



CREST Claims for Dividends and Interest on UK Equities and UK securities

Guidance Notes

June 1999

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1. About these Notes

1.1 These notes explain the approach of the Inland Revenue to tax vouchers for dividends/interest on UK shares and UK securities held/transferred through the CREST system. They also detail some changes from market practices developed for the Stock Exchange Talisman settlement system which was switched-off in 1997.

1.2 The notes were first published as a paper issued to CREST participants in 1997, and were included as appendices to the July 1997 and January 1998 guidance notes on manufactured payments on UK equities and securities. This version of the notes has been revised, to reflect the abolition of ACT and of foreign income dividends with effect from 6 April 1999.

1.3 Further copies of these notes may be downloaded from the Inland Revenue website at www.inrev.gov.uk, or by contacting David Edney at

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Revenue Policy, Business Tax
Room 4E4, 4th Floor
22 Kingsway
London
WC2B 6NR

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2. The law

2.1 The Tax Acts generally impose a requirement on a UK issuer of shares or securities who pays a dividend or interest to send an appropriate statement to the recipient - a tax voucher. This must show the date and amount of the payment, and any tax deducted or tax credit to which the recipient may be entitled. If the nominee for another person receives such a statement, that nominee must send an appropriate statement (i.e. a subsidiary voucher) to the other person. Under current law, such statements must be sent by post.

2.2 Similarly where a person pays a manufactured dividend or pays manufactured interest, he may be required to provide the recipient with a voucher.

3. Background: Market claims

3.1 Where the issuer keeps a register showing the holder for the time being of the security in question, the payment and tax voucher will be sent to that person. In some cases, the person on the register will not be the person entitled to the dividend or interest because of a sale or other transfer of the security which has not been reflected in the issuer's register. The recipient will therefore be required to pass on the dividend or interest together with the tax voucher under what are known as "market claims".

3.2 Given the number of claims in a financial market the size of that in the UK, a requirement that vouchers be posted or physically delivered in all cases would be a major administrative impediment to the operation of the market. In consultation with the markets and the Stock Exchange, procedures were developed in relation to Talisman to reduce the paper flow and at the same time to ensure that those who needed tax vouchers received them. The procedures also were designed to protect the Revenue from tax vouchers being written when no tax had been paid.

3.3 The bulk of these notes describes the changes to those procedures adopted in July 1997 for CREST holdings and settlement in relation to UK shares and securities, to reflect that membership of CREST is not limited to Stock Exchange member firms. The notes do not include the procedures for claims relating to foreign income dividends as these were abolished with effect from 6 April 1999. You should see appendix A of the January 1998 version of the guidance notes for manufactured dividends on UK equities for details of these procedures.

4. Holders of securities which are not subject to market claims

4.1 Persons who hold their securities in certificated form outside CREST will receive a voucher direct from the issuer and are unaffected by the changes.

4.2 The names of direct or sponsored members of CREST will appear on the register kept by the issuer and so they will receive a tax voucher by post direct from the issuer. Therefore they are also unaffected by the changes.

4.3 Persons holding securities as nominee for others receive a “block” voucher to cover the whole of their holding. The nominee then writes subsidiary tax vouchers for each of the persons on whose behalf he holds the securities under arrangements agreed with the Revenue. Such persons will have been allocated an alphanumeric reference number ‘BV123’. Where a nominee holds securities in dematerialised form in CREST, he will still receive a “block” voucher direct from the issuer, and can continue writing subsidiary vouchers under the current arrangements.

4.4 Persons who hold securities within CREPON, the CREST pooled nominee, will receive monthly tax vouchers from CREPON. This is a change from SEPON where paper vouchers were not provided.

5. Market claims generated by CREST

5.1 In most cases where a market claim falls to be made, this will be done automatically by the CREST system by way of a claims transaction with zero settlement priority. The person in whose favour the claim is generated (or the client of a broker/nominee etc) will want to be able to claim the benefit of any tax deduction or credit if the claim relates to a dividend or interest payment normally accompanied by a tax voucher.

5.2 Market participants will need to know in what circumstances the Revenue will allow a credit for tax on a market claim or a subsidiary voucher to be written for a client in respect of such a claim. The procedures build in protection for the Revenue to ensure that the claimant does not vouch tax that a counterparty has not suffered or paid.

