

# FINANCIAL PLANNING PROFESSIONAL

## Editorial

Welcome to the first edition of 2009, which we trust will be a successful year for all our readers, albeit that there will be challenges to face.

In this edition, we cover the Pre-Budget Report from last November and this will prove a good reminder of the main points, after the festive break. The article includes a useful timetable of when the main changes occur.

We also discuss early retirement through incapacity, taking in both the legal situation as enforced by HMRC, and the practical implications of what

can be a very difficult situation. It is also an eventuality for which few have adequate protection in place.

David Harris has provided an article on offshore funds, which still have an attraction for some investors. It is important to understand the tax implications and David also covers the planned changes, although the effective date has not yet been decided.

The Retail Distribution Review is covered in our Training and Supervision article. The FSA is moving towards a major overhaul of the industry and it is important we all keep abreast of their proposals. There will be further consultation in 2009 and as many people should take part as possible.

## FOUNDATIONS

### The Pre-Budget Report

In November, when the Chancellor delivered his Pre-Budget Report, much of the attention was inevitably focused on the temporary reduction in VAT and the increase in government borrowing. These are important, but there are a number of other changes which will also have a significant effect on advisers and their clients. In a number of cases, the effects will take place over several years.

In this article, we summarise some of the major areas of change, and pull together the effective dates.

#### VAT

The reduction in the standard rate of VAT from 17.5% to 15% was effective from 1 December 2008. The intention is to stimulate demand by reducing prices to consumers. For most VAT registered businesses, there will be no direct effect, because the VAT they pay on supplies they buy is reclaimable, but the reduction in prices to consumers should be useful, particularly when many potential customers are biding their time before

committing to any spend.

Some small businesses operate a flat rate scheme, where, rather than having to account to HMRC for the difference between VAT charged and paid, they instead pay a fixed percentage of turnover, which varies from business sector to business sector. These percentages have also been reduced to reflect the change in standard rate.

The reduction in the standard rate is temporary, and the rate will revert to 17.5% from 1 January 2009. There will be arrangements in place to prevent 'fore-stalling' ie the use of artificial arrangements designed to apply the 15% rate where supplies actually occur after the rate returns to 17.5%. There is no change to the 5% rate applicable to domestic fuel (amongst other things), nor to the operation of the zero rate on some supplies.

#### INCOME TAX

There will be a number of income tax changes, which are being phased in over the next three tax years. In 2009/10, there

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will be increases in allowances and bands, and the main changes are as shown in the table below. These include a 7.3% increase in the personal allowance, which is considerably more than indexation. The basic rate limit increases by almost 7.5%, whilst other allowances increase by around 5%, in line with indexation.

	2008/09	2009/10
Personal allowance	£6,035	£6,475
Age allowance (65-74)	£9,030	£9,490
Age allowance (75 and over)	£9,180	£9,640
Blind person's allowance	£1,800	£1,890
Married couple's allowance	£6,625	£6,965
Income limit for age allowance	£21,800	£22,900
Minimum married couple's allowance	£2,540	£2,670
Basic rate limit	£34,800	£37,400
Starting rate band (savings income only)	£2,320	£2,440

Only one rate is now given for the Married Couple's Allowance. As this is only available where at least one spouse or partner was born before 6 April 1935, in 2009/10 they will at least reach their 75th birthday. The lower rate level is therefore no longer relevant.

A radical change is that from 2010/11, the personal allowance will be restricted for those with total income (before allowances) in excess of £100,000. It will be reduced by £1 for each £2 in excess of £100,000 until it is halved. There will then be a further reduction of £1 for each £2 of income in excess of £140,000 until the allowance is lost entirely. This will be seen by many as a rather complicated approach to increasing the tax burden of those with higher incomes.

This theme is then extended further from 6 April 2011 by the introduction of a higher rate of tax on taxable income in excess of £150,000. The rate will be 45% on non-savings and savings income, and 37.5% on dividend income. At the same time, these rates will also apply to trust income under discretionary trusts (presumably after the application of the standard rate band).

