the globe have seen a sharp fall in tax revenues coupled with an increased burden in social-security provision. To make matters worse, hugely increased government spending has been necessary to fill the void created by a rapidly retreating private sector and to avoid a much deeper, longer economic malaise. Government finances have been stretched to such an extent that there is increasing conjecture that some sovereigns will attract a credit rating downgrade. Speculation reached fever pitch when difficulties at Dubai World hit the headlines. Within days, Standard & Poors announced downgrades for four Dubai based banks and Fitch reduced its rating for the Greek government. Greece has a deficit similar to the UK's, but unlike the UK that deficit is expected to widen from 13% of GDP to 130% next year.

Fitch have pointed out that while the UK is 'most at risk' among the top-rated sovereigns, it has maintained a 'stable rating outlook' to reflect the expectation of a 'stronger fiscal consolidation programme' in the Budget next year. After what many consider to be a weak PBR, it will be interesting to see how the ratings agencies react.

	30 November 2009	Year-on-Year Change %
FTSE All-Share	2648.4	24.1
FTSE 100	5190.7	21.1
Nikkei 225	9345.55	9.8
S&P 500	1095.63	22.2
Dow Jones Industrials	10344.84	17.2
NASDAQ Composite	2144.60	39.7
FTSE All-World Asia Pacific (Ex-Japan) (011/09)	369.12	67.2
FTSE All-World Europe (Ex-UK) (11/09)	199.89	32.0
Sterling Trade-Weighted Index	79.4	-5.3
£/\$ Exchange Rate	1.6411	6.9
£/Euro Exchange Rate	1.0931	-9.6
£/Yen Exchange Rate	141.373	-3.3
RPI (11/09)	216.6	0.3
CPI (11/09)	112.0	1.9
Long-Term Gilt Yield	4.09%	
Unsecured Income Gilt Yield (11/09)	4.25%	
Base Rate	0.50%	
Halifax Mortgage Rate	3.50%	
Best £10,000 Instant Access Rate	3.15%	
Nationwide Avge House Price (11/09)	£162,764	2.7



self-test

December 2009

The following self-test questions are intended to help you evaluate your use of **Financial timesaver** for maintaining and developing your knowledge in line with **FSA requirements**. Circle the correct answer, add up your score out of ten and file in your knowledge maintenance and developments records. The answers are shown on page 10.

Visit www.taxbriefs.co.uk to log on and test yourself online.

1. In its consultation paper on implementing the restriction of pensions tax relief, HMRC preferred the use of which method of valuing defined benefit pension increases?
 - a. Automatic Relief Factors.
 - b. Age Related Factors.
 - c. Annual Rate Factors.
 - d. Automatic Rollup Factors.

2. How much would putting up VAT to 20% raise in increased revenue?
 - a. £4bn.
 - b. £6bn.
 - c. £8bn.
 - d. £10bn.

3. Under an open offer capital raising by a company, what is the position if an existing shareholder does not buy the new shares being offered?
 - a. The shares are sold and the shareholder receives the nominal value.
 - b. The shares are sold and the shareholder receives nothing.
 - c. The shares are sold and the shareholder receives the market price.
 - d. The shares are sold and the shareholder receives the net value of the shares.

4. In its consultation paper on implementing the restriction of pensions tax relief from April 2011, HMRC proposed that taxpayers should be able to elect for their special annual allowance charge to be drawn from the pension fund if the value of the SAAC exceeds which of the following?
 - a. £5,000.
 - b. £10,000.
 - c. £15,000.
 - d. £25,000.

5. Naked option trade is called such because?
- No money changes hands between the option buyer and seller.
 - The option seller is exposed to unlimited losses.
 - No contracts are exchanged between the option buyer and seller.
 - The option seller does not hold securities to cover the option bargain.
6. Why did the gifted shares in the Arctic Systems case fall under the outright gifts exemption for inter spousal settlements?
- The shares only had a right to capital.
 - The shares only had a right to income.
 - The shares had multiple rights – not just to income.
 - The shares had no voting rights.
7. A taxable benefit arises on beneficial loans to owner-managers and most other employees. What is the threshold for these loans at which the benefit in kind charge will apply?
- £5,000
 - £7,500
 - £8,500
 - £10,000
8. What is the default perpetuity term for non-charitable trusts under the provisions of the Perpetuities and Accumulations Act 2009?
- 60 years
 - 75 years
 - 100 years
 - 125 years
9. In what timescale do UK residents have to inform HMRC of new bank accounts in certain low-tax jurisdictions under proposals in the Pre-Budget Report?
- 10 days.
 - 20 days.
 - 40 days.
 - 60 days.
10. What two accumulation periods are available to charitable trusts under the provisions of the Perpetuities and Accumulations Act 2009?
- 12 years or the life of the settlor.
 - 21 years or the life of the settlor.
 - 12 years or the life of the beneficiaries.
 - 21 years or the life of the beneficiaries.