6. Summary of voucher procedures

6.1 The principle behind the procedures is that where a claim within the CREST system for a dividend or interest on UK equities or securities is made between two CREST members who are within the categories set out in paragraph 7.1 below (‘approved persons’), no voucher need pass between them. The person making the claim may assume the appropriate tax credit or tax deduction and where necessary write a tax voucher for himself or his client.

6.2 An approved person, where acting as principal, may write a voucher for himself on the back of a settled CREST claim. However, an unapproved person who is a CREST member may not write himself a voucher.

6.3 If neither of the two parties to the CREST dividend/interest claim is an approved person, an original or valid subsidiary tax voucher must be passed to the claimant before he can claim the appropriate tax credit or tax deduction. See paragraph 13.3 below as regards persons authorised to write subsidiary vouchers.

6.4 References to obtaining a voucher or original voucher include references to a valid subsidiary voucher where the person passing the dividend receives only a subsidiary voucher.

6.5 In order to protect the Revenue and ensure that a voucher is only issued where tax has been paid, approved persons must in certain circumstances make all reasonable endeavours to obtain a voucher from the person from whom they claim a dividend or interest. This applies in two circumstances:

- a) where the approved person claims a dividend or interest from a client or other person outside the CREST system and in turn pays that dividend or interest into the system via a market claim, and
- b) where an approved person makes a market claim through the CREST system against a CREST member who is not an approved person.

6.6 If a voucher cannot be obtained, the approved person must enter the person's name and address on a list which is available for inspection by the Revenue (for details, see paragraph 12.2 below). It is the name of the person from whom the dividend or interest is being claimed which is to be recorded, and there is no requirement to investigate whether that person is the beneficial owner of the dividend or security in question.

6.7 Where a voucher cannot be obtained (but see paragraph 11.1 below for non residents), the approved person should remind his counterparty that if the counterparty is manufacturing dividends or interest he must write a voucher himself, and if the payment is of manufactured interest on a net-paying UK security, the counterparty must account for the tax to the Revenue.

6.8 Occasionally, a dividend claimed within CREST may be settled outside the system, and the unsettled CREST claim cancelled or deleted. In that case, similar principles apply but the parties would then need to keep evidence of the actual payment made outside CREST as evidence to justify the writing of a voucher.

6.9 Where a CREST dividend claim never settles at all, then no voucher can be written.

6.10 Under these procedures most dividend and interest payments should flow within the market without passing paper tax vouchers. They should mean that a voucher need only be obtained where a dividend or interest payment flows into the UK market and a

voucher need only be written where a dividend or interest payment flows out of the UK market.

7. Approved Persons

7.1 In order to be regarded as an ‘approved person’ for the purposes of these procedures, the CREST member must be either UK resident or trading in the UK through a branch or agency. It must also be one or more of the following:

- a) a member of the London Stock Exchange,
- b) a member of LIFFE,
- c) The London Clearing House Ltd,
- d) a nominee/custodian authorised by the Revenue’s Financial Intermediaries and Claims office (FICO) to split and write tax vouchers. (See paragraph 13.3 below).

7.2 A nominee of an approved person is itself regarded as an approved person provided that it complies with these procedures.

8. Small dividends

8.1 An approved person should attempt to obtain a tax voucher in all cases. But where a voucher cannot be obtained, the client’s name need not be entered on the list referred to in paragraph A.14 above where the dividend/interest is less than **£500 net**, except where arrangements are entered into to take advantage of this de minimis limit.

9. Detail of the procedures

9.1 The procedures are explained below in relation to a sale of a security in various circumstances

a) Sale by CREST member B to CREST member C where B and C are acting as principals

B| CREST system |C
→ →
market claim for dividend/interest

i) If in this example both B and C are approved persons

- no voucher need flow between B and C.
- B should retain the tax voucher he receives from the issuer of the security.
- C can use as evidence of tax deduction etc the settled CREST claim (note that an unsettled CREST claim is not sufficient).

ii) If B and C are not approved persons

- B must physically pass to C the tax voucher he gets from the issuer.
- C will not be able to claim the benefit of any tax credit or deduction without the original voucher.

iii) If either B or C is not an approved person

- If B (only) is an approved person, he should retain a copy of the voucher passed to C as evidencing the tax in respect of CREST claims made against

him. C will not be able to claim the benefit of any tax credit or deduction unless B sends him the original voucher.

