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Mr Norgrove, holo

As I told you on the
phone, the publication of
two reports this afternoon
will be announced by
William Amos. It is timed
to coincide with a BSP
presentation at the Stock
Exchange tomorrow,
where the Chancellor & BST
will be introducing Re 12/5



PERSONAL EQUITY PLANS

Proposals on how
the scheme will work

A PROSPECTUS FOR POTENTIAL PLAN MANAGERS

Board of Inland Revenue
May 1986

INTRODUCTION

The purpose of this prospectus is to indicate, for people interested in becoming plan managers, the proposed shape of the Personal Equity Plan Scheme announced by the Chancellor of the Exchequer in his recent Budget Statement. It does not represent the Government's final views. These will be set out in due course, in the light of further consultations.

The scheme provides a new fiscal incentive for share purchase in British companies by ordinary people. The main criteria to be satisfied will be as follows:

- Qualifying investment will be confined to ordinary shares in UK-incorporated companies quoted on The Stock Exchange.
- There must be a clear link between the investor and his or her shares - so that investors may attend company AGMs, exercise voting rights, receive company information and benefit from shareholders privileges.
- Dividends on investment must be ascribed to individual investors.
- Limits on holding assets in liquid form in plans.
- Charges by plan managers must be transparent.

Special arrangements will, however, be made to allow investment, up to a low limit, in investment and unit trusts.

The principal features of the scheme will be:

- Shares may be registered in owner's name or in the name of a plan manager's nominee company but in either case, certificate to title to be held by plan manager
- A maximum investment of £2,400 a year.
- Tax relief to be given on build-up of investment (ie no capital gains tax and no income tax on reinvested dividends) subject only to the investment being retained within the plan for a short qualifying period of between 12 and 24 months.
- Once the qualifying period has ended, investments may be realised at any time without loss of relief.

PART II : HOW THE TAX RELIEFS WILL WORK

Qualifying period

Tax relief will become unconditional once a plan has been maintained for a minimum qualifying period. Interest rolled up on instalments made before the first shares are acquired will be free of tax if subsequently used to buy qualifying shares. A plan made in one calendar year must be kept throughout the whole of the following calendar year.

Thus, shares acquired by an investor between 1 January and 31 December 1987 would qualify for tax relief provided no withdrawal from the plan was made before 1 January 1989.

Portfolio management

Investors (or plan managers, on their behalf) will be able to switch investments from one qualifying share to another without any CGT liability (or allowable loss) provided the proceeds are reinvested within four weeks. If the four-week rule is broken during the qualifying period, the plan will be void: if broken after the qualifying period, the shares disposed of will be regarded as withdrawn from the plan (but tax relief up to the date of disposal will not be lost).

The proceeds of any disposal may be reinvested. So if, for example, a £2,400 plan has grown to £4,800, that amount can be reinvested. The same will apply if the plan has declined in value: if the value has halved, the permitted reinvestment will be £1,200.

Transfers from one plan manager to another will not be prohibited.

Treatment of dividends

Distributions from qualifying shares will be exempt from tax only if reinvested. Companies will pay them under the normal ACT rules to plan managers, who will then claim payment of the tax credit from the Inland Revenue and hold the dividend and credit within the plan until used to buy qualifying shares.

If the investor chooses instead to receive the dividend income, it will be taxed in the normal way.

Stock dividend options will be treated in the same way as reinvested dividends.

Premature withdrawals

If, during the qualifying period, any shares in a plan are withdrawn, the plan will come to an end. The investor will be liable to CGT on any gain arising from the start of the plan. By the same token, any loss will be allowable.

Any dividend paid to the investor (rather than reinvested) during this period will be treated as a withdrawal - so that the plan will be closed. The investor will be taxed in the normal way, and any tax credit previously claimed by the plan manager (because the original intention was to reinvest dividends) will be repaid to the Revenue.

Withdrawals after end of minimum holding period

Withdrawals from a plan after the qualifying period may be by way of cash or shares. But if the shares are retained outside the plan, their acquisition cost for CGT will be their market value at the point of withdrawal.

Part withdrawals will be permitted, but plans cannot be subsequently topped up.

Once the qualifying period has been passed, all plans may be combined to keep down management expenses.

Death of investor

In general, plans will not be transferable. But on the death of an investor, the plan will be treated for CGT purposes as if it had been acquired by personal representatives at market value.

PART III : HOW THE PLANS WILL BE ADMINISTERED

Who may act as plan managers?

Plan managers must be registered with the Inland Revenue. They must be authorised, under the Prevention of Fraud (Investments) Act 1958, to carry on the business of dealing in securities (and in due course authorised to carry on investment business under the Financial Services Bill). Currently those eligible to act as plan managers are:

- members of The Stock Exchange
- members of recognised associations of dealers in securities (eg NASDIM)
- other firms licensed or exempted by DTI

The definition of 'authorised institution' could include an employer if he satisfied the other conditions and was registered by the Inland Revenue as a plan manager.

Role of plan managers

Managers may act either as agent on the instructions of the investor, or on a discretionary management basis. They will be required to operate within the normal regulatory rules. Where the institutions concerned are not authorised or exempt under the Banking Act, arrangements will be needed to segregate cash held on behalf of investors.

Charges

It will be for plan managers (and their investors) to arrange how charges are to be dealt with. But all the manager's charges and other remuneration from clients' business should be explicit.

Supervision

A plan manager's registration would have to be withdrawn if he lost authorisation under the Financial Services legislation or if the rules of the scheme are broken - eg if he knowingly allowed investors to exceed the £2400 limit. In such circumstances, plans would be transferred to another manager.

Audits of plan managers will be carried out from time to time by the Inland Revenue to ensure that the scheme is being operated correctly.

Inland Revenue information requirements

Plan managers will be required to keep records in a prescribed form for supervisory purposes, including:

- a full list of investors in computer form
- a full record of share transactions (eg number and price of shares bought and sold) throughout the life of the plan
- a full record of the amount of dividends and interest earmarked for reinvestment (and so entitled to attract the basic rate tax credit).

On a premature withdrawal, a plan manager will have to:

- compute the chargeable gain (or allowable loss);
- determine the basic rate tax foregone on the dividends earmarked for reinvestment;
- within a month, pass this information on to the Revenue; and
- deduct the tax credit from the disposal proceeds paid to the investor and repay it to the Revenue.