## NI CONTRIBUTIONS

For 2009/10, the rates of NI contributions will not change, but the Upper Earnings Limit (UEL) will increase to £844 per week (£43,888 pa) from its current level of £770 per week. This aligns the UEL with the point at which higher rate tax becomes payable (£6,475 + £37,400 = £43,875), as previously planned. The result will be a substantial increase in contributions by those whose earnings exceed the new level.

As already announced, the Upper Accrual Point (UAP) at which earnings cease to count for the accrual of S2P benefits will be introduced from 6 April 2009 and it will be fixed at £770 per week or £40,040 pa.

The realignment of the NI threshold to the income tax personal allowance will apply from the 2011/12 tax year. (The alignment was lost when the personal allowance for this tax year was increased to compensate for the abolition of starting rate on non-savings income.)

Also from 2011/12, the Class 1 secondary contribution rate (paid by employers) will increase from 12.8% to 13.3% and the primary contribution rate (paid by employees) will increase from 11% to 11.5%. Class 4 contributions by the self-employed will increase from 8% to 8.5%. The additional rate payable by employees and the self-employed on earnings above the UEL will also increase from 1.0% to 1.5%.

## SUMMARY OF DATES

The following table groups together the dates at which the main changes will have effect:

Date	Measure
1 December 2008	Reduction in VAT rate to 15%
6 April 2009	Increases in income tax allowances and bands Alignment of UEL to start point of higher rate tax
1 January 2010	Return of VAT rate to 17.5%
1 April 2010	Small companies' rate of corporation tax increases to 22% (deferred from 1 April 2009 – see below)
6 April 2010	Reduction in personal allowances for high earners
6 April 2011	Increase in tax rates for high earners and trusts Realignment of NI threshold to personal allowance Increases in NI contribution rates

## INCOME SHIFTING

The planned legislation which was intended to deal with income shifting between spouses or partners working within a business has been shelved for the moment, although the government intends to keep this issue under review. Legislation had been expected in the Finance Act 2009.

## BUSINESS TAXATION

It was planned that the small companies' rate of corporation tax would increase from 21% to 22% from 1 April 2009. This increase has been postponed until 2010. There are no other changes to corporation tax rates and bands, which will therefore be the same for the 2009 financial year as for 2008.

There is however a change to the treatment of trading losses for businesses (whether incorporated or not). Currently losses can be carried back for one year, but no more. For company accounting periods ending in the period 24 November 2008 to 23 November 2009, it will be possible to carry back losses for up to three years (using later years before earlier years). It will continue to be possible to carry back unlimited amounts for one year, but there is a limit of £50,000 on the amount that can be carried back further. Any loss which cannot be carried back can still be carried forward indefinitely.

For unincorporated businesses, the measure will apply to trading losses for the tax year 2008/09.

## REGISTERED PENSIONS

Although there are no immediate changes to pension rules, there was an unexpected announcement that for the five year period from 6 April 2011, the lifetime allowance will be frozen at its 2010/11 level of £1.8m. Similarly, the annual allowance will remain at £255,000.

This is an unwelcome decision, and although it affects a relatively small number of people, it goes against reasonable expectations and so may dissuade some from making effective use of pensions.

Those who have registered for primary protection under the transitional rules will be affected because their increased personal lifetime allowance will also be frozen.

## OTHER MEASURES

As always, there were various other measures and the full set of HMRC notes can be accessed at

[www.hmrc.gov.uk/pbr2008/notes-pdf.htm](http://www.hmrc.gov.uk/pbr2008/notes-pdf.htm)

There are a number of anti-avoidance measures and some technical changes in some areas including an easing of the ownership conditions

governing QIS (Qualifying Investor Schemes). Details are also given of the new treatment for business expenditure on cars.