- If C (only) is an approved person and B does not produce a voucher, C can enter B's name on the list he maintains for Revenue inspection and can then write himself a voucher.

b) Sale by A to D (non members of CREST) where CREST members B and C act as agents/brokers for A and D respectively

A B| CREST system |C D
→ →
market claim for dividend/interest

In this case, A and D are by definition not approved persons as they are not CREST members.

i) If both B and C are approved persons

- no voucher need flow between B and C.
- B must either
 - 1) obtain a tax voucher from A, or
 - 2) enter A's name and address together with details of the dividend or interest claimed on a list which is available for inspection by the Revenue.
- C can write a tax voucher for D using the settled CREST claim as evidence of the tax (note that an unsettled CREST claim is not sufficient).

ii) If either B or C (or both) are not approved persons

It is unlikely that persons acting as agents or brokers will not be approved persons for these purposes. However,

- if neither B nor C were approved then D would be able to claim the benefit of any tax credit or tax deduction only if the voucher received by A were passed to him through B and C.
- If only B were approved, he would either pass the voucher obtained from A onto C, or where a voucher could not be obtained B would enter A's name on the list he keeps and would then write a voucher to pass to C for onward transmission to D.
- Where only C were approved, he would either obtain a voucher from B, or enter B's name on the list he keeps, and then write a voucher for D.

c) Sale by A to C where a CREST member B acts as agent/broker for one party only.

i) B acting for A and C is not an approved person

A B| CREST system |C
→ →
market claim for dividend/interest

- B must either
 - 1) obtain a tax voucher from A, or
 - 2) enter A's name and address together with details of the dividend or interest claimed on a list which is available for inspection by the Revenue.
- B must physically pass to C any tax voucher he gets from A. If a voucher cannot be obtained, then provided A's name has been entered on the list kept by B, he must write a voucher and pass it to C

- B should retain a copy of either the voucher obtained from A (or written by B) and passed to C as evidencing the tax in respect of CREST claims made against him.

ii) B acting for C and A is not an approved person

A| CREST system |B C
 → →
market claim for dividend/interest

- B must either
 - 1) obtain a tax voucher from A, or
 - 2) enter A's name and address together with details of the dividend or interest claimed on a list which is available for inspection by the Revenue.
- B must physically pass to C any tax voucher he gets from A. If a voucher cannot be obtained, then provided A's name has been entered on the list kept by B can write a voucher and pass it to C
- B should retain a copy of any voucher obtained from A (or written by B) as evidencing the tax in respect of CREST claims made by him.

10. Stock loans and repo chains

10.1 Where manufactured dividends flow down a chain of approved persons under stock loans or repo, the voucher should be written by the last approved person in the chain. Thus in a three party loan of UK equities where the lender has a FICO approved custodian who receives the manufactured dividend via CREST from the lending intermediary, the custodian should write the voucher for the lending client and no paper need flow between the borrower, intermediary and custodian.

10.2 If however, the lender does not use a custodian, and is not an approved person, the intermediary should write the voucher for the lender (as a CREST member lender who is an unapproved person cannot write himself a voucher).

11. Dividends etc claimed from non resident persons

11.1 An approved person who claims interest from an unapproved person (whether or not a CREST member) who is not resident in the UK must account for “reverse charge” tax on manufactured interest, unless he can show that the receipt is not a manufactured payment within the relevant provisions. Where tax is so accounted for, the client’s name need not be entered on the list and a voucher can be written where required. The rule in paragraph 8.1 above on small dividends applies.

11.2 For an explanation of the reverse charge, see the main text of the notes entitled “Manufactured Interest on UK Securities: Tax arrangements”.

12. Availability and retention of records

12.1 Approved persons operating these procedures must make arrangements to store the electronic claims messages generated by CREST, and to make them available for inspection by the Revenue. Storage can be either in electronic or paper form.

