

Clearing

Clearing, in the banking context, refers to the process each day of settling the account between banks as a result of transfers by cheque, direct debit and debit cards.

Clearing services in UK are co-ordinated by **The UK Payments Administration LTD** who manage the major UK payment clearing systems through three operational clearing companies:

- **The cheque and Credit Clearing Company** – Oversees cheque clearing on a three-day processing cycle
- **The Bankers Automated clearing Services Ltd (BACS)** – Responsible for bulk electronic clearing – operated on their behalf by Vocalink Ltd
- **CHAPS (The Clearing House Automated Payment System)** – an electronic same-day interbank transfer system for high-value wholesale payments.
- Payment systems in the UK are regulated by the Payment Systems Regulator.

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Correct

Roy's gain is £12,100, but his CGT allowance of £11,100 can be deducted, leaving a taxable capital gain of £1,000.

Entrepreneurs' Relief

A lower rate of 10% applies to the first £10 million of cumulative gains arising from the disposal of trading businesses – known as '**entrepreneurs' relief**'. At least 5% of the ordinary share capital of the business must be owned by the individual.

Most property letting businesses are exempt from this relief

Payment of CGT

- Charged on gains arising from disposals in the period 6th April – 5th April the following year.
- CGT is normally payable on **31st January** of the year following the end of the tax year in which the gain took place.

Inheritance Tax

This tax is levied mainly on the estates of deceased person, but can also be payable on certain transfers made during a person's lifetime.

The tax is charged at 40% of the amount the value of the estate exceeds the 'nil-rate band', which for 2015/ 16 is £325, 000. Estates up to this value are within the nil-rate band and 0% tax applies.

Surviving spouses and civil partners can increase their own nil-rate band by the proportion of unused nil-rate band from the death of their spouse or civil partner.

Example

Howard died in Dec 2006 and left his entire estate of £242,250 to his son, when the nil rate band was £285,000. The unused portion of his nil rate band was £42,750, which is 15%. Hilda, his widow, subsequently died in May 2014, when the nil rate band was £325,000. Her nil rate band was increased by 15% to £373,750

The important point to remember here is that it is the unused percentage of Howard's nil-rate band that can be added to Hilda's, not the unused amount. Howard didn't use 15% of his nil-rate band, so 15% can be added to Hilda's, but using today's figure. The amount added to Hilda's nil-rate band is therefore:
 $\text{£}325,000 + 15\% \times \text{£}325,000 = \text{£}325,000 + \text{£}48,750 = \text{£}373,750$

Potentially Exempt Transfers

The size of the estate will also include the value of transfers made during the previous **seven years** prior to the date of death. These transfers are Potentially Exempt Transfers (PETs)

- **PETs** are not subject to tax at the time of transfer
- If the person making the transfer (the donor) survives for 7 years, the transfer becomes exempt from IHT
- If the donor dies within the 7 year period, tax is due, but **Tapering Relief** is applied, as follows:

Years before death when gift is made	Tax Charge on death applicable
0-3	$100\% \times 40\% = 40\%$
3-4	$80\% \times 40\% = 32\%$
4-5	$60\% \times 40\% = 24\%$
5-6	$40\% \times 40\% = 16\%$
6-7	$20\% \times 40\% = 8\%$

Chargeable lifetime transfers

Example

Jack buys a property in 2015 with an agreed purchase price of £400,000. He pays:

Nothing on the first £125,000	= £ 0
2% on the next £125,000	= £ 2,500
5% on the remaining £150,000	= £ 7,500
Total stamp duty land tax	<u>= £10,000</u>

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Section 1: The UK Financial Services Industry

Balance of payments equilibrium

- To achieve a situation where expenditure and receipts of foreign currencies are equal.
- The aim should be a balance over the medium term.

Satisfactory economic growth

- The output of the economy is growing in real terms.
- Standards of living improving
- Growth can be measured by the **Gross Domestic Product (GDP)** - the value of goods and services produced within the country over a period of time.

These four objectives tend to fall into two pairs:

- Policies to reduce unemployment will also boost growth
- Measures to reduce inflation, such as raising interest rates, will help improve any balance of payments deficit, by encouraging overseas investment in the UK.
- UK government uses the **Consumer Price Index (CPI)** to measure inflation
- The target is to keep inflation at an average annual rate of **2%**, with a maximum 'divergence' of **1%** either way
- The CPI is a similar measure to that which is used within the Eurozone, which is the Harmonised Index of Consumer Prices (HICP). The CPI replaced The Retail Price Index (**RPI**), although the RPI is still used for other purposes.

The main element of monetary policy which is used to control inflation in the UK is the rate of interest, which is now manipulated by the **Bank of England's Monetary Policy Committee**

Monetary and Fiscal Policy

Two major types of policy are used by governments to achieve their long-term objectives:

- **Monetary Policy** – which acts on interest rates and the money supply
- Governments can control the growth in the supply of money by restricting the amount of lending carried out by banks
- Manipulating interest rates can influence the demand for credit by customers.
- The Monetary Policy Committee (MPC) of the Bank of England decides on the rate of interest at which the Bank of England will lend to banks and other financial institutions (this is the repo rate – known as the base rate)
- The MPC meets every month to decide whether or not interest rates should change