There will be a full Budget announcement in the Spring as usual, so there is a possibility of further change. Also, given the timescale over which some of these measures will come into effect, there is again the possibility of further adjustment. The income tax changes in particular complicate the position, and tax planning of income will be important in the future. n

## FROM COMPETENCE TO EXPERTISE

# Retirement in ill-health

Registered pension arrangements are established in order to allow benefits to be available to the member at retirement, but the expectation is usually that retirement will take place in a normal fashion, perhaps around the age of 60 or 65 (although the minimum normal pension age is 50, or 55 from 6 April 2010). However, a proportion of people will need to retire earlier than planned as a result of injury or ill-health.

In this article, we consider the implications of this, first in terms of what the law and HM Revenue & Customs (HMRC) will allow, and secondly from a practical point of view.

## INCAPACITY

Although in the past, there have been differences in the HMRC position between occupational and personal pension schemes, this is no longer the case since the introduction of the simplified regime in 2006. The rules described therefore apply equally to both types of scheme.

In order to take benefits before normal minimum pension age on grounds of incapacity, the scheme administrator must accept qualified medical advice that the member cannot continue his current occupation as a result of injury, sickness, disease or disability. The member must actually have ceased the occupation and there is no minimum age

at which the provision can be applied.

Except as discussed below in relation to cases of serious ill-health, the benefits will be taken in the usual form, with up to 25% of the fund or the value of benefits available as a tax free pension commencement lump sum.

Taking benefits is a Benefit Crystallisation Event (BCE), so a lifetime allowance test applies in the normal way, with the usual lifetime allowance available (reduced by any previous crystallisations). If the benefits derive from a defined benefits scheme, the usual 20:1 valuation factor applies; there is no reduction in the factor, even though the member's health is poor, but no increase, even though benefits start at a relatively young age.

It is worth noting that where benefits are provided in the form of a scheme pension, for example from a defined benefit scheme, it is possible for the scheme rules to allow the reduction or cessation of the pension if the member recovers or partially recovers. Generally, scheme pensions cannot reduce or cease except in certain specified circumstances.

That said, the law (Finance Act 2004 Schedule 18 para 1) states that the ill-health condition requires that the evidence required when the benefit starts is that member is, and will continue to be, incapable of continuing his occupation.

## SERIOUS ILL-HEALTH

Where the member is incapacitated and has a reduced life expectancy of less than a year, the whole of any uncrystallised benefit can be taken as a lump sum, which is entirely free of tax provided that it falls within the member's available lifetime allowance. (Otherwise, the usual tax charge applies to any excess.)

This is a considerable improvement on the position in the past, where, before 2006, full commutation was not permitted under personal pensions, and, if it occurred under occupational schemes, the benefit was partly taxable.

There is an exception to the general rule in the case of contracted out rights, where 50% of the benefits derived from those rights must be retained by the scheme to provide a survivor pension if the member is married or in a registered civil partnership.

## REPORTING REQUIREMENTS

The scheme administrator has to provide details of certain events to HMRC in an Event Report for each tax year, by no later than 31 January following the end of the tax year.

Where benefits are paid early on grounds of incapacity, or where full commutation is provided in cases of serious ill-health, these do not require advance agreement from HMRC, nor do they need to be reported in most cases. They are

reportable in the Event Report in the case of an occupational scheme where the member is, in the tax year of the benefit payment, or was in any of the six previous tax years:

- In relation to the sponsoring employer, or an associated company of that employer, a director or a person connected with a director; or
- Either alone or with others, the sponsoring employer (ie is a sole proprietor who is the sponsoring employer, or a partner in a partnership which is)
- A person connected with the sponsoring employer

'Connected' is quite widely defined (the definition tracks back to s839 of the Income and Corporation Taxes Act 1988) and, in the case of a person, includes a spouse, civil partner or relative. In the case of a company, it includes a person who controls the company, or any two or more persons who control it.

While this excludes most rank and file scheme members, it does mean that those who could be in a position to put pressure on the decision to provide benefits are likely to be subject to the reporting requirement.

In the case of a personal pension scheme, there is no sponsoring employer, so there would be no one within the category for whom payment of incapacity or serious ill-health benefits would be a reportable event. However, the scheme administrator is likely to be at arm's length and there is therefore little chance of abuse.

### PRACTICALITIES

The difficulty which generally arises in relation to ill-health cases is not in fact HMRC requirements, but rather the cost of providing benefits. This is most starkly illustrated in the case of a personal pension, where, if an

individual becomes incapacitated shortly after he starts contributions, there will not be sufficient money built up in order to provide a worthwhile benefit.

In the past, it was possible to include a waiver of contribution provision within the personal pension, but this is no longer permitted (though where the option exists within an arrangement started before 6 April 2001, it can be continued or indeed be activated). This option was designed to cover the contributions during the period of incapacity, allowing benefits to be drawn in the normal way when the intended retirement date is reached. Including it within the personal pension allowed tax relief on the contribution and this is still the case with these older arrangements.

Otherwise, it is a matter of ensuring that contributions can continue to be paid from other resources, or including provision for them in determining the required level of Income Protection Insurance. An issue here for those on substantial incomes is that although contributions are allowed by non-earners with tax relief, the maximum relievable amount is £3,600 per year. (This figure was set in 2001 and there seems to be no sign of it increasing.)

Under occupational schemes, there are different issues. Some defined benefit schemes allow members to early retire on grounds of incapacity on a favourable benefit basis. This could mean that benefits are not reduced by an early retirement factor to take account of the early start date, or could mean that benefits are based on all potential service to the scheme's normal pension age. There is no reduction in tax allowances and indeed the annual allowance check on total input is not required in the year all benefits are

taken. This will mean no possibility of an annual allowance tax charge even where a substantial increase in benefits results, provided that the condition that all benefits are taken is met.

The difficulty for schemes is that the incidence of incapacity is difficult to predict, except perhaps for the largest schemes, and the cost of enhanced benefits can be high, therefore affecting scheme funding. As a result, many schemes do not commit to providing enhanced benefits, although (subject to the funding position of the scheme) they may do so at the discretion of the trustees if a case arises.

This can create uncertainty for members, who cannot be sure of their position, and who may therefore find it difficult to decide on their own protection needs, particularly if there is no group Income Protection Insurance (IPI) scheme offered by the employer.

Where there is a group IPI scheme, the benefits may include provision for ongoing pension scheme contributions (whether the pension scheme is on a defined benefit or defined contribution basis). This is a useful additional feature and allows benefits to continue to build up so that the scheme can provide pension benefits at a reasonable level when the IPI benefit ceases, generally at retirement age.

Unfortunately, too many people ignore the risk of incapacity and in particular its potential effect on their retirement provision. In designing any overall financial plan, this should be taken into account. It is increasingly the case that those who suffer incapacity may have a perfectly normal life expectancy, and so may be reliant for a very long time on the planning put in place before they were forced to stop working. n

### FOR THE SPECIALIST

## Offshore investment funds by David Harris

There are many reasons why an investor might consider that an offshore investment fund offers a more attractive alternative than an onshore equivalent. Some may con-

sider the possibility of taxation benefits, others, the greater investment returns that may accrue (due, principally, to the fewer restrictions that exist concerning the types of assets

that may be held within the funds), whilst others may envisage benefits accruing from a more flexible and less onerous regulatory regime. Whatever the reasons, offshore

investment funds have proved to be a very popular and fast growing part of the investment landscape in recent years.

In reality, most UK investors will view offshore funds as the non-UK version of unit trusts and OEICs. However there are many important differences.

Offshore funds are established outside the UK and are usually provided by non-UK resident companies. Although offshore funds can be based in any overseas jurisdiction, the vast majority of funds that are marketed in the UK are based in the Channel Islands (Jersey and Guernsey), Isle of Man, Ireland and Luxembourg.

Other popular jurisdictions include the Cayman Islands and British Virgin Islands. All of these have an overriding appeal to UK investors – low tax rates!

An investment into an offshore fund is only ever likely to appeal to a UK resident investor if it is based in a jurisdiction with zero or low taxation rates. This is to assist in avoiding the effects of double taxation, as UK resident investors are liable to pay tax in the UK as well as any local taxes payable in the area where the fund is based. If there is a double taxation agreement in place between the UK and the jurisdiction where the fund is based then this may well reduce the effects of double taxation, but the overall tax suffered by investors is usually at least equal to the higher of the rate payable in the UK or the fund's jurisdiction.

In line with most investors' views, offshore funds are actually structured as non-UK versions of unit trusts or OEICs and currently fall into two categories – offshore distributor funds and offshore non-distributor funds.

### OFFSHORE DISTRIBUTOR FUNDS

A distributor fund must distribute at least 85% of the income accruing to the fund to investors, generally on an annual basis if its income exceeds 1% of gross assets. The fund must apply to HMRC for certification to be classified as a distributor fund.

Offshore distributor funds are

generally taxed in the same way as unit trusts and OEICs.

The main difference is that the investor receives their income without deduction of tax at source, because the fund that pays it is outside of the UK. These income distributions are then subject to tax as dividends, ie 0%, 10% or 32.5%, even if the underlying fund is solely invested in either cash deposits or fixed interest securities. On encashment or disposal of the investment the investor will be liable to capital gains tax on any gains that may be made.

Offshore distributor funds will therefore offer a small additional tax advantage over fixed interest unit trusts or OEICs. For equity investments, there will often be a tax disadvantage because of withholding tax suffered abroad. The proposed new rules for the taxation of foreign dividends (described later in this article) will add to the benefits of offshore funds, on the assumption that they are to be included in the new regime.

### OFFSHORE NON-DISTRIBUTOR FUNDS

If an offshore fund has not been certified as a distributor fund, it will be treated as a non-distributor fund and may roll up investment income within the fund. For this reason, non-distributor funds are often colloquially referred to as 'gross roll-up funds'.

An offshore non-distributor fund will operate in a similar way to a unit trust or OEIC, and may issue either income and/or accumulation shares. The tax treatment is, however, different.

Income and gains accruing to a non-distributor fund can roll up within the fund free of tax (apart from any non-reclaimable taxes on, say, dividends). On disposal by a UK resident investor, all the gains are subject to income tax. As a result, capital gains and rolled up dividends and interest are all subject to income tax rather than capital gains tax. As this income has arisen outside of the UK it is not deemed to be savings income and a basic rate taxpayer therefore suffers tax at the basic rate (20% from 2008/09).

## OFFSHORE TAX REFORM

The government issued a consultation paper on the reform of offshore fund taxation alongside the 2007 Pre-Budget report. This proposed that the existing distributor/non-distributor categorisation be scrapped from 2008/09. In its place there would be a division between 'reporting' and 'non-reporting' funds. Reporting funds would provide sufficient information to allow an investor's tax liability on their share of the funds income to be assessed, whether or not that income was distributed. The tax treatment of income and gains would be the same as currently applies to distribution funds. Non-reporting funds would be taxed in the same way as non-distributor funds.

This proposed legislation has been delayed and is unlikely to be enacted prior to the tax year 2009/10.

## TAXATION OF FOREIGN DIVIDENDS

Offshore Investment companies do not, in general, pay tax on their income and gains although they may suffer non-reclaimable withholding tax on dividends and property income. As already noted, UK based investors suffer tax on dividends from offshore investment companies at normal rates (0%, 10% and 32.5%), although there is currently no tax credit attaching. Capital gains are taxed in the normal way. The 2008 budget contained proposals which would deem there to be a 10% tax credit attaching to offshore company dividends for individual investors, providing the investor owns less than 10% of the company. With no limit on the amount of income that can be generated, this change could provide a further boost to the attraction of offshore domicile for investment companies.

## INVESTMENT CHOICES AND STRATEGIES

Whilst the tax and technical considerations of offshore funds are, of course, important and may well ultimately determine just how advantageous this type of investment will be

the choice of investment must never be overlooked. It is a solid principal to maintain that 'the tax tail should never wag the investment dog'!

Many higher risk investment assets that cannot generally be held in onshore funds, due to regulatory restrictions, can be included in offshore funds. The fewer restrictions that exist allow higher risk assets such as commodities, futures and options and property to be more easily held. Currency funds are also very popular. All of these options widen the appeal of offshore funds but investors must be aware that the scope for higher returns from more exotic investment choices also carries an increased downside risk in times of market turbulence. In the case of currency funds the relative strength of sterling will be very important in determining the overall level of return achieved by UK resident investors.

There is a wide variety of investment strategies to be had alongside the actual choice of investment. These include single class funds

where there is one class of share and only one underlying investment portfolio, and multi-class funds which, whilst still having just the one underlying portfolio, offer different classes of shares, typically income and accumulation shares.

There are also 'Hub and spoke' funds (sometimes referred to as master and feeder funds) which will tend to have two tiers of investor. There will be the 'master' fund which will usually be aimed at high net worth institutional investors and a 'feeder' fund which invests in the master fund and is made up of investors who had insufficient capital to buy into the master fund as of right and combine their investments to meet the master fund's minimum criteria.

### REGULATION

Where the fund is domiciled, or more importantly where the fund management and administration is carried out, will determine how the fund is regulated. Investors must decide whether they are happy to

invest in an area where the regulatory controls may not be as tight as those in the UK. In addition, investors must satisfy themselves as to the status and suitability of the companies or institutions which may be acting as fund manager, trustee or custodian of the fund's assets. Whilst some offshore centres have a highly developed and well regulated fund industry, others are relatively new and have yet to acquire these skills.

### CONCLUSION

Offshore funds have the potential to add tax efficiency and investment diversity to an investor's portfolio and can offer some very specific advantages to some. However, there are complex differences between offshore and onshore investment funds. Investors, and their advisers, need to be sure that they are comfortable with these differences and exercise the necessary caution before making an investment. n

*David Harris is an independent consultant in investment matters*

## TRAINING AND SUPERVISION

# The Retail Distribution Review

The FSA published its long-awaited Feedback Statement on the Retail Distribution Review on 25 November 2008. It is set to have a major impact on the industry over the next few years. There are major issues regarding the nature of advice, remuneration and the qualifications advisers will require. In addition, the capital adequacy requirements are to be strengthened, and this will impact on a lot of small firms in particular (the capital adequacy details are outside the scope of this article, however).

There will be a period of consultation, on the proposals, during the first half of 2009, and the intention is to implement the changes by the end of 2012. At least for the present, mortgage advice is not affected.

### ADVICE

The FSA has moved away from the stark distinction proposed in their

Interim Report, which would have required all advice to be independent. They believe that this could have had a number of detrimental effects, including reducing the availability of advice to a limited number of sectors of the market. In addition, the restriction of the use of the term 'investment advice' could have raised problems of inconsistency with MiFID in the view of the European Commission.

The proposal now is that investment advice would include both advice which is independent and sales service which is not. The sales service description will include advice given on a non-independent basis and other services such as simplified advice and a non-advised guided sales process, as well as execution only services. The FSA will undertake further research into how the services can best be described and presented.

One of the current conditions for independence is the ability to offer whole of market advice, but this can be satisfied with reference only to packaged products. The view has been expressed by some that whole of market should mean unrestricted access to all types of investment. The FSA wants to ensure that independent advisers are in a position to give 'comprehensive and fair analysis of their relevant markets'. The issue will be in defining what constitutes a market. This is an area where further work is to be undertaken by FSA.

The independent adviser must also be in a position to offer unbiased, unrestricted advice. Some views were put that this should preclude firms which are owned or part owned by providers and the FSA has looked at some firms in this position. It did not find that the ownership caused problems and

although it will keep the issue under review, it does not plan any restriction at present.

## REMUNERATION

For independent advisers, the FSA has for some time now indicated that it wants to see an end to the current situation where product providers are heavily involved in setting the basis of remuneration through commission rates. (Commission is still the most common means of independent adviser firms' remuneration, according to the FSA).

The issue is not seen as one revolving around the source of remuneration – whether it is paid by the client direct, or by the product provider – but rather how the level of remuneration is set. The FSA believes it should be set by the adviser firm and agreed with the client (it is not envisaged that each client would individually negotiate terms, which is why the term 'customer agreed remuneration' has been dropped, although the basic idea is unchanged).

There is no intention to ban commission at the moment, although this could still be on the agenda for a future time. However, there are currently concerns about whether some consumers are willing or able to pay a fee and also it is recognised that there can be tax advantages in paying commission indirectly, for example through a pension product where there is tax relief. (HMRC have confirmed that payments under genuinely commercial remuneration arrangements for pension advice would not be treated as unauthorised payments.) In addition a ban on commission could conflict with MiFID.

The proposed 'Adviser Charging' will mean firms setting the rate of charge and ensuring clients fully understand what they are getting in return. There would be no influence from product providers and no 'bundling' of adviser commission opaquely within product pricing structures. However, the charges can be deducted from the product

by the provider if required, with the charge being taken at the time the payment is made to the firm. There would therefore be no indemnity commission, or similar arrangements after the end of 2012.

There are many issues to sort out in this area and the consultation is likely to be active.

## QUALIFICATIONS

The need to improve the standing of the industry is seen in part as a question of professional standing which reflects the minimum standards of competence of advisers. Higher requirements as regards qualifications are therefore seen as necessary. It is also suggested that, if the roles are essentially similar, in terms of knowledge requirements, there should be no difference between the qualifications needed by tied and independent advisers.

The proposals would be backed by the establishment of an Independent Professional Standards Board, which would be independent of the industry (including professional bodies), and would initially be set up as part of the FSA. It would later seek complete independence.

The Board would oversee new minimum qualification standards for advisers. Some advisers would be members of professional bodies like the CII, and the supervision of their standards would be delegated to the bodies concerned. All advisers would have a contractual relationship with the new Board however.

The intention is that the qualification requirement would move to QCA level 4 – equivalent to the CII Diploma, for example. A higher level may eventually be sought, but not by 2012.

The Board may also have a role in setting standards for and in monitoring CPD activity, although this will be given further consideration, particularly from a logistical point of view.

## CHALLENGE

The size of the task facing some advisers should not be underestimated. With the CII route, the

Diploma requires a total of 140 credits on the Institute's scale. If an adviser so far has only the old Financial Planning Certificate (FPC) including FP3, this will count for 50 credits, so a further 90 are required. Each Diploma subject carries 20 credits, so this implies that five examination subjects are required.

An alternative might be to tackle a Certificate subject first, and then four Diploma subjects, but this is the minimum requirement in this situation. (A minimum of 80 credits must be obtained at Diploma level.)

Passing one examination a year should be achievable, but delay could make the challenge more difficult, and of course, any failures along the way will mean further study and a resit. The Institute estimates that 100 hours of study are required for each Diploma subject, so four papers implies 400 hours of study, equivalent to perhaps 10 working weeks. The FSA is firm in its view that it does not intend to allow grandfathering.

We will consider the routes to qualification in a future edition of *FPP*, once the final outcome and the response of the examination bodies has become better defined.

## OTHER MATTERS

The document contains further information on what it expects sales services to look like and gives details of the feedback received. It also explores issues such as the cost benefit analysis in its annexes. It is a long document, but well worth reading at first hand. It can be obtained from the FSA website, and the web address is given at the bottom of this page.

Comments on this document are not invited, but further consultation will take place on specific issues in due course. n

### ANSWERS TO SELF-TEST QUESTIONS (see page 8)

#### Foundations

1.b, 2.a, 3.b, 4.c, 5.c

#### From Competence to Expertise

6.a, 7.a, 8.d, 9.b, 10.c

#### For the Specialist

11.d, 12.c, 13.c, 14.a, 15.b

The Feedback Statement on the Retail Distribution Review is available on the FSA website at: [www.fsa.gov.uk/pubs/discussion/fs08\\_06.pdf](http://www.fsa.gov.uk/pubs/discussion/fs08_06.pdf)

# Self-Test Questions

These questions will help you to check your understanding of the articles that appear in this Newsletter. For each question there is only one correct answer. The answers are given at the foot of page 7.

**1** For how long is the reduction in VAT to 15% intended to last?

- a. Until 30 November 2009 n
- b. Until 31 December 2009 n
- c. Until 5 April 2009 n
- d. Indefinitely n

**2** Compared to 2008/09, the income tax personal allowance for 2009/10 will:

- a. Increase more than in line with indexation n
- b. Increase in line with indexation n
- c. Increase less than in line with indexation n
- d. Remain unchanged n

**3** At what level of taxable income will the personal allowance start to be reduced from 2010/11?

- a. £65,000 n
- b. £100,000 n
- c. £140,000 n
- d. £175,000 n

**4** From 6 April 2011, the highest rate of tax on dividends will be:

- a. 32.5% n
- b. 35% n
- c. 37.5% n
- d. 40% n

**5** For the financial year 2009, the small companies' rate of corporation tax will be:

- a. 19% n
- b. 20% n
- c. 21% n
- d. 22% n

**6** Is the taking of retirement benefits early on grounds of incapacity a BCE?

- a. Yes, it is n
- b. Only under occupational schemes n
- c. Only under personal pensions n
- d. No, it is not n

**7** Is it necessary for the scheme administrator to obtain medical evidence in cases of early retirement through incapacity?

- a. Yes, always n
- b. Only in the case of directors and similar individuals n
- c. Only if full commutation is to be given n
- d. No, this is at the discretion of the administrator n

**8** If all benefits under a personal pension are taken as a lump sum on grounds of serious ill-health, what proportion of the lump sum will usually be free of tax?

- a. None n
- b. 25% n
- c. 50% n
- d. 100% n

**9** George is a director of the company he works for and a member of the company's occupational scheme. If he draws benefits at 45 on grounds of incapacity, must this be reported to HMRC?

- a. Yes, before benefits are paid n
- b. Yes, in the Event Report n
- c. Yes, before benefits are paid in cases of full commutation, otherwise in the Event Report n
- d. No, this is not required n

**10** Can tax relief be obtained on the cost of a waiver of contribution feature within a personal pension arrangement?

- a. Yes, in all cases n
- b. Only if the individual is self-employed n
- c. Only if the plan started before 6 April 2001 n
- d. No, this is not possible n

**11** What minimum percentage of the income of an offshore fund must generally be distributed in order for it to be classed

as a distributor fund?

- a. 32.5% n
- b. 50% n
- c. 65% n
- d. 85% n

**12** A higher rate taxpayer receives income from an offshore distributor fund of £400 in 2008/09. How much tax will he be due to pay to HMRC?

- a. £90 n
- b. £100 n
- c. £130 n
- d. £160 n

**13** Currently, if an offshore distributor fund invests solely in fixed interest securities and cash, the income distributed is treated as:

- a. Savings income, paid gross n
- b. Savings income, paid net of 20% tax deducted at source n
- c. Dividend income, paid gross n
- d. Dividend income, paid net of a notional 10% tax credit n

**14** Gains crystallised on disposal of a non-distributor offshore fund holding by a UK resident investor are:

- a. Subject to income tax n
- b. Subject to CGT n
- c. Subject in part to income tax and in part to CGT n
- d. Not taxable n

**15** Under the proposals for the reform of the taxation of offshore funds, reporting funds are funds which automatically provide:

- a. Full tax advice to investors in the UK n
- b. Information to allow investors to declare income to HMRC n
- c. Details of all investors to HMRC n
- d. Details of income distributions to HMRC n