12.2 Approved persons will also need to keep and have available for inspection

- vouchers obtained from unapproved persons (or copies where the voucher has been passed on),
- records of vouchers written for unapproved persons, together with an audit trail back to the relevant settled CREST claims message, and
- the lists of cases where vouchers could not be obtained. The list should show for each case where a voucher could not be obtained for a dividend/interest over £500 net
 1. the name and address of the person failing to produce a voucher
 2. the share or security involved
 3. the amount of the dividend or interest claimed and the date of payment by the issuer of the security.

The approved person should also be able to produce an ‘audit trail’ so that the settled CREST claims message for any voucher issued can be identified.

12.3 Where the records relate to a transaction carried out as a principal, the record will need to be retained for the following periods

- for a company, 6 years from the end of the accounting period in which the transaction took place
- for an individual or partnership, 5 years from the 31 January next following the year of assessment in which the transaction took place.

12.4 Where the records relate to a transaction carried out as an agent, they should be retained for 7 years from the end of the agents accounting period in which the transaction took place.

12.5 In addition, the Revenue will want to have available similar information from approved persons to that previously given in the large claims/out of context lists received from Talisman by Stock Exchange member firms. Such persons should therefore make arrangements to provide where required details of all dividend/interest claims over £5,000 net and all claims made in respect of transactions made under special bargain conditions.

13. Splitting and writing subsidiary vouchers

13.1 References in these procedures to obtaining original vouchers and writing vouchers include references to splitting vouchers.

13.2 CREST members who act on behalf of others will need to split tax vouchers where selling part of a client's holding and which gives rise to a market claim. They will also need to be able to write vouchers where acting on behalf of purchasers who make a market claim.

13.3 CREST members who are already authorised under Talisman procedures to write and split vouchers (ie Stock Exchange members), and those agents and custodians who are already approved by FICO for writing subsidiary vouchers, will automatically be regarded as within paragraph 7.1(d) and do not need to re-apply to FICO. Other CREST members who want to be authorised to split and write vouchers so as to be regarded as an approved person for the purposes of these procedures will need to agree with the Revenue the format of vouchers they will write, and to be subject to periodic inspection by Revenue officers. Authorisation can be sought by writing to:

Inland Revenue
FICO Scotland
Trinity Park House
South Trinity Road

EDINBURGH EH5 3SD

Telephone 0131 551 8645

13.4 The Revenue may want to inspect Stock Exchange members' voucher production records, even though in practice they are not subject to inspection at the moment.

14. Simplification of voucher formats

14.1 Vouchers are needed for the following types of payment

- UK company dividends
- UK interest
- Overseas dividends or interest

14.2 There is one set of minimum requirements for each voucher type to comply with the statutory requirements.

14.3 The attached templates set out the minimum information to be provided for vouchers for UK interest and dividends. The voucher must have "CREST claim" printed in the top left (or right) hand corner to indicate that it is written as a result of these CREST procedures. In addition, the writer of the voucher must be identifiable so that the Revenue can cross check with that person's records kept under paragraphs 12.1 to 12.5 above.

14.4 Subject to the Rules of the Exchange, persons writing subsidiary vouchers can use a single format in all cases provided it complies with the specified minimum requirements set out in the templates.

14.5 The format agreed between custodians and FICO for subsidiary vouchers written out of block holdings is not affected by these procedures.

15. Manufactured payments

15.1 Where a person in the UK makes a manufactured payment, he may be required to provide his counterparty with a tax voucher. References in these procedures to an approved person obtaining an original voucher include a reference to obtaining a voucher written by an unapproved person where that person is making a manufactured payment in these circumstances.

15.2 Where a CREST claim in relation to UK equities or UK securities is generated between two approved persons and the payment in question is a manufactured payment, the Revenue will accept that a voucher need not be written by the manufacturer.

CREST claim

Tax Credit Certificate: Dividends Paid by UK Companies

Name and Address of Recipient

Date of Payment	Description and Amount of Holding	Rate	Dividend Paid	Tax Credit
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Name of Party Issuing Form

Signature

Date

CREST claim

Income Tax Certificate

Name and Address of Recipient

Date of Payment	Description and Amount of Security	Rate	Gross Amount	Income Tax Deducted	Net Payment
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Name of Party Issuing Form

Signature